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CareTech Holdings PLC

Annual Report & Accounts 2013

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Purpose

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

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

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

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

We provide transition services for young people leaving children services as they enter adult care.

For many years we have had staff undertaking apprenticeships and we are looking to offer care apprenticeships and pre-employment training.

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Good progress across the Group

Consistently delivered growth

Highlights

Revenue
£114.3m

increased by 0.2% (2012 £114.1m)

Underlying EBITDA ⁽ⁱ⁾

£26.4m

increased by 6.0% (2012 £24.9m)

Underlying profit before tax ⁽ⁱⁱ⁾
£17.5m

increased by 4.8% (2012 £16.7m)

Underlying diluted earnings per share ⁽ⁱⁱⁱ⁾
27.43p

increased by 3.6% (2012 26.47p)

Cash inflows from operating activities
before non-underlying items
£23.9

(2012 £22.3m)
with net debt of £168.5 (2012 £131.2m)

Overall capacity reduced by 50
Due to changes in definitions of capacity

2,116 places

(2012 2166)

Property portfolio
£275m

independently valued

Final dividend per share
4.68p

increased by 9.1% (2012 4.29p)

Statutory financial highlights

EBITDA ⁽ⁱⁱⁱ⁾
£39.9m

increased by 87.3% (2012 £21.3m)

Operating profit
£32.9m

increased by 138.4% (2012 £13.8m)

Diluted earnings per share
47.54p

increased by 285.9% (2012 12.32p)

Cash inflows from operating activities after
non-underlying items
£21.6m

(2012 £19.2m)

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

Group at a glance

Adult Learning Disabilities

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

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

Revenue	2013
	£73.9m

EBITDA	
	£18.5m

Mental Health

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

Revenue	2013
	£6.5m

EBITDA	
	£2.2 m

We have national coverage in a market that's worth £9.0bn and growing

Foster Care

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

Revenue	2013
	£14.3m
EBITDA	
	£4.3m

Young People Residential Services

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

Revenue	2013
	£19.6m
EBITDA	
	£6.2 m

Chairman's Statement

A Year of Progress

2013 has been another important year in the development of CareTech which reflects the strength of the Group's underlying business and the success of its innovative new services developed in partnership with care commissioners

From the platform of 2012 the group has built on its divisional structure and has concentrated on further successful reconfigurations and developments focusing on organic growth

Towards the end of the year the Group's earnings enhancing acquisition of a business combination consisting of two property portfolios underpins the momentum in the Group's trading performance

Dividend

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

That growth in 2013 was 3.5% so the Board has proposed a final dividend of 4.68p (2012 4.29p) per share bringing the total dividend for the year to 7.00p (2012 6.50p) per share. The final dividend will be paid, subject to shareholder approval, on 11 April 2014, with an ex-dividend date of 12 March 2014 and an associated record date of 14 March 2014

Our Board

Our Board was strengthened during the year when Jamie Cumming joined the Board as a non-executive director of the Company with effect from 28 March 2013.

Jamie has over 30 years' experience in the City advising both institutional investors and corporate clients. He is currently a non-executive Director of 21st Century Technology plc. His expertise will be invaluable as the Group strengthens its relationships with existing and new investors.

He sits on all three Board Committees and is the Chairman of the Remuneration Committee and a member of the Audit Committee and the Care Governance and Safeguarding Committee.

Our People

The Group's divisional structure is now well established and the enthusiasm for the arrangements continues with a Human Resource system with HR partners who are embedded within each of the divisions like our Finance and Quality professionals.

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

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

Outlook and Prospects

The Group remains well positioned relative to many of its peers as we have lower leverage, significant freehold asset backing and financial stability arising from its strong banking arrangements.

These are exciting times for CareTech and with a thoughtful approach to growth, a skilled executive team and the support of front-line colleagues, I look forward with fresh enthusiasm to 2014

A handwritten signature in black ink, appearing to be 'F. Sheikh', written over a horizontal line.

Farouq Sheikh
Chairman
13 December 2013

Strategic Report

Our Market

The Care Market in which the Group operates is a UK Market worth £9.0 billion per annum across the four specialist operating divisions of Adult Learning Disabilities, Mental Health, Young People Residential Services and Foster Care

The market is growing in value by 5.5% per annum

Our Business Model

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

Setting the standard in quality of service

Adult Learning Disabilities

Residential care

Independent supported living

Community support services

Young People Residential Services

Residential care of children and young people

Foster Care

Fostering

Mental Health

Residential care

Independent supported living

Community outreach

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
We need skilled staff to provide the management and training to our people who provide care.
- Buildings, homes and land
We need 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

Strategic Report (continued)

Our Strategy

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

Our understanding of the social care market and our relationships with local authority commissioners is vital to this objective and we are confident in the strength of our position. However, we can always do more and the coming year will see a 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.

Strategic objectives

Our KPI's help us measure the Group's performance against its objectives which are:-

- Social care expertise
- Nationwide locations
- High occupancy
- Continued growth
- High quality
- Excellent reputation
- Shareholder value

Key performance indications

2013	2012
2116 places	2166 places
Capacity	Capacity
92%	92%
Mature Estate Occupancy	Mature Estate Occupancy
84%	86%
Blended occupancy	Blended occupancy
£26.4m	£24.9m
Underlying EBITDA	Underlying EBITDA
£14.1m	£13.3m
Underlying Profit after tax	Underlying Profit after tax
27.43p	26.47p
Underlying diluted earnings per share	Underlying diluted earnings per share
£168.5m	£131.2m
Net Debt	Net Debt

These key performance indicators are explained in more detail in the Financial Review on page 16

Strategic Report (continued)

Our Risks

Principal risks and our strategic response

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

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

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

- Service offer and user needs

We have to create and staff a service offer which matches to the needs of the service user and can be communicated to commissioners.

- Quality and safety

We have to provide and deliver safe care of a high quality.

- Service Value

The service offer has to be provided to meet the needs of the commissioners at a fair price.

- Reputation

The Group has to have a reputation for delivering a service that is good value and takes account of all risks.

- Growth funding

The funding to enable the Group to keep growing has to be put in place.

- Manage debt

The debt which is incurred in employing the people and acquiring the premises has to be carefully managed.



Farouq Sheikh
Chairman

13 December 2013

Chief Executive's Statement & Performance Review

A Strong Foundation for Growth

Results

Revenue of £114.3m (2012: £114.1m) for the year to 30 September 2013 represented growth of 0.2% and generated underlying EBITDA growth of 6.0% to £26.4m (2012: £24.9m)

Underlying operating profit increased by 6.9% to £23.2m (2012: £21.7m) and operating profit increased by 138.4% to £32.9m (2012: £13.8m)

Underlying profit before tax for the period was 4.8% higher at £17.5m (2012: £16.7m) and profit before tax was £28.1m (2012: £6.4m)

Underlying diluted earnings per share increased by 3.6% to 27.43p (2012: 26.47p) per share and underlying profit after tax has risen by 6.0% to £14.1m (2012: £13.3m). Unadjusted diluted earnings per share increased by 286% to 47.54p (2012: 12.32p) and profit after tax increased by £18.2m to £24.4m (2012: £6.2m)

Cash inflows from operating activities before tax and non-underlying items paid were £23.9m (2012: £22.3m), an increase of 7.1%. Net debt at the year end of £168.5m is after taking into account the acquisition of two property portfolio businesses of £37.9m. Without the acquisition net debt would have reduced by £0.5m for the year.

Consolidation and creative new opportunities

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 obtained 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 economic.

The Group has purchased a site in Dudley which is being developed to have three services on the same site. This comprises the conversion of an existing building into a four bedroom Learning Disability service with two/three Supported Living Transition flats above. In addition we have secured planning permission for a six bedroom children's wheelchair accessible bungalow.

The Group purchased a business combination which involved the acquisition of two property portfolio businesses, comprising in total 29 properties, for an aggregate consideration of £38m including costs. The properties were previously leased by the Group and will be used to continue providing care and support to service users.

It is expected that the transaction will be immediately earnings enhancing and will save the Group substantial cost in rental charges over the lifetime of the historic leases.

The rent saving in 2014 will be up to £4.4m, compared with interest payments associated with the acquisition of the properties of £1.6m. The rent saving is expected to increase in future years as the previous rental terms were subject to increases based on inflation. The extent to which rent savings will be reflected in the Group's profitability is dependent on 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 in enhancing average fee rates and in maintaining the Group's reputation as a provider of highest quality of care and this acquisition provides an opportunity which was not available as leaseholders.

Chief Executive's Statement & Performance Review (continued)

I was heartened by the willingness of the current syndicate of Banks to provide the additional debt which further underlines the Group's strong asset backing and attractiveness to lenders. The net debt position of the Company following this transaction has risen but we are entirely comfortable with the revised level of net debt and anticipate that the cash generative nature of the transaction will enhance all debt service metrics and assist the Group to repay debt going forwards.

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 within the personalisation agenda.

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

1 Adult Learning Disabilities

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

Revenue for 2013 was £73.9m (2012: £75.8m) and EBITDA for 2013 was £18.5m (2012: £18.1m) with capacity closing at 1,423 (2012: 1,469).

The principal reason for the increase in EBITDA of £0.5m was the reconfiguration of homes and their reopening late in the year.

2. Mental Health

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

Revenue for 2013 was £6.5m (2012: £6.0m) and EBITDA for 2013 was £2.2m (2012: £2.0m) with capacity ending 2013 at 161 (2012: 141).

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

3 Young People Residential Services

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

Revenue for 2013 was £19.6m (2012: £17.0m) and EBITDA for 2013 was £6.2m (2012: £5.3m) with capacity ending 2013 at 149 (2012: 133).

The segment benefited from new services and will benefit from the Dudley site when this opens in 2014.

4 Foster Care

Child fostering covers both mainstream foster care services and specialist provision such as care for children with disabilities and foster care family assessments in the home. Revenue in 2013 was £14.3m (2012: £15.3m) and EBITDA for 2013 was £4.3m (2012: £4.2m) with capacity ending 2013 at 383 (2012: 423).

EBITDA improved by £0.2m partly due to the annualised effect of organic growth and the investment in new carers.

Chief Executive's Statement & Performance Review (continued)

The Group had unallocated overheads in 2012 of £4.7m and of £4.8m in 2013 which brings the Group's underlying EBITDA in 2012 to £24.9m and 2013 to £26.4m.

