

DELIVERING POSITIVE OUTCOMES

THURSDAY

WED



ABB6DEA7

A07 25/08/2022 #370

COMPANIES HOUSE

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A16 02/02/2022 #47

COMPANIES HOUSE

Operational Highlights

QUALITY ('CQC')

86%

(2020: 91%)

CAPACITY

4,979 places

(2020: 4,984 places)

CHILDREN'S SERVICES

2,000 places

(2020: 1,959 places)

EMPLOYEE RETENTION

71%

(2020: 75%)

QUALITY (OFSTED)

80%

(2020: 82%)

ADULTS SERVICES

2,104 places

(2020: 1,997 places)

FOSTER CARE

875 places

(2020: 1,028 places)

COVEBERRY

In November 2020, we completed the transfer to the CareTech Group of seven services previously operated by The Huntercombe Group. This broadens our Adults Specialist Service pathway by adding highly specialised facilities for the treatment of adults with complex learning disabilities, autism and mental health diagnoses.

ACQUISITION OF SMARTBOX

In October 2020, we acquired Smartbox, a maiden investment for the Group's Digital investment strategy. Smartbox is a global provider of augmentative and assistive technology for people with disabilities. In joining CareTech, Smartbox technology extends our Care Pathway enabling us to deliver blended care and technology solutions to our service users in the UK, shaping a new market for this technology in social care, while supporting Smartbox's growth around the world.

ACQUISITION OF REHAVISTA

In November 2021, we acquired REHAVISTA's reach and expertise which is unparalleled in Germany, and estimated to be the second largest funded AAC market globally after the USA. With its deep knowledge of assistive technology and established routes to market, this acquisition provides a significant opportunity for Smartbox to expand the products and services available in Germany, expanding on the existing partnership between Smartbox and REHAVISTA, and across Smartbox's global customer base, which spans more than 30 languages and 45 distributors.

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Financial Highlights**REVENUE**

£489.1m

Increased by 13.8% (2020: £430m)

UNDERLYING EBITDA ⁽ⁱ⁾

£100.5m

Increased by 10.5% (2020: £90.9m)

UNDERLYING PROFIT BEFORE TAX ⁽ⁱ⁾

£68.3m

Increased by 14.6% (2020: £59.7m)

UNDERLYING BASIC EARNINGS PER SHARE ⁽ⁱ⁾

47.87p

Increased by 13.3% (2020: 42.26p)

OPERATING PROFIT

£79.5m

Increased by 49.0% (2020: £53.4m)

BASIC EARNINGS PER SHARE

28.80p

Increased by 25.9% (2020: 22.88p)

OPERATING CASH FLOWS BEFORE NON-UNDERLYING ITEMS ⁽ⁱ⁾

£96.6m

(2020: £94.2m)

PROPERTY PORTFOLIO VALUATION ⁽ⁱⁱ⁾

£930.0m

with net debt⁽ⁱ⁾ of £258.7m

FINAL DIVIDEND PER SHARE

9.5p

Increased by 8.6% (2020: 8.75p)

RESPONSIBLE BUSINESS

In 2021, we developed our new Responsible Business strategy – CARE4, spanning Planet, People, Innovation and Communities.

CARE4 Planet

a better future for the planet

CARE4 People

a better future for our people

CARE4 Innovation

a better future for business

CARE4 Communities

a better future for our communities

→ Read more on page S6.

(i) This report provides Alternative Performance Measures (APMs) which are not defined or specified under the requirements of International Financial Reporting Standards (IFRS). The Group uses these APMs to improve the comparability of information between reporting periods and divisions, by adjusting for certain items which impact upon IFRS measures, to aid the user in understanding the activity taking place across the Group's businesses. APMs are used by the Directors and management for performance analysis, planning, reporting and incentive purposes. A summary of APMs used are defined in the appendix on pages 173 and 174. The appendix also contains a reconciliation to their closest equivalent statutory measure.

(ii) Knight Frank Property portfolio valuation in October 2021. Valuation is unaudited and Property is stated at cost less accumulated depreciation and impairment losses in the balance sheet.

Our Purpose

EXTRAORDINARY DAYS EVERY DAY

OUR PURPOSE

OUR VISION IS FOR A WORLD WHERE
THERE IS EQUAL OPPORTUNITY FOR
A LIFE FULLY LIVED.

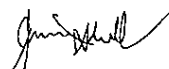
We enable children, young people and adults with complex needs to make their own life choices, and build confidence and **independence to live, learn, thrive and engage** in their families and communities for more independent futures that meet their aspirations.

Independence means having the confidence and skills to be able to live, learn, thrive and engage in community activities – a future that is unique to them and informed by their choices.

We help them to master the essentials of daily life, like being able to cook, shop, keep house, build relationships and stay well and safe. We provide access to learning – academic or playful. We build the confidence and skills for employment for those who would like to work in any capacity. And we nurture the ability and self-awareness to engage socially and build lasting relationships.

We achieve all of this thanks to the loving, supportive, fun and therapeutic environments that our specialist professional teams create and with the courage and determination of those in our care.

Our vision has driven our success. Our purpose is shared by our staff as well as by the people in our care. We want everyone in the CareTech family to have a bright future and we work tirelessly towards that aim.



Haroon Sheikh
Group Chief Executive Officer
6 December 2021

At a Glance

WHO WE ARE

The CareTech family of companies provide high-quality care and support across the whole social care spectrum for children and adults below retirement age.

Our Adults Services support people with learning disabilities, individuals who have or are recovering from mental illness, people with autistic spectrum disorder, individuals who have one or more physical impairments and provide care and rehabilitation for acquired brain injury (ABI). We deliver services in residential, day care and a wide choice of creative supported living settings.

Our Children's Services – recognised nationally for their expertise – cover assessment, residential care, education and fostering options. We specialise in supporting children and young people with very complex needs including those with challenging behaviours, sexually offending behaviours, or who have emotional and behavioural disorders. We carefully and professionally support any child, irrespective of their need for being in social care, and our comprehensive high-quality services include the UK's largest portfolio of specialist schools and colleges.

CareTech has pioneered outcomes and progression along the Care Pathway including transition services for young people leaving care and for adults who are making the move into their own home after a lifetime in residential or institutional settings.

We are accelerating digital adoption within the Group and blending care and technology in new meaningful ways, so even people with the most complex of needs can participate and flourish in society.

OUR SERVICES

Adults Services

CAPACITY

2,104 places

Our Adults Services support people with learning disabilities, individuals who have or are recovering from mental illness, people with autistic spectrum disorder, individuals who have one or more physical impairments, and provide care and rehabilitation for people with acquired brain injury. We deliver services in residential, day care and a wide choice of creative supported living settings.

Children's Services

CAPACITY

2,000 places

We specialise in supporting children and young people with very complex needs including those with challenging behaviours, sexually offending behaviours, or who have emotional and behavioural disorders. We carefully and professionally support any child irrespective of their need for being in social care and our comprehensive high-quality services include the UK's largest portfolio of specialist schools and colleges.

Foster Care

CAPACITY

875 places

Our aim is to ensure the children and young people we care for have safe, stable and happy family-based experiences. We offer training and support to help our foster parents provide the best kind of parenting for their foster child.

At a Glance continued

OUR SERVICES CONTINUED

Digital Technology

Breakdown of revenue

We are accelerating digital adoption within the Group and blending care and technology in new meaningful ways so even service users with the most complex of needs can participate and flourish in society.

WHERE WE OPERATE

SITES ACROSS THE UK

550+

PEOPLE

11,000+

LOCAL AUTHORITIES ACROSS ENGLAND, SCOTLAND AND WALES

300+

PROPERTY PORTFOLIO

£930m

- * The Company has undertaken a scheduled property revaluation, which Knight Frank has valued at £930 million. Property is stated at cost less accumulated depreciation or impairment losses in the balance sheet.

Our Business Model

WHAT WE DO

WE ARE DRIVEN BY OUR PURPOSE TO ENABLE CHILDREN, YOUNG PEOPLE AND ADULTS WITH COMPLEX NEEDS TO MAKE THEIR OWN LIFE CHOICES, AND BUILD CONFIDENCE AND **INDEPENDENCE TO LIVE, LEARN, THRIVE AND ENGAGE** IN THEIR FAMILIES AND COMMUNITIES FOR MORE INDEPENDENT FUTURES THAT MEET THEIR ASPIRATIONS.

HOW WE GENERATE REVENUE

In the UK, local authorities, clinical commissioning groups and Health Boards commission Group services. Funding is received in four main ways:

Framework agreements

Framework agreements are typically awarded to providers on a non-exclusive basis pursuant to a public tender. These agreements outline various service and reporting obligations as well as pricing terms. Framework agreements can be set up for any period of time, although at least two years is typical. The actual care package to be provided for an individual and the pricing is agreed on a case-by-case basis.

Spot contracts

Most admissions and referrals remain based on 'spot' contracts, which are individual placement agreements. Spot contracts generally have a four-week notice period to terminate the contract and typically do not have a minimum term. Spot contracts provide greater operational flexibility and are appropriate for bespoke care packages to meet the high severity support needs of the individuals in a provider's care. Fees are typically negotiated on a case-by-case basis.

Block contracts

A limited amount of specialist care funding is provided through block contracts. Such block contracts are negotiated for a specific volume of service, pre-booked over a fixed period of time, usually for a specified price.

Private pay/insurance

Private pay services make up a very small part of our revenue as the UK publicly funded bodies will typically provide funding.

In the UAE, insurance plays a larger role in funding of services. The Thiqa programme is a comprehensive healthcare programme offered by the Government of Abu Dhabi to UAE Nationals and those of similar status in the Emirate.

Digital Technology

The Augmented and Assistive Communication industry is typically funded by local healthcare providers (i.e. NHS in the UK).

HOW WE DO IT

We listen to our stakeholders

We seek to engage in constructive dialogue with stakeholders to gather a holistic understanding of their key expectations and concerns. Our key stakeholders include shareholders, people in our care and their families, regulators, suppliers, customers and the communities in which we operate.

→ Some examples of how CareTech purposefully engages with key stakeholder groups are set out on pages 46 to 51.

We look after our people

We are committed to ensuring employees share in the success of the Group. We promote our values and culture by helping our employees and supporting them with regular supervision, training and clear career development programmes.

→ Read more about our people on page 51.

We have a person-centred approach to our innovative Care Pathways

Care and support are characterised by a genuine belief in the abilities of the people in our care and our professional teams work hard to help individuals in our services make progress. Many years ago we began to describe our services as a Care Pathway, making clear our intention to break away from the old belief that care is for life. We have delivered on this commitment and everyone we support, from young children to profoundly disabled adults, shares our approach to maximise their independence. This is great for the people in our care, rewarding for our staff and strongly supported by those who commission and support our services.

→ Read more about our person-centred approach on pages 47 and 48.

We live our culture of respect, quality and care

Our aim is to provide a safe environment for people in our care, staff and visitors. Our aim is to be the highest quality provider across the breadth of our services.

Our quality and compliance performance is achieved against a backdrop of continued raising of quality standards in the sector reflected in an increasingly stringent regulatory environment. Our highly

experienced internal quality and compliance teams undertake a programme of regular inspections and provide constructive feedback, backed by training and supervision as required. We engage the services of outsourced expert advisers ensuring best practice.

We are continuing to evaluate ways in which we can improve our standards of care and are investing significantly in the training and induction of staff.

→ Read more about the work of our Care Quality and Governance Committee on page 86.

We are innovators in social care

Through the lockdowns associated with COVID-19, we have come to know how essential it is to level the digital playing field for people with disabilities and complex needs. Addressing this is a significant driver for CareTech's Digital Strategy, which over the coming decade seeks to reach a million people around the world to improve their quality of life and life chances.

To deliver on this ambition, CareTech embarked on a buy, build and partner roadmap to develop a sector first Digital Pathway of services encompassing screening and diagnosis for developmental disabilities, delivering online therapeutic interventions for a range of behavioural conditions, and making available augmentative and assistive technology and thereby opening up a world of opportunity for people with disabilities and complex needs – from accessing information and having a voice to buying products and services.

Underpinning this Digital Pathway is a drive for our UK services to act as living labs in developing and trialling new service models that blend care and technology in innovative and meaningful ways. We designed and embarked on our first project during this year, piloting with our schools and care facilities' technology that augments education and care plans to provide a voice to the people in our care with complex communication needs. This pilot, the 100 Voices initiative, is demonstrating promising qualitative results, will inform future service models and is receiving keen interest from social care and education commissioners interested in seeing greater adoption of technology within the social care sector.

Our Business Model continued

HOW WE DO IT CONTINUED

We believe in doing business responsibly

We are committed to developing a business that is built on the foundations of responsibility and ethical practice that are inherent in our model, and that builds value for all our stakeholders. In 2021, we developed our new Responsible Business strategy – CARE4 – to help us to achieve that goal.

The CARE4 strategy is rooted in our corporate purpose (building independence to enable better futures) and addresses the sustainability issues that are material to our business.

We will report our progress through an annual Purpose Report using the World Economic Forum's 21 core ESG metrics in combination with narrative that describes our commitments and activities across four key areas:

CARE4 Planet

We know that healthy lives go hand in hand with a healthy planet. We are committed to caring for the wellbeing of our planet to safeguard all our futures.

CARE4 People

Our business exists to facilitate better lives – for the people in our care and the people who work for us. We aim to be the sector's best workforce and so we offer market-leading employment opportunities, creating better futures for our employees.

Social Impact

The purpose of our business is to enable children, young people and adults with complex needs to make their own life choices, and to develop confidence and independence to live, learn, thrive and engage, building better futures.

We believe that good business creates value for society as well as for those whom we care. Our innovative approaches will expand our business for a successful future, helping us to enable independence for more people, positively impacting more lives.

CARE4 Innovation

Thriving communities are central to our success and we aim to be an active contributor in all the locations in which we operate. We also support the vital role of the wider social care sector through the CareTech Foundation.

CARE4 Community

Governance

Our belief in creating value for all of our stakeholders drives our commitment to good governance, transparency and effective engagement with all involved in our business, safeguarding its long-term success.

The strategy centres on our positive social impact – our corporate purpose – and in the course of 2022 we will develop a methodology that enables us to monitor and report our impact.

2022 will also see the launch of One Planet Living across our services – a grassroots campaign to ensure that all our services are aligned to our corporate sustainability commitments, implementing activities to reduce energy use, reduce waste, source locally and ensure responsible procurement of goods and services. Our services with gardens will develop nature positive plans such as wildlife-friendly planting, home-grown vegetables and composting.

CARE4 will enable us to respond to a rapidly evolving business environment that is increasingly demanding a formal and transparent approach to sustainability, allowing us to meet the requirements of our commissioners whilst also benefitting from non-financial values such as reputation enhancement, employee commitment, talent attraction, community engagement, environmental footprint and service user fulfilment and independence.

→ **Read more about CARE4, our approach to responsible business, on page 10.**

→ **Read more about the CareTech Foundation on page 61.**

Investment Case

Management

Strong management team with a broad range of experience.

Discover more about our Board of Directors on pages 78 and 79

Technology

Opportunity to develop a sector first Digital Pathway of services for people with disabilities and complex needs.

Discover more about our Digital Technology division on pages 17 and 67

International

Well-positioned to capitalise on opportunities in the Gulf, having established our presence in the region two years ago with our maiden investment in the AS Group.

Discover more about development opportunities in the Group Chief Executive's Statement and Performance Review on pages 24 and 25

Strategy

Clear strategy of being a leading international integrated provider of specialist social care services for children and adults, delivering high-quality and care excellence.

Discover more about our strategy on page 32

Sector

Established system of public and private providers of health and social care.

Discover more about the sectors in which we operate on page 28

Market

Increasing demand for specialist adults and children's care.

Discover more about our markets on pages 26 to 31

CONTINUED STRONG PERFORMANCE

Continued strong performance during COVID-19 showing resilience and growth prospects further underpinned.

Farouq Sheikh OBE

Dear Shareholder,

It is my pleasure to present another strong set of results for the period ending 30 September 2021.

In these unprecedented times, CareTech has continued to demonstrate the significant resilience of its business model by delivering strong growth in all of its key performance indicators. This is underpinned by a robust performance in its core activities with an emphasis on accelerated organic growth initiatives complemented by selective bolt-on acquisitions and, most importantly, delivering on the previously outlined strategy of the creation of the Technology pathway and International division. Both of these initiatives have been successfully implemented and have significant further opportunities we can build upon in the coming years.

On behalf of the Board, I would like to thank our staff who have worked tirelessly throughout the year, enabling us to deliver excellent quality care to individuals in our services. I am enormously proud particularly of our front-line colleagues in delivering **Extraordinary Days, Every Day** for our service users.

During a year dominated by the COVID-19 pandemic we made two important strategic moves. In October 2020, we acquired Smartbox, a market-leading creator of software, hardware and content that helps individuals without speech to have a voice and live more independently. This was an important milestone for our newly established Digital Technology division, established to broaden our Pathway offering to include digital care services. Secondly, in November 2020, we completed the transfer of seven specialist services previously operated by The Huntercombe Group and rebranded Coveberry. This broadens our specialist offer by adding facilities for the treatment of adults with complex Learning Disabilities, Autism and Mental Health diagnoses.

In the UAE, we continued to see exciting prospects for our local operating brands, with further investments planned and service developments expected to establish our long-term goal of being the first whole person Care Pathway of services for people with disabilities and complex needs in the region.

Group Executive Chairman's Statement continued

Financial results and position

CareTech performed well during the year to 30 September 2021 with financial highlights as follows:

- Robust financial performance slightly ahead of market expectations.
- Revenue increase of 13.8% to £489.1m.
- Underlying EBITDA increase of 10.5% to £100.5m.
- Underlying basic EPS increase of 13.3% to 47.87p.
- Statutory basic EPS increase of 25.9% to 28.80p.
- Net debt reduced to £258.7m, underpinned by a significantly increased new property portfolio valuation of the Group's freehold and long leasehold at £930.0m, with leverage of 2.7x adjusted EBITDA.
- Increased final dividend of 9.5p declared and dividend policy reaffirmed.

| | 2021 £000 | 2020 £000 | % change |
|--|----------------|--------------|----------|
| Revenue | £489.1m | £430.0m | +13.8% |
| Underlying EBITDA | £100.5m | £90.9m | +10.5% |
| Underlying profit before tax | £68.3m | £59.7m | +14.6% |
| Underlying basic earnings per share | 47.87p | 42.26p | +13.3% |
| Statutory profit before tax | £66.2m | £37.8m | +75.1% |
| Statutory basic earnings per share | 28.80p | 22.88p | +25.9% |
| Operating cash flows before non-underlying items | £96.6m | £94.2m | +1.7% |
| Final dividend per share | 9.5p | 8.75p | +8.6% |

Group revenue was £489.1m, an increase of 13.8% driven by organic growth in Children's Services, the acquisition of Smartbox in October 2020 and the portfolio of assets transferred from The Huntercombe Group in December 2020 to Adults Specialist Services.

Group underlying EBITDA increased by 10.5% to £100.5m (2020: £90.9m) and underlying EBITDA margin was 20.5% (2020: 21.1%).

Underlying profit before tax increased by 14.6% to £68.3m (2020: £59.7m) and underlying basic earnings per share was 47.87p (2020: 42.26p).

Operating cash conversion was strong at 96.1% (2020: 103.9%) with net debt at 30 September 2021 being £258.7m (2020: £268.9m) and net debt/adjusted EBITDA 2.7x (2020: 3.1x). Cash generated during the period was used to fund growth through the acquisition of Smartbox for £5.4m (net of acquired cash) and £11.8m on property acquisitions/developments and £16.8m of maintenance capex.

Extending our Digital Technology offering

On 29 November 2021, we announced the acquisition of REHAVISTA GmbH ('REHAVISTA') and its subsidiary company LogBUK.

REHAVISTA is Germany's largest provider of augmentative and alternative communication ('AAC') products and services, employing over 170 staff. The company, which has six offices across Germany, provides a range of AAC and assistive technology products and has a strong reputation for excellent service. LogBUK is a subsidiary company to REHAVISTA, providing independent speech and language therapy to help AAC users achieve the best outcomes through specialist clinical support.

REHAVISTA's reach and expertise is unparalleled in Germany, estimated to be the second largest funded AAC market globally after the USA. With its deep knowledge of assistive technology and established routes to market, this acquisition provides a significant opportunity for Smartbox to expand the products and services available in Germany, expanding on the existing partnership between Smartbox and REHAVISTA, and across Smartbox's global customer base, which spans more than 30 languages and 45 distributors.

REHAVISTA and LogBUK, headquartered in Bremen, generated revenue in excess of €16m in 2020. It is expected that the acquisition will be immediately earnings enhancing.

A progressive dividend

We continue to maintain a progressive dividend policy. The Board has proposed a final dividend of 9.5p (2020: 8.75p) per share bringing the total dividend for the year to 14.1p (2020: 12.75p) per share. This represents a full year increase of 10.6% year on year. The final dividend will be paid, subject to shareholder approval, on 4 May 2022, with an ex-dividend date of 3 March 2022 and an associated record date of 4 March 2022.

Embedding and enhancing sustainability

The Board is increasing its focus on environmental, social and governance ('ESG') initiatives, which we believe represent value drivers for the Group. We have continued to make good progress with the development of our ESG strategy during a year of many challenges, and I look forward to the publication of our inaugural Purpose Report in early 2022. To oversee the development of this important area of work, we have appointed Jonathan Freeman as the Group's first Sustainability Director. Jonathan will report to our CFO, and ESG will become a core part of the Board's agenda.

→ Details of our strategy can be found on page 32.

Strengthening Board and Operational leadership team

The search for a new Chair of the Audit Committee is well underway and once this appointment is made, Karl Monaghan will retire from CareTech's Board. In addition, we plan to appoint an additional independent Non-Executive Director during 2022 to further strengthen our Board.


With the integration of Cambian now complete and, given the opportunities to further grow our existing core services together with the significant opportunities both Digital Technology and International bring we have taken the opportunity to strengthen our operational leadership team. This sets us up well for the next phase of growth both here in the UK, International and the Digital Technology division.

Outlook and prospects

This year has affirmed our belief that we have a well-executed investment strategy, which meets a critical social care need and has demonstrated resilience. Our fundamentals remain strong and we remain committed to providing high-quality care to those we look after.

CareTech enters the new financial year in a strong financial position, underpinned by a significant property portfolio and strong cash generation. Alongside its successful growth initiatives, the Group continues to see an active pipeline of bolt-on acquisition opportunities, growth in the Gulf region and exciting opportunities to develop our Digital Technology division.

Finally, I would like to thank our shareholders for their continued support, and my fellow Board members for their commitment throughout the year.



Farouq Sheikh OBE
Group Executive Chairman
6 December 2021

'Catherine's' Statement

THE SAFETY, WELLBEING AND INDEPENDENCE OF THE PEOPLE WE SUPPORT IS OUR UTMOST PRIORITY AND IT IS OUR PRIVILEGE TO CARE FOR AND TEACH EACH AND EVERY ONE OF THE ADULTS, CHILDREN AND YOUNG PEOPLE ACROSS THE GROUP.

We pride ourselves on delivering care which encompasses our five CareTech values: friendly, positive, person-centred, empowering and innovative. Most importantly, we cater to each person's individual interests and needs, to ensure they receive tailored support.

One of our residents, Catherine, tells of her experience living in a CareTech residential home:

"I have lived in a CareTech service for eight years and it is completely my home. I have painted my bedroom in the colours I like and the furniture is exactly what I wanted.

The staff are extremely caring and make sure

I have lots of chances to experience different things and meet new people. They are always there to talk to if I feel anxious about anything and are honest with me – I trust them and know they want the best for me. The staff take care of my health and are always helpful if I want to try something new. They make sure all of us build our confidence and I don't feel silly asking a question if I don't know something.

I enjoy outings to the seaside at Brighton, shopping trips and going to the park. The staff took time to find out what I like to do. They know that I enjoy seeing films so we go to the cinema. I feel like I have the right balance of support and I get different help at different times depending on what I need.

It was really hard during lockdown as we didn't get to go out very much at all, but the staff were amazing and we did lots of activities indoors like karaoke nights and food from all over the world. One night we had an 80's party with fancy dress, balloons and props – we had old sweets and had to guess which song was being played, that was a really great day. I had my nails painted on our home spa day and me and my friends made salt dough on the weekends and painted it. We also did Bake Off with the staff and baked treats for everyone in our home, which is always good to do together. We like to celebrate occasions like Valentine's Day and of course Christmas – we do a big menu with a roast dinner and give out presents. Then in the evenings there is dancing in the living room with everyone too!

The Blooming Marvellous competition is our chance to come together and make our garden a nicer place to hang out and it was one of my favourite lovely things to do. It used to look very overgrown and grey so we did a makeover. We planted flowers and created hanging baskets to make it more colourful and we also built a lot of decking. There were tyres

that we painted as decorations and picnic tables in bright colours. It kept us busy and laughing together, we had lots of fun.

I like that we recycle all of our plastic at our home and take it very seriously, because we care about our environment. I go to the bottle bank and everyone tries to keep our rubbish to small piles otherwise it is just a waste.

We do upcycling and turn our old items of furniture like benches and boxes into pretty new things for the outdoor area and sometimes for indoors. We love having the animals visit our garden so we have made insect houses and rock gardens so they can come and say 'Hello'. I had never mown a lawn before but I tried it and really enjoyed it – our garden looks so nice now and is the place where we keep fit and play games.

The best thing about it is doing shows and dances to friends at other services, that's when we feel like a community the most.

I really like doing arts and crafts and there was a competition for the Queen's Birthday so I made a birthday card for Her Majesty with her face on, using glitter and colouring pencils. I am a big fan of the Royal Family and even though I didn't win, it was still really good to do.

I feel very lucky and am thankful for everything the staff do for me. We share good moments and laughter at our house, we are definitely a family."

"I feel very lucky and am thankful
for everything the staff do for me."

Group Chief Executive's Statement and Performance Review

PROVIDING HIGH-QUALITY CARE

Haroon Sheikh

As we continue to live with the effects of the global COVID-19 pandemic, CareTech has remained resolute in its purpose to deliver the highest quality of care while demonstrating the resilience of our business model. These two fundamentals are the basis for our success in delivering **Extraordinary Days, Every Day** to transform outcomes for the people in our care and provide value for our commissioners.

Our commitment to high-quality care

Delivering the highest standards in education, support and care, and striving to continually improve outcomes for children, young people and adults, are the cornerstones of our purpose as a Group. Our recipe for success, tried and tested over two decades, is an unrelenting focus on quality, which in turn drives commercial success.

These principles have remained particularly important during the pandemic which has caused so much disruption to society. During this time, we have remained focused on providing certainty and assurance to the people in our care that they are our absolute priority, as well as ensuring that our staff feel safe and supported.

As the pandemic has eased, both CQC and Ofsted have re-commenced inspections. CareTech's Adult CQC registered service quality ratings at 30 September 2021 were 86% Good or Outstanding (2020: 91%) and our Ofsted ratings at 30 September 2021 were 80% (2020: 82%). Whilst both our CQC and Ofsted ratings compares favourably to the national social care average, we remain committed to providing the highest quality of care across all our services and have comprehensive improvement plans in place to increase our quality ratings further.

Throughout the year our Executive-led COVID-19 taskforce has monitored sites on a daily basis and communicated to all services regularly.

Over the year we strengthened our internal Compliance and Regulation team, promoting Tom Burford to Group Executive Director – Quality Improvement. We introduced the Mind of My Own app across every children's service enabling us to capture and "listen" to the voice of the young people in our services and respond to their individual needs. We launched our Dynamic Line of Sight ('DyLOS') across our portfolio of services which provides site-based KPI monitoring and added a new Management Information System across our schools.

As we continue to live with the effects of the global pandemic, CareTech has demonstrated the resoluteness of our purpose and resilience in our business model.

Group Chief Executive's Statement and Performance Review continued

The wellbeing of our staff and those we look after is our utmost priority. The Board has continued the active engagement with our workforce, using virtual meetings where needed in line with COVID-19 protocols.

We continue to recognise our front-line managers as the building blocks that make up a great service. During the year, we have doubled efforts to roll out the Group's Management Development Programme, which is scheduled by 2022 to have reached all frontline management colleagues.

Succession in operational leadership

As CareTech continues to evolve and grow, and to address operational leadership succession, Nasir Quraishi and Jeremy Wiles have been promoted to the positions of Group Executive Director – Adults Services and Group Executive Director – Children's Services respectively, replacing John Ivers' role as Chief Operating Officer. Both Nasir and Jeremy have many years of experience in the sector and prior to these appointments held key senior management roles within CareTech.

John Ivers will continue with the Group in a newly created strategic role supporting the Company's growth plans and working with the Executive team.

Commitment to our people

The wellbeing of our staff and those we look after is our utmost priority. The Board has continued the active engagement with our workforce, using virtual meetings where needed in line with COVID-19 protocols. We launched our COVID-19 fund last year, and continued to support staff, particularly those that have had to self-isolate and/or who faced hardship on account of the pandemic.

Our Executive Committee also continued to engage extensively throughout the year, hosting a number of events to better understand how people were coping with the working environment caused by the pandemic, check in on their mental wellbeing and explore what the business could do to better support colleagues. I once again congratulate our recruitment and learning services teams who have recruited staff and on boarded them exceptionally well this year in circumstances that remain unusually challenging.

We initiated the inaugural Staff Consultative Committee during this period with representation from across the organisation to focus on the staff voice and workforce matters, with this engagement shaping our People strategy.

Over 2,500 staff were recipients of a 'Thank You', which is the formal recognition of our Applause Programme that was launched in October 2020. This is the key driver to ensure that recognition of our values and their impact on the care and support given is embedded throughout the organisation.

To celebrate the diversity within the Group, we launched our Equality, Diversity and Inclusion strategy, with work now underway to enhance our practices and culture. We are fully committed to fairness and inclusivity.

Hiring the right people, based on CareTech's values, is central to achieving our purpose. It has been widely publicised that the social care sector is facing challenges in respect of staff recruitment and cost inflation following the pandemic easing and we have seen the annualised staff retention rate fall during the year from 75% to 71%. We are well placed to navigate these sector-wide challenges and continue to consider innovative methods of recruitment, investing in the careers of our staff through best-in-class training and development. Our unwavering focus remains to be the employer of choice in our sector.

The National Minimum and Living Wage percentage increase in April 2022 is in line with those we observed prior to the pandemic and, as with prior years, we would expect annual fee negotiations with Local Authorities to cover the majority of additional operational costs including increases to front-line staff pay.

As a learning organisation with a culture of 'open dialogue' our most recent staff survey received over 3,000 responses, demonstrating positive engagement. Our focus for the coming year is to roll out Group-wide plans to improve staff experience and act upon the feedback we received.

Group Chief Executive's Statement and Performance Review continued

UK social care market

The demand for our services remains high, with those we care for presenting needs tending to be ever greater. Despite the pandemic we have continued to extend our services through the development of new specialist residential homes and supported living. Our growth is focused on meeting the demands of the market as well as adding 'spokes' to ensure optimal operating efficiency of existing services. Within the year we purchased 25 properties which will add capacity of 59. During the year, the Children's division had 11 openings which added capacity of 22 beds. We can expect to at least achieve the same additional increased capacity within the coming year.

The market remains highly fragmented and we are well positioned to pursue a strong and active pipeline of organic and bolt-on acquisitions in both Adults Services and Children's Services.

CareTech International

Our Care Pathway, which encompasses Children's and Adults Services in the UK and addresses the needs of individuals with complex needs, continues to receive attention from Gulf markets of the Middle East, a region with significant unmet need and paucity of operator expertise.

We are well positioned to capitalise on these opportunities, having established our presence in the region two years ago with our maiden investment in the AS Group. Our UAE investment has weathered the pandemic extremely well and continues to grow its services. The business presently operates mental health services in outpatient clinics and inpatient hospital settings, and is developing a localised version of our Care Pathway, taking into account the nuances of the operating environment in the UAE.

Growth in service developments include home health and social care services, physical healthcare, and a special education needs school development. Led by Shafqat Malik, CEO of AS Group, and supported by CareTech's corporate expertise, we are well positioned to be the operator of choice for our specialisms and the first Company in the region to deliver a whole person Care Pathway of services for people with disabilities and complex needs.

Next step in the region for our growth is Saudi Arabia. This is another market with significant need for international expertise for our specialisms, a transformational policy backdrop, and expected privatisation in health and social care. We have invested in a dedicated team led by Zafar Raja, CEO CareTech MENAP, to focus on Saudi Arabia. We are confident this investment in an in-country senior team will translate into opportunities and service developments during the coming year.

Digital and innovation

Technology plays an incredibly important role in how we operate as a Group, supporting our services and staff with solutions and enabling great quality care for our service users. The pandemic has accentuated the need for innovative and scalable technology, and I am delighted our highly talented technology teams have risen to this challenge, procuring best-in-class solutions and developing in-house applications.

One example being the 100 Voices project, a collaborative effort to bring care and assistive technology together by blending Smartbox devices with ongoing education and care support plans for 100 service users across our Children's and Adults services. The project is already demonstrating the impact of augmentative and assistive technology in opening a world of opportunity for people in our care who previously were limited by their communication impairments.

Hill House, an outstanding school within our portfolio, is taking a whole school approach to the 100 Voices pilot and increasing participation and opportunities for communication for all students. New students are now having communication needs assessed on entry to the school, so appropriate technology can be provided to meet their needs. Similarly in the Adults Division our Selwyn services are adopting the technology at scale and along with the technology from the Rix Centre, University of East London, are trailblazing care and technology coming together in new and meaningful ways.

These pilot projects are potentially not only transformative for CareTech, but also for the wider social care sector that urgently needs to adapt technology at scale to improve outcomes and efficiency. We recognise the enormous digital innovation opportunity our sector standing presents, and for this reason are accelerating focus and investment in this area in coming years.

Summary and outlook

The global pandemic continues to test the resilience of UK PLC and civil society across the world. I am pleased to report that our strategy in the markets we serve has proven to be durable and robust. In this 27th year of our corporate journey the Group has demonstrated that commitment to purpose is as relevant today as it was when we opened our first small care home. I remain confident about CareTech's outlook and prospects, to reach more people with complex needs at home and overseas, through a blend of high-quality services and our extended digital capability.

STRATEGIC REPORT

It is my enduring pleasure to lead CareTech, a business that has consistently made a lasting difference to so many lives. This year we warmly welcomed Smartbox and Huntercombe Services to the Group. They, along with the rest of the CareTech family, joined in the many initiatives to celebrate the achievements of our service users across the country, holding our annual Arts and Crafts awards, Easter Sprint event and a Blooming Marvellous Gardening competition.

I conclude by expressing my sincere thanks to our Board, our executive and management teams and colleagues throughout the Group for their hard work, commitment and dedication. In particular I would like to reach out to our staff to convey my heartfelt appreciation and thank them for the manner in which they resolutely provide outstanding care to our service users, and support each other.



Haroon Sheikh
Group Chief Executive Officer
6 December 2021

Our Market

OUR MARKET IS DRIVEN BY FIVE KEY TRENDS

#1

INCREASING DEMAND FOR SPECIALIST ADULTS AND CHILDREN'S CARE

Adults Services

YOUNGER ADULTS IN RESIDENTIAL CARE SETTINGS

63,000

YOUNGER ADULTS IN NON-RESIDENTIAL CARE SETTINGS

297,000

PROPORTION OF UK POPULATION WITH SPECIFIC MENTAL DISORDERS

13%

Data from Laing and Buisson Adult
Specialist Care 4th edition 2020 report

The Adults Services care market in which the Group operates in the UK market is worth an estimated £12.5 billion per annum and estimated to be growing by 2–3% per annum.

The principal drivers of demand for adults specialist care in the UK are:

- Improved life expectancy and ageing of learning disabled population.
- Increasing survival of children and young people with complex needs into adulthood.
- Inability of parents to provide informal care.
- Increased medical interventions around birth, increasing the number and proportion of service users with lifelong severe learning and/or physical disabilities.
- Moving up the acuity spectrum increases fees but also creates areas of expertise that others find difficult to match.

There is commissioner preference for supported living over residential care as this is a lower cost to local authorities because the housing element is paid from housing benefit allowance.

Children's Services

CHILDREN IN UK LOOKED AFTER OUTSIDE FOSTER CARE

10,080

CHILDREN IN INDEPENDENT SECTOR SPECIAL SCHOOLS AND COLLEGES

21,817

PLACED IN FOSTER CARE IN ENGLAND

54,870

Data from Laing and Buisson Children's Services
Market Report 5th edition 2020 report

In 2020, the total market for specialist Children's Services was worth approximately £5.9bn. The market is growing for the following reasons:

- Long-term population growth and higher prevalence of special educational needs and 'high needs' over time.
- High priority for the government is adequate provision of mental health services and support for vulnerable children and young people.
- Earlier diagnosis of complex needs.

Our Market continued

#2 ESTABLISHED FUNDING MODEL FOR HEALTHCARE

MARKET FOR RESIDENTIAL LEARNING DISABILITIES AND SUPPORTED LIVING WORTH AN ANNUAL

£5.8^{bn}

RESIDENTIAL CHILDREN'S MARKET ACROSS UK WORTH

£1.64^{bn}

£1.15bn Independent sector
£492m Public sector

ADULTS SPECIALIST CARE MARKET

£12.5^{bn}

EDUCATION AND TRAINING IN SPECIAL SCHOOLS AND COLLEGES

£4.29^{bn}

£1.2bn Independent sector
£3.09m Public sector

MARKET GROWTH RATE

1.2%–2.6% p.a.

RESIDENTIAL MARKET GROWTH RATE

6.9% p.a.

EDUCATION MARKET GROWTH RATE

6.3% p.a.

**FOSTER CARE MARKET ACROSS
ENGLAND WORTH**

£1.75bn

| | |
|-------|--------------------|
| £791m | Independent sector |
| £956m | Public sector |

The UK has an established system of public and private providers of health and social care. Although the available resources to purchase social care remain largely static there is a known increase in demand across the whole spectrum, presenting purchasing bodies with a conundrum and focuses money on the areas of highest need such as complex children, very disabled or complex people with learning difficulties and hospital discharge schemes.

The principal driver for commissioners in local authorities and the NHS is value. This is interpreted by them as the optimum balance between quality and price, but has an underpinning criterion determined by 'outcomes'.

MARKET GROWTH RATE

3.7% p.a.

* Data from Laing and Buisson Adult Specialist Care 4th edition 2020 report

** Data from Laing and Buisson Children's Services Market Report 5th edition 2020 report

Our Market continued

ONE OF OUR DIFFERENTIATING FACTORS IS THE CONCEPT OF THE CARE PATHWAY TO REFLECT OUR OPTIMISM THAT USERS OF OUR SERVICES CAN MAKE PROGRESS WITH THEIR LIVES.

#3 FRAGMENTED MARKET OF CARE PROVIDERS

TEN LARGEST ADULTS SERVICE PROVIDERS HAVE ONLY

13.5%

MARKET SHARE

Most providers of social care have fewer than three services and this huge, fragmented range of providers represents the vast majority of the market. However, the market has been steadily consolidating and a very small number of large 'corporate' providers have emerged, with CareTech being one of the bigger players within the non-elderly care sector.

TOP FOUR INDEPENDENT CHILDREN'S SERVICES PROVIDERS HAVE

23%

OF RESIDENTIAL MARKET SHARE

The Adults specialist care market is the most fragmented with the top four largest providers having 7.5% market share and the ten largest players only 13.5% market share.

#4 STRINGENT REGULATION OVER QUALITY OF CARE

The markets that CareTech serves are regulated by CQC and Ofsted in England, and equivalent regulatory bodies in Scotland and Wales. These bodies control and administer the registration, inspection and complaints' procedures set out under applicable laws and regulations. In order to open a service, it needs to be registered with the applicable regulator, and must pass regular inspections to ensure it meets the minimum standards and requirements prescribed under laws and regulation. Commissioners placing adults or children into services expect high-quality provision.

A high level of regulation is required to assure the quality and safety of services.

* Data from Laing and Buisson Adult Specialist Care 4th edition 2020 report

** Data from Laing and Buisson Children's Services Market Report 5th edition 2020 report

#5

ACCESS TO SKILLED CARE WORKERS

INDUSTRY AVERAGE RETENTION RATE

<70%

The social care sector has high levels of turnover and vacancies. Following the introduction of the national living wage on 1 April 2016, care workers' pay has increased but staff turnover remains high given tough working conditions. Care workers in the sector find working in the sector fulfilling, but there is perception of low pay and lack of training or promotional prospects.

What this means for CareTech

The market segments served by CareTech are growing for both adults and children who present with high severity needs, challenging behaviours and who have complex care requirements. Hence, budget cuts have a very limited impact on the Group. One of our differentiating factors is the concept of the Care Pathway to reflect our optimism that users of our services can make progress with their lives. Our commitment to maximise independence is great for the people in our care, rewarding for our staff and strongly supported by those who commission and support our services.

Our 'outcome' focused approach for our service users has a wider impact on society including more individuals helped into work, fewer individuals returning to care facilities, a reduction in the proportion of the adult prison population having been in care, and children leaving care achieving educational attainment levels.

CareTech is well positioned in the market. We are aligned to local authorities' purchasing principles and we work closely with commissioners to ensure that we stay in tune with their approach to market management. We work closely with our regulators and commissioners across England, Scotland and Wales.

CareTech is a well-known care Group in public ownership and offers high-quality services with a strong ethical and values-based approach. We have upper quartile ratings for both CQC and Ofsted and have ambitions to improve these.

Our quality assurance is embedded within the Group's operational management structure – from the Home Manager, Regional Manager and Operations Director, through to the Chief Operational Officer and the Board. The Group uses Acoura and NYAS as independent suppliers, to audit and report monthly Health and Safety matters as well as all RIDDORS ('Reporting of Injuries, Diseases and Dangerous Occurrences').

We continue to strive to be the employer of choice within the sector. We promote our values and culture by helping our employees and supporting them with regular supervision, training and career development programmes. To embed our culture across the Group we reward our people throughout the year culminating in the Sixth Care Awards ceremony. These initiatives promote staff continuity and lead to improved standards of care quality.

Our Strategy and KPIs

WE ARE FOCUSED ON BEING A LEADING INTERNATIONAL, INTEGRATED PROVIDER OF SPECIALIST SOCIAL CARE SERVICES FOR CHILDREN AND ADULTS, DELIVERING HIGH-QUALITY AND CARE EXCELLENCE.

We aim to distinguish ourselves from other providers by offering a bespoke range of options, which meet the needs of commissioners and offer service users a Care Pathway of opportunities. The Group's focus is the provision of high acuity specialist social care through our four divisions – Adults Services, Children's Services, Foster Care and Digital Technology.

WE HAVE DEFINED THREE PILLARS TO EXECUTING OUR STRATEGY

Build the industry's best leadership and workforce

Have the highest quality ratings

Innovate in social care

→ Find out more on pages 34 to 42

Underpinned

OUR VALUES

DELIVERING

Positive

Quality care for
people we support

Person-centred

Friendly

A better place to work
for our employees

Empowering

Innovative

Returns for our
shareholders

by our commitment to Operating Responsibly

Strategy in Action

BUILD THE INDUSTRY'S BEST LEADERSHIP AND WORKFORCE

We drive a culture of continuous learning and development to ensure that staff have the most up-to-date best practice knowledge, competencies and attitudes for the services we provide.

Objective

We employ over 11,000 qualified and skilled front-line staff including care workers, teachers and managers. They are supported by a professional team of clinical and therapeutic staff, back-office and support services. The care, commitment, passion, empathy and professionalism of our staff are critical to the success of our Group and the care we provide.

CareTech looks to promote attractive working conditions and staff training. A large part of our recruitment process is focused on matching the needs of the Group's service users and patients to the skills values and behaviour of our staff, which necessitates a person-centred approach. We drive a culture of continuous learning and development to ensure that staff have the most up-to-date best practice knowledge, competencies and attitudes for the services we provide.

Progress this year

Informal engagement

CEO lunches, prior to the COVID-19 restrictions, were held from time to time with a number of employees. These were held with a cross section of employees, (diverse by gender, nationality, function, profession and level) from various regions.

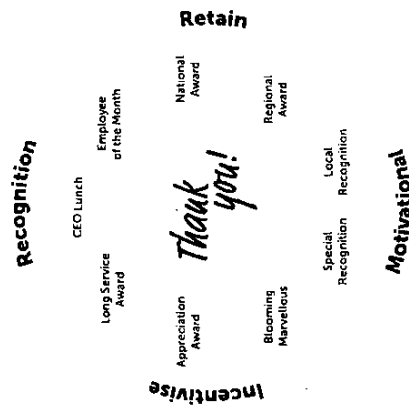
In 2021, we launched our 'Thank You' scheme across the Group as part of our reward and recognition strategy. The scheme has achieved success in driving cultural change to focus on recognising everyone's contribution, and more specifically on peer to peer and management recognition. The scheme allows everyone the opportunity to be recognised. Since its launch in April we have issued circa 2,500 Thank You cards for on the spot recognition awards across the Group.

This is one of many schemes within the Group's holistic approach to reward and recognition

We will continue to embed the 'Thank You' scheme next year and create unique storyboards to share with our employees, increasing the focus on recognition at a local level in addition to supporting regional and national recognition incentives that we run.

