

Extraordinary days every day


Annual Report
and Accounts 2014



CareTech
Holdings PLC



Focusing on safe reliable care we deliver exceptional standards of high quality individual support ensuring that our service users experience extraordinary days, every day.



Purpose

An established, reputable and innovative social care provider, the CareTech family of companies offer a comprehensive and complete outsourcing provision for social care commissioners.

Serving the high acuity social care population we deliver safe, reliable 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.

We provide care and support 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. We deliver support through residential services and a wide choice of creative home based support options.

Our children services cover assessment, residential care, education and fostering options, including specialist provision for

very complex young people. We carefully and professionally support any child irrespective of their reasons for being in public care. One of our national specialities is 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.

We provide transition services for young people leaving children services as they enter adult care and for adults who are making the move into their own home after a lifetime in care settings.

For many years we have had staff undertaking apprenticeships through third-party providers and we now offer care apprenticeships and pre-employment training ourselves.

Contents

Strategic Review

- 1 Highlights
- 2 Group at a glance
- 8 Chairman's Statement
- 10 Strategic Report
- 18 Chief Executive's Statement and Performance Review
- 24 Financial Review

Governance

- 28 Board of Directors
- 30 Corporate Governance Report
- 33 Directors' Report
- 35 Remuneration Report
- 37 Statement of Directors' Responsibilities in respect of the Annual Report and the Financial Statements

Financial Statements

- 38 Independent Auditor's Report to the members of CareTech Holdings PLC
- 39 Consolidated Statement of Comprehensive Income
- 40 Consolidated Balance Sheet
- 41 Consolidated Statement of Changes in Equity
- 42 Consolidated Cash Flow Statement
- 43 Notes to the Financial Statements
- 68 Company Statement of Changes in Equity
- 69 Company Balance Sheet
- 70 Company Cash Flow Statement
- 71 Company Notes
- 76 Directors and Advisers

Financial and Operational Highlights

£123.3m

Revenue
increased by 7.9% (2013: £114.3m)

£19.7m

Underlying profit before tax⁽ⁱⁱ⁾
increased by 12.6% (2013: £17.5m)

£30.3m

Cash inflows from operating activities before non-underlying items
(2013: £23.9m) with net debt of £166.1m (2013: £168.5m)

£275m

Property portfolio
independently valued

£30.7m

Underlying EBITDA⁽ⁱ⁾
increased by 16.2% (2013: £26.4m)

31.01p

Underlying diluted earnings per share⁽ⁱⁱ⁾
increased by 13.1% (2013: 27.43p)

2,074 places

Overall care capacity reduced by 42^(iv)
(2013: 2,116)

5.40p

Final dividend per share
increased by 15.4% (2013: 4.68p)

Statutory Financial Highlights

£28.3m

EBITDA^(v)
Decreased by 29% (2013: £39.9m)

23.85p

Diluted earnings per share
Decreased by 50% (2013: 47.54p)

£20.5m

Operating profit^(v)
Decreased by 38% (2013: £32.9m)

£26.1m

Cash inflows from operating activities after non-underlying items
(2013: £21.6m)

- (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.

- (iv) Overall capacity has reduced by 42 reflecting the net of 63 additional beds less 12 beds withdrawn for reconfiguration, 30 places less in small supported living packages and 63 reduction for carers not currently accepting children.
- (v) These statutory highlights have decreased following a non-recurring significant increase in 2013 as a result of the business activity in the year.

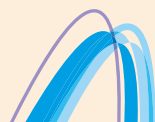
Caring every day

Meeting the demands of the UK social care market

We have national coverage in a highly fragmented UK social care market. The total market value is now estimated, using an updated model (Laing and Buisson 2013) to be worth £7bn for children services and £8bn for the care of younger adults (below 65 years of age) in the learning disability and mental health categories. The private sector share of this market has developed through successful outsourcing of services and this trend is expected to continue. Local Authorities have largely protected their budgets for children and complex younger adults.

Five specialist operating divisions

Adult Services

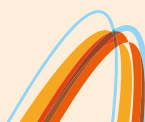


Adult Learning Disabilities

The care and support of people who have learning disability has evolved over the past decade into a broad division between those people requiring specialist and more sophisticated support and those who can be helped to live independently. CareTech has always operated at the highest acuity range on the social care spectrum, providing individual tailor made solutions for people living in their own homes, residential care or independent supported living schemes.

Although at a slow rate of change, adults with learning disabilities are increasingly being provided with direct funding to enable them to purchase their own care and support. We already work with service users to deliver self-directed support packages and see this as an important aspect of our service model.

For many people, and especially those with the most complex intellectual or physical challenges, residential care will continue to be the preferred option although the services will change in their approach as we move towards a more enabling, modern type of service. We increasingly offer several types of supported living and packages of individualised self-directed support to people in their own homes.



Mental Health

The OECD recently published a report stating that mental illness accounts for 4.5% of the UK GDP or approximately £70bn each year. NHS budgets for intervention in mental illness are stretched and they increasing rely on early discharge of patients to reduce cost.

CareTech's mental health development team works in partnerships with the NHS and social service departments 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. For many people mental health long stay hospitals were a place of refuge but that opportunity is now long gone. Those same people are increasingly finding themselves within the criminal justice system and often as members of the long-term prison population. It is in everyone's interest that those people with ongoing low-level mental health conditions return to an ordinary community life with the support that they need to make a positive contribution to society. CareTech's highly effective care teams are developing new ways to offer support under these circumstances and we believe that this will be an important growth platform in years to come.

Children Services



Foster Care

"Foster Care is on a rising trend in terms of both numbers placed in foster care and expenditure by local authorities." Laing and Buisson 2013.

Foster Care is commonly recognised as the best care solution for "looked after" children. Except in special circumstances, children thrive in foster care where they are supported within an ordinary family home and with trained foster carers.

CareTech provides for both mainstream and specialist foster care through small supportive groups across the UK. Provision includes a highly respected service for physically and intellectually disabled children as well as support for children with sensory impairments. However, not all complex or disadvantaged children need to come into care and there are many good reasons why they should be supported and monitored in the own family homes. We provide foster care family assessments and ongoing support to children who remain with their birth families and in their family home.



Young People Residential Services

While foster care remains the best choice for a majority of looked after children, a significant number of children and young people need to live for a while in specialised residential services.

There is a wide range of reasons for this and of course many different styles of care that are required. These services are highly intensive operations with exceptional staff ratios and generally include on site or dedicated educational facilities. Consequently they are necessarily high cost services where we aim for an intensive programme of care and a strict timetable that delivers results at a fair price to commissioners. As far as practicable we aim to help these children move into a more normalised family style environment as soon as it is wise to do so.



Learning Services

This Government and previous ones have paid great attention to unemployment, especially among young people. Several years ago we saw a return to the apprenticeship model for re-skilling the workforce and driving higher vocational and educational standards amongst young adults.

Within the Care Sector we recognised that a poorly skilled workforce was getting in the way of top quality care so CareTech had already invested in a first class training division with award winning programmes to develop our care staff.

The opportunity to acquire the majority of the trade and assets of Elmfield Training Limited gave the Group our new Learning Division which has already made an impact in care and beyond. It trades as EQL Solutions Limited.

Learning Services addresses an adult social care workforce in England of some 1.16m people, 905,000 of whom work within the independent sector (Skills For Care 2013). We have less reliable numbers for the children services workforce but EQL solutions has already begun to recruit apprentices within CareTech's own Children Services Division.

There are 17,300 organisations providing Adult Social Care in England and the majority of these are operating at far too low a scale to

deliver their own training or apprenticeship programmes. EQL Solutions has significant market presence in social care and is well positioned to support both smaller companies as well as corporate providers.

In the 2012/13 academic year there were 510,000 apprenticeship starts. This is 10,000 less than the number of starts in the 2011/12 academic year, but 231,000 more than in the 2009/10 academic year.

A much higher proportion of apprenticeship starters are now aged over 25 (45% in 2012/13) compared with 2009/10 (18%) and years previous to this.

The majority of people starting apprenticeships choose frameworks in the service sectors, such as business administration and retail. However, there is a recognised need within the care sector that has not yet been developed.

The majority of apprenticeship starters were female (55%) and there is a widespread commitment to address this as a failing within the historical approach.

The Government aims to increase the number of apprenticeship starts for younger people and has committed to providing an additional £40m for 20,000 new higher apprenticeship starts in the current (2014/15) academic year.

Group at a glance

Pioneering every day

Cooking at St Agnalls.



Client focused innovative care pathway approach

Care and Support is characterised by optimism and a genuine belief in the abilities of our service users. Everyone we support has an opportunity to make progress in their lives and our professional teams work hard to help those people understand how to move forward. Many years ago we began to describe our services as a Care Pathway, making clear our intention to break away from the old belief that care is for life. We have delivered on this commitment and everyone we support from young children to profoundly disabled adults shares our dream to maximise their independence. This is great for service users, rewarding for our staff and strongly supported by those who commission and sponsor our services.

Adult Services

Social care services for adults over the age of 18

Adult Learning Disabilities

Care capacity 2014

1,450

2013: (1,423)

Split by:

- Residential care
- Independent supported living
- Community support services

Mental Health

Care capacity 2014

151

2013: (161)

Split by:

- Residential care
- Independent supported living
- Community outreach

Children Services

Social care services for children and Young People up to the age of 18

Foster Care

Care capacity 2014

320

2013: (383)

Split by:

- Residential care of children and young people
- Family Assessments in the home

Young People Residential Services

Care capacity 2014

153

2013: (149)

Split by:

- Residential care of children and young people
- Education services for children and young people

Learning Services

Split by:

- Pre-employment programmes
- Development programmes
- Apprenticeships

Group at a glance

Building relationships every day

Musical day at the Martello Centre.



Placing people in the care of organisations that you can trust

The business of care is predicated on relationships, as much as it is on the practical support and guidance that we offer on a daily basis. Troubled children need the warmth and challenging support of their care workers while disabled adults make best progress within the trust that a great relationship brings. We are also mindful that most social workers will prefer to place people in the care of organisations that they can rely on and we work hard to sustain those relationships through the difficult environment of local authority austerity.

Quality and Expertise

Quality is not simply compliance with the requirements of regulation, though that remains important. The CareTech way is to employ well qualified and skilled professionals who can ensure that we consistently exceed the expectation of our service users, their families, social workers and commissioners.

Innovative Care Pathway

CareTech was one of the first care organisations to describe its approach as a Care Pathway. We have delivered many practical innovations such as the transitions programme and new approaches to the support of people moving into their own home. Currently we are developing modern and thoughtful solutions to self-directed and client determination that will set the pattern for progressive social care.

Strong Brand

There are many providers offering care and support. Many are small innovative companies while others are large and anonymous. In CareTech we offer a sound, reliable service with the benefits of scale, operating within friendly and trusted local service businesses.

National Presence

CareTech is very well known as a care company in public ownership that operates throughout England, Scotland and Wales. Our national presence is reinforced through conferences and publications where the CareTech view is frequently sought and taken into account.

A year of further progress

Farouq Sheikh
Chairman



I am pleased to present our Annual Report and results for the year ending 30 September 2014. Once again I can report on strong growth on all of our key business metrics. The successful pursuit of our business and social care strategies lead to a solid foundation for further development as we enter our 22nd year of public service.

The CareTech Group has earned an enviable standing as a safe, consistent and stable partner for local authorities and health commissioners as they increasingly outsource care services for which they have a legal duty.

The Health and Social Care Information centre shows that overall local government spending remained the same as the past year and that the average cost of caring for adults has remained virtually unchanged. Spending on adults with learning disability has shown a small increase.

However, we are seeing an important realignment in the pattern of funding on social care with increased spending on those people with higher acuity levels, CareTech's speciality, and a compensatory reduction of funding for people with less complex issues. Spending on "looked after" children shows a steady and consistent increase.

This pattern is in line with our expectation and confirms our strategic approach to remodel provisions to increase capacity at the more complex end of our client groupings.

In addition, we have seen growth in the drive toward more personalised service delivery and purchasing power being transferred to clients by way of Direct Payments. We see this as a significant development and one that will determine the pattern for longer term commissioning. In anticipation of this change, our management team has set in motion a very progressive shift toward the principles of personalisation in line with Government and local commissioner policies. This puts us in a good position to ensure continuing growth of our businesses and an increase in market share.

Dividend

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

That growth in 2014 was 13.1% so the Board has proposed a final dividend of 5.40p (2013: 4.68p) per share bringing the total dividend for the year to 8.00p (2013: 7.00p) per share. The final dividend will be paid, subject to shareholder approval, on 11 May 2015, with an ex-dividend date of 5 March 2015 and an associated record date of 6 March 2015.

Our Board

On 27 September 2014 Stewart Wallace, Executive Director, retired from the Board and Care Governance and Safeguarding Committee on reaching the age of 65. No further changes have occurred to the Board, Remuneration Committee, Care Governance and Safeguarding Committee or Audit Committee.

It is intended that Stewart will continue to provide input to the Company on an advisory basis.

I am immensely grateful to Stewart for his key role in the development of the Group's services over the past 14 years.

Mike Adams, a Non-Executive Director and Chair of the Care Governance and Safeguarding Committee, has recently been awarded an Honorary Doctor of Education for disability leadership from Anglia Ruskin University.

Our People

The Group's divisional structure has been further developed with the two business segments of Adult services and Children Services having underneath them the five Care Pathways.

I am extremely grateful to all of our managers and front-line colleagues for their exceptional commitment during the year. They have continued to deliver top quality services despite the pressure being placed on us from social services to reduce costs.

Our continuing growth, measurable success and forward-looking approach is a tribute to the hard work and dedication of staff and managers throughout the organisation. I am very grateful for the outstanding contribution of our support teams and administrators as much as the more obvious contribution of our front line colleagues.

I thank all of them for ensuring that we maintain the right balance between care and commercial sense.

I am very positive about the coming year and the opportunities it will bring. We shall see the consolidation of our current developments, new ideas coming through our staff and management engagement programmes in addition to the systematic growth of mainstream services that have served us well over the years.

Outlook and Prospects

The underlying performance of our business is strong and underpinned by demographic trends within our target markets. Improvements in the regulatory regime, commissioner attitudes and policy development favour growth for the best providers across the whole social care spectrum.

We see a particular opportunity with mental health where the level of historic underfunding is now being addressed and we are quite excited about the proposed merger of health and social care budgets which has won all the support of all political parties. In our view this will drive a better operating environment and enlarge the commercial opportunity for larger providers operating a comprehensive model of care.

In our view, the coming election year will give additional emphasis on under spending across the health and social care environment. There will be new opportunities for ambitious providers who are ready to work in partnership with commissioners to deliver creative solutions that will drive better value for the available resources. We believe that our robust infrastructure and strong management team are well placed to deliver the solutions that commissioners want.



Farouq Sheikh

Chairman

14 January 2015



EQL staff training apprentices.

Creating sustainable value in our markets

The Care Market in which the Group operates is a UK Market worth £15bn per annum across the four specialist operating divisions of Adult Learning Disabilities, Mental Health, Young People Residential Services and Foster Care.

Our Market

CareTech has national coverage in a highly fragmented UK social care market. The total market value is now estimated, using an updated model (Laing and Buisson 2013) to be worth £7bn for children services and £8bn for the care of younger adults (below 65 years of age) in the learning disability and mental health categories. The private sector share of this market has developed through successful outsourcing of services and this trend is expected to continue. Local Authorities have largely protected their budgets for children and complex younger adults.

Number of Looked After in England are Local Authority Statistics at 31 March annually and are issued by the Department for Education (<https://www.gov.uk/government/statistics/children-looked-after-in-england-including-adoption--2>)

The market is growing in value by 5.5% per annum.

Our new division, Learning Services, addresses an adult social care workforce in England of some 1.16m people, 905,000 of whom work within the independent sector (Skills For Care 2013). We have less reliable numbers for the children services workforce but EQL Solutions has already begun to recruit apprentices within CareTech's own Children Services division.