In last year's report I outlined the National Centre for Learning and Development which provides leadership. Its principal learning tools are e-learning and face to face training, as well as assisting our staff undertaking Health and Social Care Apprenticeships.

After the year end we acquired a Training Provider who currently have 5,700 people enrolled on training programs covered by contracts with the Skills Funding Agency and direct contracts with a diverse range of employers in the private sector.

This acquisition provides the opportunity to draw the professionalism of the Training Provider's staff into a new and forward looking partnership with our own team to offer social care apprenticeships, training to social care employers and pre-employment training to our service users.

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 address the challenges faced by care commissioners.

Capacity has reduced to 2,116 places principally because we have taken the opportunity to refine the measurement of capacity levels. Occupancy levels within our mature services remain at a creditable 92%, or 84% when taking into account our services under development and transition. This is in line with the previous year.

Adult Learning Disabilities

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

During the year the Group had 18 tender stage wins. These frequently open the door for a pipeline of referrals within a longer-term relationship. This allows local authorities to manage their local social care market whilst providing larger operators such as CareTech even greater revenue visibility and support a more targeted approach to business development.

Mental Health

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

Chief Executive's Statement & Performance Review (continued)

Young People Residential Services

The acquisition of ACAD in Scotland in 2012 established relationships with authorities across Scotland and helps us consolidate our presence there. Since its acquisition last year ACAD's capacity has increased further and a new service is about to open in Fife. The Poppy Lodge service opened in the Midlands late last year is being replicated as part of the development of Childrens services in Dudley.

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

Foster Care

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

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

The Group is also looking to open in Scotland and has currently applied for Registration there.

Corporate Social Responsibility

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

We care about our service users

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

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

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

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

We care about the environment

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

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

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

We care about our staff

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

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

Out of a total of 3,284 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.

Corporate Social Responsibility (continued)

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 loyalty, diligence and effort

We care about quality and safety

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

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

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

We care about our communities

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

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

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

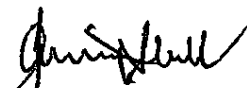
Behaving responsibly and maximising the benefits of a strong relationship with our stakeholders is an integral part of a continuing process of building long-term value

Outlook

The changes taking place across Care continue to create opportunities for the Group because we have the resources to identify and deliver a quality solution to commissioners.

The Group is able to work with local authority commissioners effectively as we can draw upon our resources throughout Britain to offer the commissioner in one authority a solution from another authority, and we can demonstrate the length of our experience in Care coupled with the financial strength of our Group

Across the market there is likely to be further consolidation and refinement of services as at the heart of health and social care commissioning there will continue to be change. We will continue our strategy of organic growth and reconfigurations as we look forward to the opportunities ahead



Haroon Sheikh
Chief Executive Officer
13 December 2013

Financial Review

The Group has repeated the good progress of recent years in 2013

Overview

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

The Group has continued to be progressive and has made encouraging progress during the year

The underlying operating profit remains strong at £23.2m compared to £21.7m last year. Up to 2012 the Group had been making strategic acquisitions to gain market share and extend the care pathway range of services. Since 2012 the focus has been on organic developments and cost efficiencies including the transaction on 28 August 2013 to acquire two property portfolio businesses leading to an annual rent saving of £4.4m.

Income Statement

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

Table 1 –Consolidated Income Statement

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

	2013	2012	
	£m	£m	Growth
Revenue	114.3	114.1	0.2%
Gross profit	45.6	45.3	
Administrative expenses	(19.2)	(20.4)	
Underlying EBITDA	26.4	24.9	6.0%
Underlying EBITDA margin	23.1%	21.8%	
Depreciation	(3.1)	(3.1)	
Share-based payments charge	(0.1)	(0.1)	
Underlying operating profit	23.2	21.7	6.9%
Net financial expenses	(5.7)	(5.0)	
Underlying profit before tax	17.5	16.7	
Taxation	(3.4)	(3.4)	
Effective tax rate	20.0%	20.0%	
Underlying profit for the year	14.1	13.3	
Weighted average number of diluted shares (millions)	51.3	50.4	
Underlying diluted earnings per share	27.43	26.47	
Full year dividend per share	7.00p	6.50p	

Revenue

Revenue of £114.3m (2012: £114.1m) was 0.2% higher than in 2012.

In the established Adult Learning Disabilities segment we continued to experience high levels of occupancy and reported 92% occupancy at 30 September 2013. 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 2013 was 84% of capacity (September 2012, 85%). As in recent years the demand for residential services continues to be encouraging for high acuity users.

Financial Review (continued)

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.

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 66.4% in 2012 to 64.7% in 2013 and EBITDA before Group costs from 61.8% in 2012 to 59.3% in 2013.

The Children and Young People services total revenue has risen by 15.3% with Mental Health rising by 8.3% and Foster Care falling by 6.5%. Their proportion of the EBITDA before Group costs has risen from 32.1% in 2012 to 40.7% in 2013 due in part to their higher margins.

Table 2 - Revenue

	2013	2013	2012	2012
	Revenue	Underlying EBITDA	Revenue	Underlying EBITDA
	£m	£m	£m	£m
Adult Learning Difficulties	73.9	18.5	75.8	18.1
Mental Health	6.5	2.2	6.0	2.0
Young People Residential Services	19.6	6.2	17.0	5.3
Foster Care	14.3	4.3	15.3	4.2
	<u>114.3</u>	<u>31.2</u>	<u>114.1</u>	<u>29.6</u>
Less unallocated group costs	-	(4.8)	-	(4.7)
	<u>114.3</u>	<u>26.4</u>	<u>114.1</u>	<u>24.9</u>

Underlying EBITDA and EBITDA

Underlying EBITDA has grown by 6.0% from £24.9m in 2012 to £26.4m in 2013. Underlying EBITDA margin has increased from 21.8% to 23.1% 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 £19.2m (2012 £20.4m) and decreased by £1.2m during the year. In 2012 they represented 17.9% of Group revenue and in 2013 this improved to 16.8% of Group revenue.

There has been a considerable effort in the year to reduce administrative expenses with the two key elements being property rental costs and aggregate payroll cost.

Property rental costs were £6.3m and following the acquisition of a business combination of two property portfolios previously leased by the Group in late 2013, there will be a rent saving in 2014. The number of employees in management and administration has reduced by 54 which has reduced aggregate payroll costs in the year.

EBITDA grew by 87.3% from £21.3m in 2012 to £39.9m in 2013 as a result of an improvement in underlying EBITDA and principally the gain recognised in respect of business combination covered in note 22.

Financial Review (continued)

Underlying operating profit and underlying profit before tax

The depreciation charge is again £3.1m (2012: £3.1m) 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 by 6.9% to £23.2m (2012: £21.7m).

Operating profit increased by 138.4% to £32.9m (2012: £13.8m) as a result of the improvement in underlying operating profit and principally the matters associated with the business combination covered in note 22.

Net underlying financial expenses of £5.7m (2012: £5.0m) increased over the previous year due to the continued use of the secured bank loans which had slowed towards the year end when the acquisition of the property portfolio businesses occurred, and there were additional finance leases taken out on new vehicles during the year.

Underlying profit before tax was £17.5m (2012: £16.7m) which is an increase of 4.8%.

Profit before tax was £28.1m (2012: £6.4m) with the increase being due to the improvement in underlying profit before tax and principally the gain recognised in respect of business combination covered in note 22.

Taxation and diluted earnings per share

The effective underlying tax rate remains at 20.0% (2012: 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 1.8% whilst the underlying diluted earnings per share rose to 27.43p in 2013 from 26.47p in 2012.

Basic and diluted earnings per share increased by 286% to 47.54p (2012: 12.32p).

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 4.68p per share (2012: 4.29p), bringing the total dividend for the year to 7.00p (2012: 6.50p), a growth of 7.7%. Dividend cover for 2013, based upon diluted earnings per share before non-underlying items is 3.92 times (2012: 4.07 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 on the face of the income statement in order to improve understanding of the trading performance achieved by the Group. Total non-underlying items are a credit of £10.3m (2012: debit of £7.1m) and the principal items are the gain recognised in respect of business combination less amortisation of intangible assets and integration and reorganisation costs.

Financial Review (continued)

Cash flow and net debt

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

	2013	2012
	£m	£m
Underlying EBITDA	26.4	24.9
Increase in working capital	(2.5)	(2.6)
Cash inflows from operating activities	23.9	22.3
Tax paid	(1.9)	(1.8)
Interest paid	(5.5)	(5.4)
Dividends paid	(3.3)	(3.1)
Acquisitions and capital expenditure	(44.0)	(10.7)
Cash flow before adjustments	(30.8)	1.3
Non underlying cashflows including derivative financial instruments	(6.5)	(5.2)
Movement in net debt	(37.3)	(3.9)
Opening net debt	(131.2)	(127.3)
Closing net debt	(168.5)	(131.2)

Net debt at 30 September 2013 of £168.5m (2012: £131.2m) has increased by £37.3m during the financial year, with an investment of £44.0m in acquisitions and capital improvements during the year.

Non underlying items had a cash outflow effect of £2.2m (2012: £3.0m) being payment of acquisition and integration costs and settlements arising from derivative financial instruments contributed a cash outflow of £0.8m (2012: £2.2m).

Underlying cash inflows from operating activities

The £23.9m (2012: £22.3m) cash inflow from operating activities, before non-underlying items, represents a 90% (2012: 90%) underlying EBITDA cash conversion ratio.

Tax, interest and dividend cash flows

Interest paid of £5.5m (2012: £5.4m) 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.

Net tax payments of £1.9m (2012: £1.8m) were made in the year.

Acquisitions and capital expenditure

During the year we invested total funds of £44.5m (2012: £10.3m). Highlights during the year included the acquisition of two property portfolio businesses. As part of these acquisitions twenty-eight freehold assets were acquired from the Quercus Healthcare Property Partnership for a cash consideration of £29.5m and in addition, Roborough House in Plymouth was acquired from Roborough Properties for a total consideration of £6.5m, to be satisfied with £5m in cash and by the issue of 794,335 new ordinary shares of 0.5p each ("Ordinary Shares") in CareTech. The price of the shares issued was based on the average mid-market quotation during the five trading days prior to the announcement, equivalent to 184p per share.

Financial Review (continued)

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

Capital Expenditure of £5.3m includes £2.5m 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, Alliance & Leicester 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.

The cash consideration for the acquisition of a business combination consisting of two property portfolio businesses was met by existing and new debt facilities provided by the Group's syndicate of four lenders. The new banking facilities have been provided on the same competitive terms as the banking facility announced in 2012, with debt service cost after hedging at less than 4.5%. The facility has certain covenants attached to it which are mostly EBITDA related and were set with sufficient facility headroom.