Off-site visits

Because of COVID-19 restrictions, some site visits were limited during periods of the year. In some instances, we were able to organise virtual visits and meetings. However, priority was given to the health & safety of our employees and their preferences on maintaining safe social distancing measures so they could continue to safely provide support for those in our care.



Strategy in Action continued

BUILD THE INDUSTRY'S BEST LEADERSHIP AND WORKFORCE CONTINUED

Employee engagement survey

Employee engagement levels are recognised as central to how we operate and are regularly discussed and considered across all levels of management. Including quality of leadership across CareTech employees, and being informed on a broad range of subjects including collaboration, working conditions, roles and responsibilities, people development, reputation, benefits and rewards, diversity and inclusion, operational excellence and responsible business.

The 2021 Employee Engagement Survey was focused on seven key themes:

COVID-19 – It was important to understand how supported and informed the workforce felt throughout the unprecedented situation. Feedback on initiatives such as a staff financial support fund and a new employee wellbeing scheme was crucial to informing and adapting the Company's continued response.

Trust – A temperature check on the clarity and transparency of communication across the Group. Ensuring our workforce is informed, and we are giving them information on things that matter to them.

Teamwork – Relationships and trust are integral to an engaged workforce. We needed to know how we really do.

Empowering – We needed to know how challenged and motivated our workforce feels.

Corporate pride – It's important to us for our workforce to have a sense of self-esteem, and feel part of our wider Group.

Career progression – We want to retain and develop our workforce and understand the reality of feelings around the opportunities available.

Responsible business – We take this seriously, and engage with our workforce to support promotion of the CareTech Foundation in the community, both within and outside of the Group.

The Board considers the annual Employee Engagement survey to be one of its principal tools for measuring employee engagement, motivation, attachment and commitment to CareTech. It provides insights into employee views and although it has a moderate response rate, the returns are representative of a diverse range of employees. In 2020 the response rate was low at 30%, however, the average employee engagement score was maintained at 70 points out of 100, 60 being representative of 'engaged', despite the challenging year.

The Board also considers this engagement to understand, for example, how CareTech is using the survey outcomes in strengthening Company culture and values.

We are currently awaiting the results of the 2021 Employee Engagement survey, and next year we will focus on communicating these results to staff, and selecting key priorities from the themes to include in our people strategy for next year.

Staff Consultative Committee

Chaired by an Executive Director, the Staff Consultative Committee is made up of a panel of 40 members of a cross section of diverse employees. The employees represent specific geographical regions across the Group, and act as a conduit between the staff and the Board on shared employment and service issues that matter to employees. Meeting at least three times a year, key issues will be fed back to the Board regarding staff welfare, employment matters and employee engagement. The staff voice will be taken into consideration when key decisions are made that are likely to impact their interests.

Employee wellbeing

In 2021, we refreshed and re-launched an invigorated programme to focus on physical and emotional wellbeing. The programme delivers a holistic approach and provides a range of tools and resources for our employees and their families. We held financial workshops to support with key life milestones such as buying a home, starting a family, planning a career and retirement.

One of our main aims was to remove the stigma around mental health, and we engaged our employees with a range of senior management webinars, drop-in clinics and external referral services.

Employee exit feedback

In 2021, we centralised and embedded a simplified process to gather feedback from employees leaving the Group. This channel of communication allows exiting employees to provide a candid summary of their employment experience with the CareTech Group, and in turn, affords us the opportunity for continuous Group and localised improvement.

CareTech Awards

In November 2021, we were able to host the seventh CareTech Care Awards to celebrate and thank our staff for their effort and commitment.

Staff ownership

To further engage with employees across the Group and share in its success, CareTech provide all employees with an option to join the Company Sharesave option scheme. This is a tax-efficient, cash-saving scheme that lets employees save towards buying shares in the Company. At the end of the savings period, individuals have the option to buy shares or take out their savings in cash.

In addition, the Company offer a broad share incentive plan to include over 600 individuals from across the business including home managers, support staff and executive management.

STAFF RETENTION RATE

71%

(2020: 75%)

Priorities for 2021/22

- Design and implement the Employee Service Centre, whose focus is on staff experience of all HR transactional matters. This will drive staff touch point experiences.
- Develop our Equality, Diversity & Inclusion ('ED&I') programme to shape our diversity and inclusion strategy and embed this into working practices and culture.
- Conduct an internal audit of good ED&I practice to establish our baseline and roadmap.
- Work with senior leaders to drive a coaching and mentoring programme to support all leaders within the business.
- Run focus groups to establish the reality of working for the Group, from a minority perspective (Gender, Disability, Ethnicity and LGBT).
- Embed the core Group values across the whole organisation, and design and develop the accompanying behavioural framework.
- Commence work on building a role defined career ladder to simplify structured career planning.
- Continue to embed the Staff Consultative Committee.

Nicola Wassall joined CareTech as a support worker in 2006 and had no prior knowledge of the care sector. She has risen through the business to become a **Locality Manager** and benefitted from Company training schemes, namely Lead to Succeed and Well Led, and completed Continuing Professional Development.

She says: "The Well Led course was probably one of the most effective trainings I've ever done. I found it really valuable and it made me reflect on how I did my job."

One of the reasons I was keen to do the Management Development Programme is because I know how it can inspire people to do better and change the way they do their job. The fact that it's being rolled out to all staff members, not just staff in our care settings, is very, very good and really progressive.

There are people from all different roles and departments within the Company and I have found that conversations with them are extremely helpful. You hear different viewpoints. Sometimes you can get into a box with your own views, so to hear a new perspective is great."

"I want each of my nine services to be at Good or above and importantly, I want them all to have happy and settled staff teams."

The Well Led course was probably one of the most effective trainings I've ever done. I found it really valuable and it made me reflect on how I did my job.

Strategy in Action continued

HAVE THE HIGHEST QUALITY RATINGS

Deliver high-quality care, with reliable outcomes at a fair price.

Objective

The drivers for social care are to deliver high-quality care, with reliable outcomes at a fair price. We believe that the market has recognised that CareTech offers the best possible balance between quality and value, and understands the need for progressive thinking and innovation to deliver ongoing results.

Our Group brands are strong and our extensive commissioning relationships across the UK are robust. This is reinforced by our presence at major industry events where we have been reliable sponsors and commentators. The most effective way that we sustain our reputation is by delivering what we promise for the people we support and by treating our staff well.

Quality is not simply compliance with the requirements of regulation. Our approach is to embed quality throughout the Group's operations and employ well-qualified and skilled professionals who operate within our quality framework. Our quality framework and processes include, but are not limited to:

- Recruitment and retention of appropriate staff alongside induction, training and development programmes.
- Regular reporting from site managers through to locally/regional managers, operational directors and divisional senior management as well as the Group's Executive Director of Quality Improvement.
- 'Dynamic Line of Sight' monitoring which provides a site-based, up-to-date view of performance across a range of key performance indicators. This information acts as an early warning system to help prioritise support for services. Progress against these KPIs is monitored by senior management to drive continuous improvement.
- Experienced Internal Quality Improvement and Compliance & Regulation teams who operate across all divisions, reporting to senior management. The teams undertake a programme of improvement projects, as well as regular inspection and assessment of facilities and services against internal quality assurance frameworks, and additionally carry out thematic reviews.
- Monthly independent visiting to our Children's residential portfolio, in line with the regulations, providing reports on the quality of care, and recommendations on how we can improve service delivery.
- Safeguarding Boards operating across our portfolios to ensure we are operating in line with nationally recognised standards.
- A Care Quality and Governance Committee, chaired by Non-Executive Director Professor Maura Livingston. The Committee has oversight of all issues and reports relating to the wellbeing of people in our care, and commissions enquiries into matters of concern. It also strives to ensure that CareTech operates to the highest level of professional care standards.
- Careful analysis of regulatory inspection reports from external regulators.
- Board oversight through monthly reporting of key performance indicators, quality and compliance data.

Progress this year

- Strengthened our internal Compliance and Regulation team.
- Consolidated our independent visiting programme under a single provider with themed monthly visits.
- Developed and maintained a suite of COVID-19 related policies to provide clear guidance throughout the pandemic.
- Introduced the app Mind of My Own (Voice of the Child) across every Children's service.
- Trained staff across our Children's specialist mental health services in our chosen outcome framework ('CANS') and began the implementation.
- Reviewed key policies as part of our corporate policy review cycle.
- Implemented our new safer recruitment policy.
- Began integration of supervision process into our Myrus system.
- Ensured quality framework operating across our CQC and Children's residential services.
- Launched DyLOS ('Dynamic Line of Sight'). Operational across 75% of our portfolio with remaining sites going live before the end of 2021.
- Refreshed Quality Improvement Plans ('QIP') format being implemented across all Children's Services sites.
- Launched independently chaired Responsible Individual Forum, which met three times in 2021, and RI competency framework.
- Implemented new MIS (Behaviour Watch) across all CareTech schools, with phase 1 focusing upon incident management and safeguarding.
- Implemented MIS (Charms) across our Fostering business.
- Developed CareTech KPI, which is ready to roll out across our Adults portfolio.
- Launched new clinical governance committee.

Priorities for 2021/22

We have established five quality and compliance themes to guide our priorities over the coming year:

- Review and re-set our quality strategy and Group quality objectives.
- Implement a Group-wide Clinical Governance Framework.
- Review and develop our approach to corporate risk and Board assurance.
- Become an open, just and learning organisation.
- Improve our incident and safeguarding management.

A series of projects will operate beneath each of these five priorities over the coming year, with progress being monitored by the Care Governance Committee.

KPIs

- CQC 'Good/Outstanding' rating
- Ofsted 'Good/Outstanding' rating
- Occupancy levels

Strategy in Action continued

DIGITAL ADOPTION WITHIN SOCIAL CARE

Collaborative effort to bring care and assistive technology together.

CareTech embarked on a roadmap to develop a sector first Digital Pathway of services for people with disabilities and complex needs. As a first project, and following Smartbox joining the Group this year, our care teams have been working with Smartbox on the 100 Voices pilot, a collaborative effort to bring care and assistive technology together to benefit 100 people across our services. Nine months into the pilot, the project team is already seeing the impact for our service users who are now being supported to communicate using technology and access a world of opportunity to engage more in society.

Collaboration between Smartbox and Cambian schools sees students succeeding with Augmentative and Alternative communication ('AAC')

Assistive technology specialists from Smartbox have been supporting Speech and Language Therapist Kirsty at Hill House School to implement AAC with a range of students, many of which are participants in the 100 Voices project.

Students have taken to the technology from Smartbox so well that Hill House is taking a whole school approach to AAC, which will increase participation and opportunities for communication for all students. New students are now having communication needs assessed on entry to the school, so appropriate technology can be provided to meet their needs. Harry is a 16-year-old pupil who has had the opportunity to use AAC for the first time since recently joining the school. Harry is autistic and can communicate verbally so to many he may not seem an obvious candidate for AAC. However, much of his communication is limited to answering questions or talking about preferred topics, such as trains and Thomas the Tank Engine.

Smartbox's Grid software will enable Harry to explore new language and talk about a wider range of topics, using a mix of symbolised communication, prediction features and a qwerty keyboard. These are just some of the features of the comprehensive communication software package. The support of symbolised text will help Harry's understanding of language and enable him to start recognising more words. This development in communication will be supported throughout the school, as he is surrounded by students who also use symbols to aid their communication.

"Using Grid AAC software, Harry will be able to expand the topics he talks about beyond his special areas of interest. He will be able to go to his device and express himself and his emotions with new vocabulary, increasing his spontaneous communication functions," says Kirsty Marsden, Highly Specialist Speech-Language Therapist.

Providing opportunities to build connections and participate in care services, through assistive technology

The Smartbox team has been working closely with 13 service users at Selwyn Care as part of the 100 Voices project. The site has been supported by assistive technology specialists and speech-language therapists from Smartbox, with training and clinical support. This has included goal setting to provide a personalised experience and help the individuals experience success with their new communication devices.

Throughout the 100 Voices project, staff have been sharing their excitement as they observe sustained attention levels with the adults they are supporting as they interact with their devices. This reinforces how communication is about so much more than speech. It's also about building interactions and connection between service users and those supporting them, which happens as attention levels increase and leads to the richer emotional engagement that may not have been there 'pre-device'.

As well as reports that the devices are making communication easier, staff feel that they are much more aware of the service users' wants and needs. They have also been sharing poignant moments where individuals have extended the content of what they would usually say and broadened who they would say it to, enabling them to independently order a drink in a café, for example.

Scott is an autistic resident at the Selwyn site, who has typically communicated using sign language. He is increasingly using Grid AAC software to express himself and make choices. When people do not understand what he is trying to sign he can take his device and show them what he means, enabling more people to understand him. Staff have been shown how to model language to Scott and support him with how to navigate his device. This has enabled him to explore new vocabulary and show people the things he has seen that day.

'It's been exciting to be able to demonstrate the key strategy of 'modelling' vocabulary when using AAC and the power it has to support communication and language development in the adult. It also shines through in the confidence of the staff around the individual. Learning together makes this new AAC journey so much more achievable!' says Becky Martin, Speech-Language Therapist and Clinical AAC Specialist at Smartbox.

KPIs

- Unit sales/growth
- Outcomes framework – improving the lives of those we care for using digital technology

Strategy in Action continued

DIGITAL ADOPTION WITHIN SOCIAL CARE CONTINUED

Purple is changing the disability conversation

Our flagship programme supporting businesses to improve the disabled customer experience, Purple Tuesday, had a social reach of over 11 million and trended at #4 worldwide on Twitter on our November celebratory day. Our ITV advert was seen by over 1.5 million people. Over 4,500 businesses took part making over 6,000 commitments to improve accessibility. From mental health awareness training to improving accessibility of websites, the movement for seeing real change has traction. We are pleased the impact has been across all sectors and with organisations of all sizes.

To support businesses, during FY21 we have introduced Purple 365, a subscription service, providing training and development through monthly webinars (available live and on demand) and supported resources.

Purple has been successful in framework contracts for Direct Payment services for disabled people in Nottinghamshire and Luton. This complements existing contracts in both the social care and health sectors. Throughout the COVID pandemic we continued to provide a full service and automated what we do to increase both efficiency and quality to over 4,500 disabled people receiving care from over 6,500 personal assistants.

Purple has transformed the way we work with a blend of digital services supported by direct contact with staff experts in their field.

Over the next 12 months we are looking to expand in all our service areas in the UK and abroad. We are building a brand as the go-to disability organisation for both disabled people and organisations. Regular appearances in both national broadcast and print media are accelerating awareness and understanding about what we do.

Priorities for 2021/22

- Expand in all our services in the UK and abroad.
- Continue building a brand as the go-to disability organisation for both disabled people and organisations.
- Accelerate awareness and understanding of Purple's offering.

Our Key Performance Indicators

KPIs HELP US TO MEASURE THE GROUP'S PERFORMANCE AGAINST OUR STRATEGY AND OBJECTIVES

FINANCIAL

REVENUE

£489.1m

(2020: £430.0m)

How this is calculated

Revenue measures how we have filled our capacity and the fees we have charged, together with the impact of acquisitions.

Performance this year

Revenue has increased by 13.8% year on year to £489.1m, due to the acquisition of Smartbox in October 2020, the assets transferred from The Huntercombe Group and organic growth achieved in the core business.

UNDERLYING EBITDA

£100.5m

(2020: £90.9m)

How this is calculated

Underlying EBITDA is operating profit stated before Interest, Tax, Depreciation, Amortisation, ExSOP share-based payments charge and non-underlying items that are described in note 6 to the Financial Statements.

Performance this year

Underlying EBITDA has improved by £9.6m, a 10.5% year on year increase. This reflects the acquisition of Smartbox, assets transferred from The Huntercombe Group, improvements to divisional margins and organic growth achieved by the core business.

UNDERLYING PROFIT AFTER TAX AND NON-CONTROLLING INTEREST

£53.0m

(2020: £46.4m)

How this is calculated

Underlying profit after tax and non-controlling interest is the Group's profit after provision for taxation excluding non-underlying items such as amortisation of intangible assets, which are fully described in note 6 to the Financial Statements.

Performance this year

The profit after tax is 14.3% more than 2020, representing an improved return to shareholders.

UNDERLYING BASIC EPS

47.87p

(2020: 42.26p)

How this is calculated

Underlying basic earnings per share is the profit after tax divided by the weighted number of Ordinary Shares, which are fully described in notes 11 and 12 to the Financial Statements.

Performance this year

The underlying basic earnings per share has increased by 13.3% in the year.

OPERATING CASH CONVERSION

96.1%

(2020: 103.9%)

How this is calculated

Cash flow from operations before non-underlying items and tax (and excluding capex) divided by underlying EBITDA.

Performance this year

Operating cash conversion was strong at 96.1% underlying EBITDA to cash conversion.

NET DEBT

£258.7m

(2020: £268.9m)

How this is calculated

Net debt comprises cash and cash equivalents net of bank loans and borrowings and HP leases previously accounted for under IAS 17 excluding Project Teak sale and leaseback. Net debt remains unchanged following the adoption of IFRS 16.

Performance this year

The Group continues to have a strong financial position.

Our Key Performance Indicators continued

OPERATIONAL

CAPACITY

ADULTS SERVICES

2,104 places

(2020: 1,997 places)

CHILDREN'S SERVICES

2,000 places

(2020: 1,959 places)

FOSTERING

875 places

(2020: 1,028 places)

How this is calculated

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

Performance this year

Adults Services increased to 2,104 primarily due to the beds transferred from the Huntercombe Group which complement our Specialist Services division and broaden our Care Pathway.

Children's Services capacity increased to 2,000 primarily due to a number of new developments opening. Fostering decreased to 875 due to a reduction in the number of foster parents and blocked beds.

MATURE ESTATE OCCUPANCY

80%

(2020: 83%)

How this is calculated

The Mature Estate Occupancy is the total number of Adult and Children's Services users placed in services that were open throughout the year.

Performance this year

The mature estate occupancy has remained broadly unchanged with the slight decrease due to the timing of the start of the educational year because a number of non-residential Cambian schools operate on a 38-week basis with the new education term commencing in October.

BLENDED OCCUPANCY

78%

(2020: 80%)

How this is calculated

Blended occupancy is the total number of Adults and Children's Services users actually placed as a percentage of the Group's total capacity and so reflects facilities undergoing development and reconfiguration.

Performance this year

The ratio has broadly remain unchanged and is also impacted by the timing of the start of the educational year because a number of non-residential Cambian schools operate on a 38-week basis with the new education term commencing in October.

QUALITY

REGULATORY RATING (%) – FACILITIES RATED 'GOOD' OR 'OUTSTANDING'

CQC **86%**
(2020: 91%)

Ofsted **80%**
(2020: 82%)

How this is calculated

The markets that CareTech operates in are regulated by Ofsted and the CQC and their equivalents in Scotland and Wales. Each facility is inspected and given a score, with a range of outcomes from 'Outstanding', 'Good', 'Requires Improvement' to 'Inadequate' (or equivalent).

Performance this year

Whilst both CQC and Ofsted regulatory ratings compare favourably to the industry average, we remain committed to providing the highest quality of care across all our services and have comprehensive improvement plans in place.

EMPLOYEE RETENTION

ANNUALISED RETENTION RATE

71%
(2020: 75%)

How this is calculated

The number of employees working for the year to 30 September 2021 as a percentage of the number of employees at 1 October 2020.

Performance this year

Maintaining high levels of staff retention underpins our high-quality service ratings. Whilst our retention rate compares favourably to the industry average, as the effects of the pandemic have eased, there has been a reduction in applications and a higher rate of attrition leading to recruitment challenges.

Engaging with our Stakeholders

We provide a Care Pathway to meet the needs of the people in our care, and our professional care and education teams strive to make each day an extraordinary day. Across the Group, we look after close to **5,000** people.

WE CREATE VALUE FOR OUR STAKEHOLDERS

We create value for our stakeholders

Our people

Our staff are the bedrock of the organisation and deliver great quality care for the people we support. We have **11,000 employees** and have delivered **240,000 e-learning courses**, over **45,000 face-to-face interventions**, and **3,000 virtual classroom sessions**. We have supported just under **1,200 learners** on apprenticeship programmes across the Group.

Our commissioners

The value CareTech creates for our commissioners is reflected in service user reviews and collectively at a service level review. The sharing of regulatory reports and those conducted by independent visitors allow the quality assurance of our provision to be shared. We have relationships with **>300** local authorities and care commissioning groups.

Our communities

Over **5,500** organisations participated this year in Purple Tuesday making over 7,000 commitments to make changes in practice from more accessible websites, improved signage, formalised quiet hours for people with learning disabilities, to frontline staff learning hello, goodbye and other phrases in British Sign Language.

With media opportunities giving **17.4 million** people across Britain access to the initiative and top trending on Twitter worldwide, Purple Tuesday has become the go-to brand for the disabled customer experience.

The CareTech Foundation is the first corporate foundation in the UK social care sector, demonstrating the Group's commitment to wider society and to our staff, and our desire to play a strong leadership role within the social care sector. The Foundation's mission is to **support and champion the social care sector, care workers and those living in care**.

Our investors

Since IPO, Revenues, underlying EBITDA and EPS have grown by a CAGR of 21%, 26%, and 17% respectively. CareTech's market capitalisation has gone from £60m at IPO through to c.£700m. CareTech has a progressive dividend policy and paid out 12.75p for 2021.

Engagement with our stakeholders

The six key stakeholders identified by the Board are at the heart of what we do, being: people in our care; our customers; our shareholders; our Regulators; people; and our suppliers. It is of the highest importance to us that we engage with all of our stakeholders

meaningfully, to inform decision-making and ensure we provide value in all areas of our business. It is challenging to ensure all of our stakeholders have the same experience with the Group, due to our wide range of locations, operations and roles; therefore, we promote an ongoing dialogue with all our stakeholders to enable us to effectively act on feedback, and we foster a culture of honesty and integrity.

Our approach to looking after people in our care

We believe the wellbeing of those entrusted in our care is our single most important corporate responsibility.

We have continued to strive for long-lasting improvements in our services in a way that is consistent with the interests and priorities of our stakeholder community. As always, the driving force underpinning the Group's operations is the delivery of the highest quality of care to those in our care.

As the Group grows, we strive to maintain a culture that never forgets the important relationship we have with the people we support. We seek to nurture these relationships and see them as partnerships of mutual interest and respect, with our person-centred approach ensuring people's interests are safeguarded and vulnerabilities minimised.

Engaging with our Stakeholders continued

The further expansion of our Care Pathway seeks to provide 'whole of life' of solutions to the needs of the people we support, maximising independence where possible by encouraging education, promoting choice, being proactive with family members, providing training for employment where feasible and nurturing personal ambition where helpful. In the past year we have celebrated the achievements of those we support across the country, including holding our annual Art competition and Blooming Marvellous gardening competitions.

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 an extraordinary day for those in our care a vital ingredient to their, and our, success.

From the first time we meet each person we start to gain an understanding of not only their needs which are often complex and challenging, but most importantly to understand their future aspirations so that a plan to support them in our care is individual and as best informed as possible. Where present, parents (carers/guardians), social workers and other professionals play a key role in supporting the development of their individual care plan.

A person's care plan is dynamic, informed and updated by 'their voice' together with the professionals supporting them in their placement, alongside their social worker (and other external professionals) as well as advocacy services and independent reviewing professionals who visit services regularly. This multi-disciplinary approach ensures that the care plan is as rich and well informed as possible. Where communication is a challenge for a person, the use of appropriate communication techniques are important, from computer assistive devices, such as those

provided by our Smartbox GRID technology, to British Sign Language and Makaton to ensure their voice is heard. We have implemented Mind of My Own across all our Children's Services to enable us to capture and 'listen' to the voice of the young people in our services and respond to their individual needs.

We spend time to explain how each person's voice can be heard, and what they should do if they think that this is not happening. They are reminded of this on an ongoing basis.

How we engaged during the year

- Each person was formally reviewed against clear progress targets being set by the team supporting the person.
- We utilised surveys, in the form of simple questionnaires, to ensure that our provision was meeting the needs of those in our care. As part of the regulatory inspection process, inspectors met with the people in our care and asked for their feedback, which is included as a key part of the inspection report.
- We supported visiting and contact with parents appropriately and as agreed as part of any care plan. Whilst during the pandemic this was restricted, this has now been fully restored.

Outcomes

- During the pandemic, there was need to keep our sites COVID-19 secure and safety measures were put in place.

Our priorities in 2022 include continuing to ensure that we work towards the aspiration of each person by making every day an extraordinary day and celebrating their successes.

CASE STUDY

Independence for Jake as he embarks on a career in horticulture

At 19, despite the many challenges of autism, Jake has embarked on a career in horticulture – a subject he loves. He proved his ability to work independently on a work placement at a local community garden where his diligent work earned him an invitation to a permanent job. He now works three days a week helping to keep the community parks and gardens maintained.

This transition from school to work was a challenging one for Jake; his autism means that he finds any change to his routine very hard to manage. When the opportunity of the perfect work placement came up, his team at school worked hard to provide him with the support and competences he needed to succeed – and to help him fulfil his ambitions to work in a gardening and landscaping role.

The team's support helped Jake to build his confidence until he felt fully settled in his new environment. Working independently helped him to learn new life skills as well as practical skills, enabling him to develop and grow. This carefully managed support has allowed him to move on and be independent in his new career.

"Jake is very ready to leave the classroom now and have that practical outdoor experience which he loves. He likes the one-on-one interaction with the park ranger and they get on very well so I think it is a perfect choice for his career path and the best outcome for him. We are so delighted to see him thrive in his new-found independence."

Sarah Chatterton, Interim Head of Education, Brook View School

Our approach to engaging with commissioners

The commissioners in local authorities and health bodies across England, Scotland and Wales are key stakeholders for CareTech. The people in our care are typically referred by a social worker or case manager and access to our services is purchased through the authority's respective commissioning teams. The funding of placements is not always met by social care; health commissioners support

the payment of any 'health' component of a care package. Effective engagement and communication with these stakeholders is a priority for the Group.

All staff at CareTech interface in some way either directly or indirectly with local authorities and other commissioners. The Group's business development teams have overall responsibility to ensure that engagement and communication are effective, and, together with operational colleagues, ensure that the Board is fully aware of commissioning trends. Contact with local authorities is at least daily across the Group. This ranges from the daily partnership working with social work teams to ensure that the needs of people in our care are being met, to formal placement and business reviews. These reviews involve our core staff, senior operational colleagues and Directors, depending on the meetings' requirements.

The demonstration of value for the services that the Group provides is objective, and this is demonstrated individually through placement reviews and collectively at a service level review. The sharing of regulatory reports and those conducted by independent visitors allow the ongoing quality assurance of our services to be shared.

The Group's websites detail the specifics of our service offerings. This is under constant review in an effort to maximise the effectiveness of information made available to all stakeholders.

How we engaged during the year

- CareTech's services are present on a multitude of purchasing frameworks across England, Scotland and Wales. These procurement tools allow providers, through a combination of quality and fees, to become a recognised provider aligned to their provision type. This provides a purchasing mechanism to allow the Group to access placement referrals for people whose needs could be met by our services.
- The referral and placement of people takes place daily across the Group. This process involves many people from commissioners and Group staff, with a single focus on understanding and being able to articulate how the needs of a person can be met.
- Operational colleagues have had regular contact with commissioners regarding each placement. Alongside this, there are formal reviews to understand the progress of each person placed and determine any changes to an individual's care plan.
- With the challenges of the pandemic, face-to-face meetings were replaced with video calls with providers and commissioners settling into new and effective ways of communicating.

Outcomes

- Business development teams have had strategic discussions regarding the sufficiency requirements of commissioners and this feedback allowed the planning of future services.
- Senior operational staff, alongside the business development teams, supported 'whole' Authority Business Reviews that allow detailed discussion on performance to take place.

Our approach to shareholder engagement

The Board appreciates that effective communication with the Group'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 Group's strategy, reputation and performance.

The Group 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 Group Executive Chairman and the Group Chief Financial Officer 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 CareTech'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 available to all shareholders and all results, Group announcements and related investor information can be accessed via the corporate website, www.caretech-uk.com. The website is under constant review in an effort to maximise the effectiveness of information made available to shareholders.

The Board embraces open dialogue with shareholders and works with its stockbrokers, Numis and Panmure Gordon to ensure that an appropriate level of communication is facilitated through a series of investor relations' activities.

Engaging with our Stakeholders continued

How we engaged during the year

- Group Executive Chairman and Group Chief Financial Officer reported back to the Board after the investor roadshows.
- Regular, detailed feedback provided to the Board by our stockbrokers, financial public relations and investor relations advisers to inform the Board about investor views.
- Regular meetings between the Group Executive Chairman, Group Chief Financial Officer and Group Chief Operating Officer with institutional investors, sales teams and industry/sector analysts.
- Released regular updates on the operational and financial performance of the Group incorporating occupancy levels, quality ratings, revenue, profitability by division, net debt and appropriate commentary on key business trends.
- The Group Executive Chairman engaged with larger institutional shareholders to discuss matters including the Board, strategy, remuneration and corporate governance.
- All communication from individual shareholders reviewed by management and provided with a response.
- Ensured that all shareholders have equal access to information by making documents presented at investor meetings available on the Group's corporate website: www.caretech-uk.com.
- As pandemic mitigations have eased, we have been able to accommodate shareholder visits to our services.

Outcomes

- Increased focus on ESG matters and our inaugural Purpose Report.
- More time allocated to senior and next-level operational management.

Our approach to engaging with our regulators

CareTech operates in a highly regulated environment. The Group invests heavily in its internal compliance capacity and has established open, transparent, and positive relations with care, health and education regulators in the national and international environments within which we operate.

CareTech sits within the CQC 'Market Oversight' group and complies fully with the financial, business and care regulatory requirements that market oversight brings.

Regulatory requirements differ across both the sectors that we operate in, but also in the devolved administrations of Scotland and Wales. The Group's internal compliance team supports the business to understand and interpret the external regulatory landscape and ensure continued compliance with all regulatory requirements. The ratings across the Group continue to compare well with other providers.

This year has seen the need to engage with regulators in a very different way. COVID-19 has impacted on the regulatory programmes of all of the national regulatory bodies. The first part of the Group's operating year saw the suspension of the vast majority of site inspections and of the awarding of ratings. The Group engaged with the amended regulatory programmes and introduced enhanced risk assessment processes and reporting for all services to provide additional compliance assurance to regulators.

Alongside engagement with regulators, the Group further enhanced strategies and policies for effective data protection information governance, and in meeting health and safety requirements.

How we engaged during the year

- National relationship meetings with Ofsted and CQC.
- On-going dialogue with relationship managers through COVID-19.
- Introductory meetings for newly appointed CareTech senior managers.
- Regular dialogue at regional and local level on services' quality and compliance.
- Participation in consultations and learning events with all regulatory bodies.
- Working closely with the regulator and NHSE/I on services transferred to our Coveberry Group in particular with the CQC to improve a service with an inherited inadequate rating and to address failings in another service to ensure the future operating model meets the Right Support, Right Culture, Right Care national requirements.

Outcomes

- During a period where it was difficult to undertake normal inspections, we worked with the Regulators to facilitate focused inspections and virtual visits to our sites.

Our approach to supplier engagement

The Board is mindful of the importance of ensuring that the Group is able to source a broad range of high-quality products from a base of well-respected suppliers and of being a trusted partner for our suppliers. Sourcing personal protective equipment throughout the pandemic has never been so important as in 2020 as we have depended on it to ensure that we have sufficient stocks and other suppliers for us to be able to deliver care in a safe environment during the pandemic.

How we engaged during the year

- Supplier relationships are primarily managed by our property and procurement team.
- Payment practices are monitored on a monthly basis.
- The Board reviewed and approved the Company's Modern Slavery Act Statement.
- Suppliers must demonstrate that they operate in accordance with recognised standards that uphold human rights and safety and prohibit modern slavery.

Outcomes

- Liaison with suppliers on an individual basis to provide information on the Group's ordering pattern.
- Due to the pandemic, reached beyond the normal supply chain to source new domestic and international suppliers.

How we look after our people

The CareTech Group recognises the increasing importance of engaging with its workforce. Employee engagement is critical in maintaining strong operational delivery, in uncertain times of change. We therefore strive to maintain and create further opportunities to generate dialogue between management and our employees – both directly and through varying channels. The Board believes effective engagement to be a key element of its understanding of the Company's ability to create value as it recognises that our people are our greatest asset. Employee views can help inform the Board on matters such as operational effectiveness, Company culture, key areas of development and risk, and strategy development and delivery.

How we engaged during the year

- Management regularly engages with the workforce through a range of formal and informal means, including via webcasts and emails from the Group Chief Executive Officer and other senior executives, team meetings, and face-to-face gatherings where safe to do so in line with COVID restrictions.
- We gain feedback from colleagues through a full annual survey which is analysed by the Board and Executive Committee with action plans put in place to respond to findings.

Outcomes

- Increased investment in wellbeing support for colleagues (see page 23).
- Ongoing work to create a culture of recognition and praise.
- Inaugural Staff Consultative Committee.

The CareTech Group recognises the increasing importance of engaging with its workforce. Employee engagement is critical in maintaining strong operational delivery, in uncertain times of change.

Statement by the Directors

in performance of their statutory duties in accordance with s172(1) Companies Act 2006

Throughout this Annual Report, we provide examples of how we:

- take into account the likely consequences of long-term decisions;
- take into account the interests of the Company's employees;
- foster relationships with our suppliers, customers and others;
- have a positive impact by the Company's operations on the community and environment;
- attribute importance to behaving as a responsible business; and
- act fairly between members of the Company.

The Board of Directors of CareTech Holdings PLC consider, both individually and together, that they have acted in the way they consider, in good faith, would be most likely to promote the success of the Company for the benefit of its members as a whole (having regard to the stakeholders and matters set out in s172(1)(a-f) of the Act) in the decisions taken during the year ended 30 September 2021.

| Reporting requirement | Explanation | For more information |
|---|--|--|
| The likely consequences of any decision in the long term | All decisions are made with long-term consequences in mind and aligned to our core purpose. | → Our business model page 08 |
| | We maintain a conservative funding structure and a progressive dividend policy. | → page 47 |
| The interests of employees | Our annual employment survey was completed with positive feedback. Inaugural Staff Consultative Committee held to ensure that the voices of our staff are at the heart of our business. | → page 36 |
| The need to foster business relationships with suppliers, commissioners and others | The Board has identified the Group's key stakeholders to be people in our care, employees, commissioners, shareholders, suppliers, regulators, lenders and communities. Regular communication takes place to listen and encourage participation from all our stakeholders. | → pages 47 to 51 |
| The impact of operations on the community and the environment | In 2021, we developed our new Responsible Business strategy – CARE4, and donated £1.2m to the CareTech Foundation to support the wider social care sector. | → Our approach to responsible business page 54 |
| | | → CareTech Foundation page 61 |
| The desirability of maintaining a reputation for high standards of business conduct | We remain committed to becoming the highest quality provider of care, education and therapeutic support. We believe good governance is vital, and having clear divisions of responsibilities and roles. | → Our approach to responsible business page 54 |
| The need to act fairly between members of the Group | The Board embraces open dialogue with all stakeholders and works with its brokers to ensure an appropriate level of communication is facilitated. | → Our shareholder engagement page 81 |

Employee engagement is critical
in maintaining strong operational
delivery, in uncertain times of change.

Operating Responsibly

COMMITTED TO ACTING RESPONSIBLY

Carbon emissions

CareTech recognises that our global operations have an environmental impact and we are committed to monitoring and reducing our emissions year-on-year. We are also aware of our reporting obligations under The Companies (Directors' Report) and Limited Liability Partnerships (Energy and Carbon Report) Regulations 2018. As such, this year we have continued our energy and carbon reporting to meet these new requirements and increase the transparency with which we communicate about our environmental impact to our stakeholders.

2021 performance

This year we have calculated our environmental impact across the required scope 1, 2 and 3 (selected categories) emission sources. Our emissions are presented on both a location and market basis. On a location basis our emissions are 12,971 tCO₂e, which is an average impact of 1.6 tCO₂e per FTE and an increase of 10% from 2020. Our market basis emissions are 10,265 tCO₂e, which is an increase of 10% from 2020. We have calculated emission intensity metrics on a per FTE basis, which we will monitor to track performance in our subsequent environmental disclosures.

During 2021, we have worked towards improving data quality (better data from more sites) that has resulted in increases in reported emissions as the standard data underestimated the position. We do not believe there is any material increase in real emissions and are satisfied that 2021 data provides a robust baseline from which to calculate our emissions reduction plan.

Energy and carbon action

In the period covered by the report the Company has undertaken the following emissions and energy reduction initiatives:

- We commissioned a project to update our EPCs, providing us with a benchmark Energy Performance per property type and understand where we can best focus our energy reduction strategies.
- As the boilers in our services come to the end of their lifespan, we replace them with newer more efficient condensing boilers.

- Newly installed or upgraded radiators are fitted with a thermostatic valve and the systems balanced.
- We upgrade to LED lightings when refurbishing services and when current fittings come to the end of their lifespan.
- We have domestic kitchens in all our services and choose AA-rated energy efficient ovens, fridges, freezers when replacing or upgrading.
- We replaced 60 of our fleet vehicles with newer more fuel-efficient models and started a programme of ordering electric and hybrid vehicles, both these initiatives will expand in the 2022 period.

CareTech recognises that our global operations have an environmental impact and we are committed to monitoring and reducing our emissions year-on-year.

2021 results

The methodology used to calculate the GHG emissions is in accordance with the requirements of the following standards:

- World-Resources Institute ('WRI') Greenhouse Gas ('GHG') Protocol (revised version).
- Defra's Environmental Reporting Guidelines: Including Streamlined Energy and Carbon Reporting requirements (March 2019).
- UK office emissions have been calculated using the Defra 2020 and 2021 conversion factor repository.

Following an operational control approach to defining our organisational boundary, our calculated GHG emissions from business activities fall within the reporting period of October 2020 to September 2021 and using reporting period of October 2019 to September 2020 for comparison.

Emissions and energy usage

| | Emissions Source | Emissions tCO ₂ e | | Variance |
|---|---|------------------------------|-------------------|------------|
| | | 2020 | 2021 | |
| Scope 1 | Natural gas ⁽ⁱ⁾ | 3,179 | 4,779 | 50% |
| | Other fuel types ⁽ⁱⁱ⁾ | 1,195 | 1,387 | 16% |
| | Company and leased cars | 3,914 | 3,433 | -12% |
| Total Scope 1 | | 8,288 | 9,599 | 16% |
| Scope 2 | Electricity | 3,108 | 2,751 | -11% |
| Total Scope 2 | | 3,108 | 2,751 | 11% |
| Scope 3 | Electricity transmission and distribution | 267 | 243 | -9% |
| | Employee cars ⁽ⁱⁱⁱ⁾ | 166 | 378 | 128% |
| Total Scope 3 | | 433 | 621 | 43% |
| Total (Market-based) | | 9,307 | 10,265 | 10% |
| Total (Location-based) | | 11,829 | 12,971 | 10% |
| Total Energy Usage (kWh)¹ | | 53,011,194 | 70,852,968 | 34% |
| Normaliser | tCO ₂ e per FTE | 1.6 | 1.6 | -% |

Table 1 – Energy

- (i) **Natural gas** During 2021, we have worked towards improving data quality (better data from more sites) that has resulted in increases in reported emissions as the standard data under-estimated the position. We do not believe there is any material increase in real emissions and are satisfied that 2021 data provides a robust baseline from which to calculate our emissions reduction plan.
- (ii) **Other fuel types** Improved data quality has provided greater accuracy with reference to use of other fuels (e.g. heating oil) data for which was unavailable previously.
- (iii) **Employee cars** The reported year-on-year increase is primarily due to greater data accuracy. Employee mileage data is difficult to obtain and the estimation protocol means that emissions are more likely to be over-estimated than under-estimated. During 2022, we will work to improve data accuracy to inform our decarbonisation plans and will also launch a staff travel programme.

¹ Energy reporting includes kWh from scope 1, scope 2 and scope 3 employee cars only (as required by the SECR regulation).

Operating Responsibly continued

CASE STUDY

Reagan regains his independence

"If I can walk again, I can do everything else again!"

When Reagan left hospital and moved into Clock Tower Mews in August 2016, he hadn't walked since February of that year. By June 2020, with our expert support, Reagan had started to stand and walk with staff holding him gently and, by the end of the year, he was walking unaided. By 2021, Reagan was happily and freely walking around his home on his own.

"Reagan is very independent now; if he fancies a snack he will walk into the kitchen and get one for himself. He's much more able to make his own decisions, which has been life changing for him. There are particular toys and music he likes and if he wants to watch TV he will just pick up the remote control to change the channel and choose what he wants to watch. He has not only gained independence in a physical way but has also grown in confidence and is trying new things. He never enjoyed drawing but he is actually picking up a pencil and drawing pictures now. So, it's not just his walking; this has boosted his self-confidence completely. Now his attitude is 'If I can walk again, I can do everything else again!'"

Reagan's Support Worker, Helen

OPERATING RESPONSIBLY

We are proud of the life-changing results that we achieve for individuals in our care. Our shared purpose to build independence for our service users means that a focus on quality care and good governance has always been central to the way we operate.

We aim to ensure that our staff are provided with opportunities to develop their skills and careers, as well as the opportunity to participate in Company ownership.

The pandemic, and rising concerns about climate change, resource scarcity and human rights have made it clear to us that sustainably – operating responsibly – is a business imperative.

Building on our inherent culture of responsibility, in 2021, we have made a commitment to new strategies to address urgent environmental issues, alongside further enhancing our people policies that are focused on equally important human issues such as diversity, equity and inclusion.

Published alongside this year's Annual Report is our first Purpose Report, which describes this exciting new strategic approach and how it is central to the way we do business.

CARE4 – Responsible business at CareTech

CARE4 is our new Responsible Business strategy. We have developed a framework (see facing page) that reflects the material issues for our business and sets key commitments to measure progress. It is rooted in our corporate purpose: building independence, to enable better futures.

We will continue to develop this approach in 2022 as we seek to build our business on truly sustainable foundations. To ensure that this vital work maintains momentum, we have appointed our first ever Sustainability Director who will drive the agenda in parallel with our business development agenda.

We will report our progress using an ESG framework alongside our own Purpose Report that will focus on the considerable social impact of our business – enabling more independence on an everyday basis.

Our strategy focuses on four key areas – **CARE4 Planet, CARE4 People, CARE4 Innovation, and CARE4 Communities.**

Social impact

Our purpose is to enable children, young people and adults with complex needs to make their own life choices, and to develop confidence and independence to live, learn, thrive and engage, building a better future. We describe this as providing **Extraordinary Days, Every Day.**

We will quantify, establish goals and report on the social impact of delivering our core purpose of building independence for better futures.

Our commitment:

We will establish a robust set of Social Impact Indicators and reporting methodology so that we can measure and report on the social impact of delivering our core purpose.

CARE4 Planet

We know that healthy lives go hand in hand with a healthy planet. We are committed to caring for the wellbeing of our planet to safeguard all our futures.

CARE4 People

Our business exists to facilitate better lives — for the people in our care and the people who work for us. We aim to be the sector's best workforce and so we offer market-leading employment opportunities, creating better futures for our employees.

Social Impact

The purpose of our business is to enable children, young people and adults with complex needs to make their own life choices, and to develop confidence and independence to live, learn, thrive and engage, building better futures.

We believe that good business creates value for society as well as for those whom we care. Our innovative approaches will expand our business for a successful future, helping us to enable independence for more people, positively impacting more lives.

Thriving communities are central to our success and we aim to be an active contributor in all the locations in which we operate. We also support the vital role of the wider social care sector through the CareTech Foundation.

CARE4 Innovation

CARE4 Community

Governance

Our belief in creating value for all of our stakeholders drives our commitment to good governance, transparency and effective engagement with all involved in our business, safeguarding its long-term success.

Operating Responsibly continued

| | | |
|---|--|--|
| <p>CARE4 Planet – a better future for the planet</p> <p><i>We know that healthy lives go hand-in-hand with a healthy planet. We are committed to caring for the wellbeing of our planet to safeguard all our futures.</i></p> <p>Our commitment:</p> <p>We will be a Net Zero business by 2050.</p> <p>Aligned to the UK Government's Net Zero by 2050 target, we are on a pathway to reduce our Scope 1, 2 and 3 carbon emissions to a minimum by 2050. We currently intend to offset any residual emissions through accredited capture or storage schemes such as those certified by Verra.</p> <p>During 2022, we will set out a carbon reduction plan to reduce energy usage wherever possible across our business.</p> | <p>Progress to date</p> <p>Our carbon footprint</p> <p>To meet our reporting obligations under The Companies and Limited Liability Partnerships (Energy and Carbon Report) Regulations 2018, we publish our carbon footprint annually in our Annual Report. CARE4 increases our focus on carbon emissions and sets a clear reduction target and a commitment to developing a carbon reduction plan compliant with Task Force on Climate-Related Financial Disclosures' requirements in 2022.</p> <p>In 2021, our carbon footprint was 70,853 tCO₂e, an increase of 34% vs 2020. This increase is primarily due to improved data and transparency in our second year of reporting. During 2022, we are committed to further improving data collection and developing a carbon reduction plan.</p> <p>Scope 1 accounts for 74% of our emissions and this is dominated by our fleet and our property energy consumption. We are transitioning our fleet to hybrid, electric and low-emission vehicles and have already removed diesel vehicles as an option for Company cars and offered staff a Cycle to Work scheme.</p> <p>One Planet Living – A grassroots campaign for sustainability</p> <p>One Planet Living is a framework for sustainability developed by Biorregional and we are currently piloting this approach in some of our key services, enabling management teams, staff and residents to develop their own plans to improve sustainability at every location.</p> <p>Using the One Planet Living ten principles, the teams will develop their plans in alignment with CARE4 commitments, helping us to meet our coupable targets with a grassroots campaign. Longer term, this will help us to activate improvements across all of our services. Our ambition is to implement the campaign nationally once the pilots are validated.</p> | <p>One Planet Living – A grassroots campaign for sustainability</p> <p>One Planet Living is a framework for sustainability developed by Biorregional and we are currently piloting this approach in some of our key services, enabling management teams, staff and residents to develop their own plans to improve sustainability at every location.</p> <p>Using the One Planet Living ten principles, the teams will develop their plans in alignment with CARE4 commitments, helping us to meet our coupable targets with a grassroots campaign. Longer term, this will help us to activate improvements across all of our services. Our ambition is to implement the campaign nationally once the pilots are validated.</p> |
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CARE4 People – a better future for our people

Our business exists to facilitate better lives – for the people in our care and the people who work for us. We aim to be the sector's best workforce, offering market-leading employment opportunities and creating brighter futures for our employees.