There are 17,300 organisations providing Adult Social Care in England and the majority of these are operating at far too low a scale to deliver their own training or apprenticeship programmes. EQL Solutions has significant market presence in social care and is well positioned to support both smaller companies as well as corporate providers.

Social workers are quick to tell us that value for them and their clients is the ability to deliver agreed and tangible outcomes at the best possible price. We have found that they are happy to fund at a commercial rate if they can be confident that a provider is able to deliver the required outcomes and move their client along the Care Pathway to a less expensive provision. This suits the CareTech approach, as a national provider with services that range from the intensive therapeutic model right down to minimum community support using skilled care workers. Delivering this high value approach, along with safe and high quality care ensures our position as a leading provider with loyal and reliable commissioners.

Adult Services

Adult Learning Disabilities

- Residential care
- Independent supported living
- Community support services

Mental Health

- Residential care
- Independent supported living
- Community outreach

Children Services

Foster Care

- Fostering
- Family Assessments in the home

Young People Residential Services

- Residential care of children and young people
- Education services for children and young people

Learning Services

- Pre-employment programmes
- Development programmes
- Apprenticeship

People

1.4m

(85,000 cannot live independently)

Market for residential learning disabilities and supported living worth

£5.9bn

Market growth rate

5.5% pa

People

2.4%

(of the UK population will be referred to a specialist psychiatric service)

NHS/LA total spend on mental health is

£14.4bn

Market growth rate

5.5% pa

People

51,340

Placed in foster care in England

Foster care market across England worth

£1.1bn

Market growth rate

1.5% pa

People

17,500

Children in England looked after outside foster care

Residential children's market across England worth

£1.0bn

Market growth rate

0.2% pa

People

510,000

Apprenticeship starts

Apprenticeship budget

£1.6bn

Market growth rate

9.1% pa

A strategy to drive future growth

Our business model represents how we aim to generate revenue and profit from our operations

The Group’s business model is to operate throughout mainland Britain in England, Wales and Scotland to provide care to people of any age who are local authority or NHS funded where we are capable of offering an appropriate Care Service.

Our Business Model

During the period, the Group continued to develop and grow its four existing operating divisions, which come under the two outcome-based sectors of Adult services and Young People services. We have also acquired a new Learning services division. The growth going forward is underpinned by the strong starting point that we have built carefully

over the past few years. We continue to extend both our geographic coverage and our outcome based Care Pathway range of services organically and through the purchase and sale of properties to meet the needs of our marketplace, specifically the requirement for greater acuity service provision. This ensures that CareTech is in a very strong position to address the demands of our evolving marketplace.

Setting the standard in quality of service

Adult Learning Disabilities
Residential care
Independent supported living
Community support services

Mental Health
Residential care
Independent supported living
Community outreach

Foster Care
Fostering
Family Assessments in the home

Young People Residential Services
Residential care of children and young people

Learning Services
Pre-employment, development and apprenticeship programmes



Setting out our key strategic priorities

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

Our Strategy

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 further significant expansion of our endeavours. 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.

Social Care expertise

Employing numerous qualified and skilled care workers, foster carers, teachers and managers the CareTech front line teams are supported by a wide range of high level professionals such as social workers, nurses, therapists and psychologists.

High quality

The driver for social care is an organisation's ability to deliver high quality care, with reliable outcomes at a fair price. We believe that the market has recognised that CareTech offers the best possible balance between quality and value and understands the need for progressive thinking and innovation to deliver ongoing results.

Nationwide locations

The CareTech strategy is to offer a strong national brand with local and regional service delivery points. This supports development of local relationships while offering the comfort and security of a well resourced and strong Group.

Excellent reputation

The CareTech brand is strong and our extensive relationships across the UK are second to none. This is reinforced by our presence at major industry events where we have been reliable sponsors and commentators. However, the most effective way that we sustain our reputation is by delivering what we promise for the people we support and by treating our staff well.

High occupancy

CareTech services are in demand and occupancy has remained high despite fears of local authority austerity impacting referrals. What's more, the nature of referrals in recent years has been toward the more complex end of the spectrum.

Continued growth

It is well known that demographic trends show growth in social care in the foreseeable future. CareTech's own research indicates stronger growth in the more complex end of social care, favouring the larger and best resourced provider organisations.

Shareholder value

CareTech has delivered sustainable and reliable growth since the day it listed. It has aimed to be a defensible stock even in difficult times and for some time has offered a good quality dividend policy. We have every reason to believe that growth will continue and the management team remains enthusiastic about the Group's future.

Highly visible long-term income stream

Our KPIs help us to measure the Group's performance against its strategy and objectives.

Capacity

2,074 places

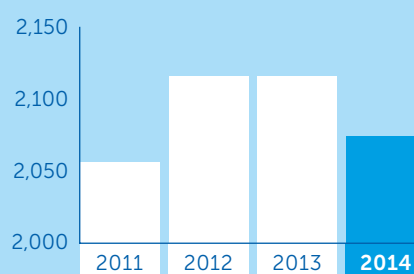
(2013: 2,116 places)

How this is calculated

The Group's capacity is the total number of Adult Service and Children Service places that the Group is able to use at that date. It is a total including residential care beds, independent supported living accommodation, community support service users and children that foster carers can currently look after.

Performance this year

Overall capacity has reduced by 42 reflecting the net of 63 additional beds now available, 12 beds withdrawn for reconfiguration, 30 places less in small supported living packages and a reduction of 63 for carers not currently accepting children.



Mature estate occupancy

92%

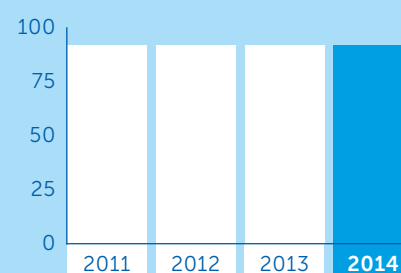
(2013: 92%)

How this is calculated

The Mature estate occupancy is the total number of Adult and Children Service Users placed in services that were open throughout the year.

Performance this year

The ratio has remained 92% for a number of years and reflects the long length of stay that the majority of service users have in our services.



Blended occupancy

86%

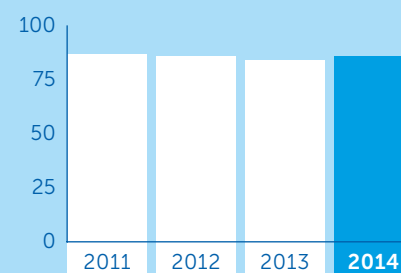
(2013: 84%)

How this is calculated

Blended occupancy is the total number of Adult and Children Service Users actually placed as a % of the Group's total capacity and so reflects facilities undergoing development and reconfiguration.

Performance this year

The ratio has improved by 2% to 86% and reflects the additional beds in reconfigured services brought back into capacity and the reduction in fostering capacity where carers are unable to accept foster children currently.



Underlying EBITDA

£30.7m

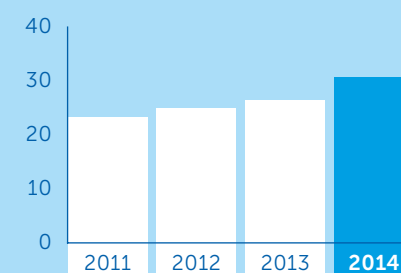
(2013: £26.4m)

How this is calculated

Underlying EBITDA is the Earnings Before Interest, Tax, Depreciation and Amortisation for the year excluding non-underlying items such as amortisation of intangible assets which are fully described in note (4) to the Financial Statements.

Performance this year

The underlying EBITDA has improved by £4.3m or 16.3% year on year. This reflects rent savings due to the business combination acquired in 2013 reduced by the reconfiguration work on those properties, and improved margin.



Underlying profit after tax**£16.1m**

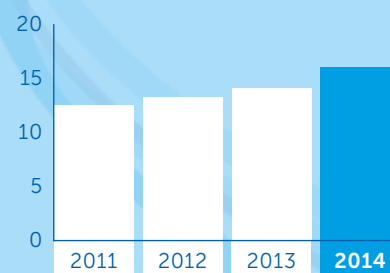
(2013: £14.1m)

How this is calculated

Underlying profit after tax is the Group's profit after provision for taxation excluding non-underlying items such as amortisation of intangible assets after tax which are fully described in note (4) to the Financial Statements.

Performance this year

The underlying profit after tax has improved by £2.1m or 14.8% year on year. This reflects the rent savings offset by additional interest and improved margin, net of tax.

**Underlying diluted EPS****31.01p**

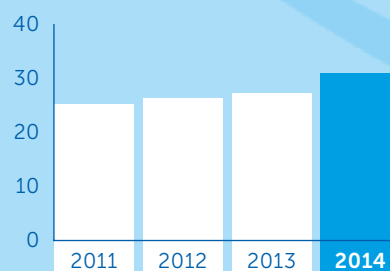
(2013: 27.43p)

How this is calculated

Underlying diluted earnings per share is the underlying profit after tax (which is after adjusting for non-underlying items which are not considered to impact the trading performance of the Group) divided by the weighted number of shares which are fully described in notes (9) and (10) to the Financial Statements.

Performance this year

The underlying diluted earnings per share has increased by 3.58p at 13.1% year on year. This is the increase in underlying profit after tax partly offset by the increase in the number of shares to give a strong growth in earnings per share.

**Net debt****£166.1m**

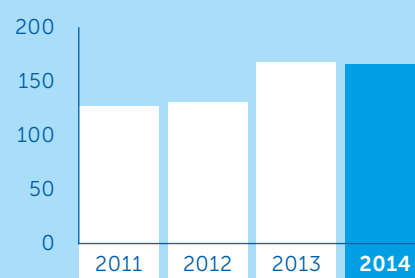
(2013: £168.5m)

How this is calculated

Net debt comprises the balance at the year end for cash and cash equivalents net of bank loans outstanding and finance lease and hire purchase contract monies outstanding and is fully described at the foot of the Consolidated Cash Flow Statement on page 42.

Performance this year

Net debt reduced by £2.33m or 1.4% between 30 September 2013 and 30 September 2014. Cash increased by £0.1m and bank loans reduced by £2.2m offset by an increase in leases and hire purchase contracts on new vehicles and IT equipment of £1.8m.



Managing our risks and resources

Social care is not a high risk business proposition but there are several unique factors that could cause difficulties for the careless or casual provider. These centre on the way in which care and support is provided and the reliability of those front line staff who provide it. CareTech approaches these issues with considerable care and exceptional diligence, building in quality and training wherever it is required but also through its established scrutiny protocols and firm leadership. We care a great deal about what we do and have established a reputation for careful management of all those processes that could expose us to risk.

Our risks

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 care that is safe and of a high quality. CareTech's approach to quality and safe service delivery is characterised by a mixture of a dedicated compliance team carrying out regular audits inspection and a commitment to building quality into everything we do.

The market for the provision of social care services continues to be dynamic, presenting both risks and opportunities. The overall number of people needing support will increase, and a smaller proportion of them will be placed 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. 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.

In October a Whistleblower put falsified material relating to a Mental Health facility on the Internet which was replicated by the local press and online media. This reputational damage was resolved and later withdrawn from the Internet.

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 high quality and flexible solutions. We are building this to a higher level and refining our organisational structure to build more rapidly on our successes to date.

Service offer and user needs

We have to create and staff a service offering which matches to the needs of the service user and can be communicated to commissioners, so it is carefully recorded locally at every service in order to reduce the risk of service users moving to other service providers.

Quality and safety

We have to provide and deliver safe care of a high quality and the Group utilises Perry Scott Nash to audit and report monthly on Health and Safety matters as well as all RIDDORS (Reporting of Injuries, Diseases and Dangerous Occurrences Regulations) so that all incidents are recorded and acted upon.

Service value

The service offer has to be provided to meet the needs of the commissioners at a fair price and this is coming under increased scrutiny as commissioners regularly review value for money so the Group communicates frequently with its commissioners locally.

Reputation

The Group has to have a reputation for delivering service that is good value and takes account of all risk. The Group maintains a Risk Register which includes all key risks, including reputational risk, and how they are mitigated through quality of service and good communication with service users and Local Authorities.

Growth funding

So that the Group can keep growing adequate funding has to be anticipated and put in place and the Group ensures that all of its facilities are monitored and reviewed regularly in particular during its Budget and forecasting processes.

Manage debt

The level of debt obtained to fund operations and ensure that growth can occur has to be carefully managed and the different forms of leasing and debt are reviewed quarterly when all of the covenants are also reviewed.

Our resources

The key resources that we require to provide care are:

People to provide care

We need staff and carers who have appropriate skills and qualities to look after children or adults in need of care.

People with skills to manage, train and support our people who provide care.

Skilled staff to provide the management and training to our people who provide care.

Buildings, homes and land

The land and buildings to provide accommodation for residential services or supported living.

Financial resources

We need financial stability to be able to employ the right staff and to provide the right land and buildings.

By order of the Board



Farouq Sheikh

Chairman
14 January 2015

Business segments

Adult Services		Children Services		
Adult Services Residential Care and Community Support	Mental Health and Specialist Services	Young People Residential Services and Education	Foster Care	Learning Services

Corporate Direction and Support

Incorporates the Shared Services Centre, Human Resources, National Training Centre, Quality, Regulation and Compliance, Treasury and IT.



Coppice Lodge, Dudley.

A strong foundation for growth

Haroon Sheikh
Chief Executive Officer



Overview

It gives me great pleasure to report on another successful year that reflects the hard work of our management team, the enthusiasm of our staff and the support of our Board.

The Group has continued to build upon its solid foundations and remains in a strong position to continue as a leading provider of high quality specialist social care services in a large and growing UK market which remains fragmented.

The Group has continued to develop and has made further encouraging progress during the year.

Results

Revenue of £123.3m (2013: £114.3m) for the year to 30 September 2014 represented growth of 7.9% and generated underlying EBITDA growth of 16.3% to £30.7m (2013: £26.4m).

Underlying operating profit increased by 17.6% to £27.3m (2013: £23.2m) and total operating profit decreased by 38% to £20.5m (2013: £32.9m) due to a non-recurring significant increase in 2013 as a result of the business combination.

Underlying profit before tax for the period was 13% higher at £19.7m (2013: £17.5m) and profit before tax was £12.5m (2013: £28.1m).

Consolidation and creating new opportunities

CareTech remains at the forefront of social care outsourcing and in the past year there has been an increase in working closely with commissioners and regulators as the whole system grapples with the changes that policy and financial pressure have brought.

National public policy is a significant driver of local authority commissioning intentions and behaviour. For a number of years public policy has encouraged greater personalisation of health and social care for adults. Commissioners and leading providers are driving change that will mean offering people more choice and control over the care, treatment and support they receive while at the same time maintaining the quality and safety of those services.

Our care priorities drive successful outcomes for our service users and follow closely the guidance from central government.

Our key focus for delivering quality services and positive outcomes is supported by the following key factors:

Communication

- We have open and frank dialogue with our service users, their families and social workers.

Independence

- In our social care and health contracts we aim to help our clients to return to an ordinary life. It may be children who can return to their birth families or live independently. It may be adults who we can help on the pathway to recovery following a mental health breakdown or people with learning disability who we can support toward independent living.

Housing care and support

- We know that most people aspire to have a place of their own, employment and ongoing support. We have structured our services, developing new provision and creative partnerships with housing providers to enable these aspirations to be achieved whenever possible.

Self-directed support

- It is pivotal to government policy that adults and children receiving social care are fully engaged in the support that they require. With some adults this extends to the provision of a cash sum enabling them to purchase their care and support directly. CareTech managers have been reviewing our systems and delivering training throughout the organisation to ensure that we are fit to deliver the requirements of self-directed support.

Quality and dignity

- CareTech has always delivered high quality care in exceptional premises. However, we have never been complacent about this and have undertaken many reviews to ensure that we deliver the right quality at an acceptable price. We have also learned a great deal from the experience of our NHS colleagues and developed a Dignity Test to ensure that our front line and administrative staff treat all our clients in ways that promote dignity.



Opening of Coppice Lodge, Dudley by Ben Mould
ably assisted by Haroon Sheikh (CEO), Dr Linda Cropper (Commissioning Engagement Manager, Dudley CCG) and Councillor Bryan Cotterill.