As part of the refinancing 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 2013 the Group has available bank facilities totaling £178m which are sufficient, with cash flow from operating activities, to fund present commitments.

Post Balance Sheet Event

On 4 November 2013 the Company announced the acquisition of 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 client's own Skills Funding Agency contracts. The acquisition had been completed for a total cash consideration of £1.5m. The acquisition and the ongoing working capital costs of the business will be funded from the Group's current bank facilities.

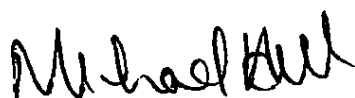
The acquisition will enable the Group to provide apprenticeship and pre-employment training. The acquired business has been rebranded EQL Solutions Limited.

Going Concern

This Financial Review has covered the cash flows, liquidity position and borrowing facilities of the Group and in the Financial statements 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
13 December 2013

Board of Directors

1- Farouq Sheikh Executive Chairman (aged 55)

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 Company 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 grew significantly from 4.1p in 2005 to 27.43p 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.

2- Haroon Sheikh BSc Chief Executive Officer (aged 57)

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.

3- Michael Hill Group Finance Director (aged 62)

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 and Family Services division. He became Group Finance Director on 2 August 2011 and he is also Company Secretary.

Board of Directors (continued)

4- Stewart Wallace Strategic Director (aged 64)

Stewart has a long history in social care and health, qualifying in 1971 before practicing as a social worker and therapist across several Social Services Departments. He has held top tier roles in Social Services and in the NHS, moving from time to time between strategic and operational director roles. He has acted as a policy advisor to national bodies, including the Association of District Councils during his term as a Chief Local Government Officer. Stewart also has a sound track record in the Voluntary Sector, serving on various boards and as Chairman of a pioneering social care provider organisation with a national profile.

After leaving the NHS, Stewart returned to social services as head of adult care for a while before joining Care UK plc as Development Director in their learning disability division. He joined the CareTech team as Development Director in 2000 and worked closely with the founding directors through the MBO and subsequent listing of the company. Stewart has recently retired from his role as a Non-Executive Director in an NHS Trust but continues to be in demand as a commentator on social care and health policy. He remains registered with the General Social Care Council as a social work practitioner.

5- Karl Monaghan Non-Executive Director (aged 51)

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.

6- Mike Adams OBE Non-Executive Director (aged 42)

Mike has a significant track record in the social care 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 Essex Coalition of Disabled People, a leading user-led organisation, since October 2007. Mike spent eighteen months as acting Chair of a large acute hospital trust in Essex and has previously undertaken the role of a visiting professor at Leeds Metropolitan University.

7- Jamie Cumming Non- Executive Director (aged 63)

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 Eitel 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 2012, latterly overseeing the subsequent merger with Singer Capital Markets. Jamie is a non-executive director of 21st Century Technology plc. With over thirty years in the City, Jamie has a wealth of experience in advising both institutional investors and corporate clients.

Directors' Report

The Directors present their report and the audited Group financial statements for the year ended 30 September 2013

Business review and future developments

The consolidated statement of comprehensive income detailed on page 37 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 5 and 6, the Strategic Report on pages 7 to 9, the Chief Executive's Statement and Operating Review on pages 10 to 15, and the Financial Review on pages 16 to 20, 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 2013 and its prospects for the future.

Key performance indicators are set out in the "Highlights" on page 2. The key risks and uncertainties facing the Group are set out in this report below and in the Strategic Report on page 9.

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 9.

Dividends

Dividends of £2,196,000 and £1,118,000 (total £3,314,000) have been paid during the year. The Directors propose a final dividend of 4.68p per share (2012: 4.29p) 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.

Directors' Report (continued)

Employees (continued)

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 12 February 2013, 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 5 December 2013, 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 28.

	No. of Ordinary shares of 0.5p	Percentage
Henderson Global Investors	11,928,768	22.93%
Richard Griffiths	5,190,000	9.98%
Schroder Investment Management	2,857,805	5.50%
JO Hambro Capital Management	1,995,386	3.84%
Norges Bank	1,658,759	3.19%
Octopus Investment Nominees	1,573,811	3.03%

Directors' Report (continued)

Directors

The names of the current Directors together with brief biographical details are shown on pages 21 to 22

In accordance with the articles of association, Farouq Sheikh and Haroon Sheikh retire by rotation and, being eligible, offer themselves for re-election. Having been appointed since the last AGM, Jamie Cumming offers himself for reappointment.

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

Farouq Sheikh
Haroon Sheikh
Stewart Wallace
Karl Monaghan
Mike Adams
Michael Hill
Jamie Cumming – appointed 28 March 2013

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 26.

Directors' insurance

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

Going concern

After making appropriate enquiries the Directors have reasonable expectations that the Group is well placed to manage its business risks successfully and has adequate resources to continue in operational existence for at least the next twelve months. The Group has prepared detailed budgets and cash flow forecasts and have considered the capital and working capital requirements. 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
13 December 2013
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 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.

Remuneration Report (continued)

Directors' service agreements

All Executive Directors' service contracts are subject to twelve 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

Directors Remuneration (audited)

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

	Salary & Fees		Benefits		Annual Bonus		Total		Pension	
Year to 30 September	2013	2012	2013	2012	2013	2012	2013	2012	2013	2012
	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000
Current Directors										
Farouq Sheikh	278	214	47	46	-	-	325	260	81	62
Haroon Sheikh	135	163	33	32	-	-	168	195	79	64
Stewart Wallace	143	107	26	30	-	-	169	137	7	5
Karl Monaghan	43	43	-	-	-	-	43	43	-	-
Mike Adams	28	28	-	-	-	-	28	28	-	-
Michael Hill	150	150	8	-	-	-	158	150	-	-
Jamie Cumming	14	-	-	-	-	-	14	-	-	-
Total	791	705	114	108	-	-	905	813	167	131

Stewart Wallace had been contracted on a four day per week basis but reverted to a five day week basis from 1 December 2012

Remuneration Report (continued)

Directors' interests

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

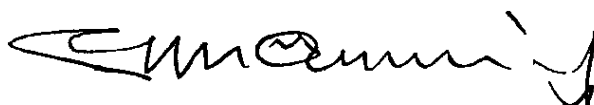
	30 September 2013	30 September 2012
	Number of Ordinary 0.5p Shares	Number of Ordinary 0.5p Shares
Westminster Holdings Limited (1)	10,787,328	10,422,500
Cosaraf Trust (2)	2,060,000	2,060,000
Cosaraf Pension Fund (3)	170,000	170,000
Farouq Sheikh	485,000	485,000
Haroon Sheikh	485,000	485,000
Stewart Wallace	473,374	473,374
Autovibe Limited (4)	332,750	332,750
Karl Monaghan	31,250	31,250
Mike Adams	2,300	2,300

- 1 Westminster Holdings Limited is a company owned by a trust, the beneficiaries of which include Farouq Sheikh and Haroon Sheikh.
- 2 Cosaraf Trust is a trust whose beneficiaries are the children of Farouq Sheikh and Haroon Sheikh. Farouq Sheikh and Haroon Sheikh are the trustees of this trust.
- 3 Cosaraf Pension Fund is a self-administered scheme established for the benefit of Farouq Sheikh and Haroon Sheikh.
- 4 Autovibe Limited is a company wholly-owned by Wendy Wallace, the wife of Stewart Wallace, Strategic Director.

Directors' share options

Farouq Sheikh, Haroon Sheikh, Stewart Wallace, and Michael Hill own 300,000, 400,000, 150,000 and 175,000 ordinary shares of 0.5p respectively under the Group's Executive Shared Ownership Plan (see note 20). There were no changes in the Director's holdings under the Group's Executive Shared Ownership Plan during the year ended 30 September 2013. None of the Directors have any share options in the Company.

By order of the Board



Jamie Cumming
Chairman of the Remuneration Committee
13 December 2013
Metropolitan House,
3 Darkes Lane,
Potters Bar,
Hertfordshire,
EN6 1AG

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 help make our governance meaningful and focused on improving our business and protecting Shareholder value.

Who is on our Board?

As Executive Chairman, Farouq Sheikh leads the Board and is responsible for its effective running. The Chief Executive is Haroon Sheikh, Michael Hill is the Group Finance Director and Stewart Wallace is Strategic Director. The Directors' biographies appear on pages 21 to 22 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 (the "Code"). However, the Board considers that the Group has been in compliance with the Code with the exception of the following Code provisions where it has either not complied or has complied only in part:

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

Corporate Governance Report (continued)

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 2013

	Board	Audit Committee	Remuneration Committee	Care Governance and Safeguarding
Committee				
Farouq Sheikh	10	0	0	0
Haroon Sheikh	9	0	0	0
Michael Hill	10	2*	2	4
Stewart Wallace	10	0	0	4
Karl Monaghan	10	2	2	4
Mike Adams	10	2	2	4
Jamie Cumming	5**	1	2	2

* by invitation

**since appointment

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

Corporate Governance Report (continued)

Director is identified the Board appoints advisors 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. 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 26 to 28. Also detailed in that report are Directors' remuneration, shareholdings and share option scheme information. The Terms of Reference were independently reviewed and updated during the 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 Stewart Wallace. Jamie Cumming also became a member of this Committee on his appointment to the main board on 28 March 2013.

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

Corporate Governance Report (continued)

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 PCT.

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 9. 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.

Corporate Governance Report (continued)

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
13 December 2013
Metropolitan House
3 Darkes Lane
Potters Bar
Hertfordshire
EN6 1AG

Statement of Directors' Responsibilities

in respect of the annual report and the financial statements

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 2013 which comprise the Consolidated Statement of Comprehensive Income, the Consolidated and Company Statements of Changes in Equity, the Consolidated and Company Balance Sheets, the Consolidated and Company Cash Flow Statements and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union and, as regards the parent company financial statements, as applied in accordance with the provisions of the Companies Act 2006

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

Respective responsibilities of directors and auditor

As explained more fully in the Directors' Responsibilities Statement set out on page 34, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's (APB's) Ethical Standards for Auditors.