Our commitment:

We will be an employer of choice, investing in our people and valuing their diversity.

We will ensure strong, fair and inclusive front-line leadership through our CareTech Management Development Programme. We will launch our new Diversity Equity & Inclusion Strategy, driving fairness and equity across all that we do.

Progress to date

Rewarding our people

We recognise the importance of fair terms and conditions for our staff.

Leadership and management

Our **CareTech Leadership and Management Academy** offers personal development for front-line staff through to senior operational leaders. The Academy provides a variety of programmes to develop the leadership knowledge, understanding, skills and competences of our leaders, focused around achieving Good and Outstanding outcomes in a social care setting.

Our **CareTech Management Development Programme** embeds our values and behaviours into the leadership DNA across the Group. We reinforce this through our **CareTech Senior Coaching and Mentoring Programme** to ensure that our leadership approach is embedded in everything we do.

Training and development

All staff have access to a formal induction process. This begins with mandatory induction and statutory training during the first six months of their employment. Our e-appraisal system – 'Job Chat' – enables staff to identify their career aspirations. We also support individuals through a range of personal development opportunities, including apprenticeships.

Sharesave Scheme

We believe that our staff should benefit from the success and growth of the organisation. We are now in our third cycle of our Sharesave Scheme, which allows staff to save between £5.00 and £500 per month for a period of three years. At the end of the three-year period, the scheme matures and staff are able to redeem their investment and hold or sell those shares as they choose.

Reward and recognition

CareTech launched its Thank You initiative in 2021. This drives recognition of our staff on a daily basis, making staff recognition a key part of our DNA. We have distributed over 2,500 thank you cards to staff across the business, accompanied with reward vouchers.

CARE4 Innovation – a better future for business

We believe that good business creates value for society as well as for those we care for. Our innovative approaches will help expand our business and secure a successful future, helping us to enable independence for more people and positively impact more lives.

Our commitment:

We have established our new CareTech Technology division to spearhead our technology and innovation agenda.

CareTech aims to become a digital leader in the disability and specialist social care sectors by developing an end-to-end pathway of innovative services that blend care and technology. Building on our maiden investment in Smartbox, we will accelerate the pace of our investment and development of innovative digital solutions to reach more people around the world who can benefit from these technologies. We will continue to modernise our business approach across all areas of the Group, embracing new ways of providing high-quality care.

Progress to date

Augmentative and Alternative Communication ('AAC')

Smartbox will enable more disabled children and adults to have a voice and live more independently. This exciting assistive technology includes their flagship AAC platform. This supports a wide range of conditions and literacy levels with features for symbol and text communication, accessible apps, environment control, internet browsing and much more.

Operating Responsibly continued

Our recent acquisition of REHAVISTA GmbH will provide unparalleled expertise in Germany, estimated to be the second largest funded AAC market globally after the USA. With its deep knowledge of assistive technology and established routes to market, this acquisition provides a significant opportunity for Smartbox to expand the products and services available in Germany, expanding on the existing partnership between Smartbox and REHAVISTA, and across Smartbox's global customer base, which spans more than 30 languages and 45 distributors.

Purple

Purple, is a thought leader at the forefront of changing the disability conversation for disabled people in businesses, communities and government. The aim is to move the conversation from one anchored in welfare charity and vulnerability to one of value contribution and opportunity.

Purple supports over 4,500 disabled people to live independently in the community using a local authority direct payment for personal health budget from clinical commissioning groups) which enables them to manage their own care and employ carers of their choice. It also supports people into employment with a range of training programmes to build confidence and skills.

Purple helps businesses improve accessibility to enable greater independence for disabled people. Our highly successful Purple Tuesday event involved over 5,000 organisations making commitments to improve the disabled customer experience.

CARE4 Communities – a better future for our communities

Thriving communities are central to our success and we aim to be an active contributor in all the locations in which we operate. We also support the vital role of the wider social care sector through the CareTech Foundation.

Our commitment:

We will donate 2.5% of our pre-tax profits to the CareTech Foundation.

In addition to the financial support, we will increase the opportunities for staff to engage with and support the Foundation's work, including through skills-based volunteering.

Progress to date

CareTech Foundation

In the year to September 2021, the Group made charitable donations through the Foundation of £1.2m (2020: £0.7m).

As the Foundation's Impact Report 2020 shows, it is delivering a powerful positive difference to individuals' lives, including:

- 359 young people now have employability skills and qualifications thanks to the partners supported;
- 173 people now employed in the health and social care sector;
- 41,771 people in Pakistan now have access to mental health support; and
- providing the special hand cycle for a foster child with cerebral palsy that enabled this little girl to ride a bicycle for the first time.

Apprenticeships

In 2020/21 we supported over 665 new apprentices, with a total of 1,355 people on our apprenticeship scheme nationally.

The majority of our staff live locally, meaning that we offer attractive employment opportunities to the community.

Our schools and homes participate in local events (eg fetes), using them to build community relationships and raise funds for special projects.

Governance and transparency

CARE4 is underpinned by our rigorous commitment to governance – an essential aspect of this innovative approach. Our belief in creating value for all of our stakeholders drives our commitment to good governance, transparency and effective engagement with all involved in our business, safeguarding its long-term success.

Our commitment:

We will create a Staff

Consultative Committee to ensure that the voices of our staff are at the heart of our business.

This will ensure that our people play an integral role in defining the organisation's journey. The Committee will have Board sponsorship and a direct reporting line to the Board.

During 2022, we will further develop the ambition of CARE4 to help us to formalise and implement the Responsible Business agenda at CareTech, and to deliver on our ambition to lead the sector in this critical work to enable a better future for all.

THE CARETECH FOUNDATION

The CareTech Foundation was established in 2017 to champion and support the social care sector, care workers and those living in care through our four grant streams. The CareTech Charitable Foundation is an independent grant-making corporate foundation registered with the Charity Commission. Funded and founded by CareTech, the Foundation has an independent Board of trustees responsible for delivering its charitable objectives.

The CareTech Foundation delivers meaningful impact to communities in the UK and overseas. Its work focuses on the following three key objectives:

- Physical and learning disabilities and mental health. Supporting disabled people and those with long-term health difficulties, including those with mental health conditions and complex physical and learning disabilities.
- Skills development for the care sector. Skills development for those from deprived and disadvantaged backgrounds for careers in the care sector.
- Supporting our communities. Supporting the family and friends of CareTech PLC employees facing significant financial challenges as well as issues facing local communities.

In the year to September 2021, the Group made charitable donations through the Foundation of £1.2m (2020: £0.7m).

In its first three years, the CareTech Foundation has already supported over 1,550,000 people as well as delivering a social media campaign on mental health reaching 16.8 million people in Pakistan.

Developed by independent impact researchers, the Foundation's Impact Report 2020 shows that the Foundation is delivering a powerful-positive-difference-to-individuals' lives. Key achievements include:

- 359 young people now have employability skills and qualifications thanks to the partners supported;
- 73 people now employed in the health and social care sector;
- 95,941 people in Pakistan now have access to mental health support; and,
- a special hand cycle provided for a foster child who has cerebral palsy enabling this little girl to ride a bicycle for the first time.

The CareTech Foundation delivers meaningful impact to communities in the UK and overseas.

Operating Responsibly continued

Partnership grants

The Foundation delivers its charitable objectives through its Partnership Grant scheme. It supports a number of significant partnerships with credible high-quality charities and social enterprises consistent with its three key objectives. To be considered for the Foundation's support, any partnership must:

- Involve medium to long-term investments in innovative and high-impact programmes that will deliver one or more of the Foundation's objectives.
- Demonstrate and be contingent upon any investment by the Foundation leveraging additional investment.
- Enable the Foundation to provide wider in-kind support through the expertise of the Group's staff, supply chain and wider network.

The number of Partnership Grants supported by the Foundation up to the end of FY2020/21 has grown to 16, with the following new partnerships added this year:

- Open University – Carers' Scholarships Fund. This exciting new programme, designed by Open University, aims to offer 50 full-fee waiver scholarships to carers so they will be able to study flexibly towards a higher education qualification.
- The Prince's Trust – Securing 10,000 jobs for young people in health and social care. Over the next four years The Prince's Trust, together with the NHS and Health Education England, will support 10,000 young people into careers within the NHS and wider health and social care sector.
- Autistica – Social Care Action Fund. The Social Care Action Fund supports a wave of new research to help show what high-quality social care looks like for autistic adults and how it can be delivered effectively in the real world.
- OnSide Youth Zones – Bridging the Gap. Bridging the Gap is a mental health project that will help fill a critical gap in providing accessible, stigma-free, multidisciplinary mental healthcare to young people aged 8 to 19, or up to 25 with additional needs, who have (or are at risk of developing) low level or emerging mental health issues.
- Carers Worldwide. Upscaling and expanding a successfully tested approach to support 1,002 unpaid family carers of people with disabilities in Savar, Bangladesh.
- Transform Society. The Foundation commissioned Transform Society to conduct a feasibility study to test the viability of a 'Teach First' and 'Police Now' style leadership and talent management programme for the social care sector.

- Royal National Institute for Blind People. The Foundation's support will help to establish the Vision Friends Network, training 40 staff in CareTech PLC to detect and support beneficiaries with sight-related impairments. In addition, 110 staff will be trained in detection and two networking events will be hosted through the programme.

During 2020/21, the Foundation has supported Partnership Grants to a value of over £555,000.

CASE STUDY

Through CareTech Foundation's support, DePaul UK's mental health and wellbeing intensive workshops were delivered to 48 homeless young people in North East England.

91% of participating young people, who identified health and wellbeing as an area for concern, experienced positive change by the end of the programme.

Community grants

The Foundation delivers a small grants programme to support the communities, families and friends of Group staff facing significant financial hardship or for issues affecting local communities. These grants are open to staff members of the Group to support the positive contributions they make to their communities and through volunteering.

Demand for the Foundation's community grants increased steadily again this year. During 2020/21, the Foundation has supported 50 grants to a value of £74,584.

Match funding

The Foundation provides match funding to CareTech's staff individual fundraising efforts for charitable causes in line with the Foundation's Charitable Objects. During 2021, the Foundation supported 51 Match Fund grants to a total of £13,701.

Staff Hardship Fund

As part of its overall charitable donations, the Company provides a limited donation to support the Foundation's Staff Hardship Fund. Demand was significantly higher this year due to the impact of COVID-19 and the trustees agreed to divert additional funds to this grant stream. During the year, the Foundation supported 87 grant applications totalling £54,141.

CASE STUDY

The world-first ToddlerLab at Birkbeck University's Centre for Brain and Cognitive Development, supported by CareTech Foundation, has now finished construction, enabling researchers to study toddlers in natural environments. The CareTech Foundation Home Lab will transform our understanding of neurodevelopmental conditions.

"Last year, we built an impact framework to help the CareTech Foundation measure and report its impact. This year, it is fantastic to be able to share the growth in the reach of the Foundation, but more importantly the difference that it has made through increased resilience and sustained employment. It is rewarding to work with the Foundation to understand how these insights can help increase its social impact still further."

Charlotte Turner – Director, Bean Research

Our Divisional Performance

Adult Services

| | September 2021 | September 2020 |
|--|----------------|----------------|
| Revenue | £169.7m | £136.2m |
| Underlying EBITDA before unallocated costs | £38.4m | £35.7m |
| Underlying EBITDA margin | 22.6% | 26.2% |
| Capacity | 2,104 | 1,997 |

Our Adults Services operate across England and Wales and we support 1,816 people in our care.

The service offering falls into two categories:

- Supporting adults with learning disabilities, including autism, physical disabilities and or mental health illness, often with a combination or multiple diagnoses. Working in partnership with health and social care professionals, we enable people who use our services to fulfil their goals by either residing in our fully residential care homes or a supported living service.
- Providing care, treatment and support to adults who require a significant portion of their care – whether long or short term – within a hospital environment. Our pathway is to support our patients to move to a supported community-based setting. The care we provide is person-centred, and each person who uses our services is supported to develop skills that enhance their independence.

The COVID-19 pandemic has been unprecedented and presented multiple challenges for the adults that we support, our staff, society and infrastructure as whole. We have just under 5,000 staff, who continued to work through incredibly difficult circumstances and provided first-class care to everyone that we support. The new norm was quickly adopted and **Extraordinary Days, Every Day** continued. Our people rose to the challenge and, despite the hurdles of self-isolation, PPE and travel restrictions, they went above and beyond to continue to deliver care and support to those who needed it most. Our gratitude to our staff for their contribution and efforts is immense.

Our normal regulators' inspection cycles were paused during 2020 on account of the pandemic, but recommenced in early 2021. We concluded the year with 86% of services being rated as Outstanding or Good, which was above the sector average.

Within the year we continued to invest in our services and demonstrated tangible outcomes for the people in our care, with initiatives such as Smartbox.

Mental and learning disability health and social care continue to be an area of priority for the government, hence there has not been the funding squeeze experienced in other areas. Further, the market continues to grow, supporting more complex needs for younger adults to live as independently as possible. As such the neuro-rehabilitation part of our business, which covers strokes and brain injuries, has continuous ongoing developments. We are also evaluating further opportunities to expand our community-based living 'intensive' support programme to drive the personalisation agenda.

Adults Services has been robust and resilient through the pandemic. Revenues increased by 24.6% to £169.7m and underlying EBITDA by 7.5% to £38.4m. Underlying EBITDA margin has fallen during this year due to the lower initial margins at the recently acquired assets transferred from The Huntercombe Group.

2022 priorities

- Quality
- Outcomes rated framework (see Care Quality & Governance Committee on page 86)
- Extend the use of Smartbox

We have just under 5,000 staff, who continued to work through incredibly difficult circumstances and provided first-class care to everyone that we support.

Children's Services

| | September 2021 | September 2020 |
|--|----------------|----------------|
| Revenue | £268.6m | £252.9m |
| Underlying EBITDA before unallocated costs | £76.2m | £69.6m |
| Underlying EBITDA margin % | 28.4% | 27.5% |
| Capacity | 2,000 | 1,959 |

Operating through eight individual brands, our Children's Services include an extensive range of services across England, Scotland and Wales. These services meet the specific needs

of children and young people with a variety of complex needs. The range of services that we provide support the appropriate Care Pathway planning of young people through their childhood and as they transition to adulthood. Our services fall into three categories for young people whose primary needs can be supported through: Specialist Residential Care (children's homes) and Specialist Education (day and residential) Schools and Colleges.

The COVID-19 pandemic presented a significant challenge to our services. The majority of our young people could not simply 'go or stay at home' and our staff continued to support our services despite some of the most difficult circumstances. Going above and beyond became the norm, and the extraordinary became the ordinary. We are grateful to all our staff for their efforts and to the difference they made to the young people we support.

Our normal regulators' inspection cycles were paused during the pandemic, however, these recommenced in early 2021.

On 12 March 2021, the Competition Markets Authority launched a market study into the supply of children's social care placements in England, Scotland and Wales. In September they confirmed the decision not to progress to a market investigation. The government also consulted within the year on the use of unregulated services to support young people. We welcome and support the proposal for greater regulation of such services.

Within the year, we have continued to invest in our services and demonstrated tangible outcomes for the young people whom we support through three key initiatives:

1. We have implemented Mind of My Own across all our Children's Services to enable us to capture and 'listen' to the voice of the young people in our services and respond to their individual needs.
2. We are piloting an outcomes rating scale that we intend to adopt across our services. This will enable the progress of young people to be quantified and demonstrated to funders.
3. Through Smartbox and the 100 Voices project we have made significant progress towards making two of our schools 100% Smartbox enabled. These schools support students with autism and other associated complex needs. These students have significant communication difficulties and traditionally communication with these students would be supported through static symbols. With the whole school adopting Smartbox these students are now able to communicate as they have never done before as all staff (care, teaching, therapy and ancillary) have a consistent approach to communication. Smartbox will become a core part of our standard offer in these schools.

The demand for our services remains high, with young people's presenting needs tending to be ever greater. Despite the pandemic we have continued to extend our services through the development of new specialist residential homes and schools. Our growth is focused on meeting the demands of the market (solo and dual homes to support the more complex children) as well as adding 'spokes' to ensure optimal operating efficiency of existing services. We are pleased that this growth is across all our specialist services.

Within the year, we opened an additional 11 homes, increasing our capacity by 22 beds and deployed £4.4m capital. We can expect to at least achieve the same additional increased capacity within the coming year.

Our staff underpin all that we achieve with the young people whom we support. We are pleased to have launched our Management Development Programme to support the continued development of our staff, to provide meaningful career progression and to grow our own talent for the future. The attraction and retention of staff remains a key focus.

2022 priorities

- Increase capacity through developments focused on meeting the demands of the market
- Extend the use of Smartbox to young people across all our services where there is a need
- Outcomes-rated framework

Our Divisional Performance continued

CASE STUDY

Independence for Kelly as she moves into her very own flat

When Kelly joined us, she was very high risk to herself, with self-harm and extremely challenging behaviours a constant problem. Her mental health issues had meant she had been living in hospital for eight months and was unable to manage daily life by herself.

Kelly now lives in a Supported Living setting with us (meaning she has her own private space with professional support on hand as needed). This gives her much-needed privacy, independence and security.

When Kelly first moved into her flat, she was very nervous about using the oven and microwave; with our support she confidently uses her kitchen appliances and cooks for herself independently. She is free to spend time in communal areas with others when she wants to and can return to her flat when she feels the need for privacy.

This specialist environment enables us to provide Kelly with the professional support she needs whilst encouraging her to become independent. It has given her a sense of belonging and boundaries; she understands that support is available at specific times and at other times she is responsible for herself. She has learned to recognise and build healthy relationships, a huge change from when she first arrived.

Having her own personal space has greatly contributed to Kelly's positive outcome; she has inspired staff with her amazing progress and becomes more and more independent with every day.

Foster Care

| | September 2021 | September 2020 |
|--|----------------|----------------|
| Revenue | £38.2m | £40.9m |
| Underlying EBITDA before unallocated costs | £7.7m | £8.6m |
| Underlying EBITDA margin | 20.2% | 20.9% |
| Capacity | 875 | 1,028 |

Foster care is undoubtedly the best care solution for most 'looked after' children. Most children thrive in foster care where they are supported within an ordinary family home and with trained foster carers. CareTech provides for both mainstream and specialist foster care through local agencies across the UK. We offer a highly respected service for physically and intellectually disabled children as well as support for children with sensory impairments. We provide foster care family assessments and ongoing support to children who remain with their birth families and in their family home.

Revenue and underlying EBITDA for Foster Care decreased to £38.4m and £7.7m respectively. Capacity decreased by 153 places, as available capacity was not always fully utilised due to a number of solo placements, COVID-19 restrictions, foster parent leavers and in some cases young people remaining in placement post-independence.

Looking forward, we are training our foster carers with the skills required to manage placements that are more complex. We have also linked Fostering Care Services with our Children's Services residential team to provide an effective Care Pathway.

2022 priorities

→ Maintain presence in terms of placements and fees in a highly competitive market

Foster care is undoubtedly the best care solution for most 'looked after' children. Most children thrive in foster care where they are supported within an ordinary family home and with trained foster carers.

Digital Technology

| | September 2021 |
|--|----------------|
| Revenue | £12.9m |
| Underlying EBITDA before unallocated costs | £2.4m |
| Underlying EBITDA margin | 18.8% |

Following the acquisition of a majority holding in Smartbox in October 2020 a new Digital Technology division has been created.

Smartbox Assistive Technology is a leading global provider of Augmentative and Alternative Communication (AAC) solutions, which support disabled children and adults to have a voice and greater independence.

Smartbox became part of the CareTech group in October 2020. Over the past 12 months the business has seen rapid growth, with revenue of £12.9m and underlying EBITDA of £2.4m. Working closely with the new Digital Technology Division a five-year strategy has been developed, which includes investment in new product development, building Smartbox's presence in the US and supporting growth of their global distribution network.

During their first year as part of the Group, Smartbox has been working closely with care and education services provided by CareTech and Cambian. A pilot project titled 100 Voices is enabling the teams to support 58 children and 42 adults across their services to receive the assistive technology and specialist support needed to communicate and achieve independence. It is also helping the Group to better understand how we can develop future products and services to unlock better outcomes for users through technology and innovation.

Smartbox has a robust roadmap of product and service development, building on insight from AAC users, their families and professionals supporting them. Throughout 2021, Smartbox launched a number of pioneering products to help people achieve more with their technology:

- **Lumin-i** is a new eye-gaze technology that enables people with a physical disability to operate a computer using their eyes, built in collaboration with Smart Eye – a Swedish company that creates products for NASA, BMW and Thales. It offers incredibly responsive performance and is available exclusively for Smartbox customers with Grid Pad 12 and Grid Pad 15 communication aids.
- **Grid Pad 10s** is a dedicated, multi-access device designed for people who want a portable and rugged communication aid. Its high-quality engineering and unique set of features provide a next-generation AAC device designed with independence and durability in mind.
- **Voco Chat** is a symbol vocabulary with a low-cell count, designed for people of any age who need larger cells. Message pathways enable users to participate more, engage in conversations, be more independent, and talk about important topics such as mental health and wellbeing.

On 29 November 2021, we announced the acquisition of REHAVISTA GmbH ('REHAVISTA') and its subsidiary LogBUK. REHAVISTA is Germany's largest provider of AAC products and services. LogBUK is a subsidiary company to REHAVISTA, providing independent speech and language therapy to help AAC users achieve the best outcomes through specialist clinical support.

REHAVISTA's reach and expertise is unparalleled in Germany, estimated to be the second largest funded AAC market globally after the US. With its deep knowledge of assistive technology and established routes to market, this acquisition provides a significant opportunity for Smartbox to expand the products and services available in Germany, expanding on the existing partnership between Smartbox and REHAVISTA, and across Smartbox's global customer base, which spans more than 30 languages and 45 distributors.

2022 priorities

By maintaining a collaborative approach to delivering on the Company's purpose of enabling people to live a more independent life, Smartbox is set to see significant growth in 2022 and beyond. Key priorities are:

- Invest in Smartbox's US operation and support the rapidly increasing demand across funded states
- Integrate REHAVISTA
- Research and Development
- Further investments across the Digital Care Pathway

Principal Risks and our Strategic Response

Social care is a long-term contract with the public sector and is inherently free of risk so long as quality is maintained, outcomes are achieved and the price is right. However, social care does carry risks that will always be at the forefront of our minds. The most obvious risk is that a tragedy will occur and that the Group will be held to blame. We take that risk very seriously. Our principal risk management strategy is to ensure that our staff are recruited well, are trained and supervised properly and are subject to rigorous quality oversight.

In addition, we know from experience that processes and documentation must be very carefully observed and constantly reviewed to ensure that it protects service users and provides the Group with a defensible position in the case of tragedy.

These matters, along with general safeguarding are subject to intense scrutiny by our in-house compliance and quality teams and Board-level oversight.

Managing and mitigating risk

All providers of health and social care are conscious of the need for management vigilance and the requirement to have a thorough commitment to delivering care that is safe and of a high-quality. CareTech's approach to quality and safe service delivery is characterised by a mixture of a dedicated compliance team carrying out regular inspection audits and a commitment to building quality into everything we do.

We maintain a Risk Register, which includes all key risks and how these are mitigated through quality of service and good communication with service users and local authorities. The Risk Register is reviewed monthly.

Emerging risks

The Board have considered long-term trends in the social care sector that could present both a risk and an opportunity for CareTech. Any new emerging risks identified by the Executive Committee are considered in more detail and reported to the Board. The collective area of ESG risk is considered an emerging risk for the Group. Key topics include the impacts of climate change, environmental management and compliance with relevant laws and regulations. Recent years have seen growing pressure and scrutiny across all businesses to behave in an increasingly sustainable manner, and to be more transparent in doing so. We are working towards publishing our first Purpose Report in early 2022 which will set out our sustainability targets.

We thoroughly review our operations on a regular basis and, in conjunction with the approach outlined above, the Directors believe this achieves a robust assessment of principal and emerging risks.

Our principal risks

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

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

1. RECRUITING AND RETAINING HIGH-QUALITY STAFF

| Description | Movement vs prior year | Mitigating Factors |
|---|------------------------|---|
| The way in which care and support are provided and the reliability of those front-line staff who provide it are critical to our service offer. There is a shortage of social care workers and clinicians. | ↗ | <p>The Group seeks to attract and retain staff through:</p> <ul style="list-style-type: none"> → Responding to staff turnover, vacancy rates and staff engagement surveys. → Maintaining competitive pay and benefits. → Positive workplace and culture. → Investment in our staff through training. → Overseas recruitment to secure healthcare workers from outside the EU. → Bank staff or agency workers. |

2. SERVICE OFFER AND USER NEEDS

| Description | Movement vs prior year | Mitigating Factors |
|---|------------------------|--|
| We have to provide a service offering which matches the needs of those we care for and can be communicated to commissioners. This is carefully matched locally for every service to reduce the risk of service users moving to other service providers. | ↔ | <ul style="list-style-type: none"> → Continuous engagement with commissioners to understand demand and reviews of pricing to ensure we remain competitive. → The Group has a wide range of services and offers a Care Pathway to those we care for. → Continuous investment to maintain a high-quality estate in order to provide excellent quality care. |

3. COMPLIANCE & REGULATION

| Description | Movement vs prior year | Mitigating Factors |
|---|------------------------|--|
| Legislation and regulation will change and become more onerous, complex and demanding and is therefore considered an area of potential risk for the Group and its operations. | ↔ | <ul style="list-style-type: none"> → A dedicated compliance team that monitor regulatory developments and advises the Group thereon. → Regular mandatory training for all staff across a range of regulatory compliance areas e.g. data protection, health and safety, and safeguarding. → Compliance internal audit team carrying out site visits. → External independent inspection of our services ('NYAS'). → CQC/Ofsted inspections. |

Key: Movement in risk


↗ Increased risk

↔ Constant risk


↘ Reduced risk

Principal Risks and our Strategic Response continued


4. SERVICE VALUE

| Description | Movement vs prior year | Mitigating Factors |
|--|---|---|
| The service offer has to be provided to meet the needs of the commissioners at a fair price and this is coming under increased scrutiny as commissioners regularly review value for money. |  | → The Group engages frequently and proactively with our commissioners at a local level and strategically at regional and national levels. |

5. REPUTATION

| Description | Movement vs prior year | Mitigating Factors |
|---|---|--|
| The Group must have a reputation for delivering services that offer good value and take account of all risks. Social care is not a high-risk business proposition but there are several unique factors that could cause difficulties. We care a great deal about what we do and have established a reputation for careful management of all those processes that could expose us to risk. A health and safety breach would impact reputation, brand and compromise the safety of those in our care. This could impact on the demand for our business as well as incur costs to rectify. |  | <ul style="list-style-type: none"> → Established Care Quality and Governance Committee to advise on our regulatory framework. → Regular review of policies and procedures to monitor service delivery and ensure high-quality care is delivered in line with best practice. → Well-established relationship with our Regulators. → Financial PR agency appointed to respond swiftly to any issues. → Independent audit of Health and Safety as well as RIDDORS ('Reporting of Injuries, Diseases and Dangerous Occurrences Regulations') so that all incidents are recorded and acted upon. |

6. GROWTH FUNDING

| Description | Movement vs prior year | Mitigating Factors |
|--|---|--|
| <p>Funding has to be anticipated and put in place to support the growth ambitions of the Group. The Group ensures that all of its finance facilities are monitored and reviewed regularly in particular during our budget setting and forecasting processes.</p> <p>The level of debt to fund operations and to support growth has to be carefully managed. Different forms of leasing and debt are reviewed quarterly when all covenants are also reviewed.</p> |  | <ul style="list-style-type: none"> → The Group monitors and manages its liquidity and financial liabilities falling due and the cover against its term loan covenants and is actively focused on cash management. → Regular reporting of headroom and compliance of covenants. → Regular meetings and disclosure with bank syndicate members. → The Group has access to an unutilised £25m revolving credit facility should its current cash position deteriorate. → The Group has a £930m property with the ability to leverage in a short timescale, if required. |

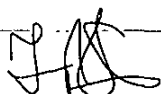
7. CYBER AND DATA SECURITY

| Description | Movement vs prior year | Mitigating Factors |
|--|------------------------|--|
| Cyber and data security remain a key risk as technology and third-party cloud-based services continue to be subject to the threat of cyberattacks. A data breach or attack resulting in operational disruption could reduce the effectiveness of our systems. This in turn could result in loss of income, loss of financial, customer or employee data, fines and/or reputational damage. | ↔ | <ul style="list-style-type: none"> → CareTech have a specialist team and robust Information Security Management in place with a wide range of proactive and reactive security controls including up-to-date anti-virus software across the portfolio, and network/system monitoring. → Regular internal and external review of control effectiveness. → Effective data protection teams to minimise data risks and ensure compliance with GDPR. |

8. SUSTAINABILITY AND CLIMATE CHANGE

| Description | Movement vs prior year | Mitigating Factors |
|--|------------------------|--|
| The Group's continued success depends on the environmental and sustainability of its operations. Changes in regulations could increase the cost of our operations. | ↗ | <ul style="list-style-type: none"> → Sustainability Director appointed and increased focus on ESG. → ESG discussed as a standing agenda item in Executive Committee meetings and Board. → Inaugural Purpose Report to be published setting out the Group's commitments. |

By order of the Board



Farouq Sheikh OBE
Group Executive Chairman
6 December 2021

Key: Movement in risk

↗ Increased risk

↔ Constant risk

↘ Reduced risk

Group Financial Review

Highlights

- Revenue: £489.1m (increase of 13.8%).
- Underlying EBITDA: £100.5m (increase of 10.5%).
- Underlying profit before tax: £68.3m and statutory profit before tax: £66.2m.
- Underlying basic EPS: 47.87p (increase of 13.3%) and statutory basic EPS: 28.80p (increase of 25.9%).
- Net debt: £258.7m.
- Strong operating cash conversion of 96.1%.
- Net assets: £380.9m.

Results

The Group delivered a strong set of results for the financial year ended 30 September 2021.

Following the acquisition of a majority holding in Smartbox in October 2020 and given the Group's ambitions to build its digital healthcare capabilities, we created a new Digital Technology division. Smartbox is a market-leading creator of software and hardware that helps disabled people without speech to have a voice and live more independently. Smartbox has successfully integrated into the Group, with the launch of a new 100 Voices initiative (see page 67) to ensure that Smartbox technology reaches adults and children in CareTech care homes, specialist schools and complex needs services.

On 30 November 2020, the Group completed the transfer of seven services previously operated by The Huntercombe Group which broadens our adult specialist service pathway by adding highly specialised facilities for the treatment of adults with complex learning disabilities, autism and mental health diagnoses. The sites have been integrated into the Group.

The Group reports certain non-IFRS performance measures, known as Alternative Performance Measures (APMs). The Directors believe that APMs provide useful supplemental information for the readers of the Annual Report and, when read in conjunction with the IFRS financial information, assist in providing a balanced view of the Group's financial performance and financial position.

In assessing its performance, the Group has adopted a number of APMs as the Directors are of the view that these will assist the readers of the accounts when understanding our performance relative to other companies in our sector and in the wider economy. These measures are also used by management for planning and reporting purposes. They may not be directly comparable with similarly described measures used by other companies.

Our APMs referred to in this report and in the financial statements as a whole include, underlying EBITDA, non-underlying items, underlying earnings and non-financial measures such as capacity, occupancy and regulator quality ratings. You can read more about APMs on page 173.

Capacity and occupancy

Adults Services capacity increased to 2,104 (2020: 1,997) with the increase primarily due to seven services transferred from the Huntercombe Group. These services complement our Adult Specialist Services division and broaden our Care Pathway in offering specialised services to adults with complex learning disabilities, autism and mental health diagnoses. During the year, one of these services was closed and will be repositioned and reopened during the new financial year.

Children's Services increased to 2,000 beds (2020: 1,959), primarily due to 11 new sites opening during the year. Fostering decreased to 875 (2020: 1,028) due to a reduction in the number of foster parents and blocked beds.

As at the balance sheet date, the Group capacity remained broadly flat at 4,979 (2020: 4,984) with an increase in our residential services offset by the decline in the Fostering division.

At 30 September 2021, occupancy levels in the mature estate were 80% (2020: 83%), reflecting the timing of the start of the educational year due to a number of the Group's non-residential schools operating on a 38-week basis with the new education term commencing in October and beds being blocked due to recruitment challenges. Blended occupancy was 78% (2020: 80%).

Condensed Income Statement

| | 2021 £m | 2020 £m | % change |
|---|---------------|---------------|-----------------|
| Revenue | 489.1 | 430.0 | 13.8% |
| Gross profit | 165.7 | 147.9 | 12.0% |
| Administrative expenses excluding depreciation and share-based payments' charge | (65.2) | (57.0) | 14.4% |
| Underlying EBITDA | 100.5 | 90.9 | 10.5% |
| Underlying EBITDA margin | 20.5% | 21.1% | |
| Depreciation | (19.5) | (17.0) | 14.7% |
| Share-based payments' charge | (0.5) | (0.3) | 43.3% |
| Underlying operating profit | 80.5 | 73.6 | 9.4% |
| Non-underlying items | (1.0) | (20.2) | (95.1)% |
| Net financial expenses | (13.3) | (15.5) | (15.0)% |
| Profit before tax | 66.2 | 37.8 | 75.1% |
| Taxation | (30.9) | (10.7) | (186.9)% |
| Profit for the year | 35.3 | 27.1 | 33.7% |
| Non-controlling interest | (3.4) | (1.9) | 76.9% |
| Profit for the year attributable to owners of the Parent | 31.9 | 25.1 | 27.0% |
| Weighted average number basic shares (millions) | 110.8 | 109.8 | |
| Underlying basic earnings per share | 47.87p | 42.26p | 13.3% |
| Statutory basic earnings per share | 28.80p | 22.88p | 25.9% |
| Full-year dividend per share | 14.1p | 12.75p | 10.6% |

Revenue and underlying EBITDA (pre unallocated costs)

| | 2021 | | | 2020 | | |
|---------------------|---------------|----------------------------|--------------------------------|---------------|----------------------------|--------------------------------|
| | Revenue £m | Underlying EBITDA £m | Underlying EBITDA margin | Revenue £m | Underlying EBITDA £m | Underlying EBITDA margin |
| Adults Services | 169.7 | 38.4 | 22.6% | 136.2 | 35.7 | 26.2% |
| Children's Services | 268.6 | 76.2 | 28.3% | 252.9 | 69.6 | 27.5% |
| Foster Care | 38.2 | 7.7 | 20.2% | 40.9 | 8.6 | 20.9% |
| Digital Technology | 12.9 | 2.4 | 18.8% | – | – | – |
| Intercompany | (0.2) | – | – | – | – | – |
| Total | 489.1 | 124.7 | 25.5% | 430.0 | 113.8 | 26.5% |

Group underlying revenue increased by 13.8% to £489.1m (2020: £430.0m).

The Adults Services division saw an increase in capacity due to seven sites transferred from The Huntercombe Group. Revenues and underlying EBITDA increased by 24.6% and 7.5% respectively. The division continues to see high levels of occupancy at 91% across the mature estate and 86% on a blended basis which includes sites that are being reconfigured and under development.

Children's Services saw an increase in capacity, and revenues and underlying EBITDA increased by 6.2% and 9.5% respectively. During the year, 25 properties were purchased and have either opened or will open during the 2021/22 year. The division benefitted from 11 new services opening adding a 22-bed capacity.

Foster Care's revenue and underlying EBITDA decreased by 6.7% and 9.9% respectively, due to COVID-19 restrictions and a reduction in the number of foster parents.

The Digital Technology division ended the period with revenues at £12.9m and underlying EBITDA of £2.4m. 2,558 devices were sold during the year in 18 different countries; a significant increase to the previous year.

Group underlying EBITDA before unallocated costs increased by 9.6% to £124.7m and Group underlying EBITDA increased by 10.5% to £100.5m. Underlying EBITDA margin decreased to 20.5% reflecting the lower initial margins at the recently acquired Huntercombe services.

Group Financial Review continued

Operating profit and profit before tax

The Group presents operating profit and profit before tax as both underlying and statutory results. Underlying operating profit increased by 9.4% to £80.5m.

The depreciation charge is £19.5m (2020: £17.0m) reflecting the investment in land and buildings, motor vehicles and fixtures, fittings and equipment and the share-based payments' charge of £473k (2020: £330k) reflecting the issuance of shares under the ExSOP in November 2019.

Non-underlying items include the write back of a provision of £11.8m following the final judgement by the Supreme Court that social care staff are not entitled to the National Minimum Wage for sleep-in shifts, a £5.8m gain on the bargain purchase of seven sites transferred from The Huntercombe Group given the transaction was structured with no capital outlay, offset by amortisation of £10.3m, restructuring costs of £4.8m relating to the integration costs associated with Cambian, Smartbox and assets transferred from The Huntercombe Group, acquisition costs of £0.8m, a net £1.5m on COVID-19 related expenditure and a £1.2m donation to the CareTech Charitable Foundation.

During the year, the Group has adopted strict precautions in line with government and public health guidelines for all our sites which included enhanced levels of cleaning, additional hygiene facilities and social distancing. Adult social care providers have been able to access funding from local authorities to support the provision of additional resources and associated costs necessary to halt transmission of COVID-19. Funding of £2.7m was received for the year, which almost covered the additional costs associated with COVID-19 of £4.2m.

Underlying financial expenses decreased to £12.2m (2020: £13.9m) reflecting the accelerated deleveraging and reduction in banking covenants. Non-underlying financial expenses of £1.1m (2020: £1.6m) were incurred relating to the non-cash movement in derivative financial instruments.

Underlying profit before tax increased by 14.6% to £68.3m (2020: £59.7m) and statutory profit before tax increased by 75.1% to £66.2m (2020: £37.8m).

Taxation

The effective underlying tax rate was 17.4% (2020: 18.7%) and reflects management's expectations of future capital investment through organic developments and reconfigurations relative to available capital allowances.

On 24 May 2021, legislation was substantively enacted in the UK to increase the corporate tax rate to 25% with effect from 1 April 2023.

As a result of the change, an exceptional tax charge of £21.7m was recognised for the year ended 30 September in relation to the reassessment of deferred tax assets and liabilities.

Earnings per share

The weighted average number of shares in issue rose to 110.8m. Underlying basic earnings per share increased by 13.3% to 47.87p from 42.26p in 2020 and statutory basic earnings per share increased by 25.9% to 28.80p (2020: 22.88p).

Cash flow and net debt

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

| | 2021 £m | 2020 £m |
|--|------------|------------|
| Underlying EBITDA | 100.5 | 90.9 |
| Decrease/(increase) in working capital | (3.9) | 3.3 |
| Cash inflows from operating activities before non-underlying items | 96.6 | 94.2 |
| Principal payment of lease liabilities | (5.8) | (6.7) |
| Tax paid | (6.0) | (3.9) |
| Interest paid | (10.6) | (10.7) |
| Dividends paid | (17.3) | (13.0) |
| Capital expenditure | (31.5) | (26.8) |
| Proceeds from disposal of fixed assets | 1.3 | 1.5 |
| Payments for business combinations | (5.4) | (2.0) |
| Non-underlying cash flows | (7.7) | (5.9) |
| Contingent consideration paid | (1.5) | (0.7) |
| Shareholder loan | 0.0 | (1.8) |
| New HP arrangements | (2.5) | (2.0) |
| Proceeds from share issue | 0.9 | 0.0 |
| Movement in net debt | (10.5) | (22.2) |
| Opening net debt | 268.9 | 291.1 |
| Closing net debt | 258.7 | 268.9 |

The Group continues to have a strong financial position, with net debt at 30 September 2021 being £258.7m compared with £268.9m at 30 September 2020.

Strong operating cash flow has been deployed to purchase 25 new properties, to acquire Smartbox for £5.4m (net of cash acquired), payment of contingent consideration in relation to the AS Group of £1.5m, integration and restructuring costs of £4.2m associated with the acquisition of Smartbox, the restructuring of assets transferred from The Huntercombe Group and integration costs associated with Cambian.

Capital expenditure was £31.5m which includes £11.8m to purchase and develop new sites, £16.8m maintenance capex and software development of £2.9m.

The Group dividend payments was £17.3m (2020: £13.0m) and corporation tax payments of £6.0m (2020: £3.9m) were paid during the year.

Bank facilities

At 30 September 2021, the Group has bank borrowings of £322.4m, drawn under facilities which mature in August 2023. During the course of the year, the Group completed the extension of the Term Loan A facility of £161.2m which will now mature in August 2023. The margin of the facility and covenants remain unchanged, reflecting the highly cash-generative nature of the business and deleveraging profile. In addition, both the Group's loan and interest rate swaps have migrated to Compounded Daily SONIA as the reference rate.

CareTech's three key covenant ratios are leverage (ratio of net debt to covenant EBITDA to be no more than 4.5), interest cover (ratio of covenant EBITDA to net finance costs to be no less than 4x) and LTV (ratio of property value to net debt to be no more than 62.5%). As at 30 September 2021, we were operating comfortably within these ratios at 2.7x (2020: 3.1x), 9.5x (2020: 7.8x) and 42% (2020: 42%) respectively.

Property valuation

The Group has a significant property portfolio, consisting of 407 freehold and long leasehold sites. The Company has undertaken a scheduled property revaluation, which Knight Frank has valued at £930m, an increase of 20% since its last valuation in September 2018 of £774m.

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 rise broadly in line with the increase in underlying earnings per share and increase to 9.5p per share (2020: 8.75p), bringing the total dividend for the year to 14.1p (2020: 12.75p), a growth of 10.6%. Dividend cover for 2021, based upon diluted earnings per share before non-underlying items is 3.3x (2020: 3.3x).



Christopher Dickinson
Group Chief Financial Officer
6 December 2021

Longer-term Viability Statement

In accordance with the 2018 UK Corporate Governance Code, the Directors assessed the viability of the Group and have used a period of three years for their assessment. A three-year period is considered the appropriate timeframe to assess the Group's prospects as it is consistent with strategic planning for the Group, management incentive schemes and medium-term financing considerations.

The assessment conducted considered the Group's revenue, underlying EBITDA, operating profit, cash flows, risks management controls and loan covenants over the three-year period. The longer-term prospects of the Group are driven by its strategy and business model, as outlined on pages 08 to 11. These metrics were subject to downside stress testing over the assessment period, taking account of the Group's current position,

the Group's experience of managing adverse conditions in the past and the impact of a number of severe yet plausible scenarios based on the principal risks set out in the Strategic Report on pages 1 to 75. The downside scenarios include, but are not limited to, a reduction in revenue, site closures, and a cyberattack. This is done to identify risks to liquidity and covenant compliance.

This review included the following key assumptions:

- Modest revenue and margin growth beyond 2022.
- No major changes in working capital.
- Future dividends in line with current policy.
- No change in capital structure. The assessment is based on the assumption

that the Group's term loans will be refinanced in advance of their maturity in August 2023. Following the recent successful amendment to the Term Loan A maturity, the Group is confident in ongoing lender support, and also plans to refinance the facilities well in advance of the August 2023 facility end dates.

- The government will not change its existing policy towards utilising private provision of social care services to supplement the local authorities offering (which we consider to be low likelihood).

Based on this consideration of principal risks and the forecasting exercise completed, the Board has a reasonable expectation that the Group will be able to withstand the impact of the specific scenarios considered over the three-year period assessed.

Corporate Governance Report

Introduction

This is our Corporate Governance Report, which sets out how the Board and its Committees operate and how we are committed to maintaining the highest level of corporate governance. The Board firmly believes that an effective corporate governance framework is essential to underpin the success of the business, supporting management while ensuring an appropriate level of challenge and exercising proper oversight while facilitating decision-making.

The Board is focused on taking steps to enhance standards of governance and disclosure towards the levels required for Premium Listed companies, should the Board ultimately decide to take that step.

The Board remains committed to achieving the highest standards of integrity, ethics, professionalism and business practice throughout Group operations. Therefore, the Group has aligned its governance with best practice and is therefore adopting the provisions of the UK Corporate Governance Code 2018 on a comply or explain basis. The Code and associated guidance is available on the Financial Reporting Council website at www.frc.org.uk. We have noted the Code provisions below where the Group does not comply with the Corporate Governance Code in full.