Progress in the year

The year has seen continued progress as the Group concentrates on the introduction of innovative new services developed in partnership with local authority commissioners from within our existing portfolio of properties or through new properties either purchased or rented for service users.

There have been a small number of property disposals during the year where the service was not meeting commissioner aspirations and a reconfiguration was not possible or economically viable.

The Group has developed the site in Dudley for the Children Services and the first service has recently opened. The second service is being developed on the same site and planning permission has been granted for the conversion of an existing building into a seven bedroom service for children with learning disabilities and a six bedroom children's wheelchair accessible bungalow.

Our Children Services have had significant growth in Scotland and there have been new services opened in Dumfries, Galloway and Fife. In addition a new education facility is being opened near Dumfries to support these children.

In North Wales the Group has developed an Adult Learning Disability Service which is completed and awaiting registration.

The Group also continues to realise the benefit of organisational improvements that were put in place over the past few years. We have continued to strengthen the management structure and improve the efficiency of our processes following further investment in new systems which will continue through the next financial year. We are seeing the benefits of new executive appointments and the Clinical Director role is having a positive impact across the services.

These improvements have put us in a strong position to benefit from a number of the commissioning opportunities by working in partnership with the NHS and Local Authorities.

During the year we introduced a new care system for Foster Care which has recently gone live and we also have a new Time and Attendance system which is being implemented across all of the residential services in the coming months which will further our policy of back office centralisation.

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 even more extensive and focused on providing high quality care and positive outcomes for all of our service users.

The Group continued to develop and grow its existing four operating divisions, which come under the two outcome-based sectors of Adult Services and Children Services. We continue to extend both our geographic coverage and our outcome-based Care Pathway range of services organically and through the purchase and sale of properties to meet the needs of our marketplace, specifically the requirement for greater acuity service provision. This ensures that CareTech is in a very strong position to address the demands of our evolving marketplace.

Following the acquisition of our new Learning Services division, I am particularly delighted to report on the integration and development of our apprenticeship model. The team has already completed pioneering work by developing the apprenticeship model in social care, with massive growth potential, but has also won a prestigious tender with the Department of Work and Pensions to develop a new model of mental health rehabilitation using the skills derived from working with apprentices.

We remain committed to the growth of residential care solutions for adults and children with the most complex needs and the CareTech Group has embraced the development of home-based solutions including foster care where demand for more specialist services remain strong. Our residential care services for children cater for young people with particularly difficult issues and offer a national service; with strong growth seen in Scotland. Our adult services offer a solid and reliable provision across the whole spectrum of service offerings and we see a particular volume demand in the area of supported living, balanced by renewed demand for more specialised residential care solutions.

Chief Executive's Statement and Performance Review

continued

"Foster Care is on a rising trend in terms of both numbers placed in foster care and expenditure by local authorities."

Laing and Buisson,
2013

Our strategy is to offer a bespoke range of options so that we can maintain the Care Pathways that distinguish us from other providers.

Overview of progress

Our focus during the past year has continued to be on building on the acquisitions which established the Care Pathways whilst introducing innovative new solutions to meet the challenges faced by care commissioners.

Capacity has reduced to 2,074 places principally because we have continued to reconfigure services. Occupancy levels within our mature services remain at a creditable 92%, or 86% when taking into account our services under development and transition which is a 2% improvement on the previous year.

Much has been written about personalisation and I felt it would be useful to set out our own understanding and commitment to personalisation.

Personalisation means "recognising people as individuals who have strengths and preferences and putting them at the centre of their own care and support" (Social Care Institute of Excellence).

The traditional service-led approach has often meant that people have not been able to shape the kind of support they need, or receive the right kind of help. Personalised approaches such as self-directed support and personal budgets involve enabling people to identify their own needs and make choices about how and when they are supported to live their lives.

Our two business segments of Adult Services and Children Services comprise the following five care pathways.

1. Adult Learning Disabilities

Revenue	£74.2m (2013: £73.9m)
EBITDA	£22.6m (2013: £18.5m)
Capacity	1,450 (2013: 1,423)

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-directed support packages.

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

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

The principal reason for the increase in EBITDA of £4.1m was the rent saving arising from the business combination in 2013, the reconfiguration of homes and their reopening late in the year.

We have continued to work closely with commissioners and this has helped us to achieve our growth through the past year. We take a long-term view, recognising that change will continue and with this in mind I am pleased to report that the closure and redevelopment of some of our long stay residential provision has been a great success over the past year and will continue to meet the changing requirements of commissioners and families.

The market for high acuity care and the support of people with learning disability is growing year on year. Demand for low-level support has been impacted by the cuts in local authority expenditure but this is not an area of activity in which CareTech operates. Conversely, resources for those with the highest level of need is being maintained and increased in some local authorities.

During the past year we have developed 63 beds through reconfiguration of existing residential services. Further new provision is under development.

2. Mental Health

Revenue	£7.3m (2013: £6.5m)
EBITDA	£2.5m (2013: £2.2m)
Capacity	151 (2013: 161)

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

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



EQL training staff at a BHS store.

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

Community Mental Health has always been a critical but relatively neglected area of social care. However, this is changing as the NHS drives to lower bed capacity and accelerated early discharge from acute psychiatric hospital care.

The growth of social care is certain but so is the immediate response by Government to one of the scandals of our age. There has been no progress in the removal of large numbers of learning disabled people from the controversial "Treatment and Assessment Centres" operating at various locations throughout the UK. CareTech has never operated any centres of this type but we understand that the CEO of NHS England has been tasked with ensuring that these centres are re-provided as a matter of urgency. CareTech is seeking opportunities to support the project and to offer a comprehensive solution within its community homes.

We are well positioned for further expansion in Mental Health and have a sustainable infrastructure to deliver growth. It was very pleasing that our management team in Lyndhurst, a residential home, were awarded the Care Team of the Year award against stiff competition at the prestigious National Care Awards ceremony this year.

3. Foster Care

Revenue	£12.0m (2013: £14.3m)
EBITDA	£3.0m (2013: £4.3m)
Capacity	320 (2013: 383)

Foster Care provide for both mainstream and specialist foster care in small supportive groups across England and Wales for children with disabilities. We also provide foster care family assessments in the home.

This trend is driven by cost considerations, where fostering is considerably less expensive than residential care and by perceived quality factors. It is generally held that fostering in an ordinary family home delivers better quality than any residential setting. However, the rising tide of fostering has been constrained by the challenge of finding foster carers with the right skill and motivation alongside preference by social workers to place within local authority services rather than the independent sector.

In 2013, 46% of children placed in foster homes were outsourced to the independent sector. This compares with 67% placed in residential homes operated by independent providers.

Our Foster Care teams and Young People Residential teams are working alongside each other to offer the best outcomes for Young People.

Our market intelligence suggest that most, if not all, independent sector fostering agencies are experiencing some degree of "hold back" at present. However, the consensus view is that this will not last long and local authorities will inevitably return to progressive outsourcing of foster care provision.

Outsourcing is well established in the culture of most local authorities, but the current austerity measures have led a small number of authorities to reflect on the 50% fee premium paid for independent fostering. This disparity of cost can be attributed in part to the fact that the most complex and therefore most expensive children are placed in the care of independent providers. However, it is also clear that local authorities fail to undertake a full cost analysis of their in-house provision. Wherever this has been done, outsourcing is demonstrably much better value.

Demand for foster care has increased overall but we have noted an increasing trend among some local authorities to make provision in-house for all but the most complex children. In our view this is an expensive and unsustainable approach that exposes local authority commissioners to risk. Our own services are being maintained at an acceptable level. Looking forward we are training our foster carers with the skills required to manage more complex work and have linked the fostering division with our residential team for children so that we can maintain an effective care pathway.

4. Young People Residential Services

Revenue	£21.9m (2013: £19.6m)
EBITDA	£7.4m (2013: £6.2m)
Capacity	153 (2013: 149)

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

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

In the year this segment benefited from new services and will benefit from the Dudley site in the next financial year.

Children residential services have been growing as our reputation for quality care and support spreads. We are currently developing new beds and places that have been commissioned during the past year. I would like to express particular praise for the team in Scotland who have established a good presence in a relatively short time.

5. Learning Services

Revenue	£7.9m
EBITDA	£0.1m

In November 2013, CareTech acquired a Learning Services business now operating as EQL Solutions, a national provider specialising in employment and training services to young people and adults. The business was acquired out of the administration of Elmfield Training with the knowledge that it required turnaround, which has been the management focus during the year. The necessary investment and re-structuring will be completed shortly.

Its intensive pre-employment, development and apprenticeship programmes use public funds from the Skills Funding Agency to lay the foundations for individuals to achieve their career goals while helping to provide businesses with the vital skills they need in their workforce.

As well as supporting the workforce, EQL Solutions is also developing programmes for service users by enhancing the pathways to independent living and employment. Young People leaving care, for example, often don't know where to find the right job opportunities or have the opportunity to access employer-focused training. We can now bridge that gap by supporting young people as they make the transition to adult life. We are also exploring how best to help individuals return to employment after mental illness and to give people with learning disabilities the skills and confidence to gain employment so that they are able to live more independently.

Chief Executive's Statement and Performance Review

continued

Early mapping with CareTech's core business around the year end has gone well. Good progress has been made in identifying the potential for EQL Solutions to add value to CareTech's attraction and recruitment of staff and their retention, helping new employees gain the skills and qualifications to grow a successful career in care through an Apprenticeship.

An Apprenticeship is a work-based learning programme designed around the needs of employers, which leads to nationally recognised qualifications. It is available to anyone aged 16 and above and is made up of a practical competency component, on-the-job training and off-the-job learning. As well as Apprenticeships being a practical, cost-effective way to recruit and train new social care employees, many employers consider the framework to be a useful learning and development route for their current employees, across all ages and experiences.

For some time the Group has felt that the ability to offer pre-employment training to potential recruits, alongside Apprenticeships and other development solutions for existing employees, would enhance and support many aspects of CareTech's outcome-based approach. We are delighted that the learning and development specialists in EQL Solutions are now working with all of the care divisions to continuously improve the standards of care and delivery across all our services. We look forward to collaborating with our partners to spread best practice and innovative training across the wider industry.

Our task during this year has been to integrate the new company, EQL Solutions and to establish a sound business base for growth and develop new products in line with discussions held with the Skills Funding Agency. I am pleased to confirm that we have made progress with EQL Solutions and the team are strongly motivated to develop their initiatives in the world of social care through Aspire.

Aspire has been developed by EQL Solutions as a unique and innovative scheme that will ensure all CareTech's support workers receive mandatory and statutory training to the highest standard whilst also being offered the opportunity to complete a Level 2 or Level 3 Apprenticeship which has been carefully tailored to suit their role.

CareTech apprentices have now begun their training with a significant number waiting to join the programme over the next 12 months. From November 2014, all newly hired support workers will also be offered an Apprenticeship as part of their induction to CareTech. The Aspire programme aims to empower every colleague to display the behaviours needed to deliver the high quality, personalised care and to ensure there is a Development Pathway available to all.

Corporate Social Responsibility

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

Service users 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 as a vital ingredient to their, and our, success.

We care about the environment

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

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

We 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 improving 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.

Out of a total of 3,531 staff 70% are female and 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 have a team of in-house training staff delivering courses on all relevant subjects, enabling our workforce to gain the skills, knowledge and confidence to provide the care and support to our service users on a daily basis.

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

We care about quality and safety

As a Group, our aim is to provide a safe working environment for service users, staff and visitors. We value the well-being of all stakeholders and 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 in England and the services are regulated by the Care and Social Services Inspectorate Wales (CSSIW) in Wales and by the Care Inspectorate for Scotland.

We continue to resource our own highly experienced internal quality and compliance teams which undertake a programme of regular inspection and assessment and give 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.

Outlook

The coming year shows every sign of being good for health and social care providers and especially for those with an established reputation for quality and innovation. It is of course an election year and the major parties have already begun to pinpoint both health and social care for investment.

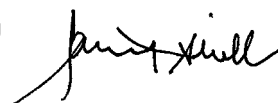
There is significant policy development in the pipeline and we see some indicators that local authorities have recognised the need to maintain, or grow their social care budgets.

In our view we are in a period in which consolidation will again feature strongly within the corporate sector and we are

alert to quality opportunities that may arise. However, we are mindful about acquisition and have robust criteria which must be satisfied to ensure that any acquired company fits our strategic development objectives.

This has been another progressive year for CareTech and I am indebted to the strong management team who have managed the services in what has been a challenging environment for the Care Sector.

CareTech provides high quality care, support and outcomes to our service users. I remain proud to lead the Company, delivering a quality of care that makes such a difference to so many lives.



Haroon Sheikh
Chief Executive Officer
14 January 2015



Lyndhurst Staff Team – National Team of the Year 2014 Award
The staff of Lyndhurst collecting their award at the Greater London Care Awards.

The Group has repeated the good progress of recent years in 2014

Michael Hill
Group Finance Director



Results

The underlying operating profit remains strong at £27.3m compared to £23.2m last year. Up to 2013 the Group had been making strategic acquisitions to gain market share and extend the care pathway range of services.

Since 2013 the focus has been on organic developments and cost efficiencies as well as the transaction on 4 November 2013 in respect of EQL Solutions for a total cash consideration of £1.1m to enable the Group to provide apprenticeship and pre-employment training.

Underlying diluted earnings per share increased by 13.1% to 31.01p (2013: 27.43p) per share and underlying profit after tax has risen by 14.2% to £16.1m (2013: £14.1m). Basic and diluted earnings per share decreased by 50% to 23.86p and 23.85p respectively (2013: 47.54p basic and diluted) and profit after tax decreased by £12.0m to £12.4m (2013: £24.4m).

Cash inflows from operating activities before tax and non-underlying items paid were £30.3m (2013: £23.9m), an increase of 27%. Net debt at the year end of £166.1m has reduced by £2.3m for the year.

Income Statement

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

Revenue

Revenue of £123.3m (2013: £114.3m) was 7.9% higher than in 2013.

In the established Adult Learning Disabilities segment we continued to experience high levels of occupancy and reported 92% occupancy at 30 September 2014. When this is blended with the facilities that are being reconfigured and so are under development the overall occupancy level during the second half of the year and at 30 September 2014 was 86% of capacity (September 2013: 84%). As in recent years the demand for residential services continues to be encouraging 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 which includes information on client capacity and turnover for each segment with the addition of Learning Services in this year.

Table 1 – Consolidated Income Statement before non-underlying items

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

	2014 £m	2013 £m	Growth
Revenue	123.3	114.3	7.9%
Gross profit	46.6	45.6	
Administrative expenses	(15.9)	(19.2)	
Underlying EBITDA	30.7	26.4	16.3%
Underlying EBITDA margin	24.9%	23.1%	
Depreciation	(3.4)	(3.1)	
Share-based payments charge	(0.1)	(0.1)	
Underlying operating profit	27.3	23.2	17.6%
Net financial expenses	(7.5)	(5.7)	
Underlying profit before tax	19.7	17.5	
Taxation	(3.6)	(3.4)	
Effective tax rate	18.2%	20.0%	
Underlying profit for the year	16.1	14.1	
Weighted average number of diluted shares (millions)	52.0	51.3	
Underlying diluted earnings per share	31.01	27.43p	
Full year dividend per share	8.00p	7.00p	

The continued development of our care pathways and a growing range of service options has led to the proportion of Adult Learning Disabilities revenue moving from 64.7% in 2013 to 60.2% in 2014 and EBITDA before Group costs from 59.3% in 2013 to 63.5% in 2014 as Learning Services joined the Group.

The Young People Services total revenue has risen by 11.7% with Mental Health rising by 12.3% and Foster Care falling by 16.1%. Their proportion of the EBITDA before Group costs has risen from 40.7% in 2013 to 36.2% in 2014 due mainly to the higher margin generated by the Adult Learning Disabilities Services following the rent savings due to the Business Combination in 2013 and also the improved margin achieved.