Scope of the audit of the financial statements

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

Opinion on financial statements

In our opinion:

- the financial statements give a true and fair view of the state of the group's and of the parent company's affairs as at 30 September 2013 and of the group's profit for the year then ended,
- the group financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union,
- the parent company financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union and as applied in accordance with the provisions of the Companies Act 2006, and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006

Opinion on other matter prescribed by the Companies Act 2006

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

Matters on which we are required to report by exception

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

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

Grant Thornton UK LLP

Malcolm Gomersall
Senior Statutory Auditor
for and on behalf of Grant Thornton UK LLP
Statutory Auditor, Chartered Accountants
Central Milton Keynes
13 December 2013

Consolidated Statement of Comprehensive Income for the year ended 30 September 2013

		2013			2012		
	Note	Underlying £000	Non underlying ⁽ⁱ⁾ £000	Total £000	Underlying £000	Non underlying ⁽ⁱ⁾ £000	Total £000
Revenue	3	114,323	-	114,323	114,132	-	114,132
Cost of sales		(68,749)	-	(68,749)	(68,809)	-	(68,809)
Gross profit		45,574	-	45,574	45,323	-	45,323
Administrative expenses		(22,405)	9,733	(12,672)	(23,672)	(7,838)	(31,510)
Operating profit		23,169	9,733	32,902	21,651	(7,838)	13,813
EBITDA⁽ⁱⁱ⁾		26,402	13,454	39,856	24,853	(3,511)	21,342
Depreciation	11	(3,174)	-	(3,174)	(3,079)	-	(3,079)
Amortisation of intangible assets	12	-	(3,721)	(3,721)	-	(4,327)	(4,327)
Share-based payments charge		(59)	-	(59)	(123)	-	(123)
Operating profit		23,169	9,733	32,902	21,651	(7,838)	13,813
Financial income	7	-	-	-	20	-	20
Financial expenses	4,7	(5,719)	905	(4,814)	(5,000)	(2,457)	(7,457)
Profit before tax		17,450	10,638	28,088	16,671	(10,295)	6,376
Taxation	4,8	(3,392)	(329)	(3,721)	(3,332)	3,162	(170)
Profit and comprehensive income for the year attributable to equity shareholders of the parent		14,058	10,309	24,367	13,339	(7,133)	6,206
Earnings per share							
Basic	9			47 54p			12 32p
Diluted	9			47 54p			12 32p

- (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 2013

	Note	2013 £000	2012 £000
Non-current assets			
Property, plant and equipment	11	238,568	192,119
Other intangible assets	12	30,980	33,335
Goodwill	12	31,120	31,120
		<u>300,668</u>	<u>256,574</u>
Current assets			
Inventories		515	615
Trade and other receivables	14	8,054	10,044
Cash and cash equivalents	15	3,783	6,575
		<u>12,352</u>	<u>17,234</u>
Total assets		<u>313,020</u>	<u>273,808</u>
Current liabilities			
Loans and borrowings	16	7,595	5,634
Trade and other payables	17	11,833	10,887
Deferred and contingent consideration payable	22	52	1,446
Deferred income		1,413	2,075
Corporate tax		6,035	4,985
Derivative financial instruments		101	2,861
Onerous lease provision	24	-	223
		<u>27,029</u>	<u>28,111</u>
Non-current liabilities			
Loans and borrowings	16	164,651	132,144
Deferred tax liabilities	18	22,367	21,622
Other creditors and accruals		-	-
Derivative financial instruments		231	1,522
Minimum future lease payments		-	13,750
Onerous lease provision	24	-	520
		<u>187,249</u>	<u>169,558</u>
Total liabilities		<u>214,278</u>	<u>197,669</u>
Net assets		<u>98,742</u>	<u>76,139</u>
Equity			
Share capital	20	260	256
Share premium		57,202	55,715
Shares held by Executive Shared Ownership Plan		(2,258)	(2,258)
Merger reserve		8,498	8,498
Retained earnings		35,040	13,928
Total equity attributable to equity shareholders of the parent		<u>98,742</u>	<u>76,139</u>

These financial statements were approved by the Board of Directors on 13 December 2013 and were signed on its behalf by

F. Sheikh
Chairman

Company number 04457287

M. G. Hill

Group Finance Director

Consolidated Statement of Changes in Equity as at 30 September 2013

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

Consolidated Cash Flow Statement for the year ended 30 September 2013

	Note	2013 £000	2012 £000
Cash flows from operating activities			
Profit before tax		28,088	6,376
Adjustments for			
Financial income		-	(20)
Financial expenses		4,814	7,457
Adjustments for minimum future lease payment uplifts		1,155	1,761
Onerous lease provision charge	24	73	310
Depreciation	11	3,174	3,079
Amortisation	12	3,721	4,327
Share-based payments charge		59	123
Acquisition transaction cost		2,409	155
Post acquisition integration and re-organisation cost		1,441	1,033
(Profit) / loss on disposal of property, plant and equipment		(50)	59
Fair value adjustment in respect of prior years acquisitions		-	220
Gain recognised in respect of business combinations	22	(18,532)	-
Operating cash flows before movement in working capital		26,352	24,880
Increase/(decrease) in trade and other receivables		1,328	38
Decrease in trade and other payables		(3,886)	(2,342)
Decrease/ (Increase) in inventories		100	(300)
Operating cash flows before adjustment items		23,894	22,276
Exceptional costs paid	4	(2,263)	(1,833)
Cash inflows from operating activities		21,631	20,443
Interest received		-	20
Tax paid		(1,926)	(1,771)
Net cash from operating activities		19,705	18,692
Cash flows from investing activities			
Proceeds from sale of property plant and equipment		3,742	948
Payments for business combinations net of cash acquired	22	(38,714)	(5,032)
Acquisition of property, plant and equipment		(5,525)	(5,698)
Acquisition of software	12	(1,366)	(697)
Payment of acquisition costs		(2,130)	(1,246)
Net cash used in investing activities		(43,993)	(11,725)
Cash flows from financing activities			
Proceeds from the issue of share capital (net of costs)	20	30	(50)
Proceeds from new loan (net of costs)		39,528	4,374
Interest paid		(5,535)	(5,364)
Swap break fees		(2,383)	-
Cash outflow arising from derivative financial instruments		(763)	(2,206)
Repayment of borrowings		(5,250)	(6,638)
Payment of finance lease liabilities		(817)	(847)
Dividends paid	21	(3,314)	(3,075)
Net cash from financing activities		21,496	(13,806)
Net decrease in cash and cash equivalents		(2,792)	(6,839)
Cash and cash equivalents at start of year		6,575	13,414
Cash and cash equivalents at 30 September	15	<u>3,783</u>	<u>6,575</u>

Consolidated Cash Flow Statement
for the year ended 30 September 2013 (*continued*)

	Note	2013 £000	2012 £000
Net debt in the balance sheet comprises:			
Cash and cash equivalents	15	3,783	6,575
Bank loans	16	(170,174)	(136,169)
Finance lease and hire purchase contracts	16	(2,072)	(1,609)
Net debt at 30 September		(168,463)	(131,203)

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 2013 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 13 December 2013.

Going concern

The Group's business activities together with the factors likely to affect its future development, performance and position are set out in the Chairman's Statement and Chief Executive's Statement and Operating Review on pages 5 to 6 and pages 10 to 15. The financial position of the Group, its cash flows, liquidity position and borrowing facilities are described in the Financial Review on pages 16 to 20. In addition, note 23 to the financial statements includes the Group's objectives, policies and processes for managing its capital, its financial risk management objectives, details of its financial instruments and hedging activities and its exposures to credit risk, interest rate risk and liquidity risk. As highlighted in that note, the Group meets its day-to-day working capital requirements through a mixture of bank facilities which are sufficient, with cash flow from profits, to fund present commitments.

A new facility was agreed with the Group's Bankers in August 2013 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 2012.

The Directors have a reasonable expectation that the Group has adequate resources to continue in operational existence for the next twelve months. The Group has prepared detail budgets and cashflow 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.

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

Endorsed	Effective for periods beginning on or after
IFRS 10 Consolidated Financial Statement	1 January 2013
IFRS 13 Fair Value Measurement	1 January 2013
IAS 19 Employee Benefits (Revised June 2011)	1 January 2013
IAS 27 (Revised), Separate Financial Statements	1 January 2013
Transition Guidance – Amendments to IFRS 10, IFRS 11 and IFRS 12	1 January 2013

(a) Applicable Accounting Standards (continued)

The Directors anticipate that the above Standards will be adopted in the Group's financial statements for the period commencing 1 October 2013 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.

During the year, Presentation of Items of Other Comprehensive Income (Amendments to IAS 1) was adopted, but had no impact on the presentation of the Statement of Comprehensive Income

(b) Measurement convention

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

(c) Basis of consolidation

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

(d) Property, plant and equipment

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

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

The cost of replacing a component of an item of property, plant and equipment is recognised in the carrying amount of the item if it is probable that the future economic benefits embodied within the component will flow to the Group, and its cost can be measured reliably. The carrying amount of the replaced component is derecognised. The costs of the day-to-day servicing of property, plant and equipment are recognised in 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 or 25% reducing
balance dependent on date of acquisition, and |
| • motor vehicles | 25% reducing balance. |

(e) Intangible assets and goodwill

All business combinations are accounted for by applying the 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
- 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.

(h) Financial Instruments (continued)

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

Loans and receivables

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

Financial 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 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 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 consolidated statement of comprehensive income are included within finance costs or finance income.

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

Derivative financial instruments and hedging

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

Derivatives are initially recognised at fair value at the date a derivative is entered into and are subsequently remeasured to their fair value at each balance sheet date. A derivative with a positive fair value is recognised as a financial asset whereas a derivative with a negative fair value is recognised as a financial liability. The resulting gain or loss is recognised in 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 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 twelve 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.

(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 twelve months after the reporting date.

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

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

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

(n) Expenses

Finance lease payments

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

Non underlying items

Non underlying items are events or transactions which, in the opinion of the Directors, by virtue of size and incidence are disclosed separately in order to improve a reader's understanding of the financial statements. 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 income and interest payable is recognised in the consolidated statement of comprehensive income as it accrues, using the effective interest method. Interest income also includes gains arising on the change in fair value of derivatives in the consolidated statement of comprehensive income.

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.

Pre-contract costs

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

(o) Operating leases

Payments made under operating leases are recognised in the 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.

(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.

(p) Taxation (continued)

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 37 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.