Farouq Sheikh OBE

1. Principles A–E: Board leadership and Company purpose

The Board has delivered sustainable and reliable growth since its admission to trading on AIM. CareTech has aimed to be a defensible stock even in difficult times and has adopted a progressive dividend policy. The Group has also had direct involvement in a variety of community-based programmes further improving our corporate and services reputation and helping to foster strengthened relationships with commissioners.

CareTech's key strategic priorities include building the industry's best leadership and workforce, a continual focus on improving the quality and scope of our Care Pathway and accelerating digital adoption in UK social care. Achieving these strategic priorities will increase our market share and deliver shareholder value. The Board ensures that the Group is appropriately funded to deliver its strategy. The Board appreciates that effective communication and engagement with the Group's shareholders and the investment community as a whole is a key objective. The views of both institutional and private shareholders are important. The Group 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 Group Executive Chairman and the Group Chief Financial Officer, as are regular meetings through the year with fund managers and investment analysts.

Effective communication with employees and commissioners is also vital to the achievement of the Group's strategy. The Group has a number of initiatives and policies to engage its employees through training and development, supervision, recognition of achievement through staff awards, staff engagement surveys, the Staff Consultative Committee and development of a communication plan. The Board believe that its workforce policies, including its in-house training and HR systems support the Group's focus on the provision of quality services and allow for sustainable growth. The Board believe the effectiveness of its staff engagement procedures is reflected in its staff turnover levels, which are below the industry average and in the Group's quality ratings, which are above the industry average. The Board also believe the Group's business development and marketing function have established

strong relationships with commissioners and actively strives to maintain these relationships. Being a socially responsible organisation with a focus on ethical standards aligned with commercial objectives remains a core aim. The Board believes that behaving responsibly and maximising the benefits of a strong relationship with its stakeholders is an integral part of a continuing process of building long-term value.

The Group's framework of controls includes identification and management of any conflicts of interests. The Board follows specific procedures to identify potential conflicts of interest, including those in relation to significant shareholders. Firstly, only independent Directors (i.e. those that have no interest in the matter under consideration) are able to take relevant decisions. Secondly, in taking the decision the Directors must act in a way they consider, in good faith, will be most likely to promote the Group's success. In addition, Directors can 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 to conflicts is operated effectively and that procedures have been followed.

BOARD AND COMMITTEE MEETINGS

THE BOARD

The Board focuses primarily upon strategic and policy issues, and is responsible for:

- Leadership of the Group.
- Implementing and monitoring effective controls to assess and manage risk.

- Supporting the Group Executive Team to formulate and execute the Group's strategy.

- Monitoring the performance of the Group.
- Setting the Group's values and standards.

The Board delegates matters to its four principal committees.

CARE QUALITY AND GOVERNANCE COMMITTEE

- Professor Moira Livingston (Chair)
- Karl Monaghan
- Jamie Cumming

Promotes a culture of high-quality and the safe care of service users. Responsible for monitoring specific non-financial risks and their associated processes, policies and controls.

NOMINATIONS COMMITTEE

- Karl Monaghan (Chair)
- Professor Moira Livingston
- Jamie Cumming

Responsible for ensuring our Board and its Committees have the right balance of skills, knowledge and experience and ensuring adequate succession plans are in place.

AUDIT COMMITTEE

- Karl Monaghan (Chair)
- Professor Moira Livingston
- Jamie Cumming

Responsible for reviewing and reporting to the Board on the Group's financial reporting, maintaining an appropriate relationship with the Group's auditor and monitoring the internal control systems.

REMUNERATION COMMITTEE

- Jamie Cumming (Chair)
- Professor Moira Livingston
- Karl Monaghan

The role of the Remuneration Committee includes details of Directors' remuneration, shareholdings and share options scheme information. A key Group strategy is to attract and retain talented and committed staff at every level of the business and the Remuneration Committee aims to foster remuneration philosophy, policies and procedures to achieve this.

STAFF CONSULTATIVE COMMITTEE

During the financial year, CareTech established a Staff Consultative Committee for the purposes of workforce engagement in accordance with the recommendations of the 2018 UK Corporate Governance Code.

The aim of the Staff Consultative Committee is to monitor and facilitate workforce engagement within the Group in order to foster a meaningful dialogue between the Board and its employees, and the awareness of employee matters will aid the Board's decision-making process.

GROUP EXECUTIVE TEAM

The Board delegates the execution of the strategy and the day-to-day management of the Group to the Group Executive Team, which operates under the direction and authority of the Group CEO. The team generally meet once a month.

Corporate Governance Report continued

BOARD OF
DIRECTORS

Farouq Sheikh OBE
Group Executive Chairman
Aged 63

Haroon Sheikh
BSc Group Chief
Executive Officer
Aged 65

Christopher Dickinson
Chief Financial Officer
Aged 43

APPOINTED

Founder

Founder

January 2020

SKILLS AND
EXPERIENCE

Farouq has been a key architect in CareTech's growth, having co-founded the Group and been involved in the vision and strategy from the outset in 1993. With a background in law and a good understanding of finance and commerce, Farouq has been instrumental in securing debt and equity funding for the Group as well as leading the management team in winning a number of long-term contracts from local authorities and health commissioners.

Farouq is a leading business entrepreneur, philanthropist and investor, and 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 social care sector and his commercial and negotiating expertise has guided the Group's growth.

Farouq was honoured with an OBE in 2020 for his services to social care, and 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 specialist social care sector.

As Patron and Enterprise Fellow of the Prince's Trust and a member of the Mosaic National Advisory Board, Farouq supports young people by passing on his experience to inspire the next generation of entrepreneurs. He is a Founder Trustee of the CareTech Charitable Foundation formed in 2017.

Haroon is amongst the most experienced CEOs in the health and social care sector and one of the UK's leading entrepreneurs and philanthropists. Along with his brother Farouq, he co-founded CareTech. As Group CEO he actively leads the day-to-day running of the Group and its international expansion, and has been instrumental in assembling a highly talented leadership team, to support the continued growth of the business. Haroon brings commercial acumen, related industry experience and property knowledge. He has a deep commitment and passion for delivering high-quality care and support to people with complex needs.

Haroon is Patron and Enterprise Fellow of the Prince's Trust and is a member of the UK Advisory Council of the British Asian Trust under the patronage of HRH The Prince of Wales.

In 2008, Haroon and Farouq were winners of the highly valued Coutts Family Business Prize and widely applauded for the quality and social integrity of the business they created. In 2009, they were both finalists in the Ernst & Young Entrepreneur of the Year Awards and in 2016 they received the Outstanding Contribution Award at the Laing & Buisson Annual Healthcare Awards. In 2019, Haroon and Farouq were winners of the 'Asian Business of the Year'.

Haroon, a graduate of the University of London, is a Founder Trustee of the CareTech Charitable Foundation formed in 2017, and is Chairman of the Trustees, working closely with the Foundation's CEO and independent Trustees.

Prior to joining CareTech, Chris was a Managing Director at Jefferies where he acted for the Group on its acquisition of Cambian. Prior to Jefferies, Chris spent 14 years at J.P. Morgan advising on many significant M&A transactions and debt and equity raises. Chris is a chartered accountant, having been admitted as a member of the ICAEW in 2004 and as a Fellow in 2014, and has a degree in Computer and Management Science from the University of Warwick.

COMMITTEE MEMBERSHIP KEY ■ Care Quality and Governance Committee ■ Nominations Committee ■ Audit Committee ■ Remuneration Committee

Mike Adams OBE
Executive Director
Aged 50

Jamie Cumming
Non-Executive Director
Aged 71

Karl Monaghan
Non-Executive Director
Aged 59

Prof. Moira Livingston
Non-Executive Director
Aged 59

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■ ■ ■ ■ ■

■ ■ ■ ■ ■

June 2010

March 2013

October 2005

May 2019

Mike has a significant track record in the social care, health and disability sectors. He is CEO of Purple Zest Limited, a Group disability business, and an Executive Director of CareTech. In previous roles he was Director of the National Disability Team, responsible for policy and practice for disabled students in higher education; Director of Operations for the Disability Rights Commission for two years; and Chief Executive Officer of ecdp, an Essex-based user-led disability organisation. Mike spent nine months as acting Chair of a large acute hospital trust in Essex and has previously chaired an expert panel on Access to Work, the Government's flagship disability employment programme. Mike has been awarded an Honorary Doctor of Education for disability leadership from Anglia Ruskin University.

Mike was honoured with an OBE in 2012 for his services to disability and became a Trustee of the CareTech Charitable Foundation in 2017.

Jamie joined the Board as a Non-Executive Director in 2013. Following a long career in corporate advisory and broking in the City, including acting as Chief Executive Officer of N+1Brewin LLP, and latterly as Senior Adviser to Cantor Fitzgerald Europe, Jamie has significant experience in working with small and mid-sized UK companies. Jamie currently utilises his commercial experience in supporting growth companies in non-executive roles, is an associate of Ruffena Capital and has qualified as a fellow of the Chartered Institute of Securities & Investment.

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.

Moira has been involved in health and social care for 35 years. Moira spent many years working initially as a Doctor in the field of older-age psychiatry and latterly as a senior clinical leader and manager in the NHS.

Moira has held a number of Director-level leadership roles in the healthcare sector. Moira has led national programmes for the Department of Health and was a specialist adviser with the CQC. Moira is also a Non-Executive Director at Leeds Teaching Hospitals NHS Trust, where she is a member of the Audit committee and chairs the Quality Assurance Committee.

GOVERNANCE

Corporate Governance Report continued

The Directors attended the following meetings in the year to 30 September 2021:

| | Board (10 meetings) | Audit Committee (2 meetings) | Remuneration Committee (6 meetings) | Care Quality and Governance Committee (4 meetings) |
|------------------------|------------------------|---------------------------------|---|---|
| Farouq Sheikh OBE | 10 | – | – | – |
| Haroon Sheikh | 10 | – | – | – |
| Christopher Dickinson | 10 | 2 | 6* | – |
| Karl Monaghan | 10 | 2 | 6 | 4 |
| Mike Adams OBE | 10 | – | – | – |
| Jamie Cumming | 10 | 2 | 6 | 4 |
| Prof. Moira Livingston | 10 | 2 | 6 | 4 |

* By invitation

At every board meeting the Board covers an AIM-continuing obligations questionnaire and declaration of connected party transactions. This sets the tone for corporate behaviour and helps makes governance meaningful and focused on improving the business and protecting shareholder value.

Matters reserved for the Board

The Board delegates certain of its responsibilities to Board committees, individual Directors or Executive management where appropriate. However, there are certain matters that are considered to be so important to the long-term success of the Group that they are reserved to the Board for specific consideration and decision including:

- 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.
- Shareholder communications.

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. During the year the Board undertook an in-depth assessment of the emerging and principal risks facing the Group and specifically those that might threaten the delivery of its strategic business model. These risks have been discussed in the Strategic Report on page 68 to 71. Processes have been implemented during the year under review and up to the date of approval of this

Annual Report and Financial Statements. The processes and procedures are regularly reviewed by the Board.

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

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 Group'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 Group's procedures for ensuring that the Board's power of authorisation in respect of conflicts is operated effectively and that procedures have been followed.

Shareholder engagement

Through presentations and regular meetings between the Executive Directors, analysts and institutional shareholders, including those following the announcements of the Group's annual and interim results, the Board seeks to understand the objectives of our shareholders.

Copies of the Annual Report and Financial Statements are issued to all shareholders where requested and copies are available on the Group's website (www.caretech-uk.com). The Group also uses its website to provide information to shareholders and other interested parties. The Company Secretary deals with correspondence as and when it arises throughout the year.

Further details on the Group's engagement with shareholders is contained in the s.172 statement on page 52.

Workforce policies and practices

Our reputation for acting responsibly plays a critical role in the Group's success as a business and our ability to generate value for shareholders. We maintain high ethical conduct that is reflected in policies that are embedded across the Group including the Modern Slavery Act, and anti-bribery and corruption policy.

Modern Slavery Act 2015

The Modern Slavery Act 2015 came into force in October 2015 consolidating legislation surrounding modern slavery and human trafficking. We have a zero-tolerance approach towards modern slavery or human trafficking across all areas of our business including in our supply chain and are committed to acting ethically and with integrity throughout all of our dealings.

We aim to work in partnerships with all of our contractors, suppliers and other business partners to ensure that they share and work towards the same values we hold against slavery and human trafficking.

A full version of our Anti-Slavery and Trafficking Statement can be found on our website.

Anti-bribery and corruption

The Group maintains a policy for anti-bribery and corruption and has a zero tolerance towards such activities, and requires compliance with the laws of the UK, including the Bribery Act 2010 in respect of Group conduct both in the UK and overseas.

Internally we operate a suite of policies that are embedded into our culture and help govern our activities. Examples of these include:

- **Code of Conduct Policy**, which sets out the behaviours we expect of our staff when acting for the Group.
- **Recruitment Policy**, all of UK employees are recruited after a robust recruitment process in line with UK employment laws and are required to undertake appropriate Disclosure and Barring Service checks.
- **Whistleblowing Policy**, we want staff to feel confident and empowered to raise any issues or concerns and have a whistleblowing policy in place. Our whistleblowing policy helpline is managed by a third-party provider, enabling staff to raise concerns about issues of safety or wrongdoing, anonymously if necessary. All such concerns received through the helpline are sent to the Head of Compliance for review, and to ensure that they are appropriately investigated and concluded. The Board is provided with updates on material whistleblowing events as they are reported from time to time to the Executive Leadership Team.

We also continue to regularly monitor the risks we face. All risks are reviewed by either our Audit Committee or our Care Quality and Governance Committee.

General Data Protection Regulations ('GDPR')

We take our responsibilities as a data controller/processor very seriously and are committed to operating within the boundaries of any necessary data security regulations to include the Data Protection Act. We are conversant with the requirements of both the GDPR and the Data Protection Bill and are constantly updating our Information Governance practices.

2. Principles: F-I: Division of responsibilities

Ultimate responsibility for the management of the Group rests with the Board of Directors. Details of the Board are set out on pages 78 to 79.

The Board focuses primarily upon strategic and policy issues and is responsible for:

- Leadership of the Group.
- Implementing and monitoring effective controls to assess and manage risk.
- Supporting the senior leadership team to formulate and execute the Group's strategy.
- Monitoring the performance of the Group.
- Setting the Groups' values and standards.

The Board consists of three independent Non-Executive Directors and four Executive Directors. The Board does not currently comply with provision 2.11 of the UK Corporate Governance Code and this is under review.

Business review meetings are held monthly with attendance of Executive Directors at these meetings. These meetings provide the Executive Directors with a comprehensive understanding of the current performance of, and the key issues affecting, the Group's operations. The Board also visits sites and have continued to do this virtually during COVID-19.

Corporate Governance Report continued

Detailed briefing papers containing financial and operational summaries and an agenda are provided to the Directors in advance of each Board, Committee or business review meeting. The Directors are able to seek further clarification and information on any matter from any other Director, the Company Secretary or any other employee of the Group whenever necessary.

The Company Secretary is responsible for advising and supporting the Group Executive Chairman and the Board on corporate governance matters as well as assisting the Group Executive Chairman in ensuring a smooth flow of information to enable effective decision-making. All Directors have access to the advice and services of the Company Secretary and, through him, have access to independent professional advice in respect of their duties, at the Group's expense. The Company Secretary, supported by the Group Company secretariat, acts as secretary to the Board, the Audit Committee and the Remuneration Committee.

The Group provides its Directors and officers with the benefit of appropriate insurance, which is renewed annually.

The Directors' biographies appear on pages 78 to 79 and detail their experience and suitability for leading and managing the Group.

The roles and responsibilities of certain members of the Board and Company Secretary are explained and their respective responsibilities summarised below.

Group Executive Chairman

As Group Executive Chairman, Farouq Sheikh OBE leads the Board and is responsible for its effective running.

Farouq Sheikh OBE leads the Company's strategic development and takes a special responsibility in respect of acquisitions and investor relations.

Farouq Sheikh OBE is responsible for:

- The effective running of the Board.
- Promoting high standards of Corporate Governance.
- Ensuring Board agendas take full account of relevant issues and Board members' concerns.
- Ensuring the Directors receive accurate and timely information.

Farouq Sheikh OBE is the co-founder of the Group and is integral to its success and growth. Whilst, the Group Executive Chairman is not independent and therefore currently does not comply with provision 2.9, the Board believe Farouq Sheikh, as co-founder, provides effective leadership in directing the Group and facilitates a culture of openness and debate.

Group Chief Executive Officer

Haroon Sheikh is the Group CEO and accountable to the Board for the day-to-day running of the Group and management of the strategic plan.

Haroon Sheikh is responsible for the following:

- Executive leadership of the Group's business on a day-to-day basis.
- Developing the overall commercial objectives, and proposing and developing the strategy in conjunction with the Board as a whole.
- Responsibility, together with the senior management team, for the execution of the strategy and implementation of Board decisions.
- Recommendations on senior appointments and development of the management team.
- Ensuring that the affairs of the Group are conducted with the highest standards of integrity, probity and corporate governance.

Group Chief Financial Officer

Christopher Dickinson is accountable to the Board for all financial matters and responsible for:

- Preparation and integrity of financial information.
- Operating effective systems of risk management and control.
- Developing and implementing the financial strategy and policies.

Executive Director

Mike Adams OBE, Executive Director, is a champion of disability and the needs of disabled people; adding to the Board a wealth of knowledge around the sector with responsibility for policy and practice. In addition, Mike is CEO of Purple Zest Limited, a disability business wholly owned by the Group, which supports both disabled people and businesses.

Non-Executive Directors

Collectively, the Non-Executive Directors bring a valuable range of expertise and experience in assisting the Group to achieve its strategic aims and provide constructive challenge and strategic guidance. In the furtherance of their duties, all Directors are able to take independent professional advice at the expense of the Group 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.

The Non-Executive Directors comprise Jamie Cumming, Karl Monaghan and Professor Moira Livingston and are considered to be independent. Although Karl Monaghan has served on the Board for more than nine years, the Board are satisfied that there are no matters which affects the independence of his judgement and as such Karl continues to act independently.

The Non-Executive Directors are responsible for:

- Constructively challenging the Executive Directors and supporting the Group to develop its strategy.
- Satisfying themselves as to the integrity of the financial information and that there are effective systems of risk management and financial control.
- Chairing and/or serving on relevant Committees.

Senior Independent Non-Executive Director

- Acting as a sounding board for the Group Executive Chairman.
- Available to shareholders if they have concerns which cannot be resolved through the Group Executive Chairman or other executive management.
- Acting as an intermediary for the Directors where necessary.

Corporate governance framework and terms of reference

The Board has an overarching corporate governance framework to ensure continued alignment of the Board and Committee members' roles and division of responsibilities. Each member of the Board is provided with a copy of the Company's corporate governance framework, which they review, discuss and update regularly. Each of the Committees have their own written terms of reference. The Company Secretary supports the Committees in updating these terms of reference in order to comply with the Code and other good corporate practice.

3. Principles J–L: Composition, succession and evaluation

Matters are delegated to Board Committees, individual Directors or Executive management where appropriate. To date, given the stage of the Group's development, it has been felt the functions of a Nominations Committee can be adequately fulfilled by deliberation of the full Board; this will nevertheless be kept under review (non-compliant with 3.17 and 3.23 of the Corporate Governance Code 2018). When the need for additional Non-Executive Directors are identified, the Board appoints advisers to nominate experienced relevant and appropriate candidates. Currently Board members meet the candidates and come to a collective view on appointments.

Currently all Directors are required to submit themselves for re-election at least every three years (non-compliant with 3.18 of the Corporate Governance Code 2018) and new Directors are subject to election by shareholders at the first opportunity following their appointment.

Whilst the performance of each of the Directors is kept under review, no formal evaluation is currently conducted by the Group. The Board does not believe the requirement is commensurate with the size and nature of the business but is aware that this does not comply with the Code provision 3.21–3.22 and will therefore keep under review.

CareTech is committed to developing a working environment and culture that promotes fairness and inclusivity. We launched our Equality, Diversity & Inclusion Programme with work now underway to embed this into practices and culture. We initiated the inaugural Staff Consultative Committee during this period with representation from across the organisation to focus on the staff voice and workforce matters with this engagement shaping our People Strategy.

The Board maintains regular focus on succession planning for both Board and senior leadership roles. During the year, the Board has considered the desired skills, personal attributes and experience that would be of benefit to the Board in future Non-Executive Directors. A number of members of the Executive Committee have attended a number of Board meetings at which they have presented their respected strategies. We will continue to review our succession planning strategy to ensure the Board composition and that of the Group Executive team reflects and aligns with the needs of the business.

4. Provisions M–O: Audit, risk and internal control

The Board has established an Audit Committee comprising Karl Monaghan (Chairman), Professor Moira Livingston and Jamie Cumming. The Group Chief Financial Officer 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 Group's management and external auditor relating to the annual and interim accounts and the accounting and internal control systems throughout the Group. The Committee has direct and unrestricted access to the external auditor and reviews all services being provided by them to evaluate their independence and objectivity, taking into consideration relevant professional and regulatory requirements in order to ensure that said independence and objectivity are not impaired by the provision of permissible, non-audit services. The Committee has carefully considered the level of non-audit services and has concluded that this does not impact on the independence of the auditors.

Corporate Governance Report continued

The Board, as advised by the Audit Committee, is ultimately responsible for the Group's risk management policy and system of internal controls and for reviewing its effectiveness. The role of management is to implement Board policies on risk management 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 an absolute assurance against material misstatement or loss.

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. Risks facing the Group are described on pages 68 to 71 in this report. 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 and the Audit Committee.

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 new General Data Protection Regulations have changed how the Group manages, protects and administers data. A team of Senior Managers are responsible for how data flows in and out, and where it is stored throughout the Group.

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.
- The whistleblowing helpline is managed by a third-party provider, enabling staff to raise concerns they may have about issues of safety or wrongdoing, anonymously if necessary. All such concerns received through the helpline are sent to the Head of Compliance for review, and to ensure that they are appropriately investigated and concluded.
- Discussions with management including those on the actions taken on problem areas identified by the 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 Group and the expertise of individual staff members so that they are capable of carrying out their individual delegated responsibilities.
- Review of the external audit work plans.
- Audit Committee receive the audit report and discusses the impact in the meetings of the Board.
- Audit Committee review APMs to ensure it is easy for investors, analysts and other stakeholders to understand our business.

- Reports from management on significant matters are reviewed and challenged, and the impact on the financial statements and the statutory audit are considered. In the year, going concern and viability statement, impairment of assets and control assessment have been reviewed.

The Group continues to review its system of internal controls to ensure compliance with best practice and Code guidance, whilst also having regard to our size and the resources available. The external auditor obtained an understanding of our internal controls for the purposes of forming their audit opinion as set out on pages 102 to 113. No significant deficiencies in our internal controls were reported by our external auditor in the course of their external audit. The Committee, taking into account the current nature of the operations and the experience and skill of the management team, believes that management is able to discharge their duties in the management of the Group without the need for an internal Audit function. This matter will continue to be actively reviewed by the Committee.

The Group has in place a whistleblowing policy which sets out the formal process by which an employee of the Group may, in confidence, raise concerns about possible improprieties in financial reporting or other matters. Any material whistleblowing matters in relation to financial reporting are on the Committee's agenda. During the year, there were no major incidents for consideration.

5. Provisions P–R: Remuneration

The composition and role of the Remuneration Committee is set out in the Remuneration Report on pages 92 to 94. Also detailed in that report are Directors' remuneration, shareholdings and share options scheme information.

The composition and role of the Remuneration Committee includes details of Directors' remuneration, shareholdings and share options scheme information.

A key Group strategy is to attract and retain talented and committed staff at every level of the organisation and the Remuneration 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. In November 2020, AON Hewitt were commissioned to prepare a benchmarking report which has been used to provide a useful analysis of the market for each element of pay. 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.

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.
- Executive Directors' incentives should be aligned with the interests of shareholders.

The Remuneration 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 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. The remuneration for Non-Executive Directors is set by the full Board on the recommendation of the Executive Directors. In line with the UK Corporate Governance Code, remuneration for Non-Executive Directors does not include share options or other performance-related elements.

Pensions for Executive Directors are based on their basic salary but pension contribution rates are not aligned with those available to the workforce.

By order of the Board



Farouq Sheikh OBE
Group Executive Chairman
6 December 2021

Care Quality and Governance Committee

Professor Moira Livingston
Chair of the Care Quality and Governance Committee

“Quality is defined by the level of service we deliver and the outcomes we achieve for children, young people and adults and the Group as a whole.”

Delivering the highest standards of education, support and care and striving to continually improve the outcomes for children, young people and adults is the golden thread linking the Board to our front-line services.

Ambition

Though COVID-19 has continued to impact on all of our activities, we remain committed to becoming the highest quality provider of care, education and therapeutic support across the UK and internationally. We provide services to over c.5,000 adults and children across over 550 locations. We work with the majority of commissioners in England, Scotland and Wales, and have begun to engage with international markets. We employ approximately 11,000 people.

Our mission is to provide every service user with **Extraordinary Days, Every Day**.

Quality framework

Quality is assured through a 'three-line of defence' framework.

1st line – Our operational team

Each part of the Group has a clear operating model. Our Head of Children's Services and Head of Adult Services each line manages a number of Managing Directors who each hold accountability and responsibility for the day-to-day performance of their portfolio of services. Each Managing Director leads a team of site managers, regional/locality managers and operations directors. Our approach is to embed quality throughout the Group's operations and employ well-qualified and skilled professionals who operate within a quality framework.

2nd line – Quality monitoring and independent visiting

Our quality improvement team oversee our policies and procedures, performance KPIs, our Dynamic Line of Sight ('DyLOS'), improvement programme, data analysis and our independent visiting contract (delivered through the NYAS). Further we operate a programme of site visits by our Non-Executive members of our Care Quality and Governance Committee with the collective learning being fed-back-to-operational-practice.

3rd line – Compliance and regulation

Our experienced internal compliance and regulation team operates across all divisions, reporting to our Group Executive Director – Compliance. The team undertakes a programme of regular service inspections and thematic reviews, assessing against an internal quality assurance framework.

These three lines of defence form our quality framework which aims to ensure the Group operates to the highest professional standards.

Strategic oversight of the quality of our services is provided by our independent Care Quality and Governance Committee. The Committee has oversight of all aspects of care, safety and service-user wellbeing.

Regulatory data and performance

Whilst the majority of our Group's 550+ services are located in England, we also have a strong presence within Scotland and Wales. As such we operate under a number of different regulators.

We continue to work closely with our regulators and commissioners across England, Scotland and Wales. In addition to localised links with inspectors, we have held meetings with senior leaders from our two main regulators – CQC and Ofsted, to review the performance of our portfolio. In addition, during 2021 we have shared and discussed our approach to managing COVID-19.

Our Adults Services and a small number of our Children's Services residential and college portfolio are regulated by the CQC who assess the services against approved essential standards of quality and safety. The regulators test and publicly record whether services are compliant or non-compliant against those standards.

Adults Services in Wales are regulated under different national legislation and are not currently rated on any form of scale, though all are compliant.

The Foster Care services in England are regulated by Ofsted and 100% services are rated Good.

In Wales, the services are regulated by the Care Inspectorate Wales ('CIW') and are not currently rated on any form of scale.

The Care Inspectorate of Scotland who regulate both Adults and Children's Services have the majority of the Group's rated residential services as Excellent or Very Good for both the established services and the acquired services in Scotland.

Regulators in England, Scotland and Wales have worked to an amended regulatory programme from October 2020 to April 2021. There were few service inspections and a focus on remote/desk top assessments for most Adults and Children's services.

From April 2021, a more regular programme of inspection was reinstated by CQC and Ofsted but with a continued focus on services that had not had external inspection during the previous year or services where there was information to indicate potential compliance concerns.

The CQC have introduced aspects of their new three-year strategy that sees a more flexible and agile approach to inspection and regulation. This will potentially see more frequent changes in service ratings.

CQC

We have 162 CQC-registered services, of which 159 have been graded. The statistics below show that we continue to operate above the national averages for the Adult social care sector.

Over the last four years we have consistently operated above national average ratings for the Adult care sector. Whilst the impact of COVID-19 on our capacity to provide excellent services, cannot be over-stated, we continue to out-perform the national average with 86% of services rated Good/Outstanding.

Ofsted

The majority of our Children's Services are regulated by Ofsted in England and these services are rated as Outstanding, Good, Requires Improvement or Inadequate.

We have 232 Ofsted registered services. Our Group's blended position is 80% Good or Outstanding in line with national averages.

Quality governance and strategy

The Care Quality and Governance Committee is chaired by Professor Moira Livingston and has continued to meet through 2020/21. The terms of reference and membership of the Committee were reviewed in the summer of 2021 to reflect changes at the Executive team and to recognise in particular the quality theme on Clinical Governance. Membership is now Karl Monaghan and Jamie Cumming as NEDs, and Amanda Sherlock, Group Executive Director – Compliance.

The purpose of the Committee is to lead the development of the Group's quality strategy and be responsible for the strategic oversight and assurance of care standards across the Group. In particular, to hold the Executive to account for the governance, risk and assurance process in place to identify, mitigate and manage risk and to maintain and improve the quality and safety of Group services.

During 2020/21 the Committee met four times to provide oversight and assurance on the quality strategy, quality standards, safety and compliance of the Group on behalf of the Board. In addition to standard business, as with previous years the Committee has invited operational directors to attend and present on topics ranging from restraint reduction strategy, safeguarding deep dive and clinical governance strategy.

Throughout 2020/21 we continued to deliver upon our existing programme of quality improvement. Key achievements, set out by current workstreams are as follows:

Workstream 1: Child, young person and adult-centred outcomes

- Trained staff and continued the implementation of Mind of My Own (Voice of the Child) across every Children's service.
- Trained staff across our Children's specialist mental health services in our chosen outcome framework ('CANS') and began the implementation.

Workstream 2: Improving quality standards, policies and procedures

- Implemented our corporate policy review cycle and reviewed key policies.
- Commenced an audit of our existing suite of policies with plans to identify key corporate policies that can operate across the whole of CareTech.
- Developed and maintained a suite of COVID-19 related policies to provide clear guidance throughout the pandemic.

Care Quality and Governance Committee continued

Workstream 3: Recruitment, retention and development of skilled professionals

- Implemented our new safer recruitment policy.
- Supervision process being integrated into our Myrus system.

Workstream 4: Quality monitoring and assurance

- Quality framework operating across our CQC and Children's residential services.
- DyLOS operational across 75% of our portfolio with remaining sites going live before the end of 2021.

Workstream 5: Embedding a culture of continuous improvement

- Quality Improvement Plans ('QIP') format refreshed and being implemented across all Children's Services sites.
- Responsible Individual Forum has met three times across 2021 independently chaired with new RI competency framework launched.
- Safeguarding Boards operating across Education, Fostering and Children's residential.
- New PMO function launched in Quality Improvement team.

Workstream 6: Management Information Systems ('MIS') enabling data-informed practice and decision-making

- New MIS (Behaviour Watch) implemented across all CareTech schools with phase 1 focusing upon incident management and safeguarding.
- MIS (Charms) implemented across our Fostering business.
- CareTech KPI preparation completed with launch expected before the end of 2021.

Workstream 7: Strong and robust site to Board governance

- New Clinical Governance Committee launched.

Our commitment to improving quality

Building on our existing quality framework programme, the three lines of defence framework, and recognising the evolving shape of our Group service portfolio, we have established five key quality and compliance themes to guide our priorities:

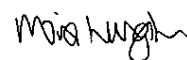
1. Review and re-set of our quality strategy and Group quality objectives
2. Implementation of a Group-wide Clinical Governance Framework
3. Review and development of our approach to corporate risk and Board assurance
4. Becoming an open, just and learning organisation
5. Improving our incident and safeguarding management

The five 'themes' enable a clear line of sight for the Board and Executive to monitor key quality projects and programmes that have the maximum impact on delivering our quality ambition.

The Group have invested further in both its internal compliance resource but also creating a new Executive role to drive quality improvement. Working with our operational teams, independent visitor programme for Children's services and with regulators, we have moved to an approach to quality that goes 'beyond ratings' and puts personalisation and outcomes for individuals at the heart of our approach.

Our existing seven quality improvement workstreams will realign to these five priorities as we move forward and we will report on progress under these five headings going forward.

We are committed to this journey of improvement and our aspiration to become the highest quality provider in our sector.



Professor Moira Livingston
Non-Executive Director
6 December 2021

Directors' Report

The Directors present their Report and the audited Group Financial Statements for the year ended 30 September 2021.

Principal activities

The principal activity of the Group is the provision of high-quality support and care for individuals who often have complex needs.

Business review and future developments

The results for the financial year ended 30 September 2021 are set out in the consolidated statement of comprehensive income detailed on pages 115 to 116. Revenue for the year amount to £489.1m, operating profit for the year before non-underlying items amounted to £80.5m and operating profit after non-underlying items amounted to £79.5m.

The information that fulfils the requirements of the business review, including details of the 2021 results, key performance indicators, principal risks and uncertainties and the outlook for future years, is set out in the Group Executive Chairman's Statement (pages 14 to 17), the Group Chief Executive's Statement and Performance Review (pages 20 to 25), the Strategic Report (pages 1 to 75) and the Group Financial Review (pages 72 to 75) including Key Performance Indicators (pages 43 to 45) and Principal Risks and our Strategic Response (pages 68 to 71).

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 pages 68 to 71.

Employee engagement

Details in relation to employment policies, employee involvement, development, together with details of some of the human resource improvement initiatives implemented during the year and priorities for the year 2021/22 are shown in the Strategic Report, all of which are incorporated by reference into this Directors' Report.

Business relationships

Details of the Group's commissioners, service users, regulators and suppliers, and how we engage with them are described in the Strategic Report, all of which are incorporated by reference into the Directors' Report.

Environmental

The Group is committed to developing a business that is built on the foundations of responsibility. In 2021, we developed our new Responsibility Strategy – CARE4, which is set out on page 10.

Details of the Group's Greenhouse gas emissions and the methodology used to calculate such emissions are set out on page 55 which is incorporated by reference into this Directors' Report.

Dividends

Dividends of £14.4m have been paid during the year. The Directors propose a final dividend of 9.5p per share (2020: 8.75p) subject to the approval at the forthcoming Annual General Meeting.

Share listing

The Group's Ordinary Shares are admitted to and traded on AIM, a market operated by the London Stock Exchange. Further information regarding the Group's share capital, including movements during the year, are set out in note 26 to the financial statements.

Directors

The names of the current Directors together with brief biographical details are shown on pages 78 to 79.

In accordance with the Articles of Association, Jamie Cumming retires by rotation and, being eligible, will offer himself for re-election.

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

| Director's name | Title |
|----------------------------|-------------------------------|
| Farouq Sheikh OBE | Group Executive Chairman |
| Haroon Sheikh | Group Chief Executive Officer |
| Christopher Dickinson | Group Chief Financial Officer |
| Mike Adams OBE | Executive Director |
| Karl Monaghan | Non-Executive Director |
| Jamie Cumming | Non-Executive Director |
| Professor Moira Livingston | Non-Executive Director |

The terms of the Directors' service contracts and details of the Directors' interests in the shares of the Group, together with details of share options granted and any other awards made to the Directors, are disclosed in the Remuneration Report commencing on page 92.

Directors' insurance

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

Directors' Report continued

Share capital

Substantial shareholdings

As at 6 December 2021, being the date of the preliminary results announcement, the Group had been notified of, or was otherwise aware of, the following substantial interests of 3% or more in the Ordinary Share capital of the Group, other than those in respect of the Directors which are set out in the Remuneration Report on page 99.

| | No. of Ordinary Shares of 0.5p | Percentage % |
|----------------------------------|---|-----------------|
| Liontrust Asset Mgmt | 16,786,870 | 14.8 |
| Lombard Odier Asset Mgmt | 13,031,755 | 11.5 |
| Canaccord Genuity Wealth Mgmt | 11,500,268 | 10.2 |
| Kempfen Capital Mgmt | 9,082,784 | 8.0 |
| Mr Richard Griffiths | 5,831,945 | 5.2 |

Capital structure

As at 30 September 2021, the Group had 113,327,459 issued Ordinary Shares of 0.05p each. The Company has, and as at 30 September 2021, had, one class of Ordinary Shares and each share carries the right to one vote at General Meetings of the Group and to participate in any dividends declared in accordance with the Articles of Association. No person has any special rights of control over the Group's share capital.

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 29 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. The Group 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 established Sharesave share option schemes for eligible employees in both 2016, 2017 and 2020, details of which can be found in note 25 along with options remaining on previous schemes. The Board feels that share ownership among employees fosters team spirit and motivation and will contribute to the ultimate success of the Group.

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

Authority to allot shares

Pursuant to resolutions approved at the Annual General Meeting on 9 March 2021 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 Group.

Resolutions for the renewal of the above will be proposed at the forthcoming Annual General Meeting and also a resolution to give the Directors 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. 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.

Post balance sheet events

On 19 November 2021, an interim dividend of 4.6p per share was paid to shareholders.

On 29 November 2021, Smartbox Holdings Ltd ('Smartbox') announced the acquisition of REHAVISTA and its subsidiary company LogBUK. REHAVISTA is Germany's largest provider of augmentative and alternative communication ('AAC') products and services. LogBUK is a subsidiary company to REHAVISTA, providing independent speech and language therapy to help AAC users achieve the best outcomes through specialist clinical support. Smartbox paid €10m in cash on completion, funded by the Group's debt facility and post completion, CareTech will own 83% of Smartbox with the remaining minority ownership held by the Smartbox management team.

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 Group Executive Chairman's Statement, Group Chief Executive's Statement and Performance Review on pages 14 to 17 and pages 20 to 25 and Viability Statement on page 75. The financial position of the Group, its cash flows, liquidity position and borrowing facilities are described in the Group Financial Review on pages 74 to 75. In addition, note 29 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 cash flow from profits which together with existing bank facilities are sufficient 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, which are shown in the table in note 29 and indicates their contractual cash flow maturities.

The Group has banking facilities with a consortium of eight banks (Barclays Bank plc, HSBC UK Bank plc, Santander UK plc, AIB Group (UK) plc, Clydesdale Bank plc and Credit Suisse AG, Lloyds Bank plc and National Westminster Bank plc) for committed financing by way of term loans, none of which are repayable before August 2023. In addition to the term loans, a £25m revolving credit facility is available to provide working capital for the Group together with a day-to-day overdraft facility of £2m. There are a number of Banking Covenants which ratchet depending on time and Group performance. The Directors forecast that they are able to meet all Banking Covenants, which are reviewed regularly.

The Group's underlying operating business is cash generative, much of the business has a long-term profile with both debtor days and creditor days comparatively low. As at the balance sheet date, the Group had cash balances of £65.6m.

The Directors have prepared a cash flow forecast taking into account all expected cash flows for 12 months from the date of signing these financial statements. The Group has run downside scenarios including, but not limited to, a reduction in revenue, site closures and a cyberattack. This is done to identify risks to liquidity and covenant compliance. After making due enquiries and applying the downside sensitivities both individually and in combination, the Directors have not identified any material uncertainties to the Group and the Parent Company's ability to continue to operate over a period of at least 12 months from the date of approval of the financial statements. Therefore the Directors consider it appropriate to adopt the going concern basis of accounting in preparing the financial statements.

Disclosure of information to auditor

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

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



Farouq Sheikh OBE
Group Executive Chairman
6 December 2021

Directors' Remuneration Report

STATEMENT FROM THE CHAIRMAN OF THE REMUNERATION COMMITTEE

Jamie Cumming
Chairman of the
Remuneration Committee

**Number of meetings
held during the year**

6

**Committee members
and meeting attendance**

Jamie Cumming (Chair) (6/6)

Karl Monaghan (6/6)

Professor Moira Livingston (6/6)

Dear Shareholder,

On behalf of the Board, I am pleased to present the Directors' Remuneration Report for the year ended 30 September 2021 and the implementation of our remuneration policy for the year ended 30 September 2022. The Group is listed on the Alternative Investment Market (AIM) market of the London Stock Exchange and the information provided is disclosed to fulfil the requirements of AIM Rule 19. This report is split into two main parts:

- **this statement to shareholders** which includes a summary of our approach to pay, our policy, remuneration outcomes for the year just ended and how we intend to operate remuneration arrangements for the year ahead; and
- **the Annual Report on remuneration** which provides more detail on the above, as well as setting out other remuneration-related disclosures.

The Remuneration Report was resoundingly approved by shareholders at the 2021 Annual General Meeting with 97.6% vote 'For' and I would like to thank shareholders for their continued support.

Remuneration Committee

The Remuneration Committee currently comprises three Non-Executive Directors, Jamie Cumming (Chair), Karl Monaghan and Professor Moira Livingston. The Committee met six times in 2021, and its main responsibilities are set out below.

Main Committee responsibilities

- Review the scale and structure of the remuneration and service contracts for Executive Directors.
- Governing all share plans.
- Ensure that the incentive structure for senior management does not raise ESG risks by inadvertently motivating irresponsible behaviour.

- Review workforce remuneration and related policies and the alignment of incentives and rewards with culture.
- Approve the design and determine targets for Executive Directors' and other senior executives' incentive arrangements.
- Appoint remuneration consultants.

The Committee members have no personal financial interest, other than as shareholders, in the matters to be decided and all are considered to be independent Directors of the Group. 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.

Business performance and incentive outcomes for 2021

CareTech has 16 years on the public markets and grown to over 550 services supporting close to 5,000 service users. The business has increased its range of services to offer a broad Care Pathway which was expanded during the year with the acquisition of Smartbox and the creation of a Digital Technology division. Continuing to be innovative and develop a range of Care Pathways will continue to help many of the adults, young people and children we support to live more independently.

For the 2020/21 year, the Group's performance has been strong and demonstrating considerable resilience. Trading performance was significantly ahead compared with the same period last year. As with all businesses, the Group was affected by the COVID-19 pandemic and the Executive Directors have prioritised the safety and health of those we care for and our employees. Through their leadership and dedication of our staff, support teams and management, the Group has continued to provide excellent quality care.

Annual bonus

The annual bonus scheme in which the Executive Directors participate is based on the achievement of pre-IFRS 16 adjusted underlying EBITDA, pre-IFRS 16 EPS and Quality performance. For 2020/21, the maximum bonus for the Group Executive Chairman and Group Chief Executive Officer was 100.0% of salary, 66.6% for the Group Chief Financial Officer and 50% for the Executive Director. In light of the performance of the Group in the financial year, as reflected in a significant increase in shareholder value, 88.8% of the maximum bonus entitlement was achieved by the Group Executive Chairman, Group Chief Executive Officer and Group Chief Financial Officer.

Long-Term Incentive Plan ('LTIP')

In December 2020, the Remuneration Committee approved the implementation of a new Long-Term Incentive Plan. The LTIP replaces the Group's existing executive share option scheme and has been established with a view to encourage long-term value creation for the Group's shareholders and to align the interests of the Executive Directors and senior leadership team with shareholders. The Remuneration Committee believes that the implementation of the LTIP will also assist the Group in attracting and retaining high-calibre individuals for the future.

Awards will normally vest on the third anniversary of the date of grant, subject to the satisfaction of any performance conditions and the grantee's continued service. Upon vesting, 50% of the Award shares are subject to a holding period of four years from the date of grant, with the remaining 50% of the Award shares subject to a holding period of five years from the date of grant, ensuring further alignment with shareholders. During the holding period, restrictions will apply to the sale or other disposal of the shares. Malus and clawback provisions are also in place to reduce or recover the awards in circumstances such as any material misstatement of the financial statements, or a serious breach of the Company's code of ethics.

The first LTIP award was granted to participants in December 2020. The LTIP awards were set at 150% of salary for the Group Executive Chairman, Chief Executive Officer and Group Chief Financial Officer and 75% for the Executive Director and subject to EPS growth over the three-year performance period. Further details are set out later on in this report.

Remuneration decisions for 2022

Salaries

The following table sets out salaries for Executive Directors for the year ended 30 September 2021 and intended salaries effective for the year ending 30 September 2022.

| | | Salary with effect from | Salary with effect from |
|-------------------------------|-----------------------|-------------------------|-------------------------|
| Executive Directors | | 1 October 2020 | 1 October 2021 |
| Group Executive Chairman | Farouq Sheikh OBE | £400,000 | £400,000 (+0%) |
| Group Chief Executive Officer | Haroon Sheikh | £450,000 | £450,000 (+0%) |
| Group Chief Financial Officer | Christopher Dickinson | £300,000 | £300,000 (+0%) |
| Executive Director | Mike Adams OBE | £125,000 | £125,000 (+0%) |

Benefits

There will be no changes to benefits provided to the Executive Directors.

Relocation allowance

In order to grow and develop CareTech in the Gulf region, the Group Chief Executive Officer has relocated on a temporary basis to the United Arab Emirates. The Group Chief Executive Officer has retained all of his current responsibilities, with the international development of the business representing an expansion of his duties and responsibilities. A relocation allowance of £12,000 per month has been approved by the Remuneration Committee to cover his move and included visa and immigration support, flights, housing and education fees.

Annual bonus

The maximum bonus opportunity remains at 100% of salary for the Group Executive Chairman and Group Chief Executive Officer. The maximum bonus opportunity has increased to 100% for the Group Chief Financial Officer and remains at 50% for the Executive Director.