Underlying EBITDA and total EBITDA

Underlying EBITDA has grown by 16.3% from £26.4m in 2013 to £30.7m in 2014. Underlying EBITDA margin has increased from 23.1% to 24.9% mainly due to the segment mix as the three smaller segments all grew and with a higher rate of margin.

The Adult Learning Disabilities, Mental Health and Young People Residential Services segments have higher margins but normally require considerable capital expenditure to increase capacity, whilst Foster Care operates at a lower margin in part because it does not require capital expenditure to increase capacity.

Administrative expenses, before depreciation and share-based payments charges were £15.9m (2013: £19.2m) and decreased by £3.3m during the year. In 2013 they represented 16.8% of Group revenue and in 2014 this further improved to 12.9% of Group revenue.

There has been a considerable effort in the year to reduce administrative expenses with the key element being property rental costs.

The extent to which rent savings have been reflected in the Group's profitability is reduced by the degree of reconfiguration work that the Group elects to carry out at the properties. The reconfiguration of services is a central part of the Board's strategy. It enhances average fee rates and maintains the Group's reputation as a provider of highest quality of care and the business combination in 2013 provided an opportunity which allowed reconfiguration of services.

Table 2 – Revenue

	2014 Revenue £m	2014 Underlying EBITDA £m	2013 Revenue £m	2013 Underlying EBITDA £m
Adult Learning Difficulties	74.2	22.6	73.9	18.5
Mental Health	7.3	2.5	6.5	2.2
Young People Residential Services	21.9	7.4	19.6	6.2
Foster Care	12.0	3.0	14.3	4.3
Learning Services	7.9	0.1	–	–
	123.3	35.6	114.3	31.2
Less unallocated Group costs	–	(4.9)	–	(4.8)
	123.3	30.7	114.3	26.4

Financial Review

continued

The number of employees in management and administration has increased by seven. A new care system for Foster Care has been introduced across the Group and this has recently gone live whilst the new Time and Attendance system is being implemented across all of the residential services in the coming months which will further our back office centralisation.

Total EBITDA decreased by 29% from £39.9m in 2013 to £28.3 in 2014 as a result of a non-recurring gain in 2013.

Operating profit and profit before tax

The depreciation charge is £3.4m (2013: £3.2m) and reflects the investment in land and buildings, motor vehicles and fixtures, fittings and equipment.

After this charge and the share-based payments, underlying operating profit grew 18% to £27.2m (2013: £23.2m).

Total operating profit decreased by 38% to £20.5m (2013: £32.9m).

Net underlying financial expenses of £7.5m (2013: £5.7m) increased over the previous year due to the continued use of the secured bank loans which had reduced following loan repayments, although there were additional finance leases taken out on new home vehicles during the year.

Underlying profit before tax was £19.7m (2013: £17.5m) which is an increase of 13%.

Total profit before tax decreased by 56% to £12.5m (2013: £28.1m).

Taxation and diluted earnings per share

The effective underlying tax rate was 18.2% (2013: 20.0%) and reflects management's expectations of future capital investment through organic developments and reconfigurations relative to available capital allowances and also reflects the impact of the reduction in the main rate of corporation tax in the year.

The weighted number of shares in issue rose by 1.5% whilst the underlying diluted earnings per share rose to 31.01p in 2014 from 27.43p in 2013.

Basic and diluted earnings per share decreased by 50% to 23.86p and 23.85p respectively (2013: 47.54p basic and diluted).

Dividends

Our policy has 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 5.40p per share (2013: 4.68p), bringing the total dividend for the year to 8.00p (2013: 7.00p), a growth of 14.3%. Dividend cover for 2014, based upon diluted earnings per share before non-underlying items is 3.87 times (2013: 3.92 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 Directors have separately disclosed a number of non-underlying items in order to improve understanding of the trading performance achieved by the Group. Total non-underlying items represent a charge of £3.7m (2013: credit of £10.3m) and the principal items are the amortisation of intangible assets and integration and reorganisation costs.

In the prior year, the credit was a result of the business combination.

Cash flow and net debt

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

	2014 £m	2013 £m
Underlying EBITDA	30.7	26.4
(Increase) in working capital	(0.2)	(2.5)
Cash inflows from operating activities	30.5	23.9
Tax paid	(0.3)	(1.9)
Interest paid	(7.1)	(5.5)
Dividends paid	(2.4)	(3.3)
Acquisitions and capital expenditure	(10.3)	(44.0)
Cash flow before adjustments	10.4	(30.8)
Non-underlying cash flows including derivative financial instruments	(8.0)	(6.5)
Movement in net debt	2.4	(37.3)
Opening net debt	(168.5)	(131.2)
Closing net debt	(166.1)	(168.5)

Net debt at 30 September 2014 of £166.1m (2013: £168.5m) has decreased by £2.4m during the financial year, with an investment of £10.3m in acquisitions and capital improvements during the year.

Non-underlying items had a cash outflow effect of £4.2m (2013: £2.3m) being payment of acquisition and integration costs and payments made under onerous contracts.

Underlying cash inflows from operating activities

The £30.3m (2013: £23.9m) cash inflow from operating activities, before non-underlying items, represents a 98% (2013: 90%) underlying EBITDA cash conversion ratio.

Interest and dividend cash flows

Interest paid of £7.1m (2013: £5.5m) is reflective of the net financial expenses per the Consolidated Statement of Comprehensive Income, whilst dividends paid are consistent with the relevant section earlier in the review.

Acquisitions and capital expenditure

During the year we invested total funds of £10.3m (2013: £44.0m). On 4 November 2013 the Group acquired the majority of the business and assets of Elmfield Training Limited, a provider of apprenticeship and vocational training funded either directly by the Skills Funding Agency or indirectly through clients' own Skills Funding Agency contracts.

The acquisition had been completed for a total cash consideration of £1.1m. The acquisition and the ongoing working capital costs of the business have been funded from the Group's current bank facilities.

The acquisition will enable the Group to provide apprenticeship and pre-employment training in the Care sector. The acquired business has been rebranded EQL Solutions Limited. The necessary investment and restructuring will be completed shortly.

Further details of the acquisition are explained in the Chief Executive's Statement and Performance Review as well as in the notes to the financial statements.

Capital expenditure of £10.1m includes £7.0m to update our portfolio of assets.

Banking and arrangements

The Group is pleased to have continued its strong relationships with Royal Bank of Scotland, Lloyds TSB, Santander and Allied Irish following the refinancing in July 2012. That facility was for a total of £149.4m comprising a term loan, a revolving credit facility and an overdraft facility. The term was 4½ years, expiring in January 2017 and the Group had taken five new hedging instruments to reduce its interest rate risk.

Additional banking facilities were provided in August 2013 on the same competitive terms as the banking facility announced in 2012, with debt service cost after hedging at less than 4.5%, to fund the business combination. The facility has certain covenants attached to it which are mostly EBITDA related and were set with sufficient facility headroom.

As part of the additional financing the Group's new freehold property portfolio was valued independently at £50m. The remainder of the Group's freehold properties were valued at £225m in July 2012 giving a total of £275m (as shown in note 11).

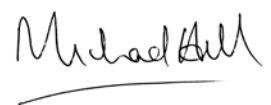
At 30 September 2014 the Group has available bank facilities totalling £171.2m which are sufficient, with cash flow from operating activities, to fund present commitments.

Going concern

This Financial Review has covered the cash flows, liquidity position and borrowing facilities of the Group and in the Accounts there is additional information on 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. 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.

Outlook

The Group is now in an even stronger position to continue as a pioneering provider of specialist social care services in a fragmented, large and growing UK market.



Michael Hill

Group Finance Director
14 January 2015

Strong leadership



Farouq Sheikh
Executive Chairman (aged 56)



Haroon Sheikh BSc
Chief Executive Officer (aged 58)



Michael Hill
Group Finance Director (aged 63)

Farouq Sheikh has been a key architect in CareTech's growth, having been co-founder of the Group and 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 Sheikh is a leading business entrepreneur, philanthropist and investor within the UK. 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. Under his stewardship, CareTech's earnings per share has grown significantly from 4.1p in 2005 to 31.01p in the current financial year.

Farouq has been presented with a number of Entrepreneur of the Year awards by prestigious organisations including Laing and Buisson, Coutts Bank and Ernst & Young. He also presents widely at healthcare conferences, raising awareness of the learning disability sector.

As Patron and Enterprise Fellow of the prestigious Prince's Trust and as a member of the Mosaic National Advisory Board, Farouq supports young people by passing on his experience and expertise to inspire the next generation of entrepreneurs.

Haroon Sheikh, a London University graduate, is one of the UK's leading entrepreneurs, philanthropists and community figureheads and one of the founders of CareTech. Haroon brings commercial acumen, related industry experience and property knowledge which has been essential in the growth of the business. As Chief Executive Officer, 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 with a learning disability.

In 2008, Haroon and his brother Farouq were winners of the highly valued Coutts Family Business Prize and widely applauded for the quality and social integrity of the company they created.

Haroon is Patron and Enterprise Fellow of the Prince's Trust and is also Vice Chair of the UK Advisory Council of the British Asian Trust under the patronage of HRH Prince Charles.

Haroon's most recent social enterprise was establishing the COSARAF Charitable Foundation to benefit communities and individuals in the UK and abroad. As trustee for International Development, Haroon established the COSARAF Kenya Feeding Project which supports the feeding of over 700 women and children daily as well as supporting the drilling of boreholes in various rural villages.

Michael qualified as a chartered accountant with Deloitte 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 division and oversaw its growth. He became Group Finance Director on 2 August 2011 and he is also Company Secretary.

An experienced, driven and focused corporate board.



Karl Monaghan
Non-Executive Director (aged 52)

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 seven years and Robert W. Baird for two 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.



Dr Mike Adams OBE
Non-Executive Director (aged 43)

Mike has a significant track record in the social care, health and disability sectors. For five 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 two years and has been Chief Executive Officer of ecdp, an Essex-based user-led disability organisation, since October 2007. Mike spent nine months as acting Chair of a large acute hospital trust in Essex and has previously chaired an expert panel on Access to Work, the Government's flagship disability employment programme. Mike has recently been bestowed an Honorary Doctor of Education for disability leadership from Anglia Ruskin University.



Jamie Cumming
Non-Executive Director (aged 64)

Jamie has a strong track record in City corporate and investor relations. Having started his career with Touche Ross, Jamie became an Investment analyst with Parsons & Co. (latterly Allied Provincial Securities) in 1978 and was an Extel rated analyst. Following this he joined Brewin Dolphin in 1996 and in 2011 he became Head of Brewin Dolphin's Corporate Advisory & Broking Division and led the demerger of Brewin Dolphin's investment banking activities through a merger with Madrid-based asset manager and M&A house N+1, to create N+1Brewin. He became Chief Executive Officer of the new business in 2013, latterly overseeing the subsequent merger with Singer Capital Markets. Jamie is a senior advisor to Cantor Fitzgerald Europe and a Non-Executive Director of 21st Century Technology plc. With over 30 years in the City, Jamie has a wealth of experience in advising both institutional investors and corporate clients.

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 apply best practice and materially to comply with the UK Corporate Governance Code to the extent that the Board considers it is appropriate for a public company of its size and complexity.

This sets the tone for corporate behaviour and helps 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 and Michael Hill is the Group Finance Director. The Directors' biographies appear on pages 28 and 29 and detail their experience and suitability for leading and managing the Group.

Karl Monaghan, the Senior Independent Director, Mike Adams and Jamie Cumming are the three Non-Executive Directors and the Board considers each of them as independent. Collectively, the Non-Executive Directors bring a valuable range of expertise and experience in assisting the Group to achieve its strategic aims.

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

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

As noted above 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.

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 in respect of conflicts is operated effectively and that procedures have been followed.

Board and Committee meetings

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

The Directors attended the following meetings in the year to 30 September 2014:

	Board	Audit Committee	Remuneration Committee	Care Governance and Safeguarding Committee
Farouq Sheikh	9	–	–	–
Haroon Sheikh	10	–	–	1*
Michael Hill	11	2*	4	4
Stewart Wallace	11	–	–	4
Karl Monaghan	11	2	4	4
Mike Adams	11	2	4	4
Jamie Cumming	11	2	4	4

* by invitation.

What decision-making responsibilities does 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. When the need for an additional Non-Executive Director is identified the Board appoints advisers to nominate experienced relevant and appropriate candidates. Board members meet the candidates and come to a collective view on appointments.

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

The Audit Committee comprises Karl Monaghan (Chairman), Mike Adams and Jamie Cumming. The Group Finance Director and representatives of the external auditor attend meetings by invitation as required. The Committee meets at least twice each year and receives reports from the Company's management and external auditor 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 auditor 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. The Committee has carefully considered the level of non-audit services and have concluded that this does not impact on the independence of the auditors. Details of the amount paid to the external auditor 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 35 and 36. Also detailed in that report are Directors' remuneration, shareholdings and share option scheme information. The Terms of Reference were independently reviewed and updated during last year.

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 is chaired by Mike Adams and the other members of the Board Committee are Karl Monaghan, Michael Hill and Jamie Cumming.

The Committee was formed because the Board is sensitive to the public's increased awareness and anxiety about care governance and safeguarding. In 2013 the Whistleblowing "Tell Us" Campaign was introduced by this Committee and it is pioneering because it provides direct access to the CEO.

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 the care governance and the safeguarding of those we support, including health and safety, across the Group. It has recently included external attendees to its meetings such as the Head of Safeguarding for Hertfordshire County Council and received external presentations such as Conflict Management from Maybo to help the Committee understand best practice. To further strengthen the Committee and to work with clinical staff across the Group to help deliver outstanding care and support Dr. Junaid Bajwa has recently joined as Clinical Director. He is a General Practitioner with extensive experience of Clinical Commissioning and developing clinical and professional strategies in a CCG.

We have held several useful meetings with regulators and also invited key regulation managers to attend our Safeguarding and Care Governance Committee. The Committee is seen as a pioneering initiative that has won friends and encouragement from regulators and commissioners alike. The Committee brings Non-Executive Directors into a much closer relationship with our everyday work and they have adopted a robust scrutiny approach to care practice. This in itself has had a positive impact on care quality and the Executive Team has been encouraged to introduce quality initiatives across the Company.

The Group has 128 adult services regulated by the Care Quality Commission (CQC) who assess the services against approved essential standards of quality and safety. The regulators test and publicly record whether services are compliant or non-compliant against those standards.

The Group has achieved 89% service compliance against a national average of 85%. Adult services in Wales are regulated under different national legislation and are not currently rated on any form of scale.

Corporate Governance Report

continued

Our Children division is regulated by the Office for Standards in Education (Ofsted) in England and these services are rated as Outstanding or Good as at the year end. In October part of the Greenfields Service was rated Adequate and we are working to demonstrate to the Regulator that the issues have been fully addressed. In Wales the services are regulated by the Care and Social Services Inspectorate Wales (CSSIW) and are not currently rated on any form of scale. The Care Inspectorate for Scotland who deal with Adults and Children have rated our services highly.

The Care Governance and Safeguarding Committee has oversight of all issues and reports relating to the well-being of service users, commissions enquiries into matters of concern and ensures that the Executive Team operates to the highest possible level of professional care standards. Throughout the past year the Care Governance and Safeguarding Committee has invited operational managers, regulators and local safeguarding lead officers to attend its meetings.

The Care Governance and Safeguarding Committee works in close association with the Group's internal regulatory compliance team who operate across all divisions, reporting direct to the CEO.

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 conveyed and for making the Board fully aware of key Shareholders' views, comments and opinions.

Contact with investors throughout the year is a priority and the Board strives to look after their interests. General presentations to major Shareholders following the publication of the Group's annual and interim results are conducted by the Executive Chairman and the Group Finance Director as are regular meetings through the year with fund managers and investment analysts.

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

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

How do we manage our internal controls and risks?

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

The recent challenging business climate has resulted in a sustained focus on the approach to risk. The Directors consider robust risk management to be crucial to the Group's success and give a high priority to ensuring that adequate systems are in place to evaluate and limit risk exposure. They have overseen the further development of processes and procedures for identifying, analysing and managing the significant risks faced by the Group. These risks have been discussed in the Strategic Report on page 16. These processes have been implemented during the year under review and up to the date of approval of this Annual Report and financial statements. The processes and procedures are regularly reviewed by the Board.