(r) Business combinations

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

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

3 Segmental information

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

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

Inter-segment revenue between the operating segments is not material

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

3 Segmental information (continued)

The segment results for the year ended 30 September 2013, for the year ended 30 September 2012 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 2013					
Continuing Operations					
	ALD	MH	YPR	FC	Total
Client Capacity	1,423	161	149	383	2,116
Revenue	73,843	6,543	19,644	14,293	114,323
EBITDA	18,538	2,158	6,215	4,313	31,224

Year ended 30 September 2012					
Continuing Operations					
	ALD	MH	YPR	FC	Total
Client Capacity	1,469	141	133	423	2,166
Revenue	75,811	6,065	16,975	15,281	114,132
EBITDA	18,053	1,971	5,345	4,151	29,520

Reconciliation of EBITDA to profit before tax;	2013	2012
	£000	£000
Underlying EBITDA before unallocated costs	31,224	29,520
Unallocated costs	(4,822)	(4,667)
Underlying EBITDA	26,402	24,853
Depreciation	(3,174)	(3,079)
Amortisation	(3,721)	(4,327)
Share based payments charge	(59)	(123)
Non underlying items	13,454	(3,511)
Operating profit	32,902	13,813
Financial income	-	20
Financial expenses	(4,814)	(7,457)
Profit before tax	28,088	6,376

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	2013 £000	2012 £000
Acquisition expenses		2,409	155
Integration, reorganisation and redundancy costs	(i)	1,441	1,065
Fair value adjustments in respect of prior year acquisitions	(ii)	-	220
Acquisition and development costs		3,850	1,440
Gain recognised in respect of business combinations	(iii)	(18,532)	-
Adjustments for minimum future lease payment uplift to IAS 17 (note 24)	(iv)	1,155	1,761
Onerous lease provision	(v)	73	310
Included in EBITDA		(13,454)	3,511
Amortisation of intangible assets (note 12)		3,721	4,327
Included in administrative expenses		(9,733)	7,838
Loan finance costs written off on refinancing (note 7b)	(vi)	-	338
Revaluation movements relating to derivative financial instruments	(vii)	(1,668)	517
Charges relating to derivative financial instruments (note 7b)	(vii)	763	1,602
Included in financial expenses		(905)	2,457
Tax on non underlying items (note 8):			
Current	(viii)	(799)	(1,038)
Deferred tax	(ix)	1,128	(2,124)
Included in taxation		329	(3,162)
Total non underlying items		(10,309)	7,133

(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 £1,441,000 (2012: £1,065,000). Included in the cash flow statement are acquisition expenses of £2,130,000 (2012: £1,246,000) and integration and reorganisation costs of £2,263,000 (2012: £1,833,000), which were paid in the year.

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

(iii) During the year the Group entered into a Business Combination which resulted in a credit to the non underlying earnings of £18,532,000. See note 22.

(iv) 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.

(v) 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 £73,000 (2012: £310,000) being the present value of any onerous element of the remaining lease life. At the balance sheet date the balance on the provision was £nil.

(vi) In July 2012, the Group completed a new banking facility agreement. As such the unamortised element

of loan fee costs on the replaced debt was fully written off. Included in the cash flow statement for the year ended 30 September 2013 swap break fees amounting £2,383,000 were paid.

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

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

(ix) Deferred tax arises in respect of the following.

	2013 £000	2012 £000
Derivative financial instruments (note vii)	551	(125)
Changes in future tax rates	(2,712)	(1,432)
Full provision for deferred tax under IAS 12	158	535
Business combinations (note iii)	4,381	-
Other adjustments	(1,250)	(1,102)
	<u>1,128</u>	<u>2,124</u>

5 Auditor's remuneration

	2013 £000	2012 £000
Audit of these financial statements	90	40
Amounts receivable by the auditor and their associates in respect of		
Audit of financial statements of subsidiaries pursuant to legislation	14	160
All other services	20	-
	<u>124</u>	<u>200</u>

6 Staff numbers and costs

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

	Number of employees	
	2013	2012
Residential care staff	3,100	3,112
Maintenance	17	16
Management and administration	167	221
	<u>3,284</u>	<u>3,349</u>

The aggregate payroll costs of these persons were as follows

	2013 £000	2012 £000
Wages and salaries	52,262	53,163
Share-based payments charge	59	123
Social security costs	4,071	4,094
Other pension costs	290	182
	<u>56,682</u>	<u>57,562</u>

7 Finance income and expenses

	2013 £000	2012 £000
(a) Financial income		
Interest income on financial assets not at fair value through profit or loss		
On bank deposits	-	20
	<u>-</u>	<u>20</u>
(b) Financial expenses		
Interest expense on financial liabilities at amortised cost.		
On bank loans and overdrafts	5,531	4,818
Finance charges in respect of finance leases	188	182
	<u>5,719</u>	<u>5,000</u>
Financial expenses before adjustments	5,719	5,000
Derivative financial instruments (note 4)	(905)	2,119
Loan finance costs written off on refinancing (note 4)	-	338
	<u>4,814</u>	<u>7,457</u>

In accordance with the revision to IAS 23, borrowing costs at £483,000 (2012 £500,000) 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 statements of comprehensive income

	2013 £000	2012 £000
<i>Current tax expense</i>		
Current year	4,017	3,789
Current tax on non underlying items (note 4)	(799)	(1,038)
Corporation tax overprovided in previous periods	(242)	(225)
	<u>2,976</u>	<u>2,526</u>
Total current tax	2,976	2,526
 <i>Deferred tax expense</i>		
Current year	(383)	(232)
Deferred tax on non underlying items (note 4)	1,128	(2,124)
	<u>745</u>	<u>(2,356)</u>
Total deferred tax	745	(2,356)
 Total tax in the consolidated statement of comprehensive income	3,721	170

8 Taxation (continued)

(b) Reconciliation of effective tax rate

	2013 £000	2012 £000
Profit before tax for the year	28,088	6,376
Tax using the UK corporation tax rate of 23.5% (2012: 25%)	6,601	1,594
Non-deductible expenses	1,497	1,335
Effect of changes in future tax rate	(2,712)	(1,432)
Other deferred tax adjustments	(1,423)	(1,102)
Corporation tax overprovided in previous periods	(242)	(225)
Total tax in the consolidated statement of comprehensive income	3,721	170

In the 2013 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. The 23% rate was substantively enacted on 26 March 2013

9 Earnings per share

	2013 £000	2012 £000
Profit attributable to ordinary shareholders	24,367	6,206
Weighted number of shares in issue for basic earnings per share	51,255,460	50,377,890
Effects of share options in issue	3,128	12,944
Weighted number of shares for diluted earnings per share	51,258,588	50,390,834

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	47.54p	12.32p
Diluted	47.54p	12.32p

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

	2013 £000	2012 £000
Profit attributable to ordinary shareholders	24,367	6,206
Non underlying items (note 4)	(10,309)	7,133
Underlying profit attributable to ordinary shareholders	<u>14,058</u>	<u>13,339</u>
Underlying earnings per share (pence per share)		
Basic	27.43p	26.48p
Diluted	<u>27.43p</u>	<u>26.47p</u>

11 Property, plant and equipment

	Land and buildings £000	Motor vehicles £000	Fixtures, fittings and equipment £000	Total £000
Cost				
At 1 October 2011	181,013	4,640	15,128	200,781
Acquisitions through business combinations	-	82	121	203
Other additions	3,926	75	2,271	6,272
Disposals	(572)	(236)	(192)	(1,000)
At 30 September 2012	184,367	4,561	17,328	206,256
At 1 October 2012	184,367	4,561	17,328	206,256
Acquisitions through business combinations	47,570	-	-	47,570
Other 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
Depreciation and impairment				
At 1 October 2011	2,877	1,768	6,632	11,277
Depreciation charge for the year	592	653	1,834	3,079
Disposals	(2)	(164)	(53)	(219)
At 30 September 2012	3,467	2,257	8,413	14,137
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
Net book value				
At 1 October 2011	178,136	2,872	8,496	189,504
At 30 September 2012	180,900	2,304	8,915	192,119
At 30 September 2013	226,574	2,572	9,422	238,568

Included in the result for the year is a profit of £50,000 (2012 £59,000 loss) on the disposal of freehold property, plant and equipment and motor vehicles. Included in fixed assets are amounts held under finance leases of £2,072,000 (2012 £1,609,000).

11 Property, plant and equipment (continued)

Land and buildings

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

	2013 £000	2012 £000
Freehold	226,114	174,360
Long leasehold improvements	-	4,538
Short leasehold improvements	460	2,002
	<u>226,574</u>	<u>180,900</u>

The Group's freehold property portfolio was independently valued at £275 million (2012: £225m as part of the refinancing and 2013: £50m as part of the business combinations) 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 2011	30,059	2,002	39,586	71,647
Acquisitions through business combinations	1,061	-	662	1,723
Other additions	-	435	82	517
At 30 September 2012	<u>31,120</u>	<u>2,437</u>	<u>40,330</u>	<u>73,887</u>
At 1 October 2012	<u>31,120</u>	<u>2,437</u>	<u>40,330</u>	<u>73,887</u>
Other additions	-	1,366	-	1,366
At 30 September 2013	<u>31,120</u>	<u>3,803</u>	<u>40,330</u>	<u>75,253</u>
Amortisation and impairment				
At 1 October 2011	-	1,090	4,015	5,105
Amortisation for the year	-	689	3,638	4,327
At 30 September 2012	<u>-</u>	<u>1,779</u>	<u>7,653</u>	<u>9,432</u>
At 1 October 2012	<u>-</u>	<u>1,779</u>	<u>7,653</u>	<u>9,432</u>
Amortisation for the year	-	232	3,489	3,721
At 30 September 2013	<u>-</u>	<u>2,011</u>	<u>11,142</u>	<u>13,153</u>
Net book value				
At 1 October 2011	30,059	912	35,571	66,542
At 30 September 2012	<u>31,120</u>	<u>658</u>	<u>32,677</u>	<u>64,455</u>
At 30 September 2013	<u>31,120</u>	<u>1,792</u>	<u>29,188</u>	<u>62,100</u>

12 Intangible assets (continued)

Amortisation

The amortisation charge is recognised in the following line items in the consolidated statement of comprehensive income

	2013 £000	2012 £000
Administrative expenses	3,721	4,327

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

	2013	2012
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%
Children and Young Persons Residential Services division	8%	8%
Fostering Care	12%	12%

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

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

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

	2013 £000	2012 £000
Adult Learning Difficulties division	17,857	17,857
Mental Health division	1,140	1,140
Childrens and Young Persons Residential Services division	4,245	4,245
Fostering care	7,878	7,878
	<u>31,120</u>	<u>31,120</u>

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 2013 %	Ownership 2012 %
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	-
CareTech Estates (No 7) Limited	08628141	England and Wales	Ordinary	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
Ashng 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
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 ⁱ	100 ⁱ
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

13 Group undertakings (continued)

	Registered Company Number	Country of incorporation	Class of shares held	Ownership	
				2013 %	2012 %
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 ^a	100 ^a
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 ^j	100 ^j
Applied Care & Development Limited	SC224352	Scotland	Ordinary	100 ^a	-
Caretech Fostering Holdings Limited	07206363	England and Wales	Ordinary	100 ^a	-
Caretech Fostering Services Limited	07205262	England and Wales	Ordinary	100 ^m	-
Park Foster Care Services Scotland Limited	SC427502	Scotland	Ordinary	100 ^a	-
TLC (Wales) Independent Fostering Limited	04824925	Wales	Ordinary	100 ^j	-

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 H2O Limited
- f a subsidiary of Greenfields Care Group Limited
- g a subsidiary of Branass Isaf (Holdings) Limited
- h a subsidiary of Branass 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

A new 100% owned trading subsidiary EQL Solutions Limited was formed on 1 November 2013 to undertake the Post Balance Sheet event outlined on page 76.