The measures and weightings have been reviewed and the FY22 bonus will use the same mix of three measures as FY21, with a weighting of a third each on Underlying basic EPS, Underlying basic EBITDA and Quality. In line with our approach for the FY21 bonus, we will retrospectively set out the targets and performance achieved in next year's Annual Report on Remuneration.

LTIP

The maximum opportunity remains at 150% of salary for the Group Executive Chairman, Group Chief Executive Officer and Group Chief Financial Officer and 75% for the Executive Director. The measures have been reviewed and we believe earnings remain strongly aligned to our strategic priorities. Further information is set out later on in this report.

Directors' Remuneration Report continued

STATEMENT FROM THE CHAIRMAN OF THE REMUNERATION COMMITTEE CONTINUED

2018 UK Corporate Governance Code

Our remuneration policy is designed to support an effective pay-for-performance culture which enables the Company to attract, retain and motivate Executive Directors who have the necessary experience and expertise to execute our strategy and deliver value to shareholders. The Company chooses to adopt best practice and the 2018 UK Corporate Governance Code on a comply or explain basis and below is an explanation of how the Committee has addressed the principles prescribed in Provision 40.

| Principle | How the Committee has addressed the principle |
|------------------------|--|
| Clarity and simplicity | The Committee ensures that remuneration arrangements are transparent, comprising a simple incentive structure that is commonplace in the market and best practice remuneration provisions. |
| Risk | The Committee promotes long-term sustainable performance through sufficiently stretched targets, whilst ensuring that the incentive structure does not encourage Executive Directors to take inappropriate risks. |
| Predictability | The 'illustration of application of remuneration policy' chart on page 96 indicates the potential values that may be earned through the remuneration arrangements. |
| Proportionality | The Committee believes how each element of remuneration links to the delivery of our strategy is set out in this report. |
| Alignment to culture | <p>The Committee believes that the incentive arrangements are consistent with the Group's values:</p> <p>Honesty and Transparency: The incentive arrangements are simple, transparent and in line with market practice.</p> <p>Respect and Responsibility: The Committee has recourse to recover incentive payments in certain circumstances.</p> <p>Creating Value: The incentives are aligned to shareholders for delivering exceptional performance.</p> |

Conclusion

We remain fully committed to continuing an open and transparent disclosure of our remuneration policy. We believe that the policy operated as intended in 2021 and we consider that the remuneration received by Executive Directors during the year was appropriate taking into account Group and personal performance.

By order of the Board



Jamie Cumming
Chairman of the Remuneration Committee
6 December 2021

EXECUTIVE REMUNERATION AT A GLANCE

This table summarises the approach to remuneration arrangements for Executive Directors for FY21 and intended operation for FY22.

| Element of remuneration | Year ended 30 September 2021 | Year ending 30 September 2022 |
|---|--|---|
| Salary | Exec Chair – £400,000 Group CEO – £450,000 Chief Financial Officer – £300,000 Executive Director – £125,000 | Group Exec Chair – £400,000 (+0%) Group CEO – £450,000 (+0%) Chief Financial Officer – £300,000 (+0%) Executive Director – £125,000 (+0%) |
| Maximum discretionary bonus opportunity | Group Exec Chair & Group CEO – 100% of salary payable in cash Group Financial Officer – 66% of salary payable in cash Executive Director – 50% of salary payable in cash | Group Exec Chair & CEO – 100% of salary payable in cash Group Financial Officer – 100% of salary payable in cash Executive Director – 50% of salary payable in cash |
| Bonus performance measures | Three measures each with equal weighting: – Underlying basic EPS; Underlying EBITDA; and quality of regulatory reports | |
| LTIP | Grants made in December 2020: – Group Exec Chair, Group CEO, Group Chief Financial Officer – 150% of salary – Executive Director – 75% of salary | Grants expected: – Group Exec Chair, Group CEO, Group Chief Financial Officer – 150% of salary – Executive Director – 75% of salary |
| LTIP performance measures | Underlying Basic Earnings per share (100%) | |
| Pension arrangements | 15% of salary pension contribution (which can be taken as 13% of salary cash allowance) | 15% of salary pension contribution |

Directors' service agreements

All Executive Directors' service contracts are subject to a 6 or 12 months' notice (period) 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 Report continued

EXECUTIVE REMUNERATION AT A GLANCE CONTINUED

Illustration of application of remuneration policy for 2021/22

The remuneration package for the Executive Directors is designed to provide an appropriate balance between fixed and variable performance-related components. The Committee is satisfied that the composition and structure of the remuneration package is appropriate, clearly supports the Group's strategic ambitions and does not incentivise inappropriate risk taking. This is reviewed on an annual basis.

The chart below sets out illustrations of each Executive Director's remuneration package, should they achieve minimum, on-target or maximum performance. A fourth scenario, which assumes 50% share price growth over the LTIP vesting period, is also included. The chart is for illustrative purposes only and actual outcomes may differ from those shown. In accordance with disclosure regulations, share awards have been shown at face value, with no dividend accrual or discount rate assumptions and share price growth modelled in the final scenarios only.

Group Executive Chairman – Farouq Sheikh OBE

Group Chief Executive Officer – Haroon Sheikh

For the purposes of the above analysis, the following methodology has been used:

| | |
|---|--|
| Minimum performance | Fixed remuneration only |
| On-target performance | Fixed remuneration 50% of maximum annual bonus is earned 50% of maximum LTIP vests |
| Maximum performance | Fixed remuneration 100% of maximum annual bonus is earned 100% of maximum LTIP vests |
| Maximum performance + 50% share price growth | As per the Maximum performance illustration, but also assumes for the purposes of the LTIP that share price increases by 50% over the vesting period |

Fixed remuneration comprises base salary as at 1 October 2021, benefits received and pension opportunity.

ANNUAL REPORT ON REMUNERATIONS

Directors' remuneration (audited)

The table below reports a single figure of total remuneration for each of the Directors for the financial year ended 30 September 2021 and their comparative figures for the financial year ended 30 September 2020.

| | Salary and fees | | Benefits | | Annual bonus | | LTIP | | Pension | | Total | |
|--------------------------------|-----------------|--------------|------------|------------|--------------|------------|------------|------------|------------|------------|--------------|--------------|
| | 2021 £0 | 2020 £0 | 2021 £0 | 2020 £0 | 2021 £0 | 2020 £0 | 2021 £0 | 2020 £0 | 2021 £0 | 2020 £0 | 2021 £0 | 2020 £0 |
| Executive Directors | | | | | | | | | | | | |
| Farouq Sheikh OBE | 400 | 400 | 37 | 22 | 356 | 367 | 0 | 0 | 52 | 44 | 845 | 833 |
| Haroon Sheikh | 450 | 450 | 207 | 58 | 400 | 413 | 0 | 0 | 59 | 50 | 1,116 | 971 |
| Christopher Dickinson | 300 | 198 | 26 | 10 | 178 | 91 | 0 | 0 | 39 | 26 | 543 | 325 |
| Mike Adams OBE | 125 | 125 | 10 | 8 | 56 | 57 | 0 | 0 | 0 | – | 191 | 190 |
| Non-Executive Directors | | | | | | | | | | | | |
| Karl Monaghan | 59 | 53 | – | – | – | – | – | – | – | – | 59 | 53 |
| Professor Moira Livingston | 51 | 45 | – | – | – | – | – | – | – | – | 51 | 45 |
| Jamie Cumming | 51 | 42 | – | – | – | – | – | – | – | – | 51 | 42 |
| Total | 1,436 | 1,371 | 280 | 101 | 989 | 928 | 0 | 0 | 150 | 126 | 2,855 | 2,527 |

Notes to the table:

- Christopher Dickinson was appointed Group Chief Financial Officer on 13 January 2020. Remuneration details for Christopher Dickinson represent only those amounts in relation to his services as a Director on the Board.

Benefits

Benefits include car allowance (or company vehicle), vehicle expenses, healthcare insurance and relocation assistance. Relocation assistance with a value of £144,000 was provided to Haroon Sheikh in the year, to assist with his move to the Middle East, and included visa and immigration support, flights, housing and education fees.

Pension arrangements

Executive Directors are offered a contribution of 15% of salary into a pension plan.

Directors' Remuneration Report continued

ANNUAL REPORT ON REMUNERATIONS CONTINUED

Annual bonus

Annual bonus awards were made in respect of the year ended 30 September 2021. Christopher Dickinson and Mike Adams OBE were eligible for a maximum bonus opportunity of 66.6% and 50% of salary respectively. Farouq Sheikh OBE and Haroon Sheikh were eligible for a maximum bonus opportunity of 100% of salary. For the avoidance of doubt, Non-Executive Directors are not eligible to participate in any annual bonuses or share-based incentives at CareTech.

The awards were structured by reference to performance against three performance measures and targets, all equally weighted. If an individual target is met, a third of the bonus award is payable. The following table sets out performance measures, weightings, targets and outcomes in respect of the bonus for the year ended 30 September 2021.

| Performance measure | Weighting | Target | Outcome |
|-------------------------|-----------|--|---|
| Group underlying EPS | One third | 50.2p (Pre IFRS 16) | 50.4p (pre IFRS 16) resulting in one third payable |
| Group underlying EBITDA | One third | £93.2 (pre IFRS 16) | £93.3m (Pre IFRS 16) resulting in one third payable |
| Quality | One third | See below | 22.2% payable |
| Total | | 88.8% of the maximum bonus opportunity available is payable | |

In March 2020, Regulatory inspections were suspended due to the pandemic and only resumed part way during the year. The Remuneration Committee therefore measured the Quality performance hurdle based on three measures: vacant registered managers, Leadership and Management during COVID-19 (infection prevention and control) and Regulatory compliance. The Remuneration Committee used its discretion and determined that two out of these three measures had been met.

Long-Term Incentive Plan ('LTIP')

2020 LTIP

In December 2020, the Remuneration Committee made awards to the Executive Directors (and other senior management) under the LTIP. Awards of 150% of salary were awarded to the Group Executive Chairman, Group Chief Executive Officer and Group Chief Financial Officer and 75% for the Executive Director and are subject to an EPS measured over a three-year period beginning at the date of the grant. 50% of the award will be subject to a one-year holding period and 50% will be subject to a two-year holding period. The performance conditions are set out below:

| Underlying Basic EPS final year target | Vesting of element (% of maximum) |
|--|---|
| Less than 48.60p | 0% |
| 48.60p | 20% |
| 57.05p | 100% |
| Between 50.71p and 57.05p | Between 20% and 100% on a straight-line basis |

The awards to the Executive Directors were made on 20 December 2020 based on a share price of 487p:

| | |
|-------------------------------|----------------|
| Group Executive Chairman | 123,203 shares |
| Group CEO | 138,604 shares |
| Group Chief Financial Officer | 92,402 shares |
| Executive Director | 19,251 shares |

Malus and clawback provisions apply to the award for criteria such as any material misstatement of the financial statements, a serious breach of the Company's code of ethics.

Details of share options made in previous years are set out in the share options section below.

2021 LTIP

In line with the remuneration policy, the Group Executive Chairman, Group Chief Executive Officer and Group Chief Financial Officer will be granted awards of 150% of salary and the Executive Director will be granted an award of 75% of salary under the new Long-Term Incentive Plan in December 2021. The targets for the 2021 LTIP are disclosed below. The Committee considers the targets to be appropriately stretching taking into account internal and external forecasts and market conditions.

| Underlying Basic EPS final year target | Vesting of element (% of maximum) |
|--|---|
| <55.05p | 0% |
| 55.05p | 20% |
| 64.62p | 100% |
| Between 55.05p and 64.62p | Between 20% and 100% on a straight-line basis |

If underlying EPS at the end of the performance period is below 55.05p then no awards will vest. Furthermore, the Committee has discretion to amend the vesting outcome where it considers that it is not a fair and accurate reflection of business performance.

ExSOP and Sharesave options

On 29 March 2017, the Group's ExSOP was created. Farouq Sheikh OBE and Haroon Sheikh each own 320,000 Ordinary Shares (total 640,000 Ordinary Shares) of 0.5p respectively under the Group's Executive Shared Ownership Plan 2017 (see note 25) and 400,000 Ordinary Shares (total 800,000 Ordinary Shares) of 0.5p respectively under the Group's Executive Shared Ownership Plan 2019.

On 15 September 2020, the Group granted options in aggregate over 480,678 Ordinary Shares pursuant to the CareTech Holdings plc Sharesave Scheme 2020. This is a three-year contract with a start date of 1 November 2020, with options exercisable at a price of 355 pence per share between 1 November 2023 and 30 April 2024. Within the options described above, there were 5,070 options each granted to Farouq Sheikh OBE, Haroon Sheikh and Christopher Dickinson under the Sharesave Scheme.

Christopher Dickinson has an interest in 155,250 Ordinary Shares in CareTech pursuant to the Executive Shared Ownership Plan, details of which were announced on 8 November 2019.

None of the options above are subject to clawback arrangements

No other Director has any share options in the Group.

Non-Executive Director Fees

The following sets out the current fee policy for Non-Executive Directors:

- base fee of £52,500; and
- additional fee of £7,500 for the role of Senior Independent Director.

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 2021 Number of Ordinary 0.5p Shares | 30 September 2020 Number of Ordinary 0.5p Shares |
|---|--|--|
| Westminster Holdings Limited ⁽¹⁾ | 9,297,864 | 10,047,864 |
| Cosaraf Pension Fund ⁽²⁾ | 230,000 | 230,000 |
| Sheikh Holdings Group ⁽³⁾ | 2,642,145 | 2,579,145 |
| Farouq Sheikh OBE | – | – |
| Haroon Sheikh | – | – |
| Karl Monaghan | 41,795 | 41,795 |
| Jamie Cumming | 2,500 | 2,500 |
| Mike Adams OBE | 2,145 | 2,145 |
| Christopher Dickinson | – | – |

Notes to the table:

- (1) Westminster Holdings Limited is a company owned by a trust, the beneficiaries of which include Farouq Sheikh OBE and Haroon Sheikh.
- (2) Cosaraf Pension Fund is a self-administered scheme established for the benefit of Farouq Sheikh OBE and Haroon Sheikh.
- (3) Grosvenor UK Limited is beneficially interested in these shares via a Contract for Difference ('CFD') which was effected at a price of 350p per share. Grosvenor UK Limited is a wholly owned subsidiary of Sheikh Holdings Group Investments Limited, which is wholly owned by Haroon and Farouq Sheikh OBE and their immediate family.

Directors' Remuneration Report continued

ANNUAL REPORT ON REMUNERATIONS CONTINUED

Additional disclosures relating to CEO pay

The following section sets out a number of additional disclosures relating to CEO pay, typically provided by FTSE-listed companies in their remuneration reports:

- Percentage change in CEO remuneration.
- Historic CEO pay.

Percentage change in the Board's remuneration

The following table compares the percentage change in the CEO's salary, benefits and annual bonus to the average percentage change in salary, benefits and bonus for all employees from the year ending 30 September 2020 to the year ending 30 September 2021.

| Change in remuneration | Salary | Benefits | Annual bonus |
|------------------------------|--------|----------|--------------|
| Chief Executive Officer | 0% | 267% | (3)% |
| Average pay of all employees | 3.3% | 15% | 228% |

Historic CEO pay

The following table sets out historic CEO pay over the past ten years. The single figure of total remuneration is provided, as well as the annual bonus expressed as a percentage of the maximum for the year.

| Year ending 30 September | Chief Executive | Single figure of total remuneration £000 | Annual bonus as a % of maximum | LTIP as a % of maximum |
|--------------------------|-----------------|---|-----------------------------------|---------------------------|
| 2021 | Haroon Sheikh | 1,116 | 89% | n/a |
| 2020 | Haroon Sheikh | 971 | 91% | n/a |
| 2019 | Haroon Sheikh | 920 | 100% | n/a |
| 2018 | Haroon Sheikh | 794 | 62% | n/a |
| 2017 | Haroon Sheikh | 430 | 64% | n/a |
| 2016 | Haroon Sheikh | 375 | 76% | n/a |
| 2015 | Haroon Sheikh | 304 | 96% | n/a |
| 2014 | Haroon Sheikh | 298 | 69% | n/a |
| 2013 | Haroon Sheikh | 247 | 0% | n/a |
| 2012 | Haroon Sheikh | 259 | 0% | n/a |

Notes to the table:

Single figure of total remuneration is as disclosed in previous Annual Reports, being the total figure in the relevant table plus any pension amounts disclosed in the same table.

Statement of Director's Responsibilities

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

Company law requires the Directors to prepare financial statements for each financial year. Under that law the Directors have to prepare the financial statements in accordance with international accounting standards in conformity with the requirements of the Companies Act 2006 ('IFRSs'). 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.

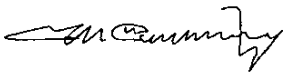
The Directors confirm that:

- 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 preparing the Annual Report in accordance with applicable law and regulations. Having taken advice from the Audit Committee, the Directors consider the Annual Report and Financial Statements, taken as a whole is fair, balanced and understandable and provides the information necessary for shareholders to assess the Group's performance, business model and strategy.

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.

By order of the Board



Jamie Cumming
Chairman of the Remuneration Committee
6 December 2021

Independent Auditor's Report to the members of CareTech Holdings PLC

Opinion

Our opinion on the financial statements is unmodified

We have audited the financial statements of CareTech Holdings PLC ('the Parent Company') and its subsidiaries ('the Group') for the year ended 30 September 2021, which comprise the Consolidated Income Statement, the Consolidated Statement of Comprehensive Income, the Consolidated Balance Sheet, the Consolidated Statement of Changes in Equity, the Consolidated Statement of Cash Flows, the Company Balance Sheet, the Company Statement of Changes in Equity and Notes to the Financial Statements, including a summary of significant accounting policies. The financial reporting framework that has been applied in the preparation of the Group financial statements is applicable law and international accounting standards in conformity with the requirements of the Companies Act 2006. The financial reporting framework that has been applied in the preparation of the Parent Company financial statements is applicable law and United Kingdom Accounting Standards, including Financial Reporting Standard 101 'Reduced Disclosure Framework' applicable in the UK and Republic of Ireland (United Kingdom Generally Accepted Accounting Practice).

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 2021 and of the Group's profit for the year then ended;
- the Group financial statements have been properly prepared in accordance with international accounting standards in conformity with the requirements of the Companies Act 2006;
- the Parent Company financial statements have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the 'Auditor's responsibilities for the audit of the financial statements' section of our report. We are independent of the Group and the Parent Company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard as applied to listed entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Conclusions relating to going concern

We are responsible for concluding on the appropriateness of the Directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's and the Parent Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify the auditor's opinion. Our conclusions are based on the audit evidence obtained up to the date of our report. However, future events or conditions may cause the Group or the Parent Company to cease to continue as a going concern.

Our evaluation of the Directors' assessment of the Group's and the Parent Company's ability to continue to adopt the going concern basis of accounting included, but was not restricted to:

- obtaining and reviewing management's assessment of going concern and challenging the assumptions used in the cash flow forecasts, which have been approved by the Board;
- obtaining management's base case scenario for the period to 31 December 2022, together with supporting evidence for all key trading, working capital and cash flow assumptions;
- challenging the key assumptions in the forecasts and the scope of scenario planning undertaken. Assumptions challenged include growth rates in the underlying forecasts, operating cash conversion rate, progressive dividend policy, capital expenditure and the capital structure of the Group;
- obtaining an understanding of the financing arrangements in place and management's assessment of their adequacy and plans to manage these arrangements. Corroborating the arrangements by testing covenants compliance for these facilities;
- obtaining management's downside scenarios, which reflect management's assessment of uncertainties. The assumptions regarding the forecast period and reduced trading levels were evaluated for plausibility; and
- reviewing the policies and disclosures in respect of going concern given in the financial statements for appropriateness.

In our evaluation of the Directors' conclusions, we considered the inherent risks associated with the Group's and the parent company's business model including effects arising from macro-economic uncertainties such as Brexit and Covid-19, we assessed and challenged the reasonableness of estimates made by the Directors and the related disclosures and analysed how those risks might affect the Group's and the Parent Company's financial resources or ability to continue operations over the going concern period.

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the Group's and the Parent Company's ability to continue as a going concern for a period of at least twelve months from when the financial statements are authorised for issue.

In auditing the financial statements, we have concluded that the Directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

In relation to the Group's reporting on how it has applied the UK Corporate Governance Code, we have nothing material to add or draw attention to in relation to the Directors' statement in the financial statements about whether the Directors considered it appropriate to adopt the going concern basis of accounting.

The responsibilities of the Directors with respect to going concern are described in the 'Responsibilities of Directors for the financial statements' section of this report.

Independent Auditor's Report to the members of CareTech Holdings PLC continued

Our approach to the audit

Overview of our audit approach

Overall materiality:

Group: £2.7m, which represents 5% of the Group's normalised profit before tax, being profit before tax after adjustment for specific non-routine items, at the planning stage of the audit.

Parent Company: £1.7m, which represents 2% of the Parent Company's total assets, capped at its component materiality.

Key audit matters were identified as:

- Occurrence of revenue and existence of deferred income (same as prior year);
- Valuation of goodwill of the Adult CGU (change in scope from the prior year: the prior year key audit matter was the valuation of goodwill and customer relationships across all the CGUs, whereas in the current year, the significant risk was in respect of the goodwill for the Adult CGU only); and
- Accuracy of acquisition accounting (change in scope from the prior year: the prior year key audit matter also included an assessment of identification of control of the acquisitions, which was not determined to be a significant risk this year and therefore not part of the key audit matter).

Our auditor's report for the year ended 30 September 2020 included three key audit matters that have not been reported as key audit matters in our current year's report, together with two key audit matters that have changed in scope:

- Measurement of lease assets and liabilities was a key audit matter in the previous year due to the transition to the new financial reporting standard IFRS 16 'Leases';
- Valuation of non-current 'sleep-in' provisions is not a key audit matter this year as there has been a judgement from the court which has settled the matter and therefore there is no uncertainty;
- Going concern is not a key audit matter in the current year as the Group has not been adversely affected by COVID-19 and has strong cash flows;
- Valuation of goodwill and customer relationships has changed in scope from the prior year as only valuation of the goodwill allocated to the Adult CGU is considered to be a significant risk this year, as the headroom for the Adult CGU was determined to be sensitive to changes in key assumptions;
- and
- Assessment of identification of control and accuracy of acquisition accounting is a change in the scope of the 'Accuracy of acquisition accounting' key audit matter for the current year as the assessment of identification of control is not considered to be a significant risk this year as there is no significant judgement around control of the businesses acquired.

- The Parent Company was identified as a significant component this year ('Parent') in line with the prior year assessment. The subsidiaries of the Parent Company, CareTech Holdings PLC, and Cambian Group Limited, which were identified as separate significant components in the previous year, have been aggregated into a single significant component this year ('CareTech'). We performed full-scope audit procedures using component materiality on the financial information of both of these components and all the entities included therein.
- By the Bridge Holdings Limited and its subsidiaries ('By the Bridge') has been identified as a significant component, similar to last year. The Group engagement team performed specific procedures on the financial information of By the Bridge using Group materiality to address risks identified at the Group level.
- Smartbox Holdings Limited and its subsidiaries ('Smartbox') were acquired in the current year. Smartbox was identified as a significant component and the Group engagement team performed specific procedures on its financial information using Group materiality to address risks identified at the Group level.
- AS Investment Holdings Limited and AS1 Investment Holdings Limited and their respective subsidiaries in the United Arab Emirates (the 'AS Group' or 'UAE') has been identified as a significant component this year. The Group engagement team engaged component auditors to perform specific procedures on the financial information of UAE using Group materiality to address risks identified at the Group level.
- Other non-significant components of the Group were subject to a combination of specified audit procedures and analytical procedures using Group materiality.

Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) that we identified. These matters included those that had the greatest effect on: the overall audit strategy; the allocation of resources in the audit; and directing the efforts of the engagement team. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Description

Audit response

KAM

Disclosures

Our results

In the graph below, we have presented the key audit matters, significant risks and other risks relevant to the audit.

FINANCIAL STATEMENTS

Independent Auditor's Report to the members of CareTech Holdings PLC continued

Key Audit Matter – Group

Occurrence of revenue and existence of deferred income

We identified occurrence of revenue and existence of deferred income as one of the most significant assessed risks of material misstatement due to fraud.

Under ISA (UK) 240 'The Auditor's Responsibilities Relating to Fraud in an Audit of Financial Statements', there is a rebuttable presumption that there are risks of fraud in revenue recognition.

We have identified fraud risk relating to service users discharged for Adult/Supported services and Children revenue streams for the current year. We have identified the revenue associated with users who have been discharged in the year as susceptible to fraud risk because this is predominantly a manual process which requires adjustments to revenue billed, when notification of discharge of a service user is received.

We have focused the significant risk of occurrence in the Adult/Supported services and Children revenue streams on revenue relating to service users discharged in the year. Due to the nature of the risk identified, this also results in a significant risk in respect of the existence of year-end deferred income balances:

Fostering revenues, additional labour recharge revenues and revenues in the UAE are considered to have a significant risk of occurrence.

How our scope addressed the matter – Group

In responding to the key audit matter, we performed the following audit procedures:

considering the Group's revenue recognition accounting policies to check these were in compliance with International Financial Reporting Standard ('IFRS') 15 'Revenue from Contracts with Customers' and consistently applied across the Group;

performing walkthroughs to understand the key controls over material revenue streams and identify changes, if any, from prior year;

evaluating and testing the design and operating effectiveness of key controls over the admission, discharges and fee movement during the year for the material revenue streams;

performing substantive testing on fostering and other smaller revenue streams in the significant components and on revenue in those smaller components, where we did not place reliance upon the operating effectiveness of controls;

agreeing a sample of revenue transactions to subsequent cash receipt and evidence of right to revenue recognition, to ensure that the service has been provided and accordingly the performance obligation is satisfied;

testing a sample of credit notes during the year and post year end to ensure they are recorded in the appropriate period; and

testing the deferred income recognised at the end of the year and agreeing to supporting evidence, on a sample basis.

Relevant disclosures in the Annual Report and Accounts 2021

- Financial statements: Note 2(m), Revenue; and Note 4, Segmental Information.

Our results

Our audit testing did not identify any material misstatements in relation to the occurrence of revenue and existence of deferred income.

Valuation of goodwill of Adult CGU

We identified valuation of goodwill of the Adult CGU as one of the most significant assessed risks of material misstatement due to error.

The Group has goodwill, allocated to the Adult CGU, with a carrying value of £27.3m (2020: £27.9m), which have arisen as a result of acquisitions.

Under IAS 36 'Impairment of Assets', management is required to test the goodwill annually for impairment. Given the current economic climate, we believe impairment indicators also exist in relation to the other intangible assets.

Significant judgements in the determination of recoverable amount of an asset/CGU include the determination of the CGUs, the forecast growth rates and the applicable discount rates. IAS 36 requires that assets are not carried at more than their recoverable amount.

In responding to the key audit matter, we performed the following audit procedures:

- evaluating the Group's accounting policy for consistency with IAS 36 and considering whether the accounting policy has been applied accurately and consistently across the Group;

- testing the arithmetical accuracy and integrity of the models and underlying data used by management in their impairment assessment by checking the consistency of formulae used and agreeing the underlying forecasts to approved budgets;

- challenging management's identification of CGUs within the business for reasonableness;

- using our in-house valuation specialists as an auditor's expert to assess (in respect of value-in-use assessments) the reasonableness of the discount rates and growth rates applied to cash flows;

- challenging management's model in respect of unallocated costs and unallocated capital expenditure;

- sensitivity analysis of key assumptions around working capital, allocation of central costs, growth rates and discount rates; and

- challenging management's assumptions concerning forecast cash flows, based on historical trends and any changes in customer preferences and regulations.

| Key Audit Matter – Group | How our scope addressed the matter – Group |
|--|---|
| Relevant disclosures in the Annual Report and Accounts 2021 <ul style="list-style-type: none"> Financial statements: Note 2(i), Impairment (excluding deferred tax assets); Note 15, Intangibles. | Our results Our audit testing did not identify any material misstatements in relation to the valuation of goodwill of Adult CGU. The assessment of potential impairment is highly sensitive to reasonable changes in the key assumptions and inputs. We have satisfied ourselves that the disclosures made are reasonable and consistent with the assessment performed. |
| Accuracy of acquisition accounting We identified accuracy of acquisition accounting as one of the most significant assessed risks of material misstatement due to error. The Group acquired controlling interests in the Smartbox and Huntercombe businesses. There is significant judgement exercised in acquisition accounting under IFRS 3 'Business Combinations', which presents a risk that a material error could occur in the accounting for this business combination, as well as judgements inherent in the fair value adjustments to recognise intangibles and the resulting impact on the goodwill amount. | In responding to the key audit matter, we performed the following audit procedures: <ul style="list-style-type: none"> assessing whether the Group's accounting policy and disclosures relating to acquisition accounting is in compliance with IFRS 3 and consistently applied; inspecting documentation including the articles and memorandum of association and share purchase agreements to check that the Group controls the entities acquired and that the date of control was accurately recorded and reflective of when such control was achieved; evaluating the calculations and management's judgements on the fair value of assets and liabilities acquired, including any identified intangibles arising on the acquisitions, in line with IFRS 3; engaging internal experts to assist with our audit of significant inputs to the fair valuation of assets identified as part of the acquisition; performing procedures over the source data used by the experts in their valuation to ensure the underlying forecasts and related assumptions were reasonable; and inspecting evidence to support the accuracy of the value of assets and liabilities on acquisition date. |
| Relevant disclosures in the Annual Report and Accounts 2021 <ul style="list-style-type: none"> Financial statements: Note 2(r) and Note 5, Business combinations. | Our results Our audit testing did not identify any material misstatements in relation to the accounting for acquisitions. |

We did not identify any key audit matters relating to the audit of the financial statements of the Parent Company.

Our application of materiality

We apply the concept of materiality both in planning and performing the audit, and in evaluating the effect of identified misstatements on the audit and of uncorrected misstatements, if any, on the financial statements and in forming the opinion in the auditor's report.

Materiality was determined as follows:

| Materiality measure | Group | Parent Company |
|--|--|--|
| Materiality for financial statements as a whole | We define materiality as the magnitude of misstatement in the financial statements that, individually or in the aggregate, could reasonably be expected to influence the economic decisions of the users of these financial statements. We use materiality in determining the nature, timing and extent of our audit work. | |
| Materiality threshold | £2.7m, which is 5% of the Group's normalised profit before tax, at the planning stage of the audit. Normalised profit before tax is after adjusting profit before tax for specific non-routine items, including acquisition costs, integration costs, redundancy and site closure costs, and COVID-19 related costs. | £1.7m, which is 2% of the Parent Company's total assets, capped at its component materiality, which is based on a percentage of Group materiality. |

Independent Auditor's Report to the members of CareTech Holdings PLC continued

| Materiality measure | Group | Parent Company |
|---|---|---|
| Significant judgements made by auditor in determining materiality | <p>In determining materiality, we made the following significant judgements:</p> <ul style="list-style-type: none"> – Normalised profit before tax is considered the most appropriate benchmark for the Group because in our view, it is most reflective of the performance of the business. <p>Materiality for the current year is higher than the level that we determined for the year ended 30 September 2020 to reflect the increase in the Group's normalised profit before tax this year.</p> | <p>In determining materiality, we made the following significant judgements:</p> <ul style="list-style-type: none"> – Total assets is considered the most appropriate benchmark for the Parent Company because the Parent Company's principal activity is that of a holding company that does not trade. <p>Materiality for the current year is higher than the level that we determined for the year ended 30 September 2020 to reflect the increase in the Parent Company's total assets and the capping, noted above, at a higher percentage of Group materiality, which was also higher this year.</p> |
| Performance materiality used to drive the extent of our testing | We set performance materiality at an amount less than materiality for the financial statements as a whole to reduce to an appropriately low level the probability that the aggregate of uncorrected and undetected misstatements exceeds materiality for the financial statements as a whole. | |
| Performance materiality threshold | £1.9m, which is 70% of financial statement materiality. | £1.2m, which is 70% of financial statement materiality. |
| Significant judgements made by auditor in determining performance materiality | <p>In determining performance materiality, we made the following significant judgements:</p> <ul style="list-style-type: none"> – The number and magnitude of unadjusted misstatements made to the Group's financial statements in prior years; and – The nature and impact of significant control deficiencies identified in prior years. | <p>In determining performance materiality, we made the following significant judgements:</p> <ul style="list-style-type: none"> – The number and magnitude of unadjusted misstatements made to the Parent Company's financial statements in prior years; and – The nature and impact of significant control deficiencies identified in prior years. |
| Specific materiality | We determine specific materiality for one or more particular classes of transactions, account balances or disclosures for which misstatements of lesser amounts than materiality for the financial statements as a whole could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements. | |
| Specific materiality | <p>We determined a lower level of specific materiality for the following areas:</p> <ul style="list-style-type: none"> – Directors' remuneration; and – related-party transactions. | |
| Communication of misstatements to the Audit Committee | We determine a threshold for reporting unadjusted differences to the Audit Committee. | |
| Threshold for communication | £135,700 and misstatements below that threshold that, in our view, warrant reporting on qualitative grounds. | £86,200 and misstatements below that threshold that, in our view, warrant reporting on qualitative grounds. |

The graph below illustrates how performance materiality interacts with our overall materiality and the tolerance for potential uncorrected misstatements.

Overall materiality – Group

Overall materiality – Parent Company

PM £1.9m (70%)

PM £1.2m (70%)

TFPUM £0.8m (30%)

TFPUM £0.5m (30%)

Normalised profit before tax – £54.2m
FSM – £2.7m (5%)

Total assets – £579.7m
FSM* – £1.7m (2%)

FSM: Financial statements materiality (*Parent Company financial statement materiality was capped at its component materiality). PM: Performance materiality. TFPUM: Tolerance for potential uncorrected misstatements.

An overview of the scope of our audit

We performed a risk-based audit that requires an understanding of the Group's and the Parent Company's business, its environment and risk profile and in particular matters related to:

Understanding the Group, its components, and their environments, including Group-wide controls

- The engagement team obtained an understanding of the Group and its environment, including Group-wide controls, and assessed the risks of material misstatement at the Group level;
- Evaluating the design and implementation of controls over the financial reporting systems identified as part of our risk assessment. With respect to payroll and operating expenses, we evaluated the design of controls and their implementation in addition to performing substantive procedures. With respect to revenue recognition we evaluated the design and implementation of controls and tested their operating effectiveness in addition to performing substantive procedures; and
- Inspecting the processes management follow to prepare and report results. Management prepare and report on the results on a Group basis rather than on a company basis. The subsidiaries in the Group are all controlled by the Parent Company. The Parent Company provides a guarantee for all of the subsidiaries' liabilities, apart from those stated in note 30 of the financial statements.

Identifying significant components and type of work performed on the identified components

- Evaluation by the Group audit team of identified components to assess the significance of that component and to determine the planned audit response based on a measure of materiality, considering the relative size of each component as a percentage of total Group assets, liabilities, revenue and earnings before interest, tax, depreciation and amortisation ('EBITDA'). If any of these benchmarks were individually more than 15% of the Group total, then that component was classified as 'individually financially significant to the Group' and an audit of the financial information of the component using component materiality (full-scope audit) was performed:
- Those components where the benchmark threshold was below 15% of the Group total but was considered to contain Group significant risks were classified as significant components on which specific procedures to address Group risks were performed using Group materiality;

Independent Auditor's Report to the members of CareTech Holdings PLC continued

An overview of the scope of our audit continued

Identifying significant components and type of work performed on the identified components continued

- The Parent and CareTech components were each categorised as significant components for which we performed full scope audit procedures using component materiality on all entities included in the respective components;
- By the Bridge, UAE (or the 'AS Group') and Smartbox components were each classified as significant components because they are likely to contain Group significant risks. For UAE, we engaged component auditors to perform specific procedures on the financial information of those entities, addressing the risks identified at the Group level using Group materiality. The Group engagement team performed specific procedures on the financial information for the By the Bridge and Smartbox components to address risks identified at the Group level using Group materiality; and
- For other smaller non-significant components, we performed a combination of specified audit procedures and analytical procedures using Group materiality;

Performance of our audit

- The audit was conducted partly remotely due to COVID-19 restrictions and social distancing requirements and partly at the Group's head office. The work performed was supported through the use of software collaboration platforms for the secure and timely delivery of requested audit evidence. The audit team held weekly pre-scheduled conference calls throughout the audit fieldwork and visited the head office frequently once restrictions were lifted in August 2021.

| Audit approach | No. of components | % coverage Total assets | % coverage Revenue | % coverage PBT |
|----------------------------|-------------------|-------------------------|--------------------|----------------|
| Full-scope audit | 2 | 90 | 85 | 82 |
| Specific-scope audit | 3 | – | 11 | 15 |
| Specified audit procedures | 1 | – | 1 | 3 |
| Analytical procedures | 1 | – | – | – |
| Total | 7 | 90 | 97 | 100 |

Communications with component auditors

- Communications with the UAE component auditor included sending our component auditor instructions to them detailing the areas required to be covered and the procedures to be performed;
- As UAE was a significant component, we identified that specific procedures would be performed on significant balances and transactions. Accordingly, we identified such balances and specified the nature, timing and extent of procedures which are required to be performed on the identified areas. The work to be performed included obtaining an understanding of the design of controls and the processes followed and then identifying items for testing; and
- As a result of COVID-19, we were unable to undertake our component auditor fieldwork visits, therefore, we increased the frequency of our communications with the UAE component auditor to monitor progress. The audit team held periodic pre-scheduled video conference calls throughout the audit fieldwork to monitor progress and we also used video conferencing tools and audit software platform to review the component auditor documentation.

Changes in approach from previous period

- The acquisition of controlling interests in Smartbox and Huntercombe during the year caused a change in scope of the audit. We assessed the accounting treatment for the acquisition and certain assets acquired as part of the acquisition as significant risks of misstatement. Smartbox and Huntercombe were collectively identified as significant components as they are likely to contain Group significant risks. Therefore, they were subject to specified procedures to address specific risks using Group materiality; and
- The CareTech and Cambian components were individually identified as significant components in the previous year. However, in the current year, the Group engagement team has identified these as a single aggregated component to better reflect the business operations and the way they are managed and controlled;

Other information

The Directors are responsible for the other information. The other information comprises the information included in the Annual Report and Accounts, other than the financial statements and our auditor's report thereon. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

Our opinion on other matters prescribed by the Companies Act 2006 is unmodified

In our opinion, based on the work undertaken in the course of the audit:

- the information given in the Strategic Report and the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the Strategic Report and the Directors' Report have been prepared in accordance with applicable legal requirements.

Matter on which we are required to report under the Companies Act 2006

In the light of the knowledge and understanding of the Group and the Parent Company and its environment obtained in the course of the audit, we have not identified material misstatements in the Strategic Report or the Directors' Report.

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters in relation to which 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.

Corporate Governance Report

We have reviewed the Directors' statement in relation to going concern, longer-term viability and that part of the Corporate Governance Report relating to the Group's voluntary compliance with the provisions of the UK Corporate Governance Code.

Based on the work undertaken as part of our audit, we have concluded that each of the following elements of the Corporate Governance Report is materially consistent with the financial statements and our knowledge obtained during the audit:

- the Directors' statement with regards to the appropriateness of adopting the going concern basis of accounting and any material uncertainties identified set out on page 119;
- the Directors' explanation as to their assessment of the Group's prospects, the period this assessment covers and why the period is appropriate set out on page 119;
- the Directors' statement on whether they have a reasonable expectation that the Group will be able to continue in operation and meet its liabilities set out on page 119;

Independent Auditor's Report to the members of CareTech Holdings PLC continued

Corporate Governance Report continued

- the Directors' statement on fair, balanced and understandable set out on page 101;
- the Board's confirmation that it has carried out a robust assessment of the emerging and principal risks set out on page 89;
- the section of the Annual Report that describes the review of the effectiveness of risk management and internal control systems set out on page 83; and
- the section describing the work of the Audit Committee set out on page 77.

Responsibilities of Directors for the financial statements

As explained more fully in the Statement of Directors' Responsibilities, the Directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the Directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Directors are responsible for assessing the Group's and the Parent Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Directors either intend to liquidate the Group or the Parent Company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

Explanation as to what extent the audit was considered capable of detecting irregularities, including fraud

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect material misstatements in respect of irregularities, including fraud. Owing to the inherent limitations of an audit, there is an unavoidable risk that material misstatements in the financial statements may not be detected, even though the audit is properly planned and performed in accordance with ISAs (UK).

The extent to which our procedures are capable of detecting irregularities, including fraud, is detailed below:

- We enquired of management, the finance team and the Board of Directors about the Group's and the Parent Company's policies and procedures relating to the identification, evaluation and compliance with laws and regulations and the detection and response to the risks of fraud and the establishment of internal controls to mitigate risks related to fraud or non-compliance with laws and regulations;
- We obtained an understanding of the legal and regulatory frameworks that are applicable to the Group and the Parent Company. We determined that the most significant laws and regulations are those related to financial reporting and taxation, being international accounting standards in conformity with the requirements of the Companies Act 2006 (for 'the Group'), Financial Reporting Standard 101 'Reduced Disclosure Framework' (for the Parent Company), the Companies Act 2006, the Listing Rules, the UK Corporate Governance Code and the application of local sales and use taxes and overseas permanent establishments;
- We enquired of management and the Board of Directors whether they were aware of any instances of non-compliance with laws and regulations and whether they had any knowledge of actual, suspected or alleged fraud;
- We assessed the susceptibility of the Group's and the Parent Company's financial statements to material misstatement, including how fraud might occur and the risk of management override of controls. Audit procedures performed by the engagement team included;

- Enquiring of management, the finance team and the Board of Directors about the risks of fraud at the Group and the Parent Company and the controls implemented to address those risks. Assessing the design and implementation of controls relevant to the audit that management has in place to prevent and detect fraud, including updating our understanding of the internal controls over journal entries, including those related to the posting of entries used to record non-recurring, unusual transactions or other non-routine adjustments;
- Making specific inquiries of each member of the finance team to ascertain whether they had been subject to undue pressure or had been asked to make any unusual postings or modifications to reports used in financial reporting;
- Identifying and testing journal entries, with selection based on risk profiling;
- Running specific keyword searches (including to related parties and of those previously connected to related entities) over the journal entry population to identify descriptions that could indicate fraudulent activity or management override of controls. In addition, journal entries by user were evaluated to identify types of entries posted that were not in line with expectations of their role. Unusual entries noted from these searches were agreed to supporting documentation to verify the validity of the posting;
- Planning specific procedures responding to the risk of fraudulent recognition of revenue as detailed within the Key Audit Matters section, above;
- Assessing the disclosures within the Annual Report, including principal and emerging risks; and
- Challenging assumptions and judgements made by management in its significant accounting estimates.
- In assessing the potential risks of material misstatement, we obtained an understanding of the Group's and the Parent Company's operations, including the nature of income sources and of their objectives and strategies in order to understand the classes of transactions, account balances, expected financial statement disclosures and business risks that may result in risks of material misstatement;
- These audit procedures were designed to provide reasonable assurance that the financial statements were free from fraud or error. The risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from error and detecting irregularities that result from fraud is inherently more difficult than detecting those that result from error, as fraud may involve collusion, deliberate concealment, forgery or intentional misrepresentations. Also, the further removed non-compliance with laws and regulations is from events and transactions reflected in the financial statements, the less likely we would become aware of it;
- The engagement partner's assessment of the appropriateness of the collective competence and capabilities of the engagement team
- included consideration of the engagement team's understanding of, and practical experience with, audit engagements of a similar nature and complexity, through appropriate training and participation; and
- Requesting component auditors to identify any instances of non-compliance with applicable laws and regulations which could give rise to a material misstatement. Communications with the component auditor included specific procedures to be performed to address the fraud risk in revenue recognition and management override of controls around journal testing, including the procedures detailed above.

Use of our report

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.