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

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

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

By order of the Board



Michael Hill
Company Secretary
14 January 2015

Metropolitan House
3 Darkes Lane
Potters Bar
Hertfordshire
EN6 1AG

Directors' Report

The Directors present their report and the audited Group financial statements for the year ended 30 September 2014.

Business review and future developments

The Consolidated Statement of Comprehensive Income detailed on page 39 sets out the Group's financial results for the year.

The Company is required by the Companies Act 2006 to include a Strategic Report. The information that fulfils the requirements of the Strategic Report can be found in the Chairman's Statement on pages 8 and 9, the Strategic Report on pages 10 to 17, the Chief Executive's Statement and Operating Review on pages 18 to 23, and the Financial Review on pages 24 to 27, 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 2014 and its prospects for the future.

Key performance indicators are set out in the "Highlights" on pages 14 and 15. The key risks and uncertainties facing the Group are set out in this report below and in the Strategic Report on page 16.

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 Strategic Report on page 16.

Dividends

Dividends of £2,430,000 have been paid during the year. The Directors propose a final dividend of 5.40p per share (2013: 4.68p) subject to the 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.

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.

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 through retraining, acquisition of special aids and/or equipment or the provision of suitable alternative employment.

Authority to allot shares

Pursuant to resolutions approved at the Annual General Meeting on 4 March 2014 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 10 December 2014, 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 the Directors which are set out in the Remuneration Report on page 36.

	No. of ordinary shares of 0.5p	Percentage
Henderson Global Investors	9,186,193	17.66%
Richard Griffiths	2,905,000	5.58%
Norges Bank	2,027,151	3.89%
Octopus Investment Nominees	3,641,800	7.00%
Hof Hoorneman Bankiers	2,488,000	4.78%
Hendrik M Van Heijest	2,020,000	3.88%
Hargreave Hale	1,627,930	3.13%

Directors' Report

continued

Directors

The names of the current Directors together with brief biographical details are shown on pages 28 and 29.

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

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

Farouq Sheikh
Haroon Sheikh
Stewart Wallace (retired 27 September 2014)
Karl Monaghan
Mike Adams
Michael Hill
Jamie Cumming

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 35.

Directors' insurance

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

Going concern

After making appropriate enquiries and reviewing the year end balance sheet position, 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 at least the next 12 months. The Group has prepared detailed budgets and cash flow forecasts and have considered the capital and working capital requirements. There are a number of Banking Covenants which ratchet depending upon time and Group performance. The Directors forecast that they are able to meet all banking covenants which are reviewed regularly. For this reason the Directors continue to adopt the going concern basis in preparing the financial statements.

Auditor

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.

By order of the Board



Michael Hill

Company Secretary
14 January 2015

Metropolitan House
3 Darkes Lane
Potters Bar
Hertfordshire
EN6 1AG

Remuneration Report

The Remuneration Committee comprises three Non-Executive Directors, Jamie Cumming (Chairman), Karl Monaghan and Mike Adams and meets at least twice each year. The Company Secretary, Michael Hill, is the secretary of the Remuneration Committee.

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.

The Committee's 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.

During the last year the Remuneration Committee took external advice to update its Terms of Reference to reflect current best practice and changes in legislation and regulation.

Remuneration policy

CareTech's remuneration policy 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 three months' notice of termination on either side.

Remuneration Report

continued

Directors' remuneration (audited)

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

Year to 30 September	Salary and fees		Benefits		Annual bonus		Total		Pension	
	2014 £000	2013 £000	2014 £000	2013 £000	2014 £000	2013 £000	2014 £000	2013 £000	2014 £000	2013 £000
Current Directors										
Farouq Sheikh	264	278	16	47	36	–	316	325	8	81
Haroon Sheikh	209	135	43	33	36	–	288	168	10	79
Karl Monaghan	43	43	–	–	–	–	43	43	–	–
Mike Adams	28	28	–	–	–	–	28	28	–	–
Michael Hill	150	150	3	8	86	–	239	158	–	–
Jamie Cumming	28	14	–	–	–	–	28	14	–	–
Stewart Wallace ⁽¹⁾	150	143	21	26	36	–	207	169	8	7
Total	872	791	83	114	194	–	1,149	905	26	167

1 Stewart Wallace retired on 27 September 2014.

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 2014 Number of ordinary 0.5p shares	30 September 2013 Number of ordinary 0.5p shares
Westminster Holdings Limited ⁽¹⁾	10,787,328	10,787,328
Cosaraf Trust ⁽²⁾	2,060,091	2,060,000
Cosaraf Pension Fund ⁽³⁾	170,000	170,000
Farouq Sheikh	485,000	485,000
Haroon Sheikh	485,000	485,000
Karl Monaghan	31,250	31,250
Mike Adams	2,300	2,300

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.

Directors' share options

Farouq Sheikh, Haroon Sheikh and Michael Hill own 300,000, 400,000 and 175,000 ordinary shares of 0.5p respectively under the Group's Executive Shared Ownership Plan (see note 20). There were no changes in the Directors' holdings under the Group's Executive Shared Ownership Plan during the year ended 30 September 2014. None of the Directors have any share options in the Company.

By order of the Board



Jamie Cumming

Chairman of the Remuneration Committee
14 January 2015

Metropolitan House
3 Darkes Lane
Potters Bar
Hertfordshire
EN6 1AG

Statement of Directors' Responsibilities

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

Company law requires the Directors to prepare 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 judgements 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 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 auditor is 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 2014 which comprise the Consolidated Statement of Comprehensive Income, the Consolidated and Company Balance Sheets, the Consolidated and Company Statements of Changes in Equity, 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 Directors' Responsibilities Statement set out on page 37, 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 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 Financial Reporting Council's website at www.frc.org.uk/auditscopeukprivate.

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 2014 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 Strategic Report and 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.



Jeremy Read

Senior Statutory Auditor
for and on behalf of Grant Thornton UK LLP
Statutory Auditor, Chartered Accountants
Central Milton Keynes
14 January 2015

Consolidated Statement of Comprehensive Income

for the year ended 30 September 2014

	Note	2014			2013		
		Underlying £000	Non- underlying ⁽ⁱ⁾ £000	Total £000	Underlying £000	Non- underlying ⁽ⁱ⁾ £000	Total £000
Revenue	3	123,302	–	123,302	114,323	–	114,323
Cost of sales		(76,708)	–	(76,708)	(68,749)	–	(68,749)
Gross profit		46,594	–	46,594	45,574	–	45,574
Administrative expenses		(19,341)	(6,799)	(26,140)	(22,405)	9,733	(12,672)
Operating profit		27,253	(6,799)	20,454	23,169	9,733	32,902
EBITDA ⁽ⁱⁱ⁾		30,653	(2,377)	28,276	26,402	13,454	39,856
Depreciation	11	(3,350)	–	(3,350)	(3,174)	–	(3,174)
Amortisation of intangible assets	12	–	(4,422)	(4,422)	–	(3,721)	(3,721)
Share-based payments charge		(50)	–	(50)	(59)	–	(59)
Operating profit		27,253	(6,799)	20,454	23,169	9,733	32,902
Financial expenses	4,7	(7,540)	(423)	(7,963)	(5,719)	905	(4,814)
Profit before tax		19,713	(7,222)	12,491	17,450	10,638	28,088
Taxation	4,8	(3,577)	3,496	(81)	(3,392)	(329)	(3,721)
Profit and comprehensive income for the year attributable to equity shareholders of the parent		16,136	(3,726)	12,410	14,058	10,309	24,367

- (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, integration, reorganisation and redundancy 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

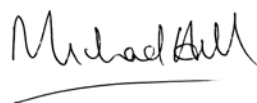
at 30 September 2014

	Note	2014 £000	2013 £000
Non-current assets			
Property, plant and equipment	11	243,309	238,568
Other intangible assets	12	30,826	30,980
Goodwill	12	36,037	31,120
		310,172	300,668
Current assets			
Inventories		515	515
Trade and other receivables	14	8,675	8,054
Derivative financial instruments		156	–
Cash and cash equivalents	15	3,900	3,783
		13,246	12,352
Total assets		323,418	313,020
Current liabilities			
Loans and borrowings	16	9,222	7,595
Trade and other payables	17	14,642	11,833
Deferred and contingent consideration payable		–	52
Deferred income		1,563	1,413
Corporation tax		6,999	6,035
Derivative financial instruments		–	101
		32,426	27,029
Non-current liabilities			
Loans and borrowings	16	160,811	164,651
Deferred tax liabilities	18	20,602	22,367
Derivative financial instruments		–	231
Onerous lease provision	24	420	–
		181,833	187,249
Total liabilities		214,259	214,278
Net assets		109,159	98,742
Equity			
Share capital	20	260	260
Share premium	20	57,221	57,202
Shares held by Executive Shared Ownership Plan	20	(1,890)	(2,258)
Merger reserve	20	8,498	8,498
Retained earnings	20	45,070	35,040
Total equity attributable to equity shareholders of the parent		109,159	98,742

These financial statements were approved by the Board of Directors on 14 January 2015 and were signed on its behalf by:



Farouq Sheikh
Chairman



Michael Hill
Group Finance Director

Company number: 04457287

Consolidated Statement of Changes in Equity

as at 30 September 2014

	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 2012	256	55,715	(2,258)	8,498	13,928	76,139
Profit for the year	–	–	–	–	24,367	24,367
Total comprehensive income	–	–	–	–	24,367	24,367
Issue of ordinary shares	4	1,487	–	–	–	1,491
Equity settled share-based payments charge	–	–	–	–	59	59
Dividends	–	–	–	–	(3,314)	(3,314)
Transactions with owners recorded directly in equity	4	1,487	–	–	(3,255)	(1,764)
At 30 September 2013	260	57,202	(2,258)	8,498	35,040	98,742
At 1 October 2013	260	57,202	(2,258)	8,498	35,040	98,742
Profit for the year	–	–	–	–	12,410	12,410
Total comprehensive income	–	–	–	–	12,410	12,410
Issue of ordinary shares	–	19	–	–	–	19
Reduction in shares held	–	–	368	–	–	368
Equity settled share-based payments charge	–	–	–	–	50	50
Dividends	–	–	–	–	(2,430)	(2,430)
Transactions with owners recorded directly in equity	–	19	368	–	(2,380)	(1,993)
At 30 September 2014	260	57,221	(1,890)	8,498	45,070	109,159

Consolidated Cash Flow Statement

for the year ended 30 September 2014

	Note	2014 £000	2013 £000
Cash flows from operating activities			
Profit before tax		12,491	28,088
Adjustments for:			
Financial expenses		7,963	4,814
Adjustments for minimum future lease payment uplifts		–	1,155
Onerous lease provision charge	24	–	73
Depreciation	11	3,350	3,174
Amortisation	12	4,422	3,721
Share-based payments charge		50	59
Acquisition transaction cost		250	2,409
Post acquisition integration and re-organisation cost		2,127	1,441
Profit on disposal of property, plant and equipment		(85)	(50)
Gain recognised in respect of business combinations	22	–	(18,532)
Operating cash flows before movement in working capital		30,568	26,352
(Increase)/Decrease in trade and other receivables		(777)	1,328
Increase/(Decrease) in trade and other payables		552	(3,886)
Decrease in inventories		–	100
Operating cash flows before adjustment items		30,343	23,894
Exceptional costs paid	4(i)	(1,633)	(2,263)
Payments made under onerous contracts		(2,577)	–
Cash inflows from operating activities		26,133	21,631
Tax paid		(312)	(1,926)
Net cash from operating activities		25,821	19,705
Cash flows from investing activities			
Proceeds from sale of property, plant and equipment		1,887	3,742
Payments for business combinations net of cash acquired	22(a)	(1,094)	(38,714)
Acquisition of property, plant and equipment		(6,976)	(5,525)
Acquisition of intangible items	12	(3,294)	(1,366)
Payment of acquisition costs		(862)	(2,130)
Net cash used in investing activities		(10,339)	(43,993)
Cash flows from financing activities			
Proceeds from the issue of share capital (net of costs)	20	15	30
Proceeds from new loan (net of costs)		2,938	39,528
Interest paid		(7,105)	(5,535)
Swap break fees		–	(2,383)
Cash outflow arising from derivative financial instruments		(911)	(763)
Repayment of borrowings		(6,950)	(5,250)
Payment of finance lease liabilities		(922)	(817)
Dividends paid	21	(2,430)	(3,314)
Net cash (used in)/generated from financial activities		(15,365)	21,496
Net increase/(decrease) in cash and cash equivalents		117	(2,792)
Cash and cash equivalents at start of year		3,783	6,575
Cash and cash equivalents at 30 September	15	3,900	3,783

Net debt in the balance sheet comprises:

	Note	2014 £000	2013 £000
Cash and cash equivalents	15	3,900	3,783
Bank loans	16	(166,198)	(170,174)
Finance lease and hire purchase contracts	16	(3,835)	(2,072)
Net debt at 30 September		(166,133)	(168,463)

Notes to the Financial Statements

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 2014 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 14 January 2015.

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 Performance Review on pages 18 to 23 and pages 10 to 17. The financial position of the Group, its cash flows, liquidity position and borrowing facilities are described in the Financial Review on pages 24 to 27. 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.

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. There are a number of Banking Covenants which ratchet depending on time and Group performance. The Directors forecast that they are able to meet all Banking Covenants which are reviewed regularly.

A new facility was agreed with the Group's Bankers in August 2014 on the purchase of a business combination. The new debt facilities have been provided by the Group's syndicate of four lenders, Royal Bank of Scotland, Lloyds TSB, Alliance & Leicester, Allied Irish Bank and have been provided on the same competitive terms as the facility announced in June 2013.

The Directors have a reasonable expectation that the Group has adequate resources to continue in operational existence for the next 12 months. The Group has prepared detail budgets and cash flow forecasts and has considered the capital and working capital requirements. Thus the Directors 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.

During the year IFRS 13 'Fair Value Measurement' was adopted which applies prospectively and the disclosure requirements need not be applied to the comparative information in the first year of application. The Group has, however, included as comparative information the IFRS 13 disclosures that were required previously by IFRS 7 'Financial Instruments: Disclosures'. The Group has applied IFRS 13 for the first time in the current year, see note 23.

Requirements	Pronouncement	Year beginning 1 January 2014	Effective date
IFRS	IFRS 10	Consolidated Financial Statements	IASB effective date financial year commencing on/after 1 January 2013 – EU-adopted IFRS effective date financial year commencing on/after 1 January 2014
IFRS	IAS 27 (Revised)	Separate Financial Statements	IASB effective date financial year commencing on/after 1 January 2013 – EU-adopted IFRS effective date financial year commencing on/after 1 January 2014
IFRS	Amendments to IFRS 10, IFRS 11 and IFRS 12	Transition Guidance – Amendments to IFRS 10, IFRS 11 and IFRS 12	IASB effective date financial year commencing on/after 1 January 2013 – EU-adopted IFRS effective date financial year commencing on/after 1 January 2014
IFRS	Amendments to IFRS 10, IFRS 12, and IAS 27	Investment entities – Amendments to IFRS 10, IFRS 12 and IAS 27	IASB effective date financial year commencing on/after 1 January 2014 – EU-adopted IFRS effective date financial year commencing on/after 1 January 2014
IFRS	Amendments to IAS 32	Offsetting financial assets and financial liabilities	IASB effective date financial year commencing on/after 1 January 2014 – EU-adopted IFRS effective date financial year commencing on/after 1 January 2014
IFRS	Amendments to IAS 36	Recoverable amount disclosures for non-financial assets	IASB effective date financial year commencing on/after 1 January 2014 – EU-adopted IFRS effective date financial year commencing on/after 1 January 2014
IFRS	Amendments to IAS 39	Novation of derivatives and continuation of hedge accounting	IASB effective date financial year commencing on/after 1 January 2014 – EU-adopted IFRS effective date financial year commencing on/after 1 January 2014

The Directors anticipate that the above Standards will be adopted in the Group's financial statements for the period commencing 1 October 2014 and that their adoption will have no material impact on the financial statements of the Group. There are other standards and interpretations in issue but these are not considered to be relevant to the Group.