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 2013 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 2013 as detailed above with the exception of CareTech Community Services Limited and Hazeldene UK 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.

14 Trade and other receivables

	2013 £000	2012 £000
Trade receivables (note 23)	6,500	7,187
Other debtors and prepayments	1,554	2,857
	<u>8,054</u>	<u>10,044</u>

15 Cash and cash equivalents

	2013 £000	2012 £000
Cash and cash equivalents per balance sheet	3,783	6,575
Cash and cash equivalents per cash flow statement	3,783	6,575

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.

	2013 £000	2012 £000
Non-current liabilities		
Secured bank loans	163,224	131,615
Finance lease liabilities	1,427	529
	<u>164,651</u>	<u>132,144</u>
Current liabilities		
Current portion of secured bank loans	6,950	4,554
Current portion of finance lease liabilities	645	1,080
	<u>7,595</u>	<u>5,634</u>

Terms and debt repayment schedule

	Currency	Nominal interest rate (%)	Year of maturity	Book value 2013 £000	Book value 2012 £000
Term loan	£	3.25 (2012:1.75) ¹	2017	135,721	107,760
Revolving credit facility term loan	£	3.25 (2012:2.25) ¹	2017	34,453	28,409
				<u>170,174</u>	<u>136,169</u>

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

At 30 September 2013 the Group has available bank facilities totaling £178m, 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.

16 Interest-bearing loans and borrowings (continued)

Finance lease liabilities

Finance lease liabilities are payable as follows

	Minimum lease payments 2013 £000	Interest 2013 £000	Principal 2013 £000	Minimum lease payments 2012 £000	Interest 2012 £000	Principal 2012 £000
Less than one year	852	207	645	1,162	82	1,080
Between one and five years	1,824	397	1,427	569	40	529
	<u>2,676</u>	<u>604</u>	<u>2,072</u>	<u>1,731</u>	<u>122</u>	<u>1,609</u>

17 Trade and other payables

	2013 £000	2012 £000
Trade payables	2,127	2,262
Accrued expenses	9,706	8,625
	<u>11,833</u>	<u>10,887</u>

18 Deferred tax assets and liabilities

Recognised deferred tax assets and liabilities

Deferred tax assets and liabilities are attributable to the following

	2013		2012	
	Assets £000	Liabilities £000	Assets £000	Liabilities £000
Property, plant and equipment	-	5,138	-	5,348
Intangible assets	-	14,617	-	13,509
Derivative financial instruments	(66)	-	(1,052)	-
Share-based payments	(359)	-	(414)	-
Rolled-over gains on property, plant & equipment	-	3,037	-	4,231
	<u>(425)</u>	<u>22,792</u>	<u>(1,466)</u>	<u>23,088</u>
Tax (assets) / liabilities				
Net of tax assets		<u>(425)</u>		<u>(1,466)</u>
Net deferred tax liabilities		<u>22,367</u>		<u>21,622</u>

There are no unrecognised deferred tax assets or liabilities

18 Deferred tax assets and liabilities (continued)

Movement in deferred tax during the 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)
	<u>21,622</u>	<u>745</u>	<u>-</u>	<u>22,367</u>

Movement in deferred tax during the previous year

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

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 £290,000 (2012 £182,000) of which £29,000 (2012 £nil) 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.

19 Employee benefits (continued)

Options granted under the above schemes, together with those remaining at 30 September 2013 are as follows

Date of grant	Scheme	Options granted	Options lapsed to 30 Sept 2013	Options exercised to 30 Sept 2013	Options remaining 30 Sept 2013	Option price (pence)
13 October 2005 ¹	Approved Scheme	627,375	(311,440)	(239,458)	76,477	169
7 November 2005 ¹	SAYE Scheme	186,033	(43,519)	(142,514)	-	136
2 August 2006 ¹	Approved Scheme	52,427	(43,764)	(3,424)	5,239	292
2 August 2006 ¹	Unapproved Scheme	8,220	(8,220)	-	-	292
17 January 2007 ¹	Approved Scheme	162,885	(109,706)	(23,236)	29,943	345
17 January 2007 ¹	Unapproved Scheme	18,263	(10,103)	(5,785)	2,375	345
21 March 2007 ¹	Approved Scheme	6,077	-	-	6,077	452
1 February 2008 ¹	SAYE Scheme	101,397	(101,397)	-	-	440
2 May 2008 ¹	Approved Scheme	114,070	(76,726)	(138)	37,206	410
2 May 2008 ¹	Unapproved Scheme	23,843	(19,278)	-	4,565	410
14 April 2009 ^{1,2}	Unapproved Scheme	92,308	(92,308)	-	-	0.5
4 August 2009 ¹	Approved Scheme	191,121	(111,728)	-	79,393	332.5
4 August 2009 ¹	Unapproved Scheme	165,050	(114,574)	-	50,476	332.5
12 August 2009 ¹	SAYE Scheme	202,069	(138,534)	(1,183)	62,352	254
3 August 2010 ¹	Approved Scheme	283,754	(130,211)	-	153,543	305
3 August 2010 ¹	Unapproved Scheme	210,653	(148,594)	-	62,059	305
3 August 2010 ²	Unapproved Scheme	92,308	(92,308)	-	-	0.5
15 November 2010	Approved Scheme	8,108	-	-	8,108	370
15 November 2010	Unapproved Scheme	18,243	-	-	18,243	370
4 April 2012 ³	Executive Shared Ownership Plan	1,608,337	-	-	1,608,337	153.1

1 Scheme grant of options which have reached maturity,

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

Over the performance period, if

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

3 Grant of the ExSOP scheme requires specific performance conditions being satisfied. These criteria are set out below,

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

Approved and Unapproved scheme options are exercisable at any time from the third anniversary of the date of grant to the tenth 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:

	2013	Weighted average exercise price £	2012	Weighted average exercise price £
	Number of share options		Number of share options	
Outstanding at the beginning of year	476,206	2.99	578,557	3.00
Granted during year	17,751	1.69	-	-
Lapsed during year	(80,220)	(2.92)	(102,351)	(3.06)
Exercised during year	(17,751)	1.69	-	-
Outstanding at end of year	395,986	3.01	476,206	2.99
Outstanding and exercisable at end of year	234,335	2.95	278,171	2.93

The options outstanding at 30 September 2013 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:

	2013	2012
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.

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.

	2013	Weighted average exercise price £	2012	Weighted average exercise price £
	Number of share options		Number of share options	
Outstanding at the beginning of year	283,142	2.72	348,587	2.19
Lapsed during year	(145,424)	(2.19)	(65,445)	(0.93)
Outstanding at end of year	<u>137,718</u>	<u>3.28</u>	<u>283,142</u>	<u>2.72</u>
Outstanding and exercisable at end of year	<u>57,416</u>	<u>3.39</u>	<u>105,991</u>	<u>3.39</u>

The options outstanding at 30 September 2013 were exercisable at prices between 0.5p and 410p. 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:

	2013	2012
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.

19 Employee benefits (continued)

The CareTech Holdings 2005 Save As You Earn Scheme

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

	2013	Weighted average exercise price £	2012	Weighted average exercise price £
	Number of share options		Number of share options	
Outstanding at the beginning of year	65,066	2.54	125,246	2.89
Lapsed during year	(2,714)	(2.54)	(60,180)	(3.28)
Outstanding at end of year	<u>62,352</u>	<u>2.54</u>	<u>65,066</u>	<u>2.54</u>
Outstanding and exercisable at end of year	<u>62,352</u>	<u>2.54</u>	<u>-</u>	<u>-</u>

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

	2013	2012
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

	2013 £000	2012 £000
Allotted, called up and fully paid		
52,007,328 (2012: 51,195,242) ordinary shares of 0.5p each	260	256
53,402 deferred shares of 0.5p each	-	-
	<u>260</u>	<u>256</u>

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

20 Share capital (continued)

Movements in the number of issued shares were as follows.

2013

	At 1 October 2012	Issued in connection with acquisitions	Issued following share option exercises	Placing	At 30 September 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
	<u>51,195,242</u>	<u>794,335</u>	<u>17,751</u>	<u>-</u>	<u>52,007,328</u>

2012

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

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 – 794,335 shares were issued in part consideration of the business combination disclosed in note 22 for a value of £1,462,000 and during the year £30,000 of new shares were issued in respect of an Employee Share Option Scheme. In 2012 £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

	2013 £000	2012 £000
Final dividends paid in respect of prior year but not recognised as liabilities in that year	2,196	1,980
Interim dividends paid in respect of the current year	1,118	1,095
Aggregate amount of dividends paid in the financial year	<u>3,314</u>	<u>3,075</u>

The aggregate amount of dividends proposed and not recognised as liabilities as at the year end is 4.68p per share, £2,433,943 (2012: 4.29p per share, £2,196,276).

22 Acquisitions

(a) Acquisitions 2013

On 28th August 2013 the Group acquired business combinations made up of property portfolios of 29 properties acquired from Quercus Healthcare Fund and a property acquired from Roborough properties. The assets from acquired were previously leased by the Group.