Grant Thornton UK LLP

Rebecca Eagle

Senior Statutory Auditor

for and on behalf of Grant Thornton UK LLP

Statutory Auditor, Chartered Accountants

London

6 December 2021

Consolidated Income Statement for the year ended 30 September 2021

| | Note | 2021 | | | 2020 | | |
|--|-------|--------------------|----------------------------|----------------|--------------------|----------------------------|---------------|
| | | Underlying £000 | Non- underlying £000 | Total £000 | Underlying £000 | Non- underlying £000 | Total £000 |
| Revenue | 4 | 489,119 | – | 489,119 | 429,966 | – | 429,966 |
| Cost of sales | | (323,410) | – | (323,410) | (282,029) | – | (282,029) |
| Gross profit | | 165,709 | – | 165,709 | 147,937 | – | 147,937 |
| Other income | 6 | – | 2,692 | 2,692 | – | 2,550 | 2,550 |
| Administrative expenses | | (85,216) | (3,681) | (88,897) | (74,356) | (22,769) | (97,125) |
| Operating profit | | 80,493 | (989) | 79,504 | 73,581 | (20,219) | 53,362 |
| EBITDA | | 100,485 | 2,692 | 103,177 | 90,932 | 2,550 | 93,482 |
| Depreciation | 13.14 | (19,519) | – | (19,519) | (17,021) | – | (17,021) |
| Amortisation of intangible assets | 6.15 | – | (10,273) | (10,273) | – | (10,186) | (10,186) |
| Acquisition expenses | 6 | – | (759) | (759) | – | (545) | (545) |
| Other non-underlying items | 6 | – | (5,964) | (5,964) | – | (4,497) | (4,497) |
| Sleep-in provision | 6 | – | 11,777 | 11,777 | – | – | – |
| Gain on bargain purchase | 6 | – | 5,758 | 5,758 | – | – | – |
| COVID-19 costs | 6 | – | (4,220) | (4,220) | – | (3,422) | (3,422) |
| Share-based payments' charge | | (473) | – | (473) | (330) | (4,119) | (4,449) |
| Operating profit | | 80,493 | (989) | 79,504 | 73,581 | (20,219) | 53,362 |
| Finance expenses | 6.9 | (12,158) | (1,112) | (13,270) | (13,928) | (1,611) | (15,539) |
| Profit before tax | | 68,335 | (2,101) | 66,234 | 59,653 | (21,830) | 37,823 |
| Taxation | 6.10 | (11,889) | (19,017) | (30,906) | (11,325) | 553 | (10,772) |
| Profit for the year | | 56,446 | (21,118) | 35,328 | 48,328 | (21,277) | 27,051 |
| Non-controlling interest | | (3,420) | – | (3,420) | (1,933) | – | (1,933) |
| Profit for the year attributable to equity shareholders of the Parent | | 53,026 | (21,118) | 31,908 | 46,395 | (21,277) | 25,118 |
| Earnings per share | | | | | | | |
| Basic | 11.12 | | | 28.80p | | | 22.88p |
| Diluted | 11.12 | | | 27.48p | | | 22.03p |

Consolidated Statement of Comprehensive Income for the year ended 30 September 2021

| | Note | 2021 | | | 2020 | | |
|--|------|--------------------|----------------------------|----------------|--------------------|----------------------------|---------------|
| | | Underlying £000 | Non- underlying £000 | Total £000 | Underlying £000 | Non- underlying £000 | Total £000 |
| Profit for the year | | 56,446 | (21,118) | 35,328 | 48,328 | (21,277) | 27,051 |
| Item that may be subsequently reclassified to the income statement: | | | | | | | |
| Exchange movements on overseas net assets | | (424) | – | (424) | 53 | – | 53 |
| Items that will not be reclassified to income statement: | | | | | | | |
| Exchange movements on overseas net assets of non-controlling interests | | (320) | – | (320) | 45 | – | 45 |
| Other comprehensive income for the year | | (744) | – | (744) | 98 | – | 98 |
| Total comprehensive income for the year | | 55,702 | (21,118) | 34,584 | 48,426 | (21,277) | 27,149 |
| Non-controlling interest | | (3,100) | – | (3,100) | (1,978) | – | (1,978) |
| Profit for the year attributable to owners of the Parent | | 52,602 | (21,118) | 31,484 | 46,448 | (21,277) | 25,171 |

Consolidated Statement of Financial Position as at 30 September 2021

| | Note | 2021 £000 | 2020 £000 |
|---|------|------------------|----------------|
| Non-current assets | | | |
| Property, plant and equipment | 13 | 619,482 | 604,096 |
| Right-of-use assets | 14 | 123,231 | 87,790 |
| Intangible assets | 15 | 87,032 | 83,084 |
| Goodwill | 15 | 86,866 | 84,604 |
| | | 916,611 | 859,574 |
| Current assets | | | |
| Inventories | 16 | 3,468 | 1,937 |
| Trade and other receivables | 17 | 71,606 | 51,055 |
| Cash and cash equivalents | 18 | 65,560 | 54,273 |
| | | 140,634 | 107,265 |
| Total assets | | 1,057,245 | 966,839 |
| Current liabilities | | | |
| Trade and other payables | 21 | 70,011 | 55,017 |
| Lease liabilities | 14 | 5,500 | 6,208 |
| Contingent consideration payable | 5 | 3,616 | 1,569 |
| Deferred income | 19 | 36,132 | 30,309 |
| Corporation tax | | 17,753 | 14,757 |
| | | 133,012 | 107,860 |
| Non-current liabilities | | | |
| Loans and borrowings | 20 | 319,654 | 318,955 |
| Lease liabilities | 14 | 118,781 | 82,480 |
| Deferred tax liabilities | 22 | 93,927 | 69,844 |
| Provisions | 23 | 5,540 | 21,286 |
| Derivative financial instruments | 24 | 5,414 | 2,198 |
| | | 543,316 | 494,763 |
| Total liabilities | | 676,328 | 602,623 |
| Net assets | | 380,917 | 364,216 |
| Equity | | | |
| Share capital | 26 | 566 | 565 |
| Share premium | 27 | 133,551 | 133,079 |
| Shares held by Executive Shared Ownership Plan | 27 | (12,837) | (13,305) |
| Merger reserve | 27 | 125,842 | 125,842 |
| Foreign currency translation reserve | 27 | (371) | 53 |
| Retained earnings | 27 | 121,619 | 107,120 |
| Total equity attributable to equity shareholders of the Parent | | 368,370 | 353,354 |
| Non-controlling interest | 27 | 12,547 | 10,862 |
| Total equity | | 380,917 | 364,216 |

These financial statements were approved by the Board of Directors and authorised for issue on 6 December 2021 and were signed on its behalf by:



Farouq Sheikh OBE
Group Executive Chairman
Company number: 04457287



Christopher Dickinson
Group Chief Financial Officer

Consolidated Statement of Changes in Equity

as at 30 September 2021

| | Share capital £000 | Share premium £000 | Shares held by Executive Shared Ownership Plan £000 | Retained earnings £000 | Merger reserve £000 | Foreign currency translation reserve £000 | Total attributable to owners of the Parent £000 | Non- controlling interest £000 | Total equity £000 |
|---|-----------------------|-----------------------|--|------------------------------|---------------------------|---|---|---|----------------------|
| At 1 October 2019 | 545 | 121,304 | (3,537) | 90,559 | 125,536 | – | 334,407 | 957 | 335,364 |
| Profit for the year | – | – | – | 25,118 | – | – | 25,118 | 1,933 | 27,051 |
| Other comprehensive income | – | – | – | – | – | 53 | 53 | 45 | 98 |
| Total comprehensive income | – | – | – | 25,118 | – | 53 | 25,171 | 1,978 | 27,149 |
| Issue of ordinary shares net of transaction costs | 18 | 10,043 | (9,997) | – | – | – | 64 | – | 64 |
| Redemption of share options | – | – | 229 | – | – | – | 229 | – | 229 |
| Acquisition | 2 | 1,732 | – | – | 306 | – | 2,040 | 7,927 | 9,967 |
| Equity-settled share-based payments' charge | – | – | – | 4,449 | – | – | 4,449 | – | 4,449 |
| Dividends | – | – | – | (13,006) | – | – | (13,006) | – | (13,006) |
| Transactions with owners recorded directly in equity | 20 | 11,775 | (9,768) | 16,561 | 306 | 53 | 18,947 | 9,905 | 28,852 |
| At 30 September 2020 | 565 | 133,079 | (13,305) | 107,120 | 125,842 | 53 | 353,354 | 10,862 | 364,216 |
| Profit for the year | – | – | – | 31,908 | – | – | 31,908 | 3,420 | 35,328 |
| Other comprehensive income | – | – | – | – | – | (424) | (424) | (320) | (744) |
| Total comprehensive income | – | – | – | 31,908 | – | (424) | 31,484 | 3,100 | 34,584 |
| Issue of ordinary shares net of transaction costs | 1 | 472 | – | – | – | – | 473 | – | 473 |
| Redemption of share options | – | – | 468 | – | – | – | 468 | – | 468 |
| Acquisitions (Note 5a) | – | – | – | – | – | – | – | 1,450 | 1,450 |
| Equity-settled share-based payments' charge | – | – | – | 1,373 | – | – | 1,373 | – | 1,373 |
| Dividends | – | – | – | (14,431) | – | – | (14,431) | (2,865) | (17,296) |
| Recognition of liabilities with non-controlling interest (Note 24) | – | – | – | (4,351) | – | – | (4,351) | – | (4,351) |
| Transactions with owners recorded directly in equity | 1 | 472 | 468 | 14,499 | – | (424) | 15,016 | 1,685 | 16,701 |
| At 30 September 2021 | 566 | 133,551 | (12,837) | 121,619 | 125,842 | (371) | 368,370 | 12,547 | 380,917 |

Consolidated Statement of Cash Flows

for the year ended 30 September 2021

| | Note | 2021 £000 | 2020 £000 |
|--|-------|-----------------|-----------------|
| Cash flows from operating activities | | | |
| Profit before tax | | 66,234 | 37,823 |
| Adjustments for: | | | |
| Financial expenses | 9 | 13,270 | 15,539 |
| Depreciation | 13,14 | 19,519 | 17,021 |
| Amortisation of intangible assets | 15 | 10,273 | 10,186 |
| Sleep-in provision | 6 | (11,777) | – |
| Gain on bargain purchase | 6 | (5,758) | – |
| Share-based payments' charge | 8,25 | 1,373 | 4,449 |
| Other non-cash items | 6 | 587 | – |
| Operating cash flows before movement in working capital | | 93,721 | 85,018 |
| Increase in inventory | | (651) | (46) |
| (Increase)/decrease in trade and other receivables | | (15,953) | 5,565 |
| Increase/(decrease) in trade and other payables | | 12,715 | (2,227) |
| Cash inflows from operating activities | | 89,832 | 88,310 |
| Tax paid | | (6,038) | (3,899) |
| Net cash from operating activities | | 83,794 | 84,411 |
| Cash flows from investing activities | | | |
| Proceeds from sale of property, plant and equipment | | 1,299 | 1,536 |
| Business combinations net of cash acquired | 5 | (5,447) | (2,000) |
| Acquisition of property, plant and equipment | 13 | (28,993) | (23,842) |
| Acquisition of software | 15 | (2,938) | (2,840) |
| Payment of contingent consideration | | (1,503) | (739) |
| Net cash used in investing activities | | (37,582) | (27,885) |
| Cash flows from financing activities | | | |
| Proceeds from issue of shares net of transaction costs | 26 | 941 | 294 |
| Proceeds from shareholder loans | 5 | – | 1,808 |
| Interest paid | | (10,599) | (10,737) |
| Cash outflow arising from non-underlying finance expenses | | (1,756) | (1,053) |
| Loan arrangement fees | | (438) | – |
| Principal payment of lease liabilities | | (5,777) | (8,797) |
| Dividends paid to non-controlling interest | | (2,865) | – |
| Dividends paid | 28 | (14,431) | (13,006) |
| Net cash used in from financing activities | | (34,925) | (31,491) |
| Net increase in cash and cash equivalents | | 11,287 | 25,035 |
| Cash and cash equivalents at 1 October | 18 | 54,273 | 29,238 |
| Cash and cash equivalents at 30 September | 18 | 65,560 | 54,273 |

Notes to the Financial Statements

1. Background and basis of preparation

CareTech Holdings PLC (the 'Group' or 'Company') is a company registered and domiciled in England and Wales. The consolidated financial statements of the Company for the year ended 30 September 2021 comprise the Company and its subsidiaries (together referred to as the 'Group'). The consolidated financial statements are presented in pounds sterling, which is the Company's functional currency, rounded to the nearest thousand. The Parent Company financial statements on pages 165 to 172 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 6 December 2021.

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 Group Executive Chairman's Statement and Group Chief Executive's Statement and Performance Review on pages 14 to 17 and pages 20 to 25. The financial position of the Group, its cash flows, liquidity position and borrowing facilities are described in the Group Financial Review on pages 72 to 75. The Directors have assessed the viability of the Group in the Longer-term Viability Statement set out on page 75. In addition, note 29 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 cash flow from profits which together with existing bank facilities are sufficient 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, which are shown in the table in note 29 and indicates their contractual cash flow maturities.

The Group is financed by bank loan facilities that mature in August 2023. The Directors have considered the Group's forecasts and projections, and the risks associated with their delivery, and are satisfied that the Group will be able to operate within the covenants imposed by bank loan facilities for at least 12 months from the date of approval of the consolidated financial information. In relation to available cash resources, the Directors have had regard to both cash at bank and a £25m committed undrawn revolving credit facility.

The Directors have prepared a cash flow forecast taking into account all expected cash flows for 12 months from the date of signing these financial statements. After making due enquiries, the Directors have a reasonable expectation that the Group has adequate resources to continue on operational existence for the foreseeable future.

Accordingly, the Directors continue to adopt the going concern basis of accounting for the Group and Parent Company in preparing the consolidated financial statements.

2. Accounting policies

(a) Applicable accounting standards

The Group financial statements have been prepared and approved by the Directors in accordance with international accounting standards in conformity with the requirements of the Companies Act 2006.

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

Notes to the Financial Statements

continued

2. Accounting policies continued

New and amended standards and interpretations effective in the year

Issued IFRS not yet effective

At the date of authorisation of these financial statements, certain new standards, amendments and interpretations to existing standards have been published by the IASB but are not yet effective and these have not been applied early by the Group. Management anticipates that the following pronouncements relevant to the Group's operation will be adopted in the Group's accounting policies for the first period beginning after the effective date of the pronouncement, once adopted by the EU:

| Title | Subject | Effective date per standard |
|---|---|-----------------------------|
| Amendment to IFRS 16 'Leases' COVID-19 – Related Rent Concessions beyond 30 June 2021 | COVID-19 – Related Rent Concessions | 1 April 2021 per IASB |
| Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16 | Interest Rate Benchmark Reform – Phase 2 | 1 January 2021 per IASB |
| IFRS 17 | Insurance Contracts | 1 January 2023 per IASB |
| Amendments to IFRS 10 and IAS 28 (Sept 2014) | Safe or Contribution of Assets between an Investor and its Associate or Joint Venture | Postponed |

The Directors expect that the adoption of the standards listed above will not have a material impact on the financial information of the Group in future reporting periods.

(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

The Group financial statements consolidate those of the Parent Company and all of its subsidiaries as of 30 September 2021. All subsidiaries have a reporting date of 30 September, except for AS Investment Holdings Ltd, AS1 Investment Holdings Ltd, AS2 Investments Holdings Ltd, and their respective operating entities in the United Arab Emirates (UAE) (the 'AS Group'), which has a year end of 31 December as this is their statutory reporting date. All transactions and balances between Group companies are eliminated on consolidation, including unrealised gains and losses on transactions between Group companies. Where unrealised losses on intra-group asset sales are reversed on consolidation, the underlying asset is also tested for impairment from a Group perspective. Amounts reported in the financial statements of subsidiaries have been adjusted where necessary to ensure consistency with the accounting policies adopted by the Group. Subsidiaries are only consolidated where control exists. Control is determined to exist when the Group has power over the investee, exposure, or rights, to variable returns from its involvement with the investee and the ability to use its power over the investee to affect the amount of the investor's returns.

(d) Property, plant and equipment

Property, plant and equipment is 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 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 and depreciated separately.

2. Accounting policies continued

Depreciation is charged to the consolidated income statement over the estimated useful lives of each part of an item of property, plant and equipment. Land 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; |
| – short leasehold property | over the life of the lease; |
| – fixtures, fittings and equipment | 15% straight-line; and |
| – motor vehicles | 25% reducing balance. |

(e) Intangible assets and goodwill

All business combinations are accounted for by applying the acquisition method as described in note 2(r). 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 immediately in the consolidated income statement.

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

Expenditure on research activities is recognised as an expense in the period in which it is incurred.

Included within software are development costs in relation to software which are capitalised when the related projects meet the recognition criteria of an internally generated intangible asset, the key criteria being as follows:

- (a) technical feasibility of completing the intangible asset so that it will be available for use or sale;
- (b) it can be demonstrated that the asset will generate probable future economic benefits;
- (c) adequate technical, financial and other resources are available to complete the development;
- (d) the expenditure attributable to the intangible asset can be reliably measured; and
- (e) management has the ability and intention to use or sell the asset.

These projects are designed to enhance the existing software within the Group. Salaries associated with development time and directly attributable overheads are capitalised within intangible assets.

Development costs recognised as assets are amortised on a straight-line basis over their expected useful life. Development expenditure is only amortised over the period the Group is expected to benefit and is subject to annual impairment testing.

The estimated useful life and amortisation method are reviewed at the end of each reporting period, with the effect of any changes in estimate being accounted for on a prospective basis.

Amortisation is charged to the consolidated income statement on a straight-line basis over the estimated useful lives of intangible assets unless such lives are indefinite. The estimated useful lives are as follows:

| | |
|--------------------------|-----------------|
| – customer relationships | 1–20 years; and |
| – software and licences | 5 years. |

Notes to the Financial Statements

continued

2. Accounting policies continued

(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 with maturities of three months or less from inception.

(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. Except for those trade receivables that do not contain a significant financing component and are measured at the transaction price in accordance with IFRS 15, all financial assets are initially measured at fair value adjusted for transaction costs (where applicable). Financial liabilities are initially measured at fair value, and, where applicable, adjusted for transaction costs unless the Group designated a financial liability at fair value through profit or loss. 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:

- Financial assets at amortised cost.
- Financial assets/liabilities held at fair value through profit or loss ('FVTPL').

FVTPL assets in this category are measured at fair value with gains or losses recognised in profit or loss. The fair values of financial assets in this category are determined by reference to active market transactions or using a valuation technique where no active market exists.

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

Financial assets at amortised cost

Financial assets are measured at amortised cost if the assets meet the following conditions (and are not designated as FVTPL):

- they are held within a business model whose objective is to hold the financial assets and collect its contractual cash flows; and
- the contractual terms of the financial assets give rise to cash flows that are solely payments of principal and interest on the principal amount outstanding.

After initial recognition, these are measured at amortised cost using the effective interest method. 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.

2. Accounting policies continued

Financial assets at FVTPL

Financial assets that are held within a different business model other than 'hold to collect' or 'hold to collect and sell' are categorised at fair value through profit and loss. Further, irrespective of business model financial assets whose contractual cash flows are not solely payments of principal and interest are accounted for at FVTPL. All derivative financial instruments fall into this category.

Assets in this category are measured at fair value with gains or losses recognised in profit or loss. The fair values of financial assets in this category are determined by reference to active market transactions or using a valuation technique where no active market exists.

Classification and subsequent measurement of financial liabilities

The Group's financial liabilities include borrowings, trade and other payables and derivative financial instruments. Financial liabilities are measured subsequently at amortised cost using the effective interest method, except for financial liabilities held for trading or designated at FVTPL, that are carried subsequently at fair value with gains or losses recognised in the consolidated income statement. 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 income statement are included within finance costs or finance income.

From time to time, the long-term debt held by the Group are either refinanced as these come to maturity, or the margin on these facilities moves in line with the ratio of the Group's net debt to adjusted EBITDA. In either scenario, the Group reviews whether the debt is accounted for as a modification or an extinguishment of the liability. A substantial modification should be accounted for as an extinguishment of the existing liability and the recognition of a new liability. A non-substantial modification should be accounted for as an adjustment to the existing liability. Both the quantitative and qualitative aspects of the modification are taken into account to ascertain whether the modification is substantial and these can include the change in covenants, repayment dates and the effective interest rate. If modification accounting is adopted, the carrying value of the existing liability is adjusted for fees paid or costs incurred and the effective interest rate is amended at the modification date. If extinguishment accounting is adopted, the existing liability is de-recognised and the new or modified liability is recognised at its fair value, the gain or loss equal to the difference between the carrying value of the old liability and the fair value of the new one is recognised, any incremental costs or fees incurred and any consideration paid or received is recognised in profit or loss and a new effective interest rate for the modified liability is calculated and used in future periods.

Derivative financial instruments

From time to time, the Group enters into derivative financial instruments, such as interest rate swaps, to manage its exposure to interest rate risk. Derivatives are initially recognised at fair value at the date a derivative is entered into and are subsequently remeasured to their fair value at each balance sheet date. A derivative with a positive fair value is recognised as a financial asset whereas a derivative with a negative fair value is recognised as a financial liability. The resulting gain or loss is recognised in the consolidated income statement immediately. A derivative is presented as a non-current asset or non-current liability if the Group has an unconditional right to defer payment beyond 12 months.

Otherwise derivatives are presented as current assets or liabilities.

Trade receivables and contract assets

The Group applies the IFRS 9 simplified approach to measuring expected credit losses, which uses a lifetime expected loss allowance for all trade receivables and contract assets.

Trade receivables and contract assets have been grouped based on shared credit risk characteristics and the days past due in order to measure expected credit losses. Contract assets related to unbilled work in progress have substantially the same risk characteristics as trade receivables for the same type of contracts. The Group has therefore concluded that the expected loss rates for trade receivables are a reasonable approximation of the loss rates for contract assets.

Notes to the Financial Statements

continued

2. Accounting policies continued

Trade receivables and contract assets continued

The expected loss rates are based on the payment profiles of sales over a period of 48 months and before 30 September 2020 and 30 September 2021 respectively as well as the correspondingly historical credit losses during that period. The historical rates are adjusted to reflect current and forward-looking macroeconomic factors affecting the customer's ability to settle the amount outstanding. Expected credit losses are calculated in accordance with the simplified approach permitted by IFRS 9, using a provision matrix applying lifetime historical credit loss experience to the trade receivables. The expected credit loss rate varies depending on whether, and the extent to which, settlement of the trade receivables is overdue and it is also adjusted as appropriate to reflect current economic conditions and estimates of future conditions. For the purpose of determining credit loss rates, customers are classified into groupings that have similar loss patterns. The key driver of the loss rate is the type of customer. The vast majority of the Group's customers are state-owned entities such as local authorities. As such, credit loss is not expected to increase significantly since initial recognition.

(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 and assets that have an indefinite useful life, the recoverable amount is estimated at each balance sheet date. For goodwill and assets which are not amortised or depreciated, 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 income statement.

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

Calculation of recoverable amount

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. This includes right-of-use assets, which cannot be operated independently.

Reversals of impairment

An impairment loss is reversed if the subsequent increase in recoverable amount can be related objectively to an event occurring after the impairment loss was recognised.

Any 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.

2. Accounting policies *continued*

(j) Interest-bearing borrowings

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

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

Interest on qualifying assets is capitalised in accordance with IAS 23 borrowing costs. Refer to note 9.

(k) Employee benefits

Defined contribution plans

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

Short-term benefits

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

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 (Black-Scholes valuation model), taking into account the terms and conditions upon which the options were granted. The amount recognised on exercise 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 balance sheet when the assets vest unconditionally in identified beneficiaries.

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

(l) Provisions

A provision, other than provisions for deferred taxation, is recognised in the balance sheet where a reliable estimate can be made 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, and future cash flows at a pre-tax risk-free rate.

Notes to the Financial Statements

continued

2. Accounting policies continued

(m) Revenue

IFRS 15 provides a single, principles-based approach to the recognition of revenue from all contracts with customers. It focuses on the identification of performance obligations in a contract and requires revenue to be recognised either at a point in time or over time, when (or as) the Group satisfies performance obligations by transferring the promised goods or services to its customers.

Revenue arises mainly from the provision of care and educational services to vulnerable adults and children, fostering and the sale of hardware and software.

Income which has been invoiced but irrecoverable is treated as a bad debt expense. Revenue invoiced in advance is included in deferred revenue until the service is provided. Revenue is recognised net of VAT and credit notes.

Care services

Revenue from the sale of care services provided to vulnerable adults and children is recognised as the services are provided. Care services are consumed as soon as they are provided and performance obligations are satisfied when services are rendered to the client. There are no significant financing components and invoice payment terms are typically 30 days.

Our contracts provide that the Group is entitled to consideration based on the amount of care services delivered (for example number of days' worth of care delivered in the period) and an agreed rate. On this basis, the Group have applied the practical expedient set out in IFRS 15 para 121. There are no significant judgements used in the recognition of revenue.

Revenue in respect of the provision of care services is measured as the fair value of fee income received or receivable in respect of the services provided and is recognised in respect of the care that has been provided in the relevant period. Any additional services provided by the Group are recognised as the services are provided.

Educational services

Revenue in respect of educational services is recognised when the young person is in school, over the academic year, as this is when the service user is receiving the educational services.

Consideration is determined by the contractually agreed amount for each placement with payment for each term typically received in advance.

Fostering services

For Foster Care, the Group is acting as a principal as contracts are between the Group and local authorities and separately between the Group and foster carers with a number of performance conditions attached to each.

Foster Care 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 at an agreed rate.

Hardware and software

Revenue from the sale of hardware and software for a fixed fee is recognised when or as the Group transfers control of the assets to the customer. Invoices for goods or services transferred are due upon receipt by the customer, payment terms are typically 30 days. Control transfers at the point in time the customer takes undisputed delivery of the goods.

The Group provides a one- or two-year manufacturer's warranty (extended by our suppliers) on hardware products. Communication devices manufactured by Smartbox are sold with a Smart Care extended warranty. Under the terms of the warranty customers can return the product for repair or replacement if it fails to perform in accordance with published specifications. These warranties are accounted for under IAS 37.

The Group sells monthly software subscriptions and perpetual licences. For stand-alone sales of software that are neither customised by the Group nor subject to significant integration services, control transfers at the point in time the customer takes undisputed delivery of the goods. For sales of software that are neither customised by the Group nor subject to significant integration services, the licence period commences upon delivery.

2. Accounting policies continued

Contract assets and liabilities/accrued and deferred income

The Group recognises contract liabilities for consideration received in respect of unsatisfied performance obligations and reports these amounts as deferred income in the balance sheet (see note 19). An example of this is where the Group will invoice in advance for education services. This is held in deferred income until the service has been provided.

Similarly the Group recognises a contract asset when a contract has been agreed with a customer and a service user has been admitted to our facilities but no sales invoice has been issued. This is disclosed as accrued income.

The Group will estimate the accrued income using the agreed contractual rate and the number of days where the service user was receiving care from the Group.

Revenue disaggregation

The majority of the Group's customers are state-owned entities such as local authorities. The Group's operations are substantially within the UK. As such the Group has determined that because its revenue is earned in one geographical location to one specific type of customer, it is appropriate to report the revenue recognised from contracts with customers in the same operating segments as are used for segmental analysis (see note 4).

(n) Non-underlying items

The Group has applied an income statement format which seeks to highlight significant items within Group results for the year. Such items may include significant restructuring and onerous lease provisions, fair value movements in contingent consideration, profit or loss on disposal or termination of operations, litigation costs and settlement of share-based payments, profit or loss on disposal of investments and impairment of assets. The Group exercises judgement in assessing the particular items which, by virtue of their scale and nature should be disclosed in the income statement and related notes as non-underlying items. The Group believes that such a presentation is useful for the users of the financial statements in helping to provide a balanced view of, and relevant information on, the Group's financial performance. Details are included in note 6.

(o) Expenses

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 income statement using the effective interest method.

Interest payable is recognised in the consolidated income statement as it accrues, using the effective interest method. Financing costs that are *directly attributable to the acquisition or construction of a qualifying asset are capitalised as part of the cost of that asset.*

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

Notes to the Financial Statements

continued

2. Accounting policies continued

(p) Leased assets

The Group as a lessee

For any new contracts entered into on or after 1 October 2019, the Group considers whether a contract is, or contains, a lease. A lease is defined as 'a contract, or part of a contract, that conveys the right to use an asset (the underlying asset) for a period of time in exchange for consideration'. To apply this definition the Group assesses whether the contract meets three key evaluations which are:

- Contract contains an identified asset, which is either explicitly identified in the contract or implicitly specified by being identified at the time the asset is made available to the Group.
- Group has the right to obtain substantially all of the economic benefits from use of the identified asset throughout the period of use, considering its rights within the defined scope of the contract.
- Group has the right to direct the use of the identified asset throughout the period of use. The Group assesses whether it has the right to direct 'how and for what purpose' the asset is used throughout the period of use.

Measurement and recognition of leases as a lessee

At lease commencement date, the Group recognises a right-of-use asset and a lease liability on the balance sheet. The right-of-use asset is measured at cost, which is made up of the initial measurement of the lease liability, any initial direct costs incurred by the Group, an estimate of any costs to dismantle and remove the asset at the end of the lease, and any lease payments made in advance of the lease commencement date (net of any incentives received).

The Group depreciates the right-of-use assets on a straight-line basis from the lease commencement date to the earlier of the end of the useful life of the right-of-use asset or the end of the lease term. The Group also assesses the right-of-use asset for impairment when such indicators exist.

At the commencement date, the Group measures the lease liability at the present value of the lease payments unpaid at that date, discounted using the interest rate implicit in the lease if that rate is readily available or the Group's incremental borrowing rate.

Lease payments included in the measurement of the lease liability are made up of fixed payments (including in substance fixed), variable payments based on an index or rate, amounts expected to be payable under a residual value guarantee and payments arising from options reasonably certain to be exercised.

Subsequent to initial measurement, the liability will be reduced for payments made and increased for interest. It is re-measured to reflect any reassessment or modification, or if there are changes in in-substance fixed payments.

When the lease liability is re-measured, the corresponding adjustment is reflected in the right-of-use asset, or profit and loss if the right-of-use asset is already reduced to zero.

The Group has elected to account for short-term leases and leases of low-value assets using the practical expedients. Instead of recognising a right-of-use asset and lease liability, the payments in relation to these are recognised as an expense in profit or loss on a straight-line basis over the lease term.

On the statement of financial position, right-of-use assets and lease liabilities have been disclosed separately.

2. Accounting policies continued

(q) Taxation

Tax on the profit or loss for the year comprises current and deferred tax. Tax is recognised in the consolidated income statement except to the extent that it relates to items recognised directly in equity, in which case it is recognised in equity. Current tax is the expected tax payable on the taxable income for the year, using tax rates and laws enacted or substantively enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years.

Deferred tax is provided on temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The following temporary differences are not provided for: the initial recognition of goodwill; the initial recognition of assets or liabilities that affect neither accounting nor taxable profit other than in a business combination, and differences relating to investments in subsidiaries to the extent that they will probably not reverse in the foreseeable future.

The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates and laws 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.

(r) Business combinations

The Group applies the acquisition method in accounting for business combinations. The consideration transferred by the Group to obtain control of a subsidiary is calculated as the sum of the acquisition-date fair values of assets transferred, liabilities incurred and the equity interests issued by the Group, which includes the fair value of any asset or liability arising from a contingent consideration arrangement. The calculation of contingent consideration is based on the provisions included in the sale and purchase agreement of each acquisition and is updated if circumstances change. Acquisition costs are expensed as incurred. Assets acquired and liabilities assumed are measured at their acquisition-date fair values. The Group recognises non-controlling interests in an acquired entity either at fair value or at the non-controlling interest's proportionate share of the acquired entity's net identifiable assets. This decision is made on an acquisition-by-acquisition basis. For the non-controlling interests in the AS Group and Smartbox, the Group elected to recognise the non-controlling interests at its proportionate share of the acquired net identifiable assets.

(s) Government grants

Government grants are recognised only when there is reasonable assurance that the Group will comply with any conditions attached to the grant and the grant will be received. The grants are recognised as income over the period necessary to match them with the related costs, for which they are intended to compensate, on a systematic basis. A grant receivable as compensation for costs already incurred or for immediate financial support, with no future related costs, is recognised as income in the period in which it is receivable.

3. 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.

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:

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.

Notes to the Financial Statements

continued

3. Accounting estimates and judgements continued

Goodwill

The Group annually tests whether there is any impairment in goodwill, in accordance with the accounting policy outlined in note 2(e). Determining whether goodwill is impaired requires comparison of the value in use for the relevant CGUs to the net assets attributable to these CGUs. The value-in-use calculation is based on an estimate of future cash flows expected to arise from the CGUs and these are discounted to net present value using an appropriate discount rate. In calculating value in use, management judgement is required in forecasting cash flows of cash-generating units, in determining terminal growth values and in calculating an appropriate discount rate. The goodwill impairment test is sensitive to these estimates. The Group has performed sensitivity analysis over the value-in-use calculation with respect to the key estimates. The discount rates applied in these calculations are disclosed in note 15.

Judgements

Capitalised development costs

Capitalisation of development costs within software and licences requires the Directors to make judgements in allocating staff time appropriately to relevant projects and in assessing the technical feasibility and economic potential of those projects as well as forecasts for the useful economic life of each asset have been used. The useful economic life of development costs is determined to be five years.

CareTech Charitable Foundation

Judgement is required in determining whether the Group has control of the CareTech Charitable Foundation (the 'Foundation'). In assessing control, the Group has assessed whether it is exposed, or has rights, to variable returns from its involvement in the Foundation. Consideration has been given to the fact the Group cannot directly appoint or remove a Trustee but can remove a member and veto the appointment of a new member. The membership of the charitable company is restricted to the independent Trustees and relevant activities of the charity governed by the Board of Trustees. Given the majority of the Trustees are Group employees, an assessment has been made as to whether the Group employees are able to exercise control and therefore generate variable returns.

The Foundation's Trustees owe very strict legal duties under the Charity Commission to act as fiduciaries and each Trustee must act independent of its own interest or indeed anyone else's save for those of the charity. Based on these legal duties, the Directors have used their judgement that a Foundation Trustee could not act on behalf of a third-party if acting in compliance with their duties and how the law permits and therefore the Group does not control the Foundation.

Fair value adjustments in business combinations

Judgement is required in determining the fair value adjustments as part of business combinations as detailed in note 5. For the fair value of intangible assets a third-party specialist has been engaged.

4. 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 Group 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 turnover between the operating segments is not material.

4. Segmental information continued

The Group's reporting segments have been determined based on the services that are summarised as follows:

- Adults Services – the provision of care and residential services for adults with learning disabilities, individuals recovering from mental health disorders, adults with autistic spectrum disorder, those with one or more physical impairment and adults with acquired brain injury.
- Children's Services – the provision of assessment, residential care and education for young people with challenging behaviours, and those with behavioural and emotional disorders.
- Foster Care – the provision of foster care for both mainstream and specialist foster care in small supportive groups across England and Wales for children with disabilities.
- Digital Technology – the provision of diagnostic assistive technology to enhance communication and the independence of disabled users.

The Group has aggregated its Middle East operating segment in the Adults Services and Children's Services reporting segments in accordance with IFRS 8. The economic indicators assessed are the nature of the services provided, the nature of the production processes, the close similarity of the class of customers, the distribution methods of the services, and the government regulatory environments in which both the segments operate within.

The results as at the balance sheet date report segmental information on the Group's four reporting segments.

The segmental results for the current financial year ending 30 September 2021 and prior year ending 30 September 2020 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 2021 Total £000 | Year ended 30 September 2020 Total £000 |
|---|---|---|
| Adults Services | | |
| Client capacity | 2,104 | 1,997 |
| Revenue £000 | 169,664 | 136,219 |
| Underlying EBITDA before unallocated costs £000 | 38,360 | 35,676 |
| Children's Services | | |
| Client capacity | 2,000 | 1,959 |
| Revenue £000 | 268,559 | 252,863 |
| Underlying EBITDA before unallocated costs £000 | 76,165 | 69,561 |
| Foster Care | | |
| Client capacity | 875 | 1,028 |
| Revenue £000 | 38,160 | 40,884 |
| Underlying EBITDA before unallocated costs £000 | 7,718 | 8,563 |
| Digital Technology | | |
| Revenue | 12,932 | – |
| Underlying EBITDA before unallocated costs | 2,427 | – |
| Total | | |
| Client capacity | 4,979 | 4,984 |
| Revenue £000 | 489,315 | 429,966 |
| Underlying EBITDA before unallocated costs £000 | 124,670 | 113,800 |
| Total Group revenue | | |
| Segmental revenue | 489,315 | 429,966 |
| Less: Intercompany sales and other revenue | (196) | – |
| Group revenue | 489,119 | 429,966 |

Notes to the Financial Statements

continued

4. Segmental information continued

Reconciliation of EBITDA to profit after tax:

| | Year ended 30 September 2021 Total £000 | Year ended 30 September 2020 Total £000 |
|--|---|---|
| Underlying EBITDA before unallocated costs | 124,670 | 113,800 |
| Unallocated corporate overheads | (24,185) | (22,868) |
| Underlying EBITDA | 100,485 | 90,932 |
| Depreciation | (19,519) | (17,021) |
| Share-based payments charge | (473) | (330) |
| Non-underlying items (Note 6) | (989) | (20,219) |
| Operating profit | 79,504 | 53,362 |
| Finance expenses | (13,270) | (15,539) |
| Profit before tax | 66,234 | 37,823 |
| Taxation | (30,906) | (10,772) |
| Non-controlling interest | (3,420) | (1,933) |
| Profit after tax | 31,908 | 25,118 |

Operations of the Group are primarily carried out in the UK, the Company's country of domicile. The AS Group, registered in the ('UAE') has generated revenue in the UAE of £25.1m (2020: £15.5m). On 5 October 2020 the Group acquired a majority shareholding in Smartbox Assistive Technology Limited and associated subsidiaries. Revenue by Smartbox has been generated in Europe of £4.5m, North and Central America of £2.1m, Australasia of £0.6m, and Middle East and Africa of £0.7m. All other revenues arise within the UK.

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 CODM and are not measures used by the CODM to assess performance and to make resource allocation decisions.

5. Business combinations

(a) Acquisition of Smartbox

On the 5 October 2020, the Group acquired a majority holding in Smartbox Assistive Technology Limited and associated subsidiaries, and Sensory Software International Limited (Collectively 'Smartbox') a creator of augmentative and alternative communication ('AAC') solutions ('the Investment').

To facilitate the acquisition, the Group has established a new subsidiary, Smartbox Holdings Ltd, which is 70% owned by the Group, with the remaining minority ownership held by the Smartbox management team. Smartbox Holdings Ltd acquired 100% of Smartbox.

The Group will pay up to £12.0m comprising of an aggregate initial purchase price of £9.1m, funded through cash and loan note from the Group and cash from the minority holders of Smartbox Holdings Limited. Earn-outs of up to £3.6m payable over a two-year period from completion based upon the gross profit of Smartbox for the full year ended 30 September 2021. The Group expects this amount to be paid over a two-year period from the date of completion and has valued the contingent consideration at the fair value on acquisition date. The expected range of the amount payable is between £0 to £3.6m. The Group's contribution will be funded from existing cash resources.

Smartbox is a market-leading creator of software and hardware that helps disabled people without speech to have a voice and live more independently. It makes communication as quick, simple and effective as possible for those service users for whom speech difficulties can be a challenge. Its solutions include communication aids, environmental control devices, computer control technology and interactive learning.

Smartbox, headquartered in Malvern, UK with offices in Bristol and Pennsylvania US, was acquired by Tobii AB in 2018. Following a full inquiry from the UK Competition and Markets Authority, Tobii was required to sell Smartbox on competition grounds, providing the Group an opportunity to secure a majority equity stake in the innovative tech firm.

5. Business combinations continued

The acquisition table is as follows:

| | Book values £000s | Fair value adjustments £000s | Total £000s |
|---|----------------------|------------------------------------|----------------|
| Intangible assets | – | 5,217 | 5,217 |
| Property plant & equipment | 249 | – | 249 |
| Right-of-use asset | 1,111 | – | 1,111 |
| Trade and other receivables | 1,126 | – | 1,126 |
| Inventory | 878 | – | 878 |
| Cash | 2,163 | – | 2,163 |
| Corporation tax | 43 | – | 43 |
| Deferred tax | (15) | (991) | (1,006) |
| Trade and other payables | (110) | – | (110) |
| Lease liability | (1,111) | – | (1,111) |
| Net assets on acquisition | 4,334 | 4,226 | 8,560 |
| Consideration paid | | | 12,028 |
| Goodwill | | | 3,468 |
| Consideration paid was: | | | £000 |
| Cash | | | 9,060 |
| Contingent consideration | | | 2,968 |
| Total consideration | | | 12,028 |
| Reconciliation to the cash flow statement | | | £000 |
| Cash paid | | | 9,060 |
| Cash contribution by existing owners | | | (1,450) |
| Cash acquired | | | (2,163) |
| Payments for business combination net of cash acquired | | | 5,447 |

Costs relating to this acquisition are expensed in the Income Statement in accordance with IFRS3 and are identified in note 6, non-underlying items.

Judgement is required in determining the fair value adjustments as part of business combinations and for the fair value of intangible assets a third-party specialist has been engaged. Intangible assets of £5.2m were recognised on acquisition related to digital technology, £3.4m, customer relationships, £0.9m and trade name, £0.9m. A respective deferred tax liability of £1m was raised.

Goodwill is attributable to the future economic benefits arising from assets which are not capable of being individually identified and separately recognised, these include value of the assembled workforce within the business acquired. Other intangible assets acquired comprise technology, customer relationships and the Smartbox trade name.

Goodwill arises as a result of the surplus of consideration over the fair value of the separately identifiable assets acquired.

Smartbox contributed revenue of £12.9m and £4.8m to the Group's profit after tax for the year between the date of acquisition and the balance sheet date. Had the acquisition of Smartbox been completed on the first day of the financial year there would have been no material change to the Group revenues and profit after tax for the year.

Notes to the Financial Statements

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5. Business combinations continued

(b) Acquisition of 'The Huntercombe Group'

On 30 November 2020, the Group completed the transfer of seven services previously operated by The Huntercombe Group. These services are highly specialised facilities for the treatment and care of adults with complex learning disabilities, autism and mental health diagnoses. They consist of three hospitals, two care homes with nursing, a number of single accommodation units with residential care registration and the support of people in their own tenancies in a step-down facility. The capacity of the services today is 142 beds. The transfer was structured with no capital outlay and is expected to be immediately earnings accretive.

The acquisition table with the fair value of assets and liabilities is as follows:

| | Fair value £000s |
|----------------------------------|---------------------|
| Intangible assets | 6,566 |
| Property plant & equipment | 440 |
| Right-of-use asset | 30,828 |
| Deferred tax | (1,248) |
| Lease liability | (29,853) |
| Dilapidation provision | (975) |
| Net assets on acquisition | 5,758 |
| Consideration paid | – |
| Gain on bargain purchase | (5,758) |

The Huntercombe Group contributed revenue of £20.8m and £0.7m to the Group's profit after tax for the year between the date of acquisition and the balance sheet date. The Huntercombe Group revenues for the year would have been higher by £4.4m and Group profit after tax would have been higher by £0.3m for the current year ended.

Judgement is required in determining the fair value adjustments as part of business combinations and for the fair value of intangible assets a third-party specialist has been engaged. An intangible asset of £6.6m was recognised on acquisition as a result of acquired customer relationships and a respective deferred tax liability of £1.3m was raised. A right-of-use asset was recognised for its long-term leases and a corresponding lease liability and dilapidation provision. The fair value of owned property was £0.4m.

The previous operator was going through difficulties and wanted to dispose the lease liabilities associated with these properties. Accordingly, CareTech was able to obtain ownership of the existing leases and operations with no capital outlay which resulted in a bargain purchase.

(c) Acquisition after the balance sheet date

Non-adjusting subsequent event

Acquisition of REHAVISTA GMBH ('REHAVISTA')

On 29 November 2021, ('Smartbox') announced the acquisition of REHAVISTA and its subsidiary company LogBUK. REHAVISTA is Germany's largest provider of ('AAC') products and services. LogBUK is a subsidiary company to REHAVISTA, providing independent speech and language therapy to help AAC users achieve the best outcomes through specialist clinical support. Smartbox paid €10m in cash on completion, funded by the Group's debt facility and post completion. CareTech will own 83% of Smartbox with the remaining minority ownership held by the Smartbox management team.

Given the proximity of the announcement to the completion date of the transaction it is not possible to give a preliminary acquisition table at this time.

6. Non-underlying items

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

| | Note | 2021 £000 | 2020 £000 |
|---|--------|---------------|---------------|
| COVID-19 income | (i) | (2,692) | (2,550) |
| Amortisation of intangible assets | (ii) | 10,273 | 10,186 |
| COVID-19 expenses | (i) | 4,220 | 3,422 |
| Acquisition expenses | (iii) | 759 | 545 |
| Sleep-in provision | (iv) | (11,777) | – |
| Gain on bargain purchases | (v) | (5,758) | – |
| Share-based payments' charge | (vi) | – | 4,119 |
| Integration and restructuring costs | (vii) | 4,761 | 3,769 |
| Charitable donations | (viii) | 1,203 | 728 |
| Other non-underlying expenses | | 5,964 | 4,497 |
| Total non-underlying expenses included in operating profit | | 989 | 20,219 |
| Finance expenses | | | |
| Fair value movements relating to derivative financial instruments | (ix) | (1,441) | 557 |
| Charges relating to derivative financial instruments | (ix) | 1,195 | 591 |
| Put-option interest | (x) | 310 | – |
| Interest on contingent consideration | (x) | 582 | – |
| Leases imputed interest | | 466 | 463 |
| Total non-underlying expenses included in finance expenses | | 1,112 | 1,611 |
| Tax on non-underlying items | | | |
| Current tax | (xi) | (1,116) | (5,988) |
| Deferred tax | (xii) | 20,133 | 5,435 |
| Included in taxation | | 19,017 | (553) |
| Total non-underlying items | | 21,118 | 21,277 |

- (i) The Group has incurred additional costs as a result of COVID-19 in relation to higher sickness absence rates, personal protective equipment ('PPE') costs, infection control and higher administration costs. The Group has received additional funding by way of Government grants through local authorities to assist in dealing with this. The Group has worked closely with all local authorities in establishing a dedicated funding arrangement to support our services which has been collected to offset the additional costs, as noted above, that the Group has incurred in relation to COVID-19. COVID-19 is unprecedented, and along with the size it meets the Group's definition of non-underlying.
- (ii) Amortisation relates primarily to acquisition-related intangible assets which are considered unique to a specific acquisition, whereas other development costs amortisation commences when system is launched. These costs, by their nature, can vary by size and amount each year. As a result, amortisation of intangibles is added back to assist with the understanding of the underlying trading performance of the business and to allow comparability.
- (iii) In accordance with IFRS 3 (as revised) items associated with business combinations have been taken to the income statement as incurred. These items are considered specific one-off costs that occur for an acquisition that will not continue following completion.
- (iv) The Group held a sleep-in provision of £11.8m for the 2020 financial year end. On 24 March 2021, the Supreme Court made a final judgement that social care staff are not entitled to the national minimum wage for sleep-in shifts and the provision of £11.8m has been written back. The provision was primarily as a result of the acquisition of the Cambian Group in October 2018. The Directors have determined this should be adjusted from underlying due to its size, nature and incidence.
- (v) Gain on bargain purchase arises from assets transferred from The Huntercombe Group. see note 5. An adjustment is made as this is unlikely to recur due to its size, nature and occurrence to ensure comparability.