Notes to the Financial Statements

continued

2 Accounting policies (continued)

(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. Intercompany transactions are eliminated on consolidation.

(d) Property, plant and equipment

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

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

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

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

Depreciation is charged to the Consolidated Statement of Comprehensive Income 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; and
– motor vehicles	25% reducing balance.

(e) Intangible assets and goodwill

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

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

Negative goodwill (bargain purchase credit) arising on an acquisition is recognised in the Consolidated Statement of Comprehensive Income.

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

Amortisation is charged to the Consolidated Statement of Comprehensive Income 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 are classified into the following categories upon initial recognition:

- loans and receivables; and
- 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 Consolidated Statement of Comprehensive Income are presented within finance costs or finance income or other financial items, except for impairment of trade receivables which is presented within other administrative expenses.

2 Accounting policies (continued)

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 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 the Consolidated Statement of Comprehensive Income. 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 the Consolidated Statement of Comprehensive Income. 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 the Consolidated Statement of Comprehensive Income are included within finance costs or finance income.

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 the Consolidated Statement of Comprehensive Income immediately unless the derivative is designated and effective as a hedging instrument, in which event the timing of the recognition in the Consolidated Statement of Comprehensive Income 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 the Consolidated Statement of Comprehensive Income.

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.

Notes to the Financial Statements

continued

2 Accounting policies (continued)

(j) Interest-bearing borrowings

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

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

Interest on qualifying assets is capitalised in accordance with IAS 23 borrowing costs. Refer to note 7.

(k) Employee benefits

Defined contribution plans

Obligations for contributions to defined contribution pension plans are recognised as an expense in the Consolidated Statement of Comprehensive Income as incurred.

Short-term benefits

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

Share-based payment transactions

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

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 statement of financial position 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 Statement of Comprehensive Income.

(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 in respect of the provision of care and fostering comprises the fair value of fee income receivable for the year 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 learning services is directly linked to specific achievements, and milestones reached by apprentices at which point the funding from the Skills Funding Agency is receivable. A corresponding balance is recognised in receivables.

(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. Details are included in note 4.

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 Consolidated Statement of Comprehensive Income using the effective interest method.

Interest payable is recognised in the Consolidated Statement of Comprehensive Income as it accrues, using the effective interest method.

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 derivatives that are recognised in the Consolidated Statement of Comprehensive Income.

(o) Operating leases

Payments made under operating leases are recognised in the Consolidated Statement of Comprehensive Income on a straight-line basis over the term of the lease. Lease incentives received are recognised in the Consolidated Statement of Comprehensive Income 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.

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 Consolidated Statement of Comprehensive Income except to the extent that it relates to items recognised directly in equity, in which case it is recognised in equity. Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years.

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

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

(q) Underlying EBITDA and underlying earnings per share
Underlying EBITDA as defined on page 39 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 Consolidated Statement of Comprehensive Income.

The consideration transferred does not include amounts related to the settlement of pre-existing relationships. Such amounts are generally recognised in the Consolidated Statement of Comprehensive Income.

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 Consolidated Statement of Comprehensive Income.

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 expensed in the Income Statement.

Notes to the Financial Statements

continued

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 and Performance 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 two key segments are Adult Services (Adult) and Children Services (Children). Adult Services comprises the Adult Learning Disabilities (ALD) and Mental Health (MH) divisions and the Children Services comprises Young People Residential Services (YPR), Foster Care (FC) and Learning Services (Learning).

There has been no aggregation of the operating segments in arriving at these reportable segments.

The segment results for the year ended 30 September 2014, for the year ended 30 September 2013 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 2014

Continuing Operations

	ALD	MH	Adult	YPR	FC	Learning	Children	Total
Client Capacity	1,450	151	1,601	153	320	–	473	2,074
Revenue (£000)	74,192	7,257	81,449	21,945	12,001	7,907	41,853	123,302
Underlying EBITDA (£000)	22,647	2,482	25,129	7,474	2,966	57	10,497	35,626

Year ended 30 September 2013

Continuing Operations

	ALD	MH	Adult	YPR	FC	Learning	Children	Total
Client Capacity	1,423	161	1,584	149	383	–	532	2,116
Revenue (£000)	73,843	6,543	80,386	19,644	14,293	–	33,937	114,323
Underlying EBITDA (£000)	18,538	2,158	20,696	6,215	4,313	–	10,528	31,224

Reconciliation of EBITDA to profit before tax:

	2014 £000	2013 £000
Underlying EBITDA before unallocated costs	35,626	31,224
Unallocated costs	(4,973)	(4,822)
Underlying EBITDA	30,653	26,402
Depreciation	(3,350)	(3,174)
Amortisation	(4,422)	(3,721)
Share-based payments charge	(50)	(59)
Non-underlying items	(2,377)	13,454
Operating profit	20,454	32,902
Financial expenses	(7,963)	(4,814)
Profit before tax	12,491	28,088
Taxation	(81)	(3,721)
Profit after tax	12,410	24,367

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.

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	2014 £000	2013 £000
Acquisition expenses		250	2,409
Integration, reorganisation and redundancy costs	(i)	2,127	1,441
Acquisition and development costs		2,377	3,850
Gain recognised in respect of business combinations	(ii)	–	(18,532)
Adjustments for minimum future lease payment uplift to IAS 17 (note 24)	(iii)	–	1,155
Onerous lease provision	(iv)	–	73
Included in EBITDA		2,377	(13,454)
Amortisation of intangible assets (note 12)		4,422	3,721
Included in administrative expenses		6,799	(9,733)
Fair value movements relating to derivative financial instruments	(v)	(489)	(1,668)
Charges relating to derivative financial instruments (note 7)	(v)	912	763
Included in financial expenses		423	(905)
Tax on non-underlying items (note 8):			
Current	(vi)	(1,384)	(799)
Deferred tax	(vii)	(2,112)	1,128
Included in taxation		(3,496)	329
Total non-underlying items		(3,726)	(10,309)

- (i) The Group incurred a number of costs relating to the integration of recent acquisitions and reorganisation of the internal operating and management structure and redundancy costs totalling £2,127,000 (2013: £1,441,000). Included in the cash flow statement are acquisition expenses of £862,000 (2013: £2,130,000) and integration and reorganisation costs of £1,633,000 (2013: £2,263,000), which were paid in the year.
- (ii) During the year the Group entered into a Business Combination which resulted in a credit to the non-underlying earnings of £18,532,000.
- (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 £nil (2013: £73,000) being the present value of any onerous element of the remaining lease life. At the balance sheet date the balance on the provision was £420,000 arising on a business combination (see note 24).
- (v) 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 settlement, and accrual thereof.
- (vi) Represents the current tax on items (i), (iii), (iv), and (v) above and an adjustment of £1,000,000 exceptional adjustment in respect of prior year corporation tax.
- (vii) Deferred tax arises in respect of the following:

	2014 £000	2013 £000
Derivative financial instruments (note v)	(107)	551
Changes in future tax rates	–	(2,712)
Full provision for deferred tax under IAS 12	336	158
Business combinations (note ii)	–	4,381
Other adjustments	1,883	(1,250)
	2,112	1,128

5 Auditor's remuneration

	2014 £000	2013 £000
Audit of these financial statements	112	90
Amounts receivable by the auditor and their associates in respect of:		
Audit of financial statements of subsidiaries pursuant to legislation	26	14
All other services	33	20

Other services relate to Company Secretarial and Corporate Governance Services.

Notes to the Financial Statements

continued

6 Staff numbers and costs

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

	Number of employees	
	2014	2013
Operational and service delivery staff	3,340	3,100
Maintenance	17	17
Management and administration	174	167
	3,531	3,284

The aggregate payroll costs of these people were as follows:

	2014 £000	2013 £000
Wages and salaries	57,552	52,262
Share-based payments charge	50	59
Social security costs	4,915	4,071
Other pension costs	577	290
	63,094	56,682

7 Finance expenses

	2014 £000	2013 £000
Interest expense on financial liabilities at amortised cost:		
On bank loans and overdrafts	7,318	5,531
Finance charges in respect of finance leases	222	188
Financial expenses before adjustments	7,540	5,719
Derivative financial instruments (note 4)	423	(905)
	7,963	4,814

In accordance with the revision to IAS 23, borrowing costs at £360,000 (2013: £483,000) 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 Consolidated Statement of Comprehensive Income

	2014 £000	2013 £000
Current tax expense		
Current year	3,797	4,017
Current tax on non-underlying items (note 4)	(949)	(799)
Corporation tax overprovided in previous periods	(1,000)	(242)
Total current tax	1,848	2,976
Deferred tax expense		
Current year	345	(383)
Deferred tax on non-underlying items (note 4)	(2,112)	1,128
Total deferred tax	(1,767)	745
Total tax in the Consolidated Statement of Comprehensive Income	(81)	3,721

8 Taxation (continued)

(b) Reconciliation of effective tax rate

	2014 £000	2013 £000
Profit before tax for the year	12,491	28,088
Tax using the UK corporation tax rate of 22% (2013: 23.5%)	2,748	6,601
Non-deductible expenses	1,108	1,497
Effect of changes in future tax rate	–	(2,712)
Other deferred tax adjustments	(2,775)	(1,423)
Corporation tax overprovided in previous periods	(1,000)	(242)
Total tax in the Consolidated Statement of Comprehensive Income	81	3,721

In the 2014 Budget it was announced that the main rate of corporation tax will fall to 21% with effect from 1 April 2014 and to 20% from 1 April 2015.

9 Earnings per share

	2014 £000	2013 £000
Profit attributable to ordinary shareholders	12,410	24,367
Weighted number of shares in issue for basic earnings per share	52,011,178	51,255,460
Effects of share options in issue	21,271	3,128
Weighted number of shares for diluted earnings per share	52,032,449	51,258,588

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	23.86p	47.54p
Diluted	23.85p	47.54p

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.

	2014 £000	2013 £000
Profit attributable to ordinary shareholders	12,410	24,367
Non-underlying items (note 4)	3,726	(10,309)
Underlying profit attributable to ordinary shareholders	16,136	14,058
Underlying earnings per share (pence per share)		
Basic	31.02p	27.43p
Diluted	31.01p	27.43p

Notes to the Financial Statements

continued

11 Property, plant and equipment

	Land and buildings £000	Motor vehicles £000	Fixtures, fittings and equipment £000	Total £000
Cost				
At 1 October 2012	184,367	4,561	17,328	206,256
Acquisitions through business combinations	47,570	–	–	47,570
Additions	2,720	844	3,054	6,618
Disposals	(4,212)	(108)	(3,728)	(8,048)
At 30 September 2013	230,445	5,297	16,654	252,396
At 1 October 2013	230,445	5,297	16,654	252,396
Additions	3,283	2,158	4,620	10,061
Disposals	(1,471)	(1,045)	(5,087)	(7,603)
At 30 September 2014	232,257	6,410	16,187	254,854
Depreciation and impairment				
At 1 October 2012	3,467	2,257	8,413	14,137
Depreciation charge for the year	603	529	2,042	3,174
Disposals	(199)	(61)	(3,223)	(3,483)
At 30 September 2013	3,871	2,725	7,232	13,828
At 1 October 2013	3,871	2,725	7,232	13,828
Depreciation charge for the year	560	917	1,873	3,350
Disposals	(33)	(864)	(4,736)	(5,633)
At 30 September 2014	4,398	2,778	4,369	11,545
Net book value				
At 1 October 2012	180,900	2,304	8,915	192,119
At 30 September 2013	226,574	2,572	9,422	238,568
At 30 September 2014	227,859	3,632	11,818	243,309

Included in the result for the year is a profit of £85,000 (2013: £50,000 profit) on the disposal of freehold property, plant and equipment and motor vehicles. Included in fixed assets are amounts held under finance leases of £3,835,000 (2013: £2,072,000).

Land and buildings

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

	2014 £000	2013 £000
Freehold	227,859	226,114
Short leasehold improvements	–	460
	227,859	226,574

The Group's freehold property portfolio was independently valued at £275m (£225m as part of the refinancing in July 2012 and £50m as part of the business combinations in July 2013). 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 2012	31,120	2,437	40,330	73,887
Additions	–	1,366	–	1,366
At 30 September 2013	31,120	3,803	40,330	75,253
At 1 October 2013	31,120	3,803	40,330	75,253
Additions	4,917	2,792	1,476	9,185
At 30 September 2014	36,037	6,595	41,806	84,438
Amortisation and impairment				
At 1 October 2012	–	1,779	7,653	9,432
Amortisation for the year	–	232	3,489	3,721
At 30 September 2013	–	2,011	11,142	13,153
At 1 October 2013	–	2,011	11,142	13,153
Amortisation for the year	–	1,021	3,401	4,422
At 30 September 2014	–	3,032	14,543	17,575
Net book value				
At 1 October 2012	31,120	658	32,677	64,455
At 30 September 2013	31,120	1,792	29,188	62,100
At 30 September 2014	36,037	3,563	27,263	66,863

Amortisation

The amortisation charge is recognised in the following line items in the Consolidated Statement of Comprehensive Income:

	2014 £000	2013 £000
Administrative expenses	4,422	3,721

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:

	2014	2013
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 division	8%	8%
Mental Health division	10%	10%
Young People Residential Services division	8–12%	8%
Foster Care division	8–12%	12%
Learning Services division	8%	–

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

Notes to the Financial Statements

continued

12 Intangible assets (continued)

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:

	2014 £000	2013 £000
Adult Learning Disabilities division	17,857	17,857
Mental Health division	774	1,140
Adult	18,631	18,997
Young People Residential Services division	5,326	4,245
Foster Care division	7,162	7,878
Learning Services division	4,918	–
Children	17,406	12,123
	36,037	31,120

13 Group undertakings

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

	Registered Company Number	Country of incorporation	Class of shares held	Ownership	
				2014 %	2013 %
CareTech Community Services Limited	02804415	England and Wales	Ordinary	100	100
CareTech Community Services (No. 2) Limited	03894564	England and Wales	Ordinary	100 ^a	100 ^a
Care Support Services Limited	05356025	England and Wales	Ordinary	100 ^a	100 ^a
Delam Care Limited	02995783	England and Wales	Ordinary	100 ^a	100 ^a
Sunnyside Care Homes Limited	04589719	England and Wales	Ordinary	100 ^a	100 ^a
Lonsdale Midlands Limited	02834141	England and Wales	Ordinary	100 ^a	100 ^a
Daisybrook Limited	03026221	England and Wales	Ordinary	100 ^a	100 ^a
CareTech Estates Limited	05964868	England and Wales	Ordinary	100	100
Community Support Project Limited	05941774	England and Wales	Ordinary	100	100
One Step (Support) Limited	04534652	England and Wales	Ordinary	100 ^b	100 ^b
Counticare Limited	02585666	England and Wales	Ordinary	100 ^a	100 ^a
H20 Limited	97291	Gibraltar	Ordinary	100 ^a	100 ^a
Hazeldene Limited ¹	FC015967	Gibraltar	Ordinary	100 ^e	100 ^e
One Six One Limited	04136284	England and Wales	Ordinary	100 ^a	100 ^a
Barleycare Limited	05156601	England and Wales	Ordinary	100 ^a	100 ^a
Valeo Limited	04099715	England and Wales	Ordinary	100	100
CareTech Estates (No. 2) Limited	06518327	England and Wales	Ordinary	100	100
CareTech Estates (No. 3) Limited	06518491	England and Wales	Ordinary	100	100
CareTech Estates (No. 4) Limited	06543818	England and Wales	Ordinary	100	100
CareTech Estates (No. 5) Limited	07027116	England and Wales	Ordinary	100	100
CareTech Estates (No. 6) Limited	08420656	England and Wales	Ordinary	100	100
CareTech Estates (No. 7) Limited	08628141	England and Wales	Ordinary	100	100
Beacon Care Holdings Limited	03293998	England and Wales	Ordinary	100	100
Beacon Care Investments Limited	04351554	England and Wales	Ordinary	100	100
Ashcroft House Limited	03390658	England and Wales	Ordinary	100 ^c	100 ^c
Ashring House Limited	03370991	England and Wales	Ordinary	100 ^c	100 ^c
Ashview House Limited	03304446	England and Wales	Ordinary	100 ^c	100 ^c
Beacon Care Limited	03160894	England and Wales	Ordinary	100 ^c	100 ^c
Beech Care Limited	04050685	England and Wales	Ordinary	100 ^c	100 ^c
Bright Care Limited	04050733	England and Wales	Ordinary	100 ^c	100 ^c
Emeraldpoint Limited	03098166	England and Wales	Ordinary	100 ^c	100 ^c
Glenroyd House Limited	04326288	England and Wales	Ordinary	100 ^c	100 ^c
Kirkstall Lodge Limited	04778674	England and Wales	Ordinary	100 ^c	100 ^c
Leigham Lodge Limited	04583599	England and Wales	Ordinary	100 ^c	100 ^c
Palm Care Limited	04050739	England and Wales	Ordinary	100 ^c	100 ^c
Vosse Court Limited	04778676	England and Wales	Ordinary	100 ^c	100 ^c
Wyatt House Limited	04319271	England and Wales	Ordinary	100 ^c	100 ^c
Addington House Limited	04404355	England and Wales	Ordinary	100 ^d	100 ^d
Magnolia Court Limited	05444649	England and Wales	Ordinary	100 ^d	100 ^d