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

	Book values £000	Fair value adjustment £000	Total £000
Property, plant and equipment	31,100	16,470	47,570
Intangible assets	5,400	(5,400)	-
Trade and other payables	(2,486)	-	(2,486)
Taxation roll over gains reversed	-	(951)	(951)
			<u>44,133</u>
Consideration			
Paid in cash			38,319
Shares			1,462
Deferred consideration			52
			<u>39,833</u>
Bargain purchase gain			<u>(4,300)</u>

The book values of the assets and liabilities were obtained from the underlying accounting records on the date of acquisition. The fair value adjustments made to intangible assets, property and, plant and equipment, trade and other receivables and trade and other payables are to reflect their value on a going concern market value basis. The fair value adjustment to deferred tax arises due to a reversal of rolled over capital gains previously made. These acquisitions contributed no revenue and underlying EBITDA of £310,000 to the Group's result for the year ended 30 September 2013.

The gain on bargain purchase is recognised within administrative expenses in the consolidated statement of comprehensive income, outside of underlying earnings. It represents the excess of assets and liabilities acquired (at fair value) compared to the fair value of consideration together with the charging of costs associated with the business combination and the reversal of the adjustment made in previous years for the minimum future lease payments associated with the leases. This is reversed as the obligation under the leases no longer exists outside of the consolidated Group. The profit recognised in the consolidated statement of comprehensive income arises from:

	£000
Bargain purchase gain	(4,300)
Reversal of minimum future lease payments provision	(14,342)
Cost of disposal properties leased but not acquired	110
Profit recognised in the consolidated statement of comprehensive income	<u>(18,532)</u>

22 Acquisitions (continued)

(a) Acquisitions 2013 (continued)

This business combination was undertaken to enhance the Group's position in the industry and to secure a long term profit enhancement through the termination of a large number of operating leases in which the rentals were increasing at a rate in excess of 3% each year. The estimated cost saving is up to £4.4m per annum. In each case control was obtained through the acquisition of freehold property and the control of the underlying processes and trade being operated therefrom. This allowed the Group to cancel two onerous leases and resulted in the release of the onerous lease provision.

(b) Reconciliation to Group Cash Flow

	2013 £000	2012 £000
Cash consideration paid on acquisitions in the year	38,319	1,037
Cash consideration paid on previous year's acquisitions	395	4,386
Net cash acquired	-	(391)
	<u>38,714</u>	<u>5,032</u>

Deferred and contingent consideration payable

	2013 £000	2012 £000
Deferred consideration:		
Due within one year	52	955
Contingent consideration		
Due within one year	-	491
	<u>52</u>	<u>1,446</u>

(c) Proforma results

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

	2013 £000	2012 £000
Revenue	114,323	115,519
Operating profit	<u>26,384</u>	<u>21,933</u>

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 £105,000 (2012 £713,000).

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:

	2013 £000	2012 £000
Not due	4,924	5,593
Not more than three months past due	871	1,594
More than three months but not more than six months past due	705	-
Trade receivables (note 14)	<u>6,500</u>	<u>7,187</u>

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

	£000
At 1 October 2011	807
Charged to the Consolidated Statement of Comprehensive Income	713
Utilised in year	(825)
At 1 October 2012	<u>695</u>
Charged to the Consolidated Statement of Comprehensive Income	105
Utilised in year	-
At 30 September 2013	<u>800</u>

23 Financial instruments (continued)

Interest rate risk

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

- a 4 1/2 year swap commencing 17 July 2012 at pre-determined amounts initially starting at £25 million at LIBOR fixed at 1 15%,
- a 4 1/2 year swap commencing 17 July 2012 at pre-determined amounts initially starting at £34 million at LIBOR fixed at 1 15%;
- a 4 1/2 year swap commencing 17 July 2012 at pre-determined amounts initially starting at £32 million at LIBOR fixed at 1 13%,
- a 4 1/2 year swap commencing 17 July 2012 at pre-determined amounts initially starting at £16 million at LIBOR fixed at 1 15%,
- a 4 1/2 year swap commencing 17 July 2012 at pre-determined amounts initially starting at £14 million at LIBOR fixed at 1 15%,

Liquidity risk

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

	Effective Interest rate %	Carrying Amount £000	2013			
			Contractual Cash flows £000	< 1 year £000	1 - 5 years £000	5 years & 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)	-

	Effective Interest rate %	Carrying Amount £000	2012			
			Contractual Cash flows £000	< 1 year £000	1 - 5 years £000	5 years & over £000
Trade and other payables	-	(10,887)	(10,887)	(10,887)	-	-
Secured bank loans	4.4%	(136,169)	(166,261)	(12,717)	(153,544)	-
Finance lease liabilities	11%	(1,609)	(1,731)	(1,162)	(569)	-
Deferred and contingent consideration	-	(1,446)	(1,446)	(1,446)	-	-
Derivative financial instruments	-	(4,383)	(4,383)	(2,861)	(1,522)	-
		(154,494)	(184,708)	(29,073)	(155,635)	-

23 Financial instruments (continued)

Capital risk management

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

The Group's capital structure is as follows

	2013 £000	2012 £000
Net debt (see page 41)	168,463	131,203
Equity (see page 39)	98,742	76,139

Our policy is to increase the total dividend per year broadly in line with the movement in underlying diluted earnings per share. The final dividend will therefore increase to 4.68p 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 2013, 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 £500,000 (2012: £180,000). 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 2013 £000	Fair value 2013 £000	Carrying amount 2012 £000	Fair value 2012 £000
<i>Loans and receivables:</i>				
Cash at bank and in hand (note 15)	3,783	3,783	6,575	6,575
Trade receivables (note 14)	6,500	6,500	7,187	7,187
<i>Amortised cost:</i>				
Trade payables (note 17)	(2,127)	(2,127)	(2,262)	(2,262)
Secured bank loans (note 16)	(170,174)	(170,174)	(136,169)	(136,169)
Finance lease liabilities (note 16)	(2,072)	(2,072)	(1,609)	(1,609)
<i>Held at fair value through profit and loss</i>				
Derivative financial instruments	(332)	(332)	(4,383)	(4,383)

23 Financial Instruments (continued)

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

- for trade and other receivables and payables with a remaining life of less than 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 market place, 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: £332,000 (2012 £4,383,000)
- 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 (2012 Nil)
- Level 3 – inputs for the asset or liabilities that are not based on observable market data: £Nil (2012 Nil)

24 Operating leases

Non-cancellable operating lease rentals are payable as follows.

	2013		2012	
	Land and buildings £000	Other £000	Land and buildings £000	Other £000
Less than one year	2,500	102	7,566	173
Between one and five years	4,986	11	25,455	49
More than five years	8,866	-	167,995	-
	<u>16,352</u>	<u>113</u>	<u>201,016</u>	<u>222</u>

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

	2013		2012	
	Land and buildings £000	Other £000	Land and buildings £000	Other £000
Charge for amounts currently payable	6,292	156	6,674	126
Adjustment for minimum future lease payment uplifts	1,155	-	1,761	-
Reversal of minimum future lease payments provision	(14,342)	-	-	-
Onerous lease provision	73	-	310	-
	<u>(6,822)</u>	<u>156</u>	<u>8,745</u>	<u>126</u>
Total recognised in the consolidated statement of comprehensive income	(6,822)	156	8,745	126

The decrease in lease commitment is a direct result of the business combination acquired in the year. See note 22 for further details

24 Operating leases (continued)

Analysis of movement in onerous lease provision

	£000
At 1 October 2011	646
Recognised in Statement of Comprehensive Income	310
Utilised in the year	(213)
At 1 October 2012	743
Recognised in Statement of Comprehensive Income	72
Utilised in year	(815)
At 30 September 2013	-

25 Post Balance Sheet Events

On 4 November 2013 the Group announced the acquisition of the majority of the business and assets of Elmfield Training Limited ("Elmfield"), a provider of apprenticeship and vocational training funded either directly by the Skills Funding Agency ("SFA") or indirectly through clients' own SFA contracts. The acquisition was for a total cash consideration of £1.5m. The on-going working capital costs of the business will be funded from CareTech's cash.

Under the terms of the acquisition, CareTech will take over the responsibility for the operation of all of Elmfield's client contracts apart from the high profile contract with Morrisons. Elmfield was historically profitable, the Group incurred a loss before tax of £6.4m in 2012 and underlying profitability was restored in 2013. During the transition process, the senior team at Elmfield has successfully retained the support of stakeholders and staff through a period of uncertainty into new ownership. EQL Solutions has become part of the CareTech Group and its management team will be supported by relevant CareTech personnel. Following successful negotiations with partners and stakeholders, including the SFA, CareTech will focus on protecting jobs and providing financial stability to the newly registered business, enabling it to deliver high quality training to learners. EQL Solutions is expected to be earnings enhancing in the first full year of ownership.

26 Related parties

During the year, CareTech Community Services Limited paid rent totalling £159,910 (2012: £145,912) in respect of properties in which F. Sheikh and H. Sheikh have an interest. At the year end rent of £nil was outstanding. Dividends paid to Directors in the year totaled £98,000 (2012: £92,000).

Transactions with key management personnel

	2013 £000	2012 £000
Salary	1,725	1,707
Benefits	217	178
Bonus	154	198
Total short term remuneration	2,096	2,083
Post employment benefits	167	148
Share based payments	27	27
Fees	-	-
	2,290	2,258

26 Related parties (continued)

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

Directors' emoluments are set out on page 27

27 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 2013 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

Business Combinations

There were business combinations in the year as described in note 22. Each relates to the acquisition of a property business. Since acquisition, these businesses have been operating in a new subsidiary where the existing rental agreements remain in place between these acquired businesses and a fellow subsidiary company within the group. In the opinion of the directors, these businesses comprise an integrated set of activities over which control was acquired including comprised inputs, processes and outputs as follows

27 Accounting estimates and judgements (continued)

Judgements (continued)

Business Combinations (continued)

Inputs The physical assets acquired comprise 29 specialised properties across two business combinations,

Process. there are a number of processes acquired which continue post acquisition including ensuring that operation in those premises are able to continue to be operated as care homes and meet all relevant regulations, physical inspection of assets, collecting rents and obtaining management information

Outputs Rental streams arising from providing specialist properties

Current asset provisions

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

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

Deferred taxation

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

Contingent consideration

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

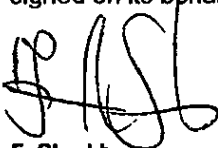
Company Statement of Changes in Equity
as at 30 September 2013