Notes to the Financial Statements

continued

6. Non-underlying items continued

- (vi) In the prior financial year, to further support the CareTech Foundation, the Group donated one million new Ordinary Company Shares to the Foundation. This donation will provide the Foundation with additional income and demonstrates the Group's commitment to wider society, to its staff, and its desire to play a strong leadership role within the social care sector. In connection with the donation, the CareTech Foundation has entered into a lock-up undertaking not to sell the new shares without the Company Board's approval.
- (vii) Integration costs of sites transferred from The Huntercombe Group, the Smartbox acquisition, and start-up costs in the Middle East have been incurred to the extent of £1.0m. Additionally, a reorganisation of the Specialist Services division following transfer of assets from The Huntercombe Group and the costs associated with the closure of one of its larger hospitals have been incurred of £1.9m. The costs of other homes closed during the year and related restructuring costs amounts to £0.9m.
- (viii) These charges represent charitable donations made to the CareTech Foundation, an independent grant-making corporate foundation registered with the Charity Commission. Funded and founded by the Group, the Foundation has a number of independent Trustees responsible for delivering its Charitable Objects. The Trustees also include Haroon and Farouq Sheikh OBE and Christopher Dickinson, Directors of the Group. The Group is not obliged to make these donations and this does not represent its underlying operations and consequently adjusted due to its nature.
- (ix) Non-underlying items relating to the 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.
- (x) Contingent consideration of £3.5m was recognised following the acquisition of Smartbox. This was discounted back to present value and as a result a recognition of interest on contingent consideration was recognised (note 5a). Additionally a put option was recognised as explained in note 24, at its present value. Interest on the put option will be recognised as a result. These are both considered costs of the acquisition and consequently adjusted for due to their nature.
- (xi) Represents the current tax on items (i), (iii) and (vi) above, see note 10.
- (xii) Deferred tax arises in respect of the following:

| | 2021 £000 | 2020 £000 |
|----------------------------------|--------------|--------------|
| Derivative financial instruments | 611 | 107 |
| Change in rate (Note 10) | (22,085) | (7,592) |
| Intangible assets | 1,422 | 1,373 |
| Fixed asset | — | 1,925 |
| Prior year adjustments | (81) | (966) |
| Other adjustments | — | (282) |
| | (20,133) | (5,435) |

Derivative financial instruments are explained in note (ix) and intangible assets adjustment arises from the amortisation charge as noted in (ii).

Change in rate is explained in note 10 and relates predominantly to non-underlying items.

7. Auditor's remuneration

During the year, the Group (including its overseas subsidiaries) obtained the following services from the Company's auditors and its associates:

| | 2021 £000 | 2020 £000 |
|--|--------------|--------------|
| Fees payable to the Group's auditor and its associates for the audit of the consolidated Parent and Parent Company's annual accounts | 554 | 397 |
| Fees payable to the Group's auditor and its associates for the audit of the accounts of subsidiaries | 52 | 16 |
| Audit related assurance services | 30 | 25 |
| All other non-assurance services | — | 11 |

8. 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 | |
|--|---------------------|--------|
| | 2021 | 2020 |
| Operational and service delivery staff | 10,144 | 9,074 |
| Maintenance | 119 | 108 |
| Management and administration | 787 | 947 |
| | 11,050 | 10,129 |

The aggregate payroll costs of these persons (including Directors) were as follows:

| | 2021 £000 | 2020 £000 |
|-------------------------------|--------------|--------------|
| Wages and salaries | 256,443 | 214,105 |
| Share-based payments' charge* | 1,376 | 330 |
| Social security costs | 21,586 | 19,473 |
| Other pension costs | 5,693 | 5,250 |
| | 285,098 | 239,158 |

* Share-based payments' charge includes LTIP and ExSOP share-based payments of £903,000 (2020: £nil) and £473,000 (2020: £330,000) respectively.

9. Finance expenses

| | 2021 £000 | 2020 £000 |
|--|--------------|--------------|
| Interest expense on financial liabilities at amortised cost: | | |
| On bank loans and overdrafts | 8,236 | 11,186 |
| Finance charges in respect of leases | 3,922 | 2,742 |
| Underlying financial expenses | 12,158 | 13,928 |
| Derivative financial instruments (Note 6) | 64 | 1,148 |
| Ground rent lease imputed interest (Note 6) | 466 | 463 |
| Interest on contingent consideration | 582 | - |
| Total finance expenses | 13,270 | 15,539 |

Notes to the Financial Statements

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10. Taxation

(a) Recognised in the consolidated income statement

| | 2021 £000 | 2020 £000 |
|---|-----------------|-----------------|
| Current tax expense | | |
| Current year | (10,697) | (10,494) |
| Current tax on non-underlying items (Note 6) | 1,116 | 5,988 |
| Prior year adjustments | 505 | (374) |
| Total current tax | (9,076) | (4,880) |
| Deferred tax expense | | |
| Current year | (1,273) | (840) |
| Deferred tax on non-underlying items (Note 6) | (20,133) | (5,434) |
| Prior year adjustments | (424) | 382 |
| Total deferred tax | (21,830) | (5,892) |
| Total tax in the consolidated income statement | (30,906) | (10,772) |

(b) Reconciliation of effective tax rate

| | 2021 £000 | 2020 £000 |
|--|---------------|---------------|
| Profit before tax for the year | 66,234 | 37,791 |
| Tax using the UK corporation tax rate of 19.0% (2020: 19.0%) | 12,584 | 7,180 |
| Non-deductible expenses including impairment charge | 1,624 | 1,549 |
| Income not taxable | (4,427) | (500) |
| Other tax adjustments | (1,172) | (1,644) |
| Change in tax rate | 22,085 | 7,592 |
| Current tax prior year adjustments | (294) | (3,988) |
| Deferred tax prior year adjustments | 506 | 583 |
| Total tax in the consolidated income statement | 30,906 | 10,772 |

Sleep-in provisions have been reversed following the Supreme Court ruling in favour of Mencap and a credit of £13.6m has been treated as non-taxable in accordance with this. The gain on bargain purchase of £5.7m arising on the acquisition of Huntercombe has also been treated as non-taxable.

Deferred tax assets and liabilities have been measured in line with IAS 12 using the tax rates and laws that have been enacted or substantively enacted by the reporting date that are expected to apply when the asset is realised or the liability is settled. On 10 June 2021, the Finance Act 2021 received Royal Assent thereby increasing the rate of corporation tax to 25% with effect from 1 April 2023. As a result of this change a non-underlying tax charge of £22.1m was recognised for the year ended 30 September 2021 in relation to the re-measurement of deferred tax assets and liabilities (2020: 19%).

11. Earnings per share

| | 2021 £000 | 2020 £000 |
|---|--------------------|--------------|
| Profit attributable to ordinary shareholders | 31,908 | 25,118 |
| Weighted number of shares in issue for basic earnings per share | 110,775,312 | 109,772,214 |
| Effects of share options in issue | 5,358,398 | 4,220,077 |
| Weighted number of shares for diluted earnings per share | 116,133,709 | 113,992,292 |

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.

| | 2021 | 2020 |
|--------------------------------------|---------------|--------|
| Earnings per share (pence per share) | | |
| Basic | 28.80p | 22.88p |
| Diluted | 27.48p | 22.03p |

12. 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 reflect the underlying trading performance of the Group.

| | 2021 £000 | 2020 £000 |
|---|---------------|--------------|
| Profit attributable to ordinary shareholders | 31,908 | 25,118 |
| Non-underlying items (Note 6) | 21,118 | 21,277 |
| Underlying profit attributable to ordinary shareholders | 53,026 | 46,395 |
| Underlying earnings per share (pence per share) | | |
| Basic | 47.87p | 42.26p |
| Diluted | 45.66p | 40.70p |

Notes to the Financial Statements

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13. Property, plant and equipment

| | Land and buildings £000 | Fixtures, fittings and equipment £000 | Motor vehicles £000 | Total £000 |
|---|-------------------------------|---|---------------------------|----------------|
| Cost | | | | |
| At 30 September 2019 (before adoption of IFRS 16) | 580,052 | 48,816 | 13,417 | 642,285 |
| Reclassified as ROU asset (Note 14) | (15,098) | – | (4,437) | (19,535) |
| At 1 October 2019 (after adoption of IFRS 16) | 564,954 | 48,816 | 8,980 | 622,750 |
| Acquisitions through business combinations | – | 399 | – | 399 |
| Additions | 11,529 | 12,813 | 1,769 | 26,111 |
| Disposals | (1,294) | – | (1,307) | (2,601) |
| At 30 September 2020 | 575,189 | 62,028 | 9,442 | 646,659 |
| At 1 October 2020 | 575,189 | 62,028 | 9,442 | 646,659 |
| Acquisitions through business combinations | 440 | – | – | 440 |
| Additions | 12,909 | 16,222 | – | 29,131 |
| Disposals | (788) | (146) | (2,939) | (3,873) |
| At 30 September 2021 | 587,750 | 78,104 | 6,503 | 672,357 |
| Depreciation and impairment | | | | |
| At 1 October 2019 | 7,993 | 17,981 | 6,653 | 32,627 |
| Depreciation charge for the year | 1,183 | 8,648 | 1,133 | 10,964 |
| Disposals | (62) | – | (966) | (1,028) |
| At 30 September 2020 | 9,114 | 26,629 | 6,820 | 42,563 |
| At 1 October 2020 | 9,114 | 26,629 | 6,820 | 42,563 |
| Depreciation charge for the year | 1,228 | 10,095 | 1,161 | 12,484 |
| Disposals | (82) | (243) | (1,847) | (2,172) |
| At 30 September 2021 | 10,260 | 36,481 | 6,134 | 52,875 |
| Net book value | | | | |
| At 30 September 2020 | 566,075 | 35,399 | 2,622 | 604,096 |
| At 30 September 2021 | 577,490 | 41,623 | 369 | 619,482 |

Included in the result for the year is a profit of £242,000 (2020: £135,000) on the disposal of freehold property, plant and equipment, and motor vehicles. Included in property, plant and equipment are amounts held under leases of nil (2020: nil).

The market value of land and building held at 30 September 2021 was £930m of which £468m is held as security for borrowings.

14. Leases

Right-of-use assets

| | Land and buildings £000 | Motor vehicles £000 | Equipment £000 | Total right-of-use assets £000 |
|--|-------------------------------|---------------------------|-------------------|---|
| Gross carrying amount | | | | |
| Balance 1 October 2019 | 82,537 | 8,030 | 698 | 91,265 |
| Additions | 2,497 | 85 | – | 2,582 |
| Balance at 30 September 2020 | 85,034 | 8,115 | 698 | 93,847 |
| Balance 1 October 2020 | 85,034 | 8,115 | 698 | 93,847 |
| Additions | 40,079 | 2,397 | – | 42,476 |
| Balance at 30 September 2021 | 125,113 | 10,512 | 698 | 136,323 |
| Depreciation and impairment | | | | |
| Balance 1 October 2019 | – | – | – | – |
| Depreciation | 3,686 | 2,027 | 344 | 6,057 |
| Balance at 30 September 2020 | 3,686 | 2,027 | 344 | 6,057 |
| Balance 1 October 2020 | 3,686 | 2,027 | 344 | 6,057 |
| Depreciation | 4,746 | 1,948 | 341 | 7,035 |
| Balance at 30 September 2021 | 8,432 | 3,975 | 685 | 13,092 |
| Net book value | | | | |
| Carrying amount 30 September 2020 | 81,348 | 6,088 | 354 | 87,790 |
| Carrying amount 30 September 2021 | 116,681 | 6,537 | 13 | 123,231 |

The right-of-use assets are included in the same line item as where the corresponding underlying assets would be presented if they were owned.

Lease liability

Lease liabilities are presented in the statement of financial position as follows:

| | 2021 £000 | 2020 £000 |
|-------------|----------------|---------------|
| Current | 5,500 | 6,208 |
| Non-current | 118,781 | 82,480 |
| | 124,281 | 88,688 |

The Group has leases for land and buildings, motor vehicles and office equipment. With the exception of short-term leases and leases of low-value underlying assets, each lease is reflected on the balance sheet as a right-of-use asset and a lease liability. The Group classifies its right-of-use assets in a consistent manner to its property, plant and equipment.

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14. Leases continued

Lease liability continued

Each lease generally imposes a restriction that, unless there is a contractual right for the Group to sublet the asset to another party, the right-of-use asset can only be used by the Group. Leases are either non-cancellable or may only be cancelled by incurring a substantive termination fee. Some leases contain an option to purchase the underlying leased asset outright at the end of the lease, or to extend the lease for a further term. The Group is prohibited from selling or pledging the underlying leased assets as security. For leases over land and buildings the Group must keep those properties in a good state of repair and return the properties in their original condition at the end of the lease. Further, the Group must insure items of property, plant and equipment and incur maintenance fees on such items in accordance with the lease contracts.

The lease liabilities are secured by the related underlying assets. Future minimum lease payments at 30 September 2021 were as follows:

| | Within 1 year | 1-2 years | 2-3 years | 3-4 years | 4-5 years | After 5 years | Total |
|---------------------------|------------------|--------------|--------------|--------------|--------------|------------------|----------------|
| 30 September 2021 | | | | | | | |
| Lease payments | 9,565 | 9,511 | 7,815 | 6,767 | 6,474 | 392,069 | 432,201 |
| Finance charges | (4,065) | (3,895) | (3,741) | (3,742) | (3,642) | (288,835) | (307,920) |
| Net present values | 5,500 | 5,616 | 4,074 | 3,025 | 2,832 | 103,234 | 124,281 |
| 30 September 2020 | | | | | | | |
| Lease payments | 9,086 | 7,600 | 5,423 | 4,394 | 4,103 | 324,188 | 354,794 |
| Finance charges | (2,878) | (2,713) | (2,595) | (2,520) | (2,461) | (252,939) | (266,106) |
| Net present values | 6,208 | 4,887 | 2,828 | 1,874 | 1,642 | 71,249 | 88,688 |

Lease payments not recognised as a liability

The Group has elected not to recognise a lease liability for short-term leases (leases with an expected term of 12 months or less) or for leases of low-value assets. Payments made under such leases are expensed on a straight-line basis. In addition, certain variable lease payments are not permitted to be recognised as lease liabilities and are expensed as incurred.

Interest expense on lease liabilities for the year ended 30 September 2021 was £3,510,000 (2020: £2,181,000).

The expense relating to payments not included in the measurement of the lease liability is as follows:

| | 2021 £000 | 2020 £000 |
|----------------------------|----------------------------|--------------|
| Short-term leases | 310 | 3,783 |
| Leases of low-value assets | 11 | 10 |
| | 321 | 3,793 |

At 30 September 2021 the Group was committed to short-term leases and the total commitment at that date was £517,000 (2020: £3,793,000).

Total cash outflow for leases for the year ended 30 September 2021 was £7,693,000 (2020: £3,793,000).

15. Intangible assets

| | Goodwill £000 | Software and licences £000 | Customer relationships £000 | Technology £000 | Other £000 | Total £000 |
|--|------------------|----------------------------------|-----------------------------------|--------------------|---------------|---------------|
| Cost | | | | | | |
| At 1 October 2019 | 81,484 | 23,005 | 110,698 | – | – | 215,187 |
| Acquisitions through business combinations | 4,703 | – | 10,433 | – | – | 15,136 |
| Exchange adjustments | 27 | – | 60 | – | – | 87 |
| Additions for the year | 418 | 2,429 | – | – | – | 2,847 |
| At 30 September 2020 | 86,632 | 25,434 | 121,191 | – | – | 233,257 |
| At 1 October 2020 | 86,632 | 25,434 | 121,191 | – | – | 233,257 |
| Acquisitions through business combinations | 3,468 | – | 7,428 | 3,393 | 963 | 15,251 |
| Exchange adjustments | (194) | – | (430) | – | – | (624) |
| Additions for the year | – | 2,868 | – | – | – | 2,868 |
| Adjustments* | (1,012) | – | – | – | – | (1,012) |
| At 30 September 2021 | 88,894 | 28,302 | 128,189 | 3,393 | 963 | 249,740 |
| Amortisation and impairment | | | | | | |
| At 1 October 2019 | 2,028 | 15,663 | 37,692 | – | – | 55,383 |
| Amortisation for the year | – | 3,044 | 7,142 | – | – | 10,186 |
| At 30 September 2020 | 2,028 | 18,707 | 44,834 | – | – | 65,569 |
| At 1 October 2020 | 2,028 | 18,707 | 44,834 | – | – | 65,569 |
| Amortisation for the year | – | 3,265 | 6,232 | 679 | 97 | 10,273 |
| At 30 September 2021 | 2,028 | 21,972 | 51,067 | 679 | 97 | 75,842 |
| Net book value | | | | | | |
| At 30 September 2020 | 84,604 | 6,727 | 76,357 | – | – | 167,688 |
| At 30 September 2021 | 86,866 | 6,330 | 77,122 | 2,714 | 866 | 173,898 |

* Adjustments relate to certain investments which historically have been included within goodwill. In the current year these have been reclassified and ultimately impaired in full.

Amortisation

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

| | 2021 £000 | 2020 £000 |
|-------------------------|--------------|--------------|
| Administrative expenses | 10,273 | 10,186 |

Notes to the Financial Statements

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15. Intangible assets continued

Impairment testing for cash-generating units containing goodwill

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

For the purpose of annual impairment testing, goodwill is allocated into five identifiable CGUs: Adults Services, Children's Services, Foster Care, Middle East and Digital Technology. This broadly aligns to the reported operating segments expected to benefit from the synergies of the business combinations in which the goodwill arises, with exception to Middle East. Whilst Middle East performs Adults Services and Children's Services, given its geographical location, it has been identified as a separate CGU. This is the lowest level at which goodwill is monitored for impairment by management. There are no intangible assets with indefinite useful lives (other than goodwill).

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

| | 2021 £000 | 2020 £000 |
|---------------------|---------------|---------------|
| Adults Services | 27,271 | 27,944 |
| Children's Services | 44,769 | 44,769 |
| Foster Care | 7,162 | 7,162 |
| Middle East | 4,196 | 4,729 |
| Digital Technology | 3,468 | – |
| | 86,866 | 84,604 |

During the year the Group carried out a review of the recoverable amount of its goodwill throughout the business. The recoverable amount, which is the higher of fair value less cost to sell and the value in use, has been determined initially based on value-in-use calculations. These calculations use cash flow projections for operational assets at the balance sheet date based on financial budgets approved by the Board of Directors for the forthcoming year which are based on assumptions of the business, industry and economic growth. Cash flows beyond this year are extrapolated using growth rates, which do not exceed the expected long-term economic growth rate of 2.5%, into perpetuity.

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 and expected changes in direct costs during the periods. Management estimates discount rates using pre-tax rates that reflect the market assessment of the time value of money as at each balance sheet date, adjusted for the risks specific to the Group.

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 key features of these calculations are shown below:

| | 2021 | 2020 |
|---|---------------|--------|
| Period over which management approved forecasts are based | 1 year | 1 year |
| Five-year growth rate | 3.5% | 2% |
| Long-term growth rate | 2.5% | 2% |
| Pre-tax discount rate | | |
| Adult Services | 8.6% | 8.4% |
| Children's Services | 10.0% | 9.7% |
| Foster Care | 10.0% | 9.6% |
| Middle East | 15.0% | 14.7% |
| Digital Technology | 12.5% | – |

15. Intangible assets *continued*

Sensitivities

A sensitivity analysis has been performed on each of the base case assumptions used for assessing the goodwill with other variables held constant. Consideration of sensitivities to key assumptions can evolve from one financial year to the next. The Directors consider that a reasonable possible change in assumptions would be a decrease in long-term growth rate of 0.5%, an increase in pre-tax discount rate of 50 basis points, or a reduction in budgeted cash flows of 5%.

None of these sensitivities would result in an impairment in the existing CGUs, however, the Adult Services CGU is still considered sensitive.

For Adult Services the current headroom is £29.3m. The impact of the above reasonable changes are as follows:

- A decrease in long-term growth rate by 0.5% results in a headroom of £2.9m.
- An increase in pre-tax discount rate of 50 basis points results in a headroom of £2.2m.
- A reduction in budgeted cash flows of 5% results in a headroom of £3.7m.

The Directors have also considered the amount by which the value assigned to each key assumption must change, after incorporating any consequential effects of that change on the other variables used to measure recoverable amount, in order for the Adult Services CGUs recoverable amount to be equal to its carrying amount as follows:

- A decrease in long-term growth rate by 0.6%.
- An increase in pre-tax discount rate of 54 basis points.
- A reduction in budgeted cash flows of 5.7%.

The Directors believe that, notwithstanding the sensitivity of Adult Services, there is no requirement for an impairment on the carrying value of the existing CGUs.

16. Inventories

| | 2021 £000 | 2020 £000 |
|---------------|--------------|--------------|
| Consumables | 814 | 100 |
| Raw materials | 2,654 | 1,837 |
| | 3,468 | 1,937 |

In 2021, a total of £10,118,000 (2020: £0) of inventories was included in profit or loss as an expense.

17. Trade and other receivables

| | 2021 £000 | 2020 £000 |
|-------------------------------|---------------|---------------|
| Trade receivables (Note 29) | 53,823 | 37,604 |
| Other debtors and prepayments | 5,606 | 5,025 |
| Accrued income (Note 19) | 12,177 | 8,426 |
| | 71,606 | 51,055 |

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18. Cash and cash equivalents

| | 2021 £000 | 2020 £000 |
|--------------------------|--------------|--------------|
| Cash at bank and in hand | 65,560 | 54,273 |

There are no restrictions on cash at bank and in hand.

19. Accrued income and deferred income

| | Accrued income £000 | Deferred income £000 |
|--|---------------------------|----------------------------|
| At 1 October 2020 | 8,426 | (30,309) |
| Accrued revenue invoiced | (8,426) | - |
| Revenue recognised in the reporting period | - | 30,309 |
| Revenue billed in period but relates to future periods | - | 36,132 |
| New accrued revenue | 12,177 | - |
| At 30 September 2021 | 12,177 | (36,132) |

The Directors consider that the carrying value of accrued income and deferred income approximates to its fair value.

20. 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 29.

| | 2021 £000 | 2020 £000 |
|--------------------------------|----------------|----------------|
| Non-current liabilities | | |
| Secured bank loans | 322,403 | 317,122 |
| Shareholder loans (Note 5) | 1,758 | 1,833 |
| | 324,161 | 318,955 |

Terms and debt repayment schedule

| | Currency | Nominal interest rate (%) | Year of maturity | Book value 2021 £000 | Book value 2020 £000 |
|-------------------------------------|----------|--------------------------------|------------------|----------------------------|----------------------------|
| Term loan | £ | 2.04 (2020: 2.25) ¹ | 2023 | 161,202 | 158,561 |
| Term loan | £ | 2.04 (2020: 2.50) ¹ | 2023 | 161,201 | 158,561 |
| Revolving credit facility term loan | £ | 2.04 (2020: 2.75) ¹ | 2023 | - | - |
| | | | | 322,403 | 317,122 |

¹ The margin on the facilities is stated at the current rate and can change between 1.50% and 3.25% based on the ratio of the Group's net debt to adjusted EBITDA.

The Group entered into new banking facilities in August 2018 to facilitate the acquisition of Cambian and the previous banking facilities were extinguished. The facility is a term loan of £322m and revolving credit facility of £25m to a group of banks comprising Barclays Bank PLC, HSBC UK Banks PLC, Santander UK PLC, AIB Group (UK) PLC, Clydesdale Bank PLC, Credit Suisse AG, Lloyds Bank PLC and National Westminster Bank PLC and is stated net of loan finance costs in accordance with IAS 23. During the course of the year, the Group completed the extension of the Term Loan A facility of £161.2m which will now mature in August 2023. The margin of the facility and covenants remain unchanged, reflecting the highly cash-generative nature of the business and deleveraging profile. In addition, both the Group's loan and interest rate swaps have migrated to Compounded Daily SONIA as the reference rate. This has resulted in a non-substantial modification and accounted for as an adjustment to the existing liability and not an extinguishment.

21. Trade and other payables

| | 2021 £000 | 2020 £000 |
|------------------|---------------|---------------|
| Trade payables | 15,220 | 15,576 |
| Accrued expenses | 54,791 | 39,441 |
| | 70,011 | 55,017 |

22. Deferred tax assets and liabilities

Recognised deferred tax assets and liabilities

Deferred tax assets and liabilities are attributable to the following:

| | 2021 | | 2020 | |
|--|----------------|---------------------|----------------|---------------------|
| | Assets £000 | Liabilities £000 | Assets £000 | Liabilities £000 |
| Property, plant and equipment | – | 73,382 | – | 52,552 |
| Intangible assets | – | 15,905 | – | 11,616 |
| Derivative financial instruments | (1,353) | – | (418) | – |
| Share-based payments | (1,606) | – | (163) | – |
| Rolled-over gains on property, plant and equipment | – | 8,037 | – | 6,593 |
| Trading losses carried forward | (88) | – | (27) | – |
| Short-term timing differences | (350) | – | (309) | – |
| Tax (assets)/liabilities | (3,397) | 97,324 | (917) | 70,761 |
| Net of tax assets | – | (3,397) | – | (917) |
| Net deferred tax liabilities | – | 93,927 | – | 69,844 |

There are no unrecognised deferred tax assets or liabilities.

Movement in deferred tax during the year:

| | 1 October 2020 £000 | Recognised in income £000 | Reclassification balances £000 | Prior year adjustment £000 | Change in tax rate £000 | 30 September 2021 £000 |
|----------------------------------|---------------------------|---------------------------------|--------------------------------------|----------------------------------|-------------------------------|------------------------------|
| Property, plant and equipment | 52,552 | 2,408 | 15 | 891 | 17,516 | 73,382 |
| Derivative financial instruments | (418) | (611) | – | – | (324) | (1,353) |
| Intangible assets | 11,616 | (1,422) | 2,237 | 32 | 3,442 | 15,905 |
| Share options | (163) | (1,090) | – | 33 | (386) | (1,606) |
| Rolled-over gains on property | 6,593 | – | – | (485) | 1,929 | 8,037 |
| Trading losses carried forward | (27) | (80) | – | 26 | (7) | (88) |
| Short-term timing differences | (309) | 35 | – | 9 | (85) | (350) |
| | 69,844 | (760) | 2,252 | 506 | 22,085 | 93,927 |

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22. Deferred tax assets and liabilities continued

Movement in deferred tax during the previous year:

| | 1 October 2019 £000 | Recognised in income £000 | Reclassification balances £000 | Prior year adjustment £000 | 30 September 2020 £000 |
|----------------------------------|---------------------------|---------------------------------|--------------------------------------|----------------------------------|------------------------------|
| Property, plant and equipment | 42,213 | 4,521 | 5,685 | 133 | 52,552 |
| Derivative financial instruments | (278) | (140) | – | – | (418) |
| Intangible assets | 18,270 | (5) | (5,685) | (964) | 11,616 |
| Share options | (90) | (73) | – | – | (163) |
| Rolled-over gains on property | 3,836 | 946 | – | 1,811 | 6,593 |
| Trading losses carried forward | – | (2) | – | (25) | (27) |
| Short-term timing differences | – | 62 | – | (371) | (309) |
| | 63,951 | 5,309 | – | 584 | 69,844 |

23. Provisions

| | £000 | | | |
|-------------------------------------|-----------------------------|---------------|------------|--------------|
| | Legal and other disputes | Dilapidations | Other | Total |
| At 1 October 2020 | 16,794 | 4,292 | 200 | 21,286 |
| Provisions raised during the period | – | 1,500 | – | 1,500 |
| Amounts used during the period | (4,198) | (802) | – | (5,000) |
| Unused amounts reversed | (12,246) | – | – | (12,246) |
| At 30 September 2021 | 350 | 4,990 | 200 | 5,540 |

Provisions principally comprise an amount provided for legal and other disputes and a provision for dilapidations. The Group held a sleep-in provision of £11.8m for the 2020 financial year end. On 24 March 2021, the Supreme Court made a final judgement that social care staff are not entitled to the National Minimum Wage for sleep-in shifts and the provision of £11.8m has been written back.

24. Derivative financial instruments

| | 2021 £000 | 2020 £000 |
|---------------------|--------------|--------------|
| Put option | 4,662 | – |
| Interest rate swaps | 752 | 2,198 |
| | 5,414 | 2,198 |

As part of the incorporation of Smartbox Holdings, the Group has granted the non-controlling interests the option to request the Group to acquire some or all of their shares in Smartbox Holdings Limited. The amount of the liability for this put option, which is held on the gross redemption basis, is derived from an internal valuation of the Smartbox business, utilising both discounted forecast future cash flow and multiples-based methodologies. The charge to equity is recognised separately as recognition of liabilities with non-controlling interest. The liability is subsequently accreted through finance charges, up to the redemption amount that is payable at the date at which the option first becomes exercisable. In the event that the option expires unexercised, the liability is derecognised with a corresponding adjustment to equity.

25. Employee benefits

Share-based payments

The Group operates five share option schemes: The CareTech Holdings 2017 Sharesave Scheme, the CareTech Holdings 2020 Sharesave Scheme, the CareTech Holdings 2015 Approved Share Option Scheme, the Executive Shared Ownership Plan and the Long-Term Incentive Plan. All share options are equity settled.

The Executive Shared Ownership Plan ('ExSOP') was formed in March 2017. 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 the issue price.

The grant of the ExSOP scheme requires specific performance conditions being satisfied. The EPS Target requires the growth in the Company's underlying Diluted EPS over the Performance Period to be at least 15% (being an average 5% annual growth rate, calculated without compounding) during the year.

On 8 November 2019, the Group issued 2,504,475 new ordinary shares of 0.5p in the Company ('the New Ordinary Shares') under the Executive Shared Ownership Plan ('Share Plan') to 30 members of the senior and executive management team. An award under the Share Plan enables the participant to benefit only from the future growth in the value of the New Ordinary Shares above their market value on the award date, in excess of a 'carrying cost' of 3% per annum.

The vesting of the Share Plan requires specific performance conditions being satisfied. As with the previous issuance of the Share Plan, the target is an EPS Target which requires the growth in the Group's underlying Diluted EPS over the three-year period beginning on the date of issue of the awards to be at least 15% (being an average 5% annual growth rate, calculated without compounding). Participants may not normally realise any such benefit from the Share Plan awards before 8 November 2022.

On 21 December 2020, the Board approved the implementation of a new Long-Term Incentive Plan ('LTIP'), and the Group granted 803,689 nil-cost options over ordinary shares in the Company to the Company's Executive Directors and certain other members of the senior management team.

LTIP awards will normally vest on the third anniversary of the date of grant, subject to the satisfaction of any performance conditions as set out in the Directors' Remuneration Report, and the grantee's continued service. Upon vesting, 50% of the Award shares are subject to a holding period of four years from the date of grant, with the remaining 50% of the Award shares subject to a holding period of five years from the date of grant.

The options have been valued using the Black-Scholes option pricing model in line with IFRS 2 'Share-Based Payments'. The assumptions used as part of the model include the following:

| | 29 March 2016 | 8 November 2019 | 21 December 2020 |
|-------------------------|------------------|--------------------|---------------------|
| Expected volatility | 25% | 25% | N/A* |
| Expected dividend yield | 3.90% | 3.5% | 0%** |
| Risk free interest rate | 2.39% | 1.25% | N/A*** |
| Vesting period | 3 years | 3 years | 3 years |

* Volatility has no impact on the core value of an award with no exercise price or market condition. Volatility over the one- and two-year holding periods are 39.03% and 30.95% respectively.

** Participants are entitled to receive dividend equivalents on these awards; therefore, the dividend yield does not have an impact on the fair value of these awards and has been set to zero.

*** Awards with no exercise price or market condition are not affected by risk free rate. Risk free interest rate over the holding periods is zero.

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25. Employee benefits continued

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. Options granted under the above schemes, together with those remaining at 30 September 2021 are as follows:

| Date of grant | Scheme | Options remaining as at 30 Sep 2020 | Options granted 30 Sep 2021 | Options lapsed to 30 Sep 2021 | Options exercised to 30 Sep 2021 | Options remaining as at 30 Sep 2021 | Exercise price of share option (pence) 30 Sep 2021 | Average exercised price (pence) 30 Sep 2021 |
|---------------|---------------------------------|-------------------------------------|-----------------------------|-------------------------------|----------------------------------|-------------------------------------|--|---|
| 29 Mar 2016 | Executive Share Ownership Plan | 1,336,600* | – | – | (188,149) | 1,148,451* | 247.5 | 538 |
| 1 Dec 2017 | Sharesave Scheme 2017 | 220,600* | – | (67,133) | (153,467) | – | 308 | 501 |
| 23-Oct-2019 | Approved Share Option Plan 2015 | 857,772** | – | (193,152) | – | 664,620** | 380 | – |
| 5 Nov 2019 | Approved Share Option Plan 2015 | 898,106** | – | – | – | 898,106** | 380 | – |
| 8 Nov 2019 | Executive Share Ownership Plan | 2,504,475** | – | – | – | 2,504,475** | 399 | – |
| 21 Sep 2020 | Sharesave Scheme 2020 | 480,678** | – | – | – | 480,467** | 355 | – |
| 21 Dec 2020 | LTIP 2020 | – | 803,689 | (4,107) | – | 799,582** | Nil | – |

* All options exercisable at 30 September 2021.

** No options exercisable at 30 September 2021.

The charge for the year was £473,000 (2020: £330,000) which relates to the Executive Share Ownership Scheme, the Sharesave Scheme 2017 and the Approved Share Option Plan 2015, and £902,000 relating to the Long-Term Incentive Plan. The weighted average exercise price of the remaining options is 315.6p (2020: 398.7p).

The weighted average remaining contractual life of all share options outstanding is 6.4 years (2020: 7.6).

26. Equity

| Share capital | 2021 £000 | 2020 £000 |
|--|--------------|--------------|
| Allotted, called up and fully paid: | | |
| 113,327,459 (2020: 113,173,992) ordinary shares of 0.5p each | 566 | 565 |
| 53,402 deferred shares of 0.5p each | – | – |
| | 566 | 565 |

Share capital represents the nominal (par) value of shares that have been issued. The holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at meetings of the Company. The deferred shares have no such rights.

Movements in the number of issued shares were as follows:

| | Ordinary shares of 0.5p each | Deferred shares of 0.5p each |
|--|---------------------------------|---------------------------------|
| At 1 October 2019 | 109,144,369 | 53,402 |
| Issued during the acquisition of AS Group | 431,465 | - |
| Issued to the CareTech Charitable Foundation | 1,000,000 | - |
| Issued under Share Schemes | 2,598,158 | - |
| At 30 September 2020 | 113,173,992 | 53,402 |
| At 1 October 2020 | 113,173,992 | 53,402 |
| Issued under Share Schemes | 153,467 | - |
| At 30 September 2021 | 113,327,459 | 53,402 |

27. Reserves

(a) Share premium account

During the year, the issue of new shares charged to the share premium account are as follows:

| | 2021 £000 | 2020 £000 |
|----------------------------|--------------|--------------|
| Opening balance 1 October | 133,079 | 121,304 |
| Premium on issue of shares | 472 | 11,775 |
| At 30 September | 133,551 | 133,079 |

Share premium includes any premiums received on issue of share capital, with the exception of shares issued in consideration in acquisitions. Any transaction costs associated with the issuing of shares are deducted from share premium, net of any related income tax benefits.

(b) 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) (note 5).

| | 2021 £000 | 2020 £000 |
|---------------------------|--------------|--------------|
| Opening balance 1 October | 125,842 | 125,536 |
| Issue of shares | - | 306 |
| At 30 September | 125,842 | 125,842 |

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27. Reserves continued

(c) Shares held by Executive Shared Ownership Plan

Further information relating to the EBT reserve of the Group is detailed in note 25 to the consolidated financial statements of the Group.

(d) Retained earnings

Retained earnings includes all current and prior period retained profits and share-based employee remuneration. Dividend distributions payable to equity shareholders are included in other liabilities when the dividends have been approved in a General Meeting prior to the reporting date.

(e) Foreign currency translation reserves

A foreign currency translation reserve exists following the acquisition of the AS Group. This consists of exchange differences that arise on the translation on overseas net assets.

28. Dividends

The aggregate amount of dividends comprises:

| | 2021 £000 | 2020 £000 |
|--|--------------|--------------|
| Interim dividend paid in respect of prior year but not recognised as liabilities in that year (4.0p per share, (2020: 3.75p per share)) | 4,525 | 4,093 |
| Final dividend paid in respect of the prior year (8.75p per share, (2020: 7.95p per share)) | 9,906 | 8,913 |
| Aggregate amount of dividends paid in the financial year (12.75p per share (2020: 11.70p per share)) | 14,431 | 13,006 |

The aggregate amount of dividends proposed and not recognised as liabilities as at the year end is 14.1p per share, £10,482,790 (2020: 12.75p per share, £14,000,000).

29. 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.

29. Financial instruments continued

The Group provides credit to customers in the normal course of business. The amounts presented in balance sheet in relation to the Group's trade receivables are presented net of loss allowances. The Group measures loss allowances at an amount equal to the lifetime expected credit losses ('ECLs') using both quantitative and qualitative information and analysis based on the Group's historical experience and forward-looking information. During the year there was a debit to the consolidated income statement of £301,000 (2020: £28,000 charge) to decrease the loss allowance.

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 further impairment allowance is necessary in respect of trade receivables not past due. The Group considers that the carrying value of trade receivables approximates to its fair value.

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

| | 2021 £000 | 2020 £000 |
|--|--------------|--------------|
| Not due | 27,915 | 26,304 |
| Not more than three months past due | 18,180 | 10,494 |
| More than three months but not more than six months past due | 4,039 | 805 |
| More than six months but not more than 12 months past due | 3,689 | - |
| Trade receivables (Note 17) | 53,823 | 37,604 |

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

| | £000 |
|---|--------------|
| At 1 October 2019 | 1,689 |
| Credited to the consolidated income statement | (28) |
| At 30 September 2020 | 1,661 |
| Charged to the consolidated income statement | 301 |
| At 30 September 2021 | 1,962 |

Included in the provision for impairment of trade receivables is an expected credit loss of £235,000 (2020: £220,000).

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. The Group has not adopted hedge accounting. As at 30 September, the Group carried five hedging instruments, details of which are as follows:

- a 3 year swap commencing 16 May 2019 at pre-determined amounts initially starting at £21.6m at SONIA fixed at 1.076%
- a 3 year swap commencing 16 May 2019 at pre-determined amounts initially starting at £21.6m at SONIA fixed at 1.056%
- a 3 year swap commencing 16 May 2019 at pre-determined amounts initially starting at £27.6m at SONIA fixed at 1.076%
- a 3 year swap commencing 16 May 2019 at pre-determined amounts initially starting at £21.6m at SONIA fixed at 1.071%
- a 3 year swap commencing 16 May 2019 at pre-determined amounts initially starting at £27.6m at SONIA fixed at 1.066%

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29. Financial instruments continued

Liquidity risk

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

| 2021 | | | | | | |
|----------------------------------|---------------------------|----------------------|-----------------------------|---------------|----------------|---------------------|
| | Effective interest rate % | Carrying amount £000 | Contractual cash flows £000 | < 1 year £000 | 1–5 years £000 | 5 years & over £000 |
| Trade and other payables | | (70,011) | (70,011) | (70,011) | – | – |
| Secured bank loans | 2.04% | (322,403) | (335,763) | (6,519) | (329,244) | – |
| Shareholder loans | | (1,758) | (1,758) | (1,758) | – | – |
| Lease liabilities | | (124,281) | (432,202) | (9,565) | (30,567) | (392,070) |
| Derivative financial instruments | | (5,414) | (5,414) | – | (5,414) | – |
| | | (523,867) | (845,148) | (87,853) | (365,225) | (392,070) |

| 2020 | | | | | | |
|----------------------------------|---------------------------|----------------------|-----------------------------|---------------|----------------|---------------------|
| | Effective interest rate % | Carrying amount £000 | Contractual cash flows £000 | < 1 year £000 | 1–5 years £000 | 5 years & over £000 |
| Trade and other payables | | (49,843) | (49,843) | (49,843) | – | – |
| Secured bank loans | 3.5% | (317,122) | (338,457) | (7,116) | (331,341) | – |
| Shareholder loans | | (1,833) | (1,833) | – | (1,833) | – |
| Lease liabilities | | (88,688) | (293,452) | (8,581) | (19,897) | (264,974) |
| Derivative financial instruments | | (2,198) | (2,198) | – | (2,198) | – |
| | | (459,684) | (685,783) | (65,540) | (355,269) | (264,974) |

See note 20 for the maturity dates and interest rates charged on the secured bank loans.

Analysis of changes in liabilities from financing activities

The below table represents the movement in liabilities from financing activities:

| | Secured bank loans £000 | Lease liabilities £000 | Shareholders loan £000 | Derivative financial instruments £000 | Total £000 |
|--|-------------------------|------------------------|------------------------|---------------------------------------|----------------|
| 1 October 2019 | 315,878 | 19,568 | – | 1,640 | 337,086 |
| Cash flows | – | (8,797) | 1,808 | (1,053) | (8,042) |
| Adoption of IFRS 16 | – | 71,730 | – | – | 71,730 |
| New leases | – | 3,773 | – | – | 3,773 |
| Changes in fair value | – | – | – | 1,611 | 1,611 |
| Effect of foreign exchange | – | – | 25 | – | 25 |
| Profit and loss | 1,244 | 2,414 | – | – | 3,658 |
| 30 September 2020 | 317,122 | 88,688 | 1,833 | 2,198 | 409,841 |
| Cash flows | (438) | (9,230) | – | (1,761) | (11,429) |
| Acquired through business acquisitions | – | 36,639 | – | – | 36,639 |
| New leases | – | 4,612 | – | – | 4,612 |
| Changes in fair value | – | – | – | 4,977 | 4,977 |
| Effect of foreign exchange | – | – | (75) | – | (75) |
| Profit and loss | 1,212 | 3,572 | – | – | 4,784 |
| 30 September 2021 | 317,896 | 124,281 | 1,758 | 5,414 | 449,349 |

29. Financial instruments continued

CareTech's three key covenant ratios are leverage (ratio of net debt to covenant EBITDA to be no more than 4.5), interest cover (ratio of covenant EBITDA to net finance costs to be no less than 4x) and LTV (ratio of property value to net debt to be no more than 62.5%). As at 30 September 2021, we were operating comfortably within these ratios at 2.7x, 9.5x and 42% respectively.

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:

| | 2021 £000 | 2020 £000 |
|----------------------|--------------|--------------|
| Net debt | 258,661 | 268,886 |
| Equity (see Note 26) | 382,407 | 364,216 |

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 9.5p per share demonstrating a confident view of the Group's fundamental strength.

Net debt

Net debt comprises cash and cash equivalents net of bank loans and borrowings and HP leases previously accounted for under IAS 17 excluding Project Teak sale and leaseback. Net debt remains unchanged following the adoption of IFRS 16.

| | Note | 2021 £000 | 2020 £000 |
|---|------|------------------|------------------|
| Net debt in the balance sheet comprises: | | | |
| Cash and cash equivalents | | 65,560 | 54,273 |
| Bank loans | 20 | (317,896) | (317,122) |
| Shareholder loan | | (1,758) | (1,833) |
| Lease and hire purchase contracts | 18 | (4,567) | (4,204) |
| Net debt at 30 September | | (258,661) | (268,886) |

Foreign currency risk

Most of The Group's transactions are carried out in GBP. Exposures to currency exchange rates arise from the Group's investment in 'the AS Group', registered in the United Arab Emirates, which is denominated in AED, and Smartbox which has sales to Europe, North and Central America, Australasia, Middle East and Africa. All other revenues 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.

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 2021, 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 £2,024,000 (2020: £2,020,000). Economic hedging instruments have been included in this calculation.