13 Group undertakings (continued)

	Registered Company Number	Country of incorporation	Class of shares held	Ownership	
				2014 %	2013 %
Victoria Lodge Limited	04454845	England and Wales	Ordinary	100 ^d	100 ^d
Hereson House Limited	04385252	England and Wales	Ordinary	100 ^a	100 ^a
Huntsmans Lodge Limited	04668317	England and Wales	Ordinary	100 ^a	100 ^a
White Cliffs Lodge Limited	04351559	England and Wales	Ordinary	100 ^a	100 ^a
Rosedale Children's Services Limited	04932054	England and Wales	Ordinary	100 ^a	100 ^a
Roborough House Limited	05054294	England and Wales	Ordinary	100 ^a	100 ^a
Franklin Homes Limited	03002865	England and Wales	Ordinary	100 ^a	100 ^a
Family Assessment Services (Birmingham) Limited	06902547	England and Wales	Ordinary	100	100
Greenfields Care Group Limited	04642100	England and Wales	Ordinary	100 ^a	100 ^a
Greenfields Adolescent Development Limited	04068839	England and Wales	Ordinary	100 ^f	100 ^f
St Michael's Support & Care Limited	05978585	England and Wales	Ordinary	100 ^a	100 ^a
St Michael's Support & Care Properties Limited	07186925	England and Wales	Ordinary	100 ^a	100 ^a
Outlook Fostering Services Limited	04357704	England and Wales	Ordinary	100 ^a	100 ^a
Prestwood Residential Homes Ltd	04129564	England and Wales	Ordinary	100 ^a	100 ^a
Park Foster Care Ltd	04861395	England and Wales	Ordinary	100 ^a	100 ^a
Branas Isaf (Holdings) Limited	04827227	England and Wales	Ordinary	100 ^a	100 ^a
Branas Isaf Personal Development Centre Limited	03744583	England and Wales	Ordinary	100 ^h	100 ^h
Branas Isaf (Bythnod & Hendre Llywd) Limited	04826628	England and Wales	Ordinary	100 ^h	100 ^h
Branas Isaf (Dewis Cyfarfod & Cysgod Cyfarfod) Limited	04828115	England and Wales	Ordinary	100 ^h	100 ^h
Branas Isaf (Llyn Coed) Limited	04826774	England and Wales	Ordinary	100 ^h	100 ^h
Branas Isaf (Ashfield House) Limited	05761962	England and Wales	Ordinary	100 ^h	100 ^h
Branas Isaf (Education Centre) Limited	04826662	England and Wales	Ordinary	100 ^g	100 ^g
Mason Property Development Company Limited	04308273	England and Wales	Ordinary	100 ^g	100 ^g
Coveberry Limited	01208511	England and Wales	Ordinary	100 ^a	100 ^a
Uplands (Fareham) Limited	03488896	England and Wales	Ordinary	100 ⁱ	100 ⁱ
CareTech Foster Care Limited	05185612	England and Wales	Ordinary	100 ^j	100 ^j
Fostering Support Group Limited	02359399	England and Wales	Ordinary	100 ^k	100 ^k
Phoenix Therapy and Care Limited	SC254555	Scotland	Ordinary	100 ^a	100 ^a
Cameron Care Limited	SC283940	Scotland	Ordinary	100 ^a	100 ^a
Selwyn Care Limited	03737832	England and Wales	Ordinary	100 ^a	100 ^a
Professional Integrated Care Services Limited	04771613	England and Wales	Ordinary	100 ^a	100 ^a
Complete Care and Enablement Services Limited	05905163	England and Wales	Ordinary	100 ^l	100 ^l
Applied Care & Development Limited	SC224352	Scotland	Ordinary	100 ^a	100
Caretech Fostering Holdings Limited	07206363	England and Wales	Ordinary	100 ^a	100
Caretech Fostering Services Limited	07205262	England and Wales	Ordinary	100 ^m	100
Park Foster Care Services Scotland Limited	SC427502	Scotland	Ordinary	100 ^a	100
TLC (Wales) Independent Fostering Limited	04824925	Wales	Ordinary	100 ⁱ	100
EQL Solutions Limited	08758477	England	Ordinary	100	–

1 Has a UK designated trading branch, Hazeldene UK Limited

a a subsidiary of CareTech Community Services 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

Notes to the Financial Statements

continued

13 Group undertakings (continued)

Exemption from Audit by Parent Guarantee

The Company being the ultimate sole shareholder of its subsidiaries has decided to take the exemption from audit of a number of subsidiaries for the year ended 30 September 2014 under Sections 479A and 479C of the Companies Act 2006 and the Company will provide a guarantee for all the liabilities of those entities as at 30 September 2014 as detailed above with the exception of CareTech Community Services Limited, Hazeldene UK Limited and EQL Solutions Limited.

CareTech Community Services Limited as the main trading entity will not take the exemptions as stakeholders require audited financial statements to be produced. Hazeldene UK Limited and H2O Limited will not be covered by the parent company guarantee as it is incorporated in Gibraltar. EQL Solutions Limited will not take the exemptions as it is Group policy to audit all acquisitions in their first year of trading within the Group.

14 Trade and other receivables

	2014 £000	2013 £000
Trade receivables (note 23)	5,700	6,500
Other debtors and prepayments	2,975	1,554
	8,675	8,054

15 Cash and cash equivalents

	2014 £000	2013 £000
Cash and cash equivalents per balance sheet	3,900	3,783
Cash and cash equivalents per cash flow statement	3,900	3,783

16 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.

	2014 £000	2013 £000
Non-current liabilities		
Secured bank loans	158,605	163,224
Finance lease liabilities	2,206	1,427
	160,811	164,651
Current liabilities		
Current portion of secured bank loans	7,593	6,950
Current portion of finance lease liabilities	1,629	645
	9,222	7,595

Terms and debt repayment schedule

	Currency	Nominal interest rate (%)	Year of maturity	Book value 2014 £000	Book value 2013 £000
Term loan	£	3.25 (2013: 3.25) ¹	2017	129,462	135,721
Revolving credit facility term loan	£	3.25 (2013: 3.25) ¹	2017	36,736	34,453
				166,198	170,174

¹ The margin on the facilities has initially been set at 3.5% over LIBOR for six 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.

At 30 September 2014 the Group has available bank facilities totalling £171.2m, 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, primarily tangible fixed assets of the Group.

16 Interest-bearing loans and borrowings (continued)

Finance lease liabilities

Finance lease liabilities are payable as follows:

	Minimum lease payments 2014 £000	Interest 2014 £000	Principal 2014 £000	Minimum lease payments 2013 £000	Interest 2013 £000	Principal 2013 £000
Less than one year	1,787	158	1,629	852	207	645
Between one and five years	2,646	440	2,206	1,824	397	1,427
	4,433	598	3,835	2,676	604	2,072

17 Trade and other payables

	2014 £000	2013 £000
Trade payables	3,473	2,127
Accrued expenses	11,169	9,706
	14,642	11,833

18 Deferred tax assets and liabilities

Recognised deferred tax assets and liabilities

Deferred tax assets and liabilities are attributable to the following:

	2014		2013	
	Assets £000	Liabilities £000	Assets £000	Liabilities £000
Property, plant and equipment		4,337	–	5,138
Intangible assets		13,303	–	14,617
Derivative financial instruments		44	(66)	–
Share-based payments	(119)	–	(359)	–
Rolled-over gains on property, plant and equipment		3,037	–	3,037
Tax (assets)/liabilities	(119)	20,721	(425)	22,792
Net of tax assets		(119)		(425)
Net deferred tax liabilities		20,602		22,367

There are no unrecognised deferred tax assets or liabilities.

Movement in deferred tax during the year

	1 October 2013 £000	Recognised in income £000	Acquired in business combination £000	30 September 2014 £000
Property, plant and equipment	5,138	(801)	–	4,337
Intangible assets	14,617	(1,314)	–	13,303
Rolled-over gains	3,037	–	–	3,037
Derivative financial instruments	(66)	110	–	44
Share-based payments	(359)	240	–	(119)
	22,367	(1,765)	–	20,602

Movement in deferred tax during the previous year

	1 October 2012 £000	Recognised in income £000	Acquired in business combination £000	30 September 2013 £000
Property, plant and equipment	5,348	(210)	–	5,138
Intangible assets	13,509	1,108	–	14,617
Rolled-over gains	4,231	(1,194)	–	3,037
Derivative financial instruments	(1,052)	986	–	(66)
Share-based payments	(414)	55	–	(359)
	21,622	745	–	22,367

Notes to the Financial Statements

continued

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 £577,000 (2013: £290,000) of which £199,000 (2013: £29,000) was outstanding at the year end.

Share-based payments

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

In addition, a new Executive Shared Ownership Plan ("ExSOP") was formed in 2012. Under the provisions of the ExSOP, shares (the "ExSOP shares") are jointly owned by nominated senior employees and by an employees' share trust. The ExSOP awards are subject to a time-related 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 share price in excess of a hurdle.

Options granted under the above schemes, together with those remaining at 30 September 2014, are as follows:

Date of grant	Scheme	Options granted	Options lapsed to 30 Sept 2014	Options exercised to 30 Sept 2014	Options remaining 30 Sept 2014	Option price (pence)
13 October 2005 ¹	Approved Scheme	627,375	(311,440)	(248,378)	67,557	169
7 November 2005 ¹	SAYE Scheme	186,033	(43,519)	(142,514)	0	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)	0	0	292
17 January 2007 ¹	Approved Scheme	162,885	(113,091)	(23,236)	26,558	345
17 January 2007 ¹	Unapproved Scheme	18,263	(10,103)	(5,785)	2,375	345
21 March 2007 ¹	Approved Scheme	6,077	0	0	6,077	452
1 February 2008 ¹	SAYE Scheme	101,397	(101,397)	0	0	440
2 May 2008 ¹	Approved Scheme	114,070	(80,939)	(138)	32,993	410
2 May 2008 ¹	Unapproved Scheme	23,843	(19,278)	0	4,565	410
14 April 2009 ^{1,2}	Unapproved Scheme	92,308	(92,308)	0	0	0.5
4 August 2009 ¹	Approved Scheme	191,121	(117,789)	0	73,332	332.5
4 August 2009 ¹	Unapproved Scheme	165,050	(114,574)	0	50,476	332.5
12 August 2009 ¹	SAYE Scheme	202,069	(151,675)	(1,183)	49,211	254
3 August 2010 ¹	Approved Scheme	283,754	(174,386)	0	109,368	305
3 August 2010 ¹	Unapproved Scheme	210,653	(149,577)	0	61,076	305
3 August 2010 ²	Unapproved Scheme	92,308	(92,308)	0	0	0.5
15 November 2010	Approved Scheme	8,108	0	0	8,108	370
15 November 2010	Unapproved Scheme	18,243	0	0	18,243	370
4 April 2012 ³	Executive Shared Ownership Plan	1,608,337	(261,668)	0	1,346,699	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 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 30 consecutive business days during the three 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 third 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 third anniversary of being granted. SAYE scheme options are normally exercisable within six months following the third 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:

	2014		2013	
	Number of share options	Weighted average exercise price £	Number of share options	Weighted average exercise price £
Outstanding at the beginning of year	395,986	3.01	476,206	2.99
Granted during year	–	–	17,751	1.69
Lapsed during year	(57,834)	(3.18)	(80,220)	(2.92)
Exercised during year	(8,920)	(1.69)	(17,751)	(1.69)
Outstanding at end of year	329,232	3.57	395,986	3.01
Outstanding and exercisable at end of year	329,232	3.57	234,335	2.95

The options outstanding at 30 September 2014 were exercisable at prices between 169p and 452p. The weighted average remaining contractual life of those options yet to vest is 0 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:

	2014	2013
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 two 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:

	2014		2013	
	Number of share options	Weighted average exercise price £	Number of share options	Weighted average exercise price £
Outstanding at the beginning of year	137,718	3.28	283,142	2.72
Lapsed during year	(983)	(3.05)	(145,424)	(2.19)
Outstanding at end of year	136,735	3.28	137,718	3.28
Outstanding and exercisable at end of year	136,735	3.28	57,416	3.39

The options outstanding at 30 September 2014 were exercisable at prices between 0.5p and 410p. The weighted average remaining contractual life of those options yet to vest is 0 years.

Notes to the Financial Statements

continued

19 Employee benefits (continued)

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

	2014	2013
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%

Expected volatility was determined by calculating the historical volatility of the Group's share price over the previous two 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:

	2014		2013	
	Number of share options	Weighted average exercise price £	Number of share options	Weighted average exercise price £
Outstanding at the beginning of year	62,352	2.54	65,066	2.54
Lapsed during year	(13,141)	(2.54)	(2,714)	(2.54)
Outstanding at end of year	49,211	2.54	62,352	2.54
Outstanding and exercisable at end of year	49,211	2.54	62,352	2.54

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:

	2014	2013
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 two 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.

20 Share capital

	2014 £000	2013 £000
Allotted, called up and fully paid:		
52,016,248 (2013: 52,007,328) ordinary shares of 0.5p each	260	260
53,402 deferred shares of 0.5p each	–	–
	260	260

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

Movements in the number of issued shares were as follows:

	At 1 October 2013	Issued in connection with acquisitions	Issued following share option exercises	Placing	At 30 September 2014
2014					
Ordinary shares of 0.5p each	52,007,328	–	8,920	–	52,016,248
Deferred shares of 0.5p each	53,402	–	–	–	53,402
	At 1 October 2012	Issued in connection with acquisitions	Issued following share option exercises	Placing	At 30 September 2013
2013					
Ordinary shares of 0.5p each	51,195,242	794,335	17,751	–	52,007,328
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 "Share Plan"). 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 – in 2013 794,335 shares were issued in part consideration of the business combination for a value of £1,462,000. During the year £15,000 of new shares were issued in respect of an Employee Share Option Scheme. In 2013 £50,000 of transaction costs associated with the issue of new shares has been charged to the share premium account.

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

21 Dividends

The aggregate amount of dividends comprises:

	2014 £000	2013 £000
Final dividends paid in respect of prior year but not recognised as liabilities in that year	2,430	2,196
Interim dividends paid in respect of the current year	–	1,118
Aggregate amount of dividends paid in the financial year	2,430	3,314

The aggregate amount of dividends proposed and not recognised as liabilities as at the year end is 5.40p per share, £2,808,878 (2013: 4.68p per share, £2,433,943).

Notes to the Financial Statements

continued

22 Business combinations

(a) Acquisitions 2014

On 4 November 2013 CareTech acquired a Learning Services business now operating as EQL Solutions Limited.