	Share capital £000	Share premium £000	Merger reserve £000	Retained earnings £000	Total equity £000
At 1 October 2011	248	53,515	8,498	6,172	68,433
Loss for the year	-	-	-	(166)	(166)
Total comprehensive income	-	-	-	(166)	(166)
Issue of shares	8	2,200	-	-	2,208
Dividends	-	-	-	(3,110)	(3,110)
Equity settled share-based payments charge	-	-	-	123	123
Transactions with owners recorded directly in equity	8	2,200	-	(2,987)	(779)
At 30 September 2012	256	55,715	8,498	3,019	67,488
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 September 2013	260	57,202	8,498	17,557	83,517

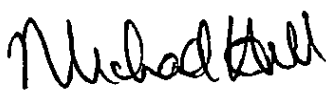
Company Balance Sheet
as at 30 September 2013

	Note	2013 £000	2012 £000
Non-current assets			
Investments	30	35,301	35,242
Trade and other receivables	31	2,258	2,258
Deferred taxation		-	476
		<u>37,559</u>	<u>37,976</u>
Current assets			
Trade and other receivables	31	218,159	169,325
Cash and cash equivalents		110	17
		<u>218,269</u>	<u>169,342</u>
Total assets		<u>255,828</u>	<u>207,318</u>
Current liabilities			
Loans and borrowings	32	6,950	4,554
Trade and other payables	33	2,054	1,677
Derivative financial instruments		-	462
		<u>9,004</u>	<u>6,693</u>
Non-current liabilities			
Loans and borrowings	32	163,307	131,615
Derivative financial instruments		-	1,522
		<u>163,307</u>	<u>133,137</u>
Total liabilities		<u>172,311</u>	<u>139,830</u>
Net assets		<u>83,517</u>	<u>67,488</u>
Equity			
Share capital	34	260	256
Share premium		57,202	55,715
Merger reserve		8,498	8,498
Retained earnings		17,557	3,019
Total equity attributable to equity shareholders of the parent		<u>83,517</u>	<u>67,488</u>

These financial statements were approved by the Board of Directors on 13 December 2013 and were signed on its behalf by



F. Sheikh
Chairman



M G Hill
Finance Director

Company Cash Flow Statement

for the year ended 30 September 2013

	2013 £000	2012 £000
Cash flows from operating activities		
Profit/(loss) for the year	17,858	(166)
Revaluation movements relating to derivative financial instruments	-	1,984
Deferred tax	476	(476)
	<hr/>	<hr/>
Operating cash flows before movement in working capital	18,334	1,342
Movement in creditors	(1,607)	1,416
Movement in intercompany balance	(48,834)	(134,572)
Loan to Employee Benefit Trust	-	(2,258)
	<hr/>	<hr/>
Net cash from operating activities	(32,107)	(134,072)
	<hr/>	<hr/>
Cash flows from investing activities		
Acquisition of subsidiaries, net of cash acquired	-	(1,283)
	<hr/>	<hr/>
Cash flows from financing activities		
Proceeds from new loan (net of costs)	34,088	136,169
Dividends paid	(3,379)	(3,110)
Proceeds from the issue of new shares (net of costs)	1,491	2,208
	<hr/>	<hr/>
Net cash used in financing activities	32,200	135,267
	<hr/>	<hr/>
Net increase in cash and cash equivalents	93	(88)
Cash and cash equivalents at start of year	17	105
	<hr/>	<hr/>
Cash and cash equivalents at 30 September	110	17
	<hr/>	<hr/>

Company Notes

28 Accounting policies

(a) Basis of preparation

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

Under section 408 of the Companies Act 2006 the Company is exempt from the requirement to present its own comprehensive statement of income. The profit for the year dealt with in the financial statements of the Company was £14,479,000 (2012: £166,000 loss)

(b) Investments

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

(c) Cash and liquid resources

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

Liquid resources are current asset investments which are disposable without curtailing or disrupting the business and are either readily convertible into known amounts of cash at or close to their carrying values or traded in an active market

(d) Interest-bearing borrowings

Interest-bearing borrowings are recognised initially at fair value less directly attributable transaction costs. Subsequent to initial recognition, interest-bearing borrowings are stated at amortised cost with any difference between proceeds (net of transaction costs) and the redemption value being recognised in the 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 twelve months after the reporting date.

(e) Derivative financial instruments and hedging

From time to time, the Company 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 retained earnings immediately unless the derivative is designated and effective as a hedging instrument, in which event the timing of the recognition in retained earnings depends on the nature of the hedge relationship. The Company does not apply hedge accounting to these financial instruments

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

(f) Taxation

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

(f) Taxation (continued)

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

(g) Revenue

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

(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.

29 Dividends

The aggregate amount of dividends comprises

	2013 £000	2012 £000
Final dividends paid in respect of prior year but not recognised as liabilities in that year	2,196	1,980
Interim dividends paid in respect of the current year	1,183	1,130
Aggregate amount of dividends paid in the financial year	<u>3,379</u>	<u>3,110</u>

The aggregate amount of dividends proposed and not recognised as liabilities as at the year end is 4.68p per share, £2,433,943 (2012: 4.29p per share, £2,196,276).

30 Investments

	Shares in group undertakings £000
Cost and net book value	
At beginning of year	35,242
Share-based payments charge in respect of subsidiary undertakings	59
At end of year	<u>35,301</u>

31 Trade and other receivables

	2013 £000	2012 £000
Amounts owed by Group undertakings	218,159	169,325
Amount owed by Employee Benefit Trust	2,258	2,258
	<u>220,417</u>	<u>171,583</u>

Interest is charged on loans to Group undertakings at a market rate.

32 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.

	2013 £000	2012 £000
Non-current liabilities		
Secured bank loans	<u>163,307</u>	<u>131,615</u>
Current liabilities		
Current portion of secured bank loans	<u>6,950</u>	<u>4,554</u>

Terms and debt repayment schedule

	Currency	Nominal interest rate	Year of maturity	Book value 2013 £000	Book value 2012 £000
Term loan	£	3.25 (2011 1.75) ¹	2017	135,804	107,760
Revolving credit facility term loan	£	3.25 (2011 2.25) ¹	2017	34,453	28,409
				<u>170,257</u>	<u>136,169</u>

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

32 Interest-bearing loans and borrowings (continued)

At 30 September 2013 the Group has available bank facilities totalling £178m, 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.

33 Trade and other payables

	2013 £000	2012 £000
Other creditors	2,054	1,677

34 Called up share capital

	2013 £000	2012 £000
Allotted, called up and fully paid:		
52,007,328 (2012: 51,195,242) ordinary shares of 0.5p each	260	256
53,402 deferred shares of 0.5p each	-	-
	<u>260</u>	<u>256</u>

During the year 794,335 shares were issued in part consideration of the business combination disclosed in note 22 for a value of £1,462,000.

During the year £30,000 of new shares were issued in respect of an Employee Share Option Scheme.

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 Share 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.

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.

35 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 (2012: £nil).

Share-based payments

There was no expense for share-based payments relating to the Company in the year (2012: £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).

36 Directors' remuneration

The analysis of Directors' emoluments and share options is included within the Remuneration Report on pages 27 and 28. This analysis forms part of these financial statements.

37 Staff numbers and costs

The Company has no employees (2012: none) other than the Directors. Directors' emoluments are paid by a subsidiary undertaking

38 Related parties

During the year the Company received dividends of £17,500,000 (2012: £3,050,000) interest received of £6,447,000 (2012: Nil) and fees of £70,000 (2012: £70,000) from its subsidiary undertakings. The amount due to the Company from its subsidiary undertakings amounted to £218,159,000 (2012: £169,325,000)

39 Financial instruments

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

Credit risk

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

The Company provides credit to subsidiaries in the normal course of business. The balance includes the amounts considered recoverable which also equals to their fair value. The Company has collateral in respect of the investments it holds in its subsidiary undertakings. During the year there was no charge to the income statement for bad or doubtful debts (2012: £nil).

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

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

	2013 £000	2012 £000
Not due	220,417	171,583
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)	<u>220,417</u>	<u>171,583</u>

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

39 Financial Instruments (continued)

Interest rate risk

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

- a 4 1/2 year swap commencing 17 July 2012 at pre-determined amounts initially starting at £25 million at LIBOR fixed at 1 15%,
- a 4 1/2 year swap commencing 17 July 2012 at pre-determined amounts initially starting at £34 million at LIBOR fixed at 1 15%,
- a 4 1/2 year swap commencing 17 July 2012 at pre-determined amounts initially starting at £32 million at LIBOR fixed at 1 13%,
- a 4 1/2 year swap commencing 17 July 2012 at pre-determined amounts initially starting at £16 million at LIBOR fixed at 1 15%,
- a 4 1/2 year swap commencing 17 July 2012 at pre-determined amounts initially starting at £14 million at LIBOR fixed at 1 15%,

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

	Effective Interest rate %	Carrying Amount £000	2013 Contractual			
			Cash Flows £000	< 1 year £000	1 - 5 years £000	5 years & over £000
Trade and other payables		(2,054)	(2,054)	(2,054)	-	-
Secured bank loans		(170,257)	(207,298)	(16,282)	(191,016)	-
Derivative financial instruments		-	-	-	-	-
		<u>(172,311)</u>	<u>(209,352)</u>	<u>(18,336)</u>	<u>(191,016)</u>	<u>-</u>

	Effective Interest rate %	Carrying Amount £000	2012 Contractual			
			Cash flows £000	< 1 year £000	1 - 5 years £000	5 years & over £000
Trade and other payables		(1,667)	(1,667)	(1,667)	-	-
		<u>(1,667)</u>	<u>(1,667)</u>	<u>(1,667)</u>	<u>-</u>	<u>-</u>

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

39 Financial instruments (continued)

The Company's capital structure is as follows.

	2013 £000	2012 £000
Net debt	170,147	136,152
Equity	83,517	67,488

Our policy is to increase the total dividend per year broadly in line with the movement in underlying diluted earnings per share. The final dividend will therefore increase to 4.68p 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 2013 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 £500,000 (2012: £180,000). 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 2013 £000	Fair value 2013 £000	Carrying amount 2012 £000	Fair value 2012 £000
Loans and receivables:				
Cash at bank and in hand	110	110	17	17
Trade receivables (note 31)	220,417	220,417	171,583	171,583
Amortised cost				
Other payables (note 33)	(2,054)	(2,054)	(1,677)	(1,677)
Secured bank loans (note 32)	(170,257)	(170,257)	(136,169)	(136,169)
Held at fair value:				
Derivative financial instruments	-	-	(1,984)	(1,984)

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

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

Directors and Advisers

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

Company Secretary
Michael Hill

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