	Book values £000	Fair value adjustment £000	Total £000
Property, plant and equipment	40	–	40
Trade and other receivables	225	(25)	200
Cash	–	–	–
Trade and other payables	(1,067)	–	(1,067)
Corporation tax	–	–	–
Onerous contracts	(606)	(1,655)	(2,261)
Onerous leases	–	(736)	(736)
Net liabilities on acquisition			(3,824)
Goodwill arising on business combination			4,918
Satisfied by cash paid			1,094

The Directors have considered whether there are any identifiable intangible assets within the assets acquired and none have been identified.

Goodwill represents the excess of price paid over the net assets acquired as per the table above. Refer to Learning Division in note 3 for the results since acquisition.

(b) Reconciliation to Group Cash Flow

	2014 £000	2013 £000
Cash consideration paid on acquisitions in the year	1,094	38,319
Cash consideration paid on previous year's acquisitions	–	395
	1,094	38,714

Deferred and contingent consideration payable

	2014 £000	2013 £000
Deferred consideration:		
Due within one year	–	52
	–	52

(c) Pro forma results

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

	2014 £000	2013 £000
Revenue	124,020	114,323
Operating profit	30,658	26,384

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 Consolidated Statement of Comprehensive Income for bad or doubtful debts of £12,000 (2013: £105,000).

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:

	2014 £000	2013 £000
Not due	4,576	4,924
Not more than three months past due	1,124	871
More than three months but not more than six months past due	–	705
Trade receivables (note 14)	5,700	6,500

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

	£000
At 1 October 2012	695
Charged to the Consolidated Statement of Comprehensive Income	105
At 1 October 2013	800
Charged to the Consolidated Statement of Comprehensive Income	12
At 30 September 2014	812

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 five hedging instruments, details of which are as follows:

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

Notes to the Financial Statements

continued

23 Financial instruments (continued)

Liquidity risk

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

	2014					
	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	–	(14,642)	(14,642)	(14,642)	–	–
Secured bank loans	5%	(166,198)	(191,509)	(16,691)	(174,818)	–
Finance lease liabilities	11%	(3,835)	(3,835)	(1,629)	(2,206)	–
Deferred and contingent consideration	–	–	–	–	–	–
Derivative financial instruments	–	–	–	–	–	–
		(184,675)	(209,986)	(32,962)	(177,024)	–

	2013					
	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	–	(11,833)	(11,833)	(11,833)	–	–
Secured bank loans	5%	(170,174)	(203,335)	(15,286)	(188,049)	–
Finance lease liabilities	11%	(2,072)	(2,676)	(852)	(1,824)	–
Deferred and contingent consideration	–	(52)	(52)	(52)	–	–
Derivative financial instruments	–	(332)	(332)	(101)	(231)	–
		(184,463)	(218,228)	(28,124)	(190,104)	–

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:

	2014 £000	2013 £000
Net debt (see page 42)	166,133	168,463
Equity (see page 40)	109,159	98,742

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 5.40p per share demonstrating a confident view of the Group's fundamental strength.

Foreign currency risk

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

Sensitivity analysis

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

At 30 September 2014, it is estimated that a general increase of 1% in interest rates would impact finance expense and decrease the Group's profit before tax and equity by approximately £450,000 (2013: £500,000). Hedging instruments have been included in this calculation.

23 Financial instruments (continued)

Fair values

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

	Carrying amount 2014 £000	Fair value 2014 £000	Carrying amount 2013 £000	Fair value 2013 £000
Loans and receivables:				
Cash at bank and in hand (note 15)	3,900	3,900	3,783	3,783
Trade receivables (note 14)	5,700	5,700	6,500	6,500
Amortised cost:				
Trade payables (note 17)	(3,473)	(3,473)	(2,127)	(2,127)
Secured bank loans (note 16)	(166,198)	(166,198)	(170,174)	(170,174)
Finance lease liabilities (note 16)	3,835	3,835	(2,072)	(2,072)
Held at fair value through profit and loss:				
Derivative financial instruments	156	156	(332)	(332)

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 one 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 marketplace; and
- for finance lease liabilities, all amounts are due within five 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: £Nil (2013: £332,000).
- 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 (2013: Nil).
- Level 3 – inputs for the asset or liabilities that are not based on observable market data: Nil (2013: Nil).

24 Operating leases

Non-cancellable operating lease rentals are payable as follows:

	2014		2013	
	Land and buildings £000	Other £000	Land and buildings £000	Other £000
Within one year	2,951	136	2,500	102
Between two and five years	5,422	34	4,986	11
More than five years	8,623	–	8,866	–
	16,996	170	16,352	113

During the year the following was recognised as an expense in the Consolidated Statement of Comprehensive Income in respect of operating leases:

	2014		2013	
	Land and buildings £000	Other £000	Land and buildings £000	Other £000
Charge for amounts currently payable	2,426	786	6,292	156
Adjustment for minimum future lease payment uplifts	–	–	1,155	–
Reversal of minimum future lease payments provision	–	–	(14,342)	–
Onerous lease provision	–	–	73	–
Total recognised in the Consolidated Statement of Comprehensive Income	2,426	786	(6,822)	156

Notes to the Financial Statements

continued

24 Operating leases (continued)

Analysis of movement in onerous lease provision

	£000
At 1 October 2013	743
Recognised in Statement of Comprehensive Income	72
Utilised in year	(815)
At 1 October 2013	–
Arose on business combination	736
Settled in period	(316)
At 30 September 2014	420

25 Related parties

During the year, CareTech Community Services Limited paid rent totalling £184,000 (2013: £159,910) in respect of properties in which F. Sheikh and H. Sheikh have an interest. At the year end rent of £46,000 (2013: £nil) was outstanding. Dividends paid to Directors in the year totalled £47,000 (2013: £98,000).

Transactions with key management personnel

	2014 £000	2013 £000
Salary	2,111	1,725
Benefits	206	217
Bonus	269	154
Total short-term remuneration	2,586	2,096
Post employment benefits	–	167
Share-based payments	–	27
	2,586	2,290

Key management personnel are defined as Directors of the Company and members of the Senior Management Team.

Directors' emoluments are set out on page 36.

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 2014 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.

Judgements

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.

Company Statement of Changes in Equity as at 30 September 2014

	Share capital £000	Share premium £000	Merger reserve £000	Retained earnings £000	Total equity £000
At 1 October 2012	256	55,715	8,498	3,019	67,488
Profit for the year	–	–	–	17,858	17,858
Total comprehensive income	–	–	–	17,858	17,858
Issue of shares	4	1,487	–	–	1,491
Dividends	–	–	–	(3,379)	(3,379)
Equity settled share-based payments charge	–	–	–	59	59
Transactions with owners recorded directly in equity	4	1,487	–	(3,320)	(1,829)
At 30 September 2013	260	57,202	8,498	17,557	83,517
At 1 October 2013					
Loss for the year	–	–	–	(8,639)	(8,639)
Total comprehensive income	–	–	–	(8,639)	(8,639)
Issue of shares	–	19	–	–	19
Dividends	–	–	–	(2,430)	(2,430)
Equity settled share-based payments charge	–	–	–	–	–
Transactions with owners recorded directly in equity	–	19	–	(2,430)	(2,411)
At 30 September 2014	260	57,221	8,498	6,488	72,467

Company Balance Sheet

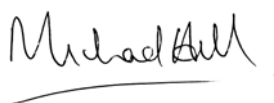
as at 30 September 2014

	Note	2014 £000	2013 £000
Non-current assets			
Investments	29	35,301	35,301
Trade and other receivables		–	2,258
		35,301	37,559
Current assets			
Trade and other receivables	30	205,965	218,159
Cash and cash equivalents		29	110
		205,994	218,269
Total assets		241,295	255,828
Current liabilities			
Loans and borrowings	31	8,550	6,950
Trade and other payables	32	2,393	2,054
		10,943	9,004
Non-current liabilities			
Loans and borrowings	31	157,885	163,307
		157,885	163,307
Total liabilities		168,828	172,311
Net assets		72,467	83,517
Equity			
Share capital	33	260	260
Share premium		57,221	57,202
Merger reserve		8,498	8,498
Retained earnings		6,488	17,557
Total equity attributable to equity shareholders of the parent		72,467	83,517

These financial statements were approved by the Board of Directors on 14 January 2015 and were signed on its behalf by:



Farouq Sheikh
Chairman



Michael Hill
Finance Director

Company number: 04457287

Company Cash Flow Statement

for the year ended 30 September 2014

	2014 £000	2013 £000
Cash flows from operating activities		
(Loss)/Profit for the year	(8,639)	17,858
Deferred tax	–	476
Operating cash flows before movement in working capital	(8,639)	18,334
Movement in payables	1,288	(1,607)
Movement in intercompany balance	14,452	(48,834)
Net cash generated from/(used in) operating activities	7,101	(32,107)
Cash flows from investing activities		
Acquisition of subsidiaries, net of cash acquired	–	–
Cash flows from financing activities		
Proceeds from new loan (net of costs)	2,179	34,088
Dividends paid	(2,430)	(3,379)
Proceeds from the issue of new shares (net of costs)	19	1,491
Repayment of borrowings	(6,950)	–
Net cash (used in)/generated from financing activities	(7,182)	32,200
Net (decrease)/increase in cash and cash equivalents	(81)	93
Cash and cash equivalents at 1 October	110	17
Cash and cash equivalents at 30 September	29	110

27 Accounting policies

(a) Basis of preparation

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

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 £8,639,000 (2013: £17,858,000 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.

(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 Consolidated Statement of Comprehensive Income 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.

(e) Financial instruments

Recognition, initial measurement and derecognition

Financial assets and financial liabilities are recognised when the Company 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.

(f) Taxation

Tax on the profit or loss for the year comprises current and deferred tax. Tax is recognised in retained earnings 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.

(g) Revenue

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

(h) Share-based payments

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

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

(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.

Company Notes

continued

28 Dividends

The aggregate amount of dividends comprises:

	2014 £000	2013 £000
Final dividends paid in respect of prior year but not recognised as liabilities in that year	2,430	2,196
Interim dividends paid in respect of the current year	–	1,183
Aggregate amount of dividends paid in the financial year	2,430	3,379

The aggregate amount of dividends proposed and not recognised as liabilities as at the year end is 5.40p per share, £2,808,878 (2013: 4.68p per share, £2,433,943).

29 Investments

	Shares in Group undertakings £000
Cost and net book value	
At beginning of year	35,301
Share-based payments charge in respect of subsidiary undertakings	–
At end of year	35,301

30 Trade and other receivables

	2014 £000	2013 £000
Amounts owed by Group undertakings	205,965	218,159

31 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.

	2014 £000	2013 £000
Non-current liabilities		
Secured bank loans	157,885	163,307

	2014 £000	2013 £000
Current liabilities		
Current portion of secured bank loans	8,550	6,950

Terms and debt repayment schedule

	Currency	Nominal interest rate	Year of maturity	Book value 2014 £000	Book value 2013 £000
Term loan	£	3.25 (2013: 3.25) ¹	2017	129,646	135,804
Revolving credit facility term loan	£	3.25 (2013: 3.25) ¹	2017	36,789	34,453
				166,435	170,257

¹ The margin on the new facilities has initially been set at 3.5% over LIBOR for six 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 2014 the Group has available bank facilities totalling £171.2m, 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

	2014 £000	2013 £000
Other creditors	2,393	2,054

33 Called up share capital

	2014 £000	2013 £000
Allotted, called up and fully paid:		
52,016,248 (2013: 52,007,328) ordinary shares of 0.5p each	260	260
53,402 deferred shares of 0.5p each	–	–
	260	260

On 4 April 2012 the Company issued a total of 1,608,337 new ordinary shares of 0.5p in the Company (the "New Ordinary Shares") in connection with the Company's Executive Shared Ownership Plan 2013 (the "Share Plan"). 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 2013 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 (2013: £nil).

Share-based payments

There was no expense for share-based payments relating to the Company in the year (2013: £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).

35 Directors' remuneration

The analysis of Directors' emoluments and share options is included within the Remuneration Report on pages 35 and 36. This analysis forms part of these financial statements.

36 Staff numbers and costs

The Company has no employees (2013: none) other than the Directors. Directors' emoluments are paid by a subsidiary undertaking.

37 Related parties

During the year the Company received dividends of £nil (2013: £17,500,000) interest received of £nil (2013: £6,447,000) and fees of £70,000 (2013: £70,000) from its subsidiary undertakings. The amount due to the Company from its subsidiary undertakings amounted to £205,965,000 (2013: £218,159,000).

Company Notes

continued

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

Management has a credit policy in place and exposure to credit risk is monitored on an ongoing basis. 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 (2013: Nil).

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

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

	2014 £000	2013 £000
Not due	205,965	220,417
Not more than three months past due	—	—
More than three months but not more than six months past due	—	—
More than six months past due	—	—
Trade receivables (note 31)	205,965	220,417

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.

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.

	2014					
	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	—	(2,393)	(2,393)	(2,393)	—	—
Secured bank loans	5%	(166,435)	(191,784)	(16,703)	(175,081)	—
		(168,828)	(194,177)	(19,096)	(175,081)	—

	2013					
	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	—	(2,054)	(2,054)	(2,054)	—	—
Secured bank loans	5%	(170,257)	(207,298)	(16,282)	(191,016)	—
		(172,311)	(209,352)	(18,336)	(191,016)	—

38 Financial instruments (continued)

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 Company's capital structure is as follows:

	2014 £000	2013 £000
Net debt	166,406	170,147
Equity	72,467	83,517

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 5.40p 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 2014, it is estimated that a general increase of 1% in interest rates would impact finance expense and decrease the Company's profit before tax and equity by approximately £450,000 (2013: £500,000). 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 2014 £000	Fair value 2014 £000	Carrying amount 2013 £000	Fair value 2013 £000
Loans and receivables:				
Cash at bank and in hand	29	29	110	110
Trade receivables (note 31)	205,965	205,965	220,417	220,417
Amortised cost:				
Other payables (note 33)	(2,393)	(2,393)	(2,054)	(2,054)
Secured bank loans (note 32)	(166,435)	(166,435)	(170,257)	(170,257)

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 marketplace.

Directors and Advisers

Company Number

04457287

Registered Office

5th Floor, Metropolitan House
3 Darkes Lane
Potters Bar
Hertfordshire EN6 1AG

Directors

Farouq Sheikh	(Executive Chairman)
Haroon Sheikh	(Chief Executive Officer)
Michael Hill	(Group Finance Director)
Karl Monaghan	(Non-Executive Director)
Mike Adams	(Non-Executive Director)
Jamie Cumming	(Non-Executive Director)

Company Secretary

Michael Hill

Nominated Adviser and Joint Broker

Panmure Gordon (UK) Limited
One New Change
London EC4M 9AF

Joint Brokers

WH Ireland
24 Martin Lane
London EC4R 0DR

Auditor

Grant Thornton UK LLP
202 Silbury Boulevard
Central Milton Keynes
MK9 1LW

Solicitors

Pinsent Masons
City Point
One Ropemaker Street
London EC2Y 9AH

Bankers

The Royal Bank of Scotland PLC
280 Bishopsgate
London EC2M 4RB

Lloyds TSB Bank PLC
Large Corporate
25 Gresham Street
London EC2V 7HN

Alliance & Leicester PLC
Santander Corporate Banking
2 Triton Square
Regents Place
London NW1 3AN

AIB Group (UK) PLC
Corporate Banking
9/10 Angel Court
London EC2R 7AB

Registrars

Capita Asset Services
Northern House
Woodsome Park
Fenay Bridge
Huddersfield
West Yorkshire HD8 0GA



This annual report is printed on FSC certified material.
This product is biodegradable, 100% recyclable and elemental chlorine free. Vegetable-based inks were used during production.
Both the paper mill and printer involved in the production support the growth of responsible forest management and are both accredited to ISO 14001 which specifies a process for continuous environmental improvement.

Designed and produced by Gather +44 (0)20 7610 6140.
www.gather.london

CareTech Holdings PLC

Metropolitan House
3 Darkes Lane
Potters Bar
Hertfordshire
EN6 1AG

Tel: 01707 601800
Fax: 01707 655265

www.caretech-uk.com