Notes to the Financial Statements

continued

29. Financial instruments continued

Fair values

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

| | Carrying amount 2021 £000 | Fair value 2021 £000 | Carrying amount 2020 £000 | Fair value 2020 £000 |
|--|---------------------------------|----------------------------|---------------------------------|----------------------------|
| <i>Financial Instruments at amortised cost</i> | | | | |
| Cash at bank and in hand | 65,560 | 65,560 | 54,273 | 54,273 |
| Trade receivables (Note 17) | 53,823 | 53,823 | 37,604 | 37,604 |
| Trade payables (Note 21) | (15,220) | (15,220) | (15,576) | (15,576) |
| Secured bank loans (Note 20) | (322,403) | (322,403) | (317,122) | (317,122) |
| Shareholder loan | (1,758) | (1,758) | (1,833) | (1,833) |
| <i>Held at fair value through profit and loss:</i> | | | | |
| Derivative financial instruments | (5,414) | (5,414) | (2,198) | (2,198) |
| Contingent consideration | (3,616) | (3,616) | (1,569) | (1,569) |

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.
- For shareholder loans the amount is repayable in less than one year and the carrying amount is deemed to reflect the fair value.
- For the derivatives financial instruments, these were entered into to manage the Group's exposure to interest rate risk on its external borrowings.

The fair for contingent consideration and the Put option both arise on account of the acquisition in the year. The fair value has been determined based on a multiple of profit, measured using projected cash flows of the entity based on the management's knowledge of the business and how the current economic environment is likely to impact it. These projections have not been discounted for the contingent consideration (as they are expected to be paid in less than a year) and have been discounted for the put option using 7.0%.

With regard to the put option, a change of +/- 10% in the cash flows and a change in +/-1% in the discount rate would impact the income statement by £66,000. With regard to the contingent consideration, a change of 10% in the forecast cash flows would not have a material impact on the income statement.

29. Financial instruments continued

Fair value hierarchy

The financial instruments carried at fair value by valuation methods are:

| | 2021 £000 | 2020 £000 |
|---|--------------|--------------|
| Level 1 – unadjusted quoted prices in active markets for identical assets or liabilities | – | – |
| 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 | (752) | (2,198) |
| Level 3 – inputs for the asset or liabilities that are not based on observable market data | (8,278) | (1,569) |

The fair values for all financial instruments carried at amortised costs are within level 3 of the fair value hierarchy. The fair value of the contingent consideration is the full amount payable under the earn-out as the Directors expect the gross profit criteria of Smartbox for the full year ended 30 September 2021 to be met. The fair value of the put option is derived from an internal valuation of the Smartbox business, utilising both discounted forecast future cash flow and multiples-based methodologies.

30. Related parties

During the year, the Group paid rent totalling £701,155 (2020: £408,343) in respect of properties in which Farouq Sheikh OBE and Haroon Sheikh have an interest. At the year end, rent of £159,743 (2020: £240,595) was outstanding. The current lease liability recognised at 30 September 2021 is £2,321,600 (2020: £2,705,000).

Dividends paid to Directors in the year totalled £61,000 (2020: £192,000).

Transactions with key management personnel

| | 2021 £000 | 2020 £000 |
|-------------------------------|--------------|--------------|
| Salary | 4,233 | 4,131 |
| Benefits | 635 | 322 |
| Bonus | 1,449 | 1,348 |
| Total short-term remuneration | 6,317 | 5,801 |
| Post-employment benefits | 323 | 255 |
| Share-based payments | 110 | 220 |
| | 6,750 | 6,276 |

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

Directors' emoluments are set out on page 97.

During the year, the Group made donations to the CareTech Charitable Foundation which are set out in note 6.

Notes to the Financial Statements

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31. Group undertakings

The Group has the following investments in trading subsidiaries included in the consolidated results for the year. The operating subsidiaries are engaged in either owning property ('Property') or in the provision of services to adults or children ('Trading'). Additionally, the Group has subsidiaries that are non-trading, act as holding companies, or are dormant ('Non-trading').

| Company | Company number | Country of incorporation | Type | Ownership 2021% | Ownership 2020% |
|---|----------------|--------------------------|-------------|-----------------|-----------------|
| Addington House Limited* | 04404355 | England and Wales | Operating | 100 | 100 |
| Advanced Childcare Services Limited* | 07559570 | England and Wales | Non-trading | 100 | 100 |
| Advances In Autism Care & Education Limited* | 03252453 | England and Wales | Non-trading | 100 | 100 |
| Applied Care and Development Ltd* | SC224352 | Scotland | Operating | 100 | 100 |
| Ashcroft House Limited* | 03390658 | England and Wales | Operating | 100 | 100 |
| Ashring House Limited* | 03370991 | England and Wales | Operating | 100 | 100 |
| Ashview House Limited* | 03304446 | England and Wales | Operating | 100 | 100 |
| Barleycare Limited* | 05156601 | England and Wales | Operating | 100 | 100 |
| Beacon Care Holdings Limited*+ | 03293998 | England and Wales | Non-trading | 100 | 100 |
| Beacon Care Investments Limited*+ | 04351554 | England and Wales | Non-trading | 100 | 100 |
| Beacon Care Limited* | 03160894 | England and Wales | Non-trading | 100 | 100 |
| Beech Care Limited* | 04050685 | England and Wales | Operating | 100 | 100 |
| Branas Isaf (Ashfield House) Limited* | 05761962 | England and Wales | Operating | 100 | 100 |
| Branas Isaf (Bythnod & Hendre Llwyd) Limited* | 04826628 | England and Wales | Operating | 100 | 100 |
| Branas Isaf (Dewis) Limited* | 04828115 | England and Wales | Operating | 100 | 100 |
| Branas Isaf (Education Centre) Limited* | 04826662 | England and Wales | Operating | 100 | 100 |
| Branas Isaf (Llyn Coed) Ltd* | 04826774 | England and Wales | Operating | 100 | 100 |
| Branas Isaf (personal development & approach training) Limited* | 04826959 | England and Wales | Non-trading | 100 | 100 |
| Branas Isaf (Therapeutic Provision) Limited* | 05355404 | England and Wales | Non-trading | 100 | 100 |
| Branas Isaf Holdings Ltd* | 04827227 | England and Wales | Non-trading | 100 | 100 |
| Branas Isaf Personal Development Centre Ltd* | 03744583 | England and Wales | Non-trading | 100 | 100 |
| Bright Care Limited* | 04050733 | England and Wales | Operating | 100 | 100 |
| By the Bridge Holdings* | 05712186 | England and Wales | Non-trading | 100 | 100 |
| By the Bridge Limited* | 04050928 | England and Wales | Operating | 100 | 100 |
| By the Bridge Management Company Limited* | 08587714 | England and Wales | Non-trading | 100 | 100 |
| By the Bridge North West Limited* | 05448746 | England and Wales | Operating | 100 | 100 |
| Cambian Asperger Syndrome Services Limited* | 04117476 | England and Wales | Operating | 100 | 100 |
| Cambian Autism Services Limited* | 03449214 | England and Wales | Operating | 100 | 100 |
| Cambrian Care (Powys) Limited* | 03813824 | England and Wales | Non-trading | 100 | 100 |
| Cambian Childcare Limited* | 04280519 | England and Wales | Operating | 100 | 100 |
| Cambian Childcare Properties Limited* | 05274924 | England and Wales | Property | 100 | 100 |
| Cambian Education Services Limited* | 05554772 | England and Wales | Non-trading | 100 | 100 |
| Cambian FS Limited* | 09501886 | England and Wales | Non-trading | 100 | 100 |
| Cambian Group Holdings Limited* | 08929407 | England and Wales | Non-trading | 100 | 100 |
| Cambian Group Limited*+ | 08929371 | England and Wales | Non-trading | 100 | 100 |
| Cambian Heritage I Limited* | 05150238 | England and Wales | Non-trading | 100 | 100 |
| Cambian Heritage II Limited* | 03898254 | England and Wales | Property | 100 | 100 |
| Interact Care Limited* | 04822716 | England and Wales | Operating | 100 | 100 |
| Cambian Properties (UK) Limited* | 05554819 | England and Wales | Non-trading | 100 | 100 |

31. Group undertakings continued

| Company | Company number | Country of incorporation | Type | Ownership 2021% | Ownership 2020% |
|---|----------------|--------------------------|-------------|-----------------|-----------------|
| Cambian Signpost Limited* | 06253729 | England and Wales | Operating | 100 | 100 |
| Cambian Whinfell School Limited* | 04617562 | England and Wales | Operating | 100 | 100 |
| Cameron Care Limited* | SC283940 | Scotland | Operating | 100 | 100 |
| Candour Housing CIC | 13562034 | England and Wales | Operating | 100 | - |
| Care Support Services Limited* | 05356025 | England and Wales | Operating | 100 | 100 |
| CareTech Community Services (No 2) Limited* | 03894564 | England and Wales | Operating | 100 | 100 |
| CareTech Community Services Limited*+ | 02804415 | England and Wales | Operating | 100 | 100 |
| CareTech Consulting Limited* | 07186925 | England and Wales | Non-trading | 100 | 100 |
| Caretech Digital Limited | 13601641 | England and Wales | Operating | 100 | - |
| CareTech Estates (No 2) Limited*+ | 06518327 | England and Wales | Property | 100 | 100 |
| CareTech Estates (No 3) Limited*+ | 06518491 | England and Wales | Property | 100 | 100 |
| CareTech Estates (No 4) Limited*+ | 06543818 | England and Wales | Property | 100 | 100 |
| CareTech Estates (No 5) Limited*+ | 07027116 | England and Wales | Property | 100 | 100 |
| CareTech Estates (No 6) Limited*+ | 08420656 | England and Wales | Property | 100 | 100 |
| CareTech Estates (No 7) Limited*+ | 08628141 | England and Wales | Property | 100 | 100 |
| CareTech Estates Limited*+ | 05964868 | England and Wales | Property | 100 | 100 |
| CareTech Foster Care Limited* | 05185612 | England and Wales | Non-trading | 100 | 100 |
| CareTech Fostering Holdings Limited* | 07206363 | England and Wales | Non-trading | 100 | 100 |
| CareTech Fostering Services* | 07205262 | England and Wales | Non-trading | 100 | 100 |
| CareTech Housing Services* | 03438332 | England and Wales | Non-trading | 100 | 100 |
| CareTech International (Previously Family Assessment Services Limited) Limited* | 06902547 | England and Wales | Non-trading | 100 | 100 |
| Clifford House Limited* | 03320573 | England and Wales | Non-trading | 100 | 100 |
| Colerne Community Care (Kent) Limited* | 02755757 | England and Wales | Non-trading | 100 | 100 |
| Community Support Project Limited*+ | 05941774 | England and Wales | Non-trading | 100 | 100 |
| Complete Care & Enablement Services Limited* | 05905163 | England and Wales | Operating | 100 | 100 |
| Continuum Care and Education Group Limited* | 05804360 | England and Wales | Non-trading | 100 | 100 |
| Counticare Limited* | 02585666 | England and Wales | Non-trading | 100 | 100 |
| Coveberry Limited* | 01208511 | England and Wales | Operating | 100 | 100 |
| Daisybrook Limited* | 03026221 | England and Wales | Operating | 100 | 100 |
| Dawn Hodge Associates Limited* | 04130146 | England and Wales | Operating | 100 | 100 |
| Delam Care Limited* | 02995783 | England and Wales | Operating | 100 | 100 |
| Detham Care Limited* | 02748991 | England and Wales | Non-trading | 100 | 100 |
| Elite Children's Care Limited* | 05251327 | England and Wales | Non-trading | 100 | 100 |
| Emeraldpoint Limited* | 03098166 | England and Wales | Operating | 100 | 100 |
| EnableAll Limited | 13540728 | England and Wales | Operating | 100 | - |
| EQL Solutions Limited*+ | 08758477 | England and Wales | Operating | 100 | 100 |
| Farrow House Limited* | 03504115 | England and Wales | Non-trading | 100 | 100 |
| Fostering Support Group Limited* | 02359399 | England and Wales | Operating | 100 | 100 |
| Franklin Homes Limited* | 03002865 | England and Wales | Operating | 100 | 100 |
| Glenroyd House Limited* | 04326288 | England and Wales | Operating | 100 | 100 |
| Gloucestershire Autism Services Limited* | 03091510 | England and Wales | Non-trading | 100 | 100 |
| Green Corns Limited* | 03918305 | England and Wales | Non-trading | 100 | 100 |
| Greenfields Adolescent Development Limited* | 04068839 | England and Wales | Operating | 100 | 100 |
| Greenfields Care Group Limited* | 04642100 | England and Wales | Non-trading | 100 | 100 |

Notes to the Financial Statements

continued

31. Group undertakings continued

| Company | Company number | Country of incorporation | Type | Overship 2021% | Overship 2020% |
|--|----------------|--------------------------|-------------|----------------|----------------|
| Heaton House Limited* | 04385252 | England and Wales | Operating | 100 | 100 |
| Heris Care (Eccot and Supervision Services) Limited* | 03648069 | England and Wales | Non-trading | 100 | 100 |
| Heris Care Group Limited* | 04539660 | England and Wales | Non-trading | 100 | 100 |
| Heris Care Limited* | 03400914 | England and Wales | Non-trading | 100 | 100 |
| Heris Care Property Limited* | 04132387 | England and Wales | Non-trading | 100 | 100 |
| Hunters Lodge Limited* | 04568317 | England and Wales | Operating | 100 | 100 |
| Independent Childcare Group of Schools Limited* | 02525026 | England and Wales | Non-trading | 100 | 100 |
| Inoco 2993 Limited* | 04934338 | England and Wales | Non-trading | 100 | 100 |
| K D B Care Limited* | 03038698 | England and Wales | Non-trading | 100 | 100 |
| Kirkwall Lodge Limited* | 04728674 | England and Wales | Operating | 100 | 100 |
| Leigham Lodge Limited* | 04583599 | England and Wales | Operating | 100 | 100 |
| Lonsdale Midlands Limited* | 02833441 | England and Wales | Operating | 100 | 100 |
| Lynchburg Psychiatric Residential Care Limited* | 02958528 | England and Wales | Non-trading | 100 | 100 |
| Magnolia Court Limited* | 05444649 | England and Wales | Operating | 100 | 100 |
| Mason Property Development Company Limited* | 04308273 | England and Wales | Property | 100 | 100 |
| Oakleaf Care (Hartwell) Limited* | 05225317 | England and Wales | Operating | 100 | 100 |
| One Six One Limited* | 04136284 | England and Wales | Operating | 100 | 100 |
| One Step (Support) Limited* | 04534652 | England and Wales | Operating | 100 | 100 |
| Oreline Step Limited* | 08339192 | England and Wales | Non-trading | 100 | 100 |
| Outlook Fostering Services Limited* | 04359704 | England and Wales | Operating | 100 | 100 |
| Parr Care Limited* | 04050739 | England and Wales | Operating | 100 | 100 |
| Park Foster Care Ltd* | 04881395 | England and Wales | Operating | 100 | 100 |
| Park Foster Care Services Scotland Limited* | SC247502 | Scotland | Operating | 100 | 100 |
| Phoenix Therapy and Care Limited* | SC254555 | England and Wales | Operating | 100 | 100 |
| Parade Supported Living Limited* | 02736242 | England and Wales | Non-trading | 100 | 100 |
| Presswood Residential Homes Ltd* | 04173564 | England and Wales | Operating | 100 | 100 |
| Primrose Court Limited* | 04803769 | England and Wales | Operating | 100 | 100 |
| Professional Integrated Care Services Limited* | 04771613 | England and Wales | Non-trading | 100 | 100 |
| Purple Zest Limited* | 11421082 | England and Wales | Operating | 100 | 100 |
| Rodborough House Limited* | 03034294 | England and Wales | Operating | 100 | 100 |
| ROC North West Ltd* | 03564417 | England and Wales | Operating | 100 | 100 |
| Roseville Children's Services Limited* | 04832054 | England and Wales | Operating | 100 | 100 |
| SACCS Care Limited* | 04495879 | England and Wales | Non-trading | 100 | 100 |
| SACS Limited* | 04497910 | England and Wales | Non-trading | 100 | 100 |
| Sedborne Care Limited* | 05513162 | England and Wales | Operating | 100 | 100 |
| Sewyn Care Limited* | 03737832 | England and Wales | Operating | 100 | 100 |
| Smashbox Holdings Limited | 12813709 | England and Wales | Non-trading | 70 | - |
| Smashbox Assistive Technology Limited | 05541084 | England and Wales | Operating | 100 | - |
| Smashbox Assistive Technology Inc. (US co) | 6082148 | Delaware, US | Operating | 100 | - |
| Sensory Software International Limited | 658998 | Ireland | Operating | 100 | - |
| Sensory Software International Limited | 03662043 | England and Wales | Operating | 100 | - |
| South East Care Services Limited* | 02286352 | England and Wales | Non-trading | 100 | 100 |
| Spark of Genius Limited* | SC479758 | Scotland | Non-trading | 100 | 100 |
| Spark Of Genius North East LLP | OC384807 | England and Wales | Operating | 50 | 50 |
| Spark Of Genius (Training) Limited* | SC196146 | Scotland | Operating | 100 | 100 |

31. Group undertakings continued

| Company | Company number | Country of incorporation | Type | Ownership 2021% | Ownership 2020% |
|--|----------------|--------------------------|-------------|-----------------|-----------------|
| St Michael's Support & Care Limited* | 05978585 | England and Wales | Operating | 100 | 100 |
| Sunnyside Care Homes Ltd* | 04589719 | England and Wales | Operating | 100 | 100 |
| The Community Care Company UK Limited* | 02816119 | England and Wales | Non-trading | 100 | 100 |
| TLC (Wales) Independent Fostering Limited* | 04824925 | England and Wales | Operating | 100 | 100 |
| Trojan Spark Limited* | SC453152 | Scotland | Non-trading | 100 | 100 |
| Uplands (Fareham) Limited* | 03488896 | England and Wales | Operating | 100 | 100 |
| Valeo Community Projects Limited* | 03941224 | England and Wales | Non-trading | 100 | 100 |
| Valeo Limited*+ | 04099715 | England and Wales | Operating | 100 | 100 |
| Victoria Lodge Limited* | 04454845 | England and Wales | Operating | 100 | 100 |
| Vosse Court Limited* | 04778676 | England and Wales | Operating | 100 | 100 |
| White Cliffs Lodge Limited* | 04351559 | England and Wales | Operating | 100 | 100 |
| Wyatt House Limited* | 04319271 | England and Wales | Non-trading | 100 | 100 |
| Advanced Childcare Capital Limited | 107650 | Jersey ² | Non-trading | 100 | 100 |
| Advanced Childcare Holdings Limited | 107660 | Jersey ² | Non-trading | 100 | 100 |
| Cambian Capital Limited | 87311 | Jersey ² | Non-trading | 100 | 100 |
| Cambian Developments II Limited | 104724 | Jersey ² | Non-trading | 100 | 100 |
| Advanced Childcare Finance Limited | 107661 | Jersey ² | Dissolved | – | 100 |
| Advanced Childcare Group Limited | 107672 | Jersey ² | Dissolved | – | 100 |
| Cambian Developments I Limited | 106304 | Jersey ² | Dissolved | – | 100 |
| Cambian Developments Limited | 102148 | Jersey ² | Dissolved | – | 100 |
| Cambian Finance Limited | 91181 | Jersey ² | Dissolved | – | 100 |
| Cambian Holdings Limited | 87312 | Jersey ² | Dissolved | – | 100 |
| Cambian Manco Limited | 109922 | Jersey ² | Dissolved | – | 100 |
| Care Aspirations Finance Limited | 101512 | Jersey ² | Dissolved | – | 100 |
| Care Aspirations Holdings Limited | 101522 | Jersey ² | Dissolved | – | 100 |
| Care Aspirations Capital Limited | 101503 | Jersey ² | Dissolved | – | 100 |
| H2O Limited | FC97291 | Gibraltar | Non-trading | 100 | 100 |
| Hazeldene UK Limited ¹ | FC015967 | Gibraltar | Operating | 100 | 100 |
| Cambian Properties II Limited | 91131 | Jersey ² | Property | 100 | 100 |
| CareTech Cloud Limited* | 12392889 | England and Wales | Non-trading | 100 | 100 |
| CareTech Mena Social Care LLC | 1010563230 | Saudi Arabia | Non-trading | 100 | 100 |
| CareTech Holdings Limited | 3381 | United Arab Emirates | Non-trading | 100 | 100 |
| AS1 Investments Holding Ltd (ADGM) | 3272 | United Arab Emirates | Non-trading | 52 | 94 |
| AS2 Investments Holdings Ltd (ADGM) | 5298 | United Arab Emirates | Non-trading | 89.9 | – |
| AS Investments Holding Ltd (ADGM) | 3087 | United Arab Emirates | Non-trading | 52 | 52 |
| Macani Medical Centre | CN-1937451 | United Arab Emirates | Operating | 99 | 49 |
| AS Northwood Investments Holdings LLC (ADGM) | CN-2696945 | United Arab Emirates | Non-trading | 99 | 99 |
| ACPN Dubai | 674030 | United Arab Emirates | Operating | 65 | 65 |
| ACPN Abu Dhabi | CN-1142528 | United Arab Emirates | Operating | 65 | 65 |
| ACPN Al Ain | CN-1142528-1 | United Arab Emirates | Operating | 65 | 65 |
| Care Talent Advisors Limited* | 12391623 | England and Wales | Non-trading | 60 | 60 |
| Jobzooma Limited | 10127824 | England and Wales | Operating | 29.4 | 29.4 |
| Recruiterlink Limited | 11665920 | England and Wales | Operating | 29.4 | 29.4 |

Notes to the Financial Statements

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31. Group undertakings continued

- ¹ Has a UK designated trading branch, Hazeldene UK Limited.
- ² Registered office 9 Burrard Street, St Helier, Jersey JE4 5SE.
- ^{*} Owned directly by the Company.
- ^{*} These subsidiaries have taken advantage of the audit exemption under s479A and s479C of the Companies Act 2006 for the period ended 30 September 2021. As such, the Company has provided a guarantee against all debts and liabilities in these subsidiaries as at 30 September 2021.

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 2021 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 2021 detailed above with the exception of Hazeldene UK Limited, H2O Limited and Spark of Genius (North East) LLP and Advanced Childcare Capital Limited, Advanced Childcare Finance Limited, Advanced Childcare Group Limited, Advanced Childcare Holdings Limited, Cambian Capital Limited, Cambian Developments I Limited, Cambian Developments II Limited, Cambian Developments Limited, Cambian Finance Limited, Cambian Holdings Limited, Cambian Manco Limited, Care Aspirations Finance Limited, Care Aspirations Holdings Limited, Care Aspirations Capital Limited and Cambian Properties II Limited.

Wholly-owned subsidiaries incorporated in Gibraltar and Jersey will not be covered by the Parent Company guarantee as they are incorporated outside of the UK.

Unless otherwise stated above, the registered offices of all subsidiaries is 5th Floor Metropolitan House, 3 Darkes Lane, Potters Bar, England, EN6 1AG with the exception of:

| Company | Address |
|---|--|
| Applied Care and Development Ltd | Netherlea House, Bankend Road, Dumfries, DG1 4AL |
| Cameron Care Limited | Inspire Children Services, Lochview, Fort William, Inverness-Shire, PH33 7NP |
| Dawn Hodge Associates Limited | Fiveways House, Buildwas Road, Neston, CH64 3RU |
| Park Foster Care Services Scotland Limited | 272 Bath Street, Glasgow, G2 4JR |
| Phoenix Therapy and Care Limited | 1 Lodge Street, Haddington, East Lothian, EH41 3DX |
| Professional Integrated Care Services Limited | Tan Y Fron, Pontardulais Road, Crosshands, Carmarthenshire, SA14 6PG |
| Spark of Genius Limited | Trojan House Pegasus Avenue, Phoenix Business Park, Paisley, PA1 2BH |
| Spark of Genius (North East) LLP | King Edwin School Mill Lane, Norton, Stockton-On-Tees, North Yorkshire, TS20 1LG |
| Spark of Genius (Training) Limited | Trojan House Pegasus Avenue, Phoenix Business Park, Paisley, PA1 2BH |
| Trojan Spark Limited | Trojan House Pegasus Avenue, Phoenix Business Park, Paisley, PA1 2BH |
| H2O Limited | Montagu Pavillion, 8-10 Queensway, Gibraltar |
| Hazeldene UK Limited | Montagu Pavillion, 8-10 Queensway, Gibraltar |
| CareTech Mena Social Care LLC | 7534 King Abdul Aziz Road – Al Ghadeer District, Unit No 44, Riyadh 13311-4672, Kingdom of Saudi Arabia |
| CareTech Holdings Limited | 2459, 24, Al Sila Tower, Abu Dhabi Global Market Square, Al Maryah Island, Abu Dhabi, United Arab Emirates |
| AS1 Investments Holding Ltd (ADGM) | 2458 Al Sila Tower, ADGM Square, Al Maryah Island Abu Dhabi, UAE |
| AS2 Investments Holding Ltd (ADGM) | 16th Floor, Wework Hub71, Al Khatem Tower, ADGM Square, Al Maryah Island, Abu Dhabi, United Arab Emirates |
| AS Investments Holding Ltd (ADGM) | 2458 Al Sila Tower, ADGM Square, Al Maryah Island, Abu Dhabi, UAE |
| Macani Medical Centre | Ahmed Ali Mohamed Abdulla Alsayegh Building, Office 205, GH 10, Q 63, T 2, Al Khalidiah Street, Abu Dhabi, UAE |
| AS Northwood Investments Holdings LLC (ADGM) | Unit of Ahmed Ali Mohamed Abdulla Alsayegh, West 10,0, PO Box No. 52613, Abu Dhabi, UAE |
| ACPN Dubai | Jumeirah Sunset Mall, Jumeirah 3, PO Box 66026, Dubai, UAE |

31. Group undertakings continued

| Company | Address |
|---|---|
| ACPN Abu Dhabi | Khalid bin Abdul Aziz Street, Mounira Sheikh Ahmed Al Mubarak Building, PO Box 108699, Abu Dhabi, UAE |
| ACPN Al Ain | Villa of Mohammed Raashid Mohammed and others, Al Ghil, Al Ma'atarid, Al Ain, Abu Dhabi, UAE |
| Smartbox Assistive Technology Limited | Ysobel House Enigma Commercial Centre, Sandys Road, Malvern, Worcestershire, England, WR14 1JJ |
| Smartbox Assistive Technology Inc. (US co) | 2831 Leechburg Road, NEW KENSINGTON, PA 15068, Westmoreland |
| Smartbox Assistive Technology (EU) (Ireland co) | Jpa Brenson Lawlor House, Argyle Square Morehampton Road, Donnybrook, Dublin |
| Sensory Software International Limited | Seneca House Links Point, Amy Johnson Way, Blackpool, Lancashire, FY4 2FF |

Subsidiaries with material non-controlling interest ('NCI')

The Group has aggregated the subsidiary financial information of the AS Group acquired on 4 February 2020. The Group has considered it appropriate to aggregate the information due to geographical location and the nature of the activities being performed is consistent. The below table shows the subsidiaries that form part of the Group.

| Subsidiary name | Principal place of business | Proportion of ownership interests held by non-controlling interests | Proportion of voting rights held by non-controlling interests |
|--|-----------------------------|---|---|
| AS Investments Holding Ltd (ADGM) | United Arab Emirates | 48% | 48% |
| AS Northwood Investments Holdings LLC (ADGM) | United Arab Emirates | 1% | 1% |
| ACPN Dubai | United Arab Emirates | 35% | 35% |
| ACPN Abu Dhabi | United Arab Emirates | 35% | 35% |
| ACPN Al Ain | United Arab Emirates | 35% | 35% |
| AS1 Investments Holding Ltd (ADGM) | United Arab Emirates | 6% | 6% |
| Macani Medical Centre | United Arab Emirates | 51% | 51% |
| | | 2021 | 2020 |
| | | £'000 | £'000 |
| Profit allocated to NCIs during the reporting period | | 521 | 1,234 |
| Dividends paid | | (1,160) | – |
| Accumulated NCI at 30 September | | 8,567 | 9,206 |

Notes to the Financial Statements

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31. Group undertakings continued

Summarised financial information for the AS Group is set out in the table below:

| | 2021 £'000 | 2020 £'000 |
|---------------------------------------|----------------|---------------|
| Current assets | 9,344 | 8,139 |
| Non-current assets | 304 | 274 |
| Current liabilities | (2,213) | (2,870) |
| Non-current liabilities | (1,758) | (1,833) |
| Revenue | 25,054 | 15,548 |
| Profit and total comprehensive income | 3,131 | 1,881 |
| Net cash from operating activities | (40) | 2,202 |
| Net cash used in investing activities | (160) | (77) |
| Net cash used in financing activities | (1,160) | (161) |
| Net cash inflow | (1,360) | 1,964 |

The Group has aggregated the subsidiary financial information of Smartbox Assistive Technology Limited and associated subsidiaries, and Sensory Software International Limited (Collectively 'Smartbox') acquired on 5 October 2020. The Group has considered it appropriate to aggregate the information due to geographical location and the nature of the activities being performed being consistent. The below table shows the subsidiaries that form part of the Group.

| Subsidiary name | Principal place of business | Proportion of ownership interests held by non-controlling interests | Proportion of voting rights held by non-controlling interests |
|--|-----------------------------|---|---|
| Smartbox Holdings Limited | England and Wales | 30% | 30% |
| SMARTBOX ASSISTIVE TECHNOLOGY LIMITED | Delaware, US | 0% | 0% |
| Smartbox Assistive Technology, Inc. | England and Wales | 0% | 0% |
| Smartbox Assistive Technology (EU) Limited | Ireland | 0% | 0% |
| Sensory Software International Limited | England and Wales | 0% | 0% |

| | 2021 £'000 | 2020 £'000 |
|--|---------------|---------------|
| Profit allocated to NCIs during the reporting period | 464 | – |
| Accumulated NCI at 30 September | 1,914 | – |

Summarised financial information for the Smartbox Group is set out in the table below:

| | 2021 £'000 | 2020 £'000 |
|-------------------------|---------------|---------------|
| Current assets | 139 | – |
| Non-current assets | 11,983 | – |
| Current liabilities | (3,550) | – |
| Non-current liabilities | (2,780) | – |

Company Statement of Financial Position as at 30 September 2021

| | Note | 2021 £000 | 2020 £000 |
|---|------|----------------|--------------|
| Non-current assets | | | |
| Tangible assets | | 135 | - |
| Investments | 34 | 402,781 | 399,859 |
| | | 402,916 | 399,859 |
| Current assets | | | |
| Trade and other receivables | 35 | 236,041 | 247,171 |
| Cash and cash equivalents | | 1,553 | 485 |
| | | 237,594 | 247,656 |
| Total assets | | 640,510 | 647,515 |
| Current liabilities | | | |
| Trade and other payables | 37 | 40,642 | 48,411 |
| | | 40,642 | 48,411 |
| Non-current liabilities | | | |
| Loans and borrowings | 36 | 319,356 | 318,592 |
| Total liabilities | | 359,998 | 367,003 |
| Net assets | | 280,512 | 280,512 |
| Equity | | | |
| Share capital | 39 | 566 | 565 |
| Share premium | | 133,551 | 133,080 |
| Merger reserve | | 125,842 | 125,842 |
| Retained earnings | | 20,553 | 21,025 |
| Total equity attributable to equity shareholders of the Parent | | 280,512 | 280,512 |

Under section 408 of the Companies Act 2006 the Company is exempt from the requirement to present its own income statement. The profit for the year included in the financial statements of the Company was £12,584,000 (2020 loss: £15,845,000).

These financial statements were approved by the Board of Directors and authorised for issue on 6 December 2021 and were signed on its behalf by:



Farouq Sheikh OBE
Group Executive Chairman
Company number: 04457287



Christopher Dickinson
Group Chief Financial Officer

Company Statement of Changes in Equity as at 30 September 2021

| | Share capital £000 | Share premium £000 | Merger reserve £000 | Retained earnings £000 | Total equity £000 |
|--|-----------------------|-----------------------|------------------------|---------------------------|----------------------|
| At 1 October 2019 | 545 | 121,304 | 125,536 | 45,757 | 293,142 |
| Loss for the year and total comprehensive income | - | - | - | (15,845) | (15,845) |
| Issue of shares | 20 | 11,776 | 306 | - | 12,102 |
| Share-based payments' charge | - | - | - | 4,119 | 4,119 |
| Dividends | - | - | - | (13,006) | (13,006) |
| At 30 September 2020 | 565 | 133,080 | 125,842 | 21,025 | 280,512 |
| At 1 October 2020 | 565 | 133,080 | 125,842 | 21,025 | 280,512 |
| Profit for the year and total comprehensive income | - | - | - | 12,584 | 12,584 |
| Issue of shares | 1 | 471 | - | - | 472 |
| Share-based payments' charge | - | - | - | 1,375 | 1,375 |
| Dividends | - | - | - | (14,431) | (14,431) |
| At 30 September 2021 | 566 | 133,551 | 125,842 | 20,553 | 280,512 |

Notes to the Company Financial Statements

32. Accounting policies

(a) Basis of preparation

CareTech Holdings PLC ('the Company') meets the definition of a qualifying entity under Financial Reporting Standard ('FRS') 100, issued by the Financial Reporting Council ('FRC'). Accordingly, the financial statements have been prepared in accordance with FRS 101 Reduced Disclosure Framework. The financial statements have been prepared on a historical cost basis except in respect of those financial instruments that have been measured at fair value at the end of each reporting period. Historical cost is generally based on the fair value of the consideration given in exchange for goods and services.

As permitted by FRS 101, the Company has taken advantage of the disclosure exemptions available under that standard in relation to share-based payment, financial instruments, capital management, presentation of comparative information in respect of certain assets, presentation of cash flow statement and certain related-party transactions.

(b) Investments

Investments in subsidiary undertakings are stated in the balance sheet of the Company at cost less impairment 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 and those with maturities of three months or less from inception, less overdrafts payable on demand.

(d) Interest-bearing borrowings

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

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

(e) Taxation

Tax on the profit or loss for the year comprises current and deferred tax. Tax is recognised in profit or loss 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 and laws enacted or substantively enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years.

(f) Revenue

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

(g) 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.

Notes to the Company Financial Statements continued

32. Accounting policies continued

(h) Employee Benefit Trust ('EBT')

The Company has not elected to consolidate the employee benefit trust and consequently recognise it as an investment in subsidiary, and recognise a receivable balance for any shares issued to the trust, and is subsequently measured at amortised cost. These receivables are payable on demand and do not carry any interest. Considering these amounts are receivable on the sale of shares held by the trust and such shares are quoted higher than the value receivable, the Company are of the view that there are no credit losses as at balance sheet date.

(i) Financial instruments

Recognition, initial measurement and derecognition

Financial assets and financial liabilities are recognised when the Company becomes a party to the contractual provisions of the financial instrument. All financial assets are initially measured at fair value adjusted for transaction costs (where applicable). Financial liabilities are initially measured at fair value, and, where applicable, adjusted for transaction costs unless the Company designated a financial liability at fair value through profit or loss. 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:

- Financial assets at amortised cost.
- Financial assets/liabilities held at ('FVTPL').

FVTPL assets in this category are measured at fair value with gains or losses recognised in profit or loss. The fair values of financial assets in this category are determined by reference to active market transactions or using a valuation technique where no active market exists.

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

Financial assets at amortised cost

Financial assets are measured at amortised cost if the assets meet the following conditions (and are not designated as FVTPL):

- they are held within a business model whose objective is to hold the financial assets and collect its contractual cash flows; and
- the contractual terms of the financial assets give rise to cash flows that are solely payments of principal and interest on the principal amount outstanding.

After initial recognition, these are measured at amortised cost using the effective interest method. Discounting is omitted where the effect of discounting is immaterial. The Company's cash and cash equivalents, trade and most other receivables fall into this category of financial instruments.

Financial assets at FVTPL

Financial assets that are held within a different business model other than 'hold to collect' or 'hold to collect and sell' are categorised at fair value through profit and loss. Further, irrespective of business model financial assets whose contractual cash flows are not solely payments of principal and interest are accounted for at FVTPL. All derivative financial instruments fall into this category.

Assets in this category are measured at fair value with gains or losses recognised in profit or loss. The fair values of financial assets in this category are determined by reference to active market transactions or using a valuation technique where no active market exists.

32. Accounting policies continued

Classification and subsequent measurement of financial liabilities

The Company's financial liabilities include borrowings, trade and other payables and derivative financial instruments. Financial liabilities are measured subsequently at amortised cost using the effective interest method, except for financial liabilities held for trading or designated at FVTPL, that are carried subsequently at fair value with gains or losses recognised in the consolidated income statement. 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 income statement are included within finance costs or finance income.

From time to time, the long-term debt held by the Company are either refinanced as these come to maturity, or the margin on these facilities moves in line with the ratio of the Group's net debt to adjusted EBITDA. In either scenario, the Company reviews whether the debt is accounted for as a modification or an extinguishment of the liability. A substantial modification should be accounted for as an extinguishment of the existing liability and the recognition of a new liability. A non-substantial modification should be accounted for as an adjustment to the existing liability. Both the quantitative and qualitative aspects of the modification are taken into account to ascertain whether the modification is substantial and these can include the change in covenants, repayment dates and the effective interest rate. If modification accounting is adopted, the carrying value of the existing liability is adjusted for fees paid or costs incurred and the effective interest rate is amended at the modification date. If extinguishment accounting is adopted, the existing liability is de-recognised and the new or modified liability is recognised at its fair value, the gain or loss equal to the difference between the carrying value of the old liability and the fair value of the new one is recognised, any incremental costs or fees incurred and any consideration paid or received is recognised in profit or loss and a new effective interest rate for the modified liability is calculated and used in future periods.

Derivative financial instruments

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 re-measured to their fair value at each balance sheet date. A derivative with a positive fair value is recognised as a financial asset whereas a derivative with a negative fair value is recognised as a financial liability. The resulting gain or loss is recognised in the consolidated income statement immediately. A derivative is presented as a non-current asset or non-current liability if the Company has an unconditional right to defer payment beyond 12 months. Otherwise derivatives are presented as current assets or liabilities.

As part of the incorporation of Smartbox Holdings, the Group has granted the non-controlling interests the option to request the Group to acquire some or all of their shares in Smartbox Holdings Limited. The Company recognises the liability for this put option on a net basis as it is not own equity.

(j) 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.

Notes to the Company Financial Statements

continued

32. Accounting policies continued

(k) 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').

Merger reserve

| | 2021 £000 | 2020 £000 |
|-------------------------------|--------------|--------------|
| Opening balance 1 October | 125,842 | 125,536 |
| Issue of shares (see Note 26) | – | 306 |
| At 30 September | 125,842 | 125,842 |

33. Dividends

The aggregate amount of dividends comprises:

| | 2021 £000 | 2020 £000 |
|---|--------------|--------------|
| Interim dividend paid in respect of prior year but not recognised as liabilities in that year (4.0p per share, (2020: 3.75p per share)) | 4,525 | 4,093 |
| Final dividend paid in respect of the prior year (8.75p per share, (2020: 7.95p per share)) | 9,906 | 8,913 |
| Aggregate amount of dividends paid in the financial year (12.75p per share (2020: 11.70p per share)) | 14,431 | 13,006 |

The aggregate amount of dividends proposed and not recognised as liabilities as at the year end is 14.1p per share, £10,482,790 (2020: 12.75p per share, £14,000,000).

34. Investments

| | Shares in Group undertakings £000 |
|--------------------------------|---|
| Cost and net book value | |
| At 1 October 2020 | 399,859 |
| Acquisitions (see Note 5) | 2,922 |
| At 30 September 2021 | 402,781 |

35. Trade and other receivables

| | 2021 £000 | 2020 £000 |
|--|--------------|--------------|
| Amounts owed by Group undertakings | 224,738 | 235,402 |
| Amounts owed by the Employment Benefit Trust | 11,303 | 11,769 |
| | 236,041 | 247,171 |

These balances owed by Group undertakings accrue intercompany interest at a rate of 3% per annum and are repayable on demand. Please refer to note 1 and the statement on going concern. Intercompany financial assets were assessed by management for impairment using the expected credit loss model under IFRS 9. The assets are considered to have low credit risk and consequentially an immaterial credit loss was assessed and no provision has been made.

36. 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, please see note 29 in the Group accounts.

Terms and debt repayment schedule

| | Currency | Nominal interest rate (%) | Year of maturity | Book value 2021 £000 | Book value 2020 £000 |
|-------------------------------------|----------|--------------------------------|------------------|----------------------------|----------------------------|
| Term loan | £ | 2.04 (2020: 2.25) ¹ | 2023 | 158,948 | 160,031 |
| Term loan | £ | 2.04 (2020: 2.50) ¹ | 2023 | 158,948 | 158,561 |
| Revolving credit facility term loan | £ | 2.04 (2020: 2.75) ¹ | 2023 | – | – |
| | | | | 317,896 | 318,592 |

¹ The margin on the facilities is stated at the current rate and can change between 1.50% and 3.25% based on the ratio of the Group's net debt to adjusted EBITDA.

The facility is a term loan of £322m and revolving credit facility of £25m to a group of banks comprising Barclays Bank PLC, HSBC UK Banks PLC, Santander UK PLC, AIB Group (UK) PLC, Clydesdale Bank PLC, Credit Suisse AG, Lloyds Bank PLC and National Westminster Bank PLC and is stated net of loan finance costs in accordance in IAS 23. During the course of the year, the Group completed the extension of the Term Loan A facility of £161.2m which will now mature in August 2023. The margin of the facility and covenants remain unchanged, reflecting the highly cash-generative nature of the business and deleveraging profile. In addition, both the Group's loan and interest rate swaps have migrated to Compounded Daily SONIA as the reference rate. This has resulted as a non-substantial modification and accounted for as an adjustment to the existing liability and not an extinguishment.

37. Trade and other payables

| | 2021 £000 | 2020 £000 |
|-----------------------------------|---------------|---------------|
| Amounts due to Group undertakings | 37,259 | 42,769 |
| Other creditors | 3,383 | 5,642 |
| | 40,642 | 48,411 |

These balances due to Group undertakings accrue intercompany interest at a rate of 3% per annum.

38. Contingent liabilities

As per note 31, the Company have taken the audit exemption for a number of subsidiaries by virtue of s479A of the Companies Act. A Parent Company guarantee has been provided for these entities under s479C of the Companies Act.

39. Called-up share capital

| | 2021 £000 | 2020 £000 |
|--|--------------|--------------|
| Allotted, called up and fully paid: | | |
| 113,327,459 (2020: 113,173,992) ordinary shares of 0.5p each | 566 | 565 |
| 53,402 deferred shares of 0.5p each | 0 | 0 |
| | 566 | 565 |

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 movements in equity are given in note 26 to the Group financial statements.

Details in respect of the reserves are given in note 27 to the Group financial statements.

Notes to the Company Financial Statements

continued

40. Staff numbers and costs

The Company has no employees (2020: none) other than the Directors. Directors' emoluments are shown on page 97.

41. 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 (2020: £nil).

Share-based payments

There was no expense for share-based payments relating to the Company's employees in the year (2020: £nil). There was a grant of shares to the CareTech Charitable Foundation in the previous year, which is accounted for as a share-based payment with a charge of nil (2020: £4.1m) to the income statement in the year.

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 25).

42. Related parties

The Company receives dividends from its subsidiaries according to their ability to remit them and received interest in intergroup loans. Other details of related-party transactions have been given in note 30 to the consolidated accounts.

Under FRS 101, the Company is exempt from disclosing key management personnel compensation and transactions with other entities wholly owned by the Company.

Appendix: Alternative Performance Measures

The Group reports certain non-IFRS performance measures, known as Alternative Performance Measures ('APMs'). The Directors believe that they provide useful supplemental information for the readers of the Annual Report and, when read in conjunction with the IFRS financial information, assist in providing a balanced view of the Group's financial performance and financial position.

In assessing its performance, the Group has adopted a number of APMs as the Directors are of the view that these will assist the readers of the accounts when understanding our performance relative to other companies in our sector and in the wider economy. These measures are not defined by IFRS and therefore may not be directly comparable with other companies' adjusted measures. They are not intended to be a substitute for, or superior to, IFRS measurements of profit or earnings per share.

We set out below those APMs which management use in assessing its own performance and a reconciliation of those APMs to the statutory IFRS financial statements.

a) Underlying EBITDA

Underlying EBITDA is defined as Earnings Before Interest, Tax, Depreciation, Amortisation, ExSOP share-based payments charge and non-underlying items (see note (b) below). There is no further intent to issue awards under the ExSOP scheme, these have historically been ad hoc awards and as such not considered a component of underlying EBITDA. Underlying EBITDA is considered the most relevant performance measure in our (and many other) sectors. We reconcile underlying EBITDA to the statutory measure of operating profit on the face of the income statement as below:

| | Note | 2021 £000 | 2020 £000 |
|-----------------------------------|------|---------------|---------------|
| Underlying EBITDA | | 100,485 | 90,932 |
| Adjusted for: | | | |
| COVID-19 income | 6 | 2,692 | 2,550 |
| Depreciation | 13 | (19,519) | (17,021) |
| Amortisation of intangible assets | 6,14 | (10,273) | (10,186) |
| Acquisition expenses | 6 | (759) | (545) |
| Sleep-in provision | 6 | 11,777 | – |
| Gain on bargain purchases | 6 | 5,758 | – |
| Other non-underlying items | 6 | (5,964) | (4,497) |
| COVID-19 expenses | 6 | (4,220) | (3,422) |
| Share-based payments' charge | 6 | (473) | (4,449) |
| Operating profit | | 79,504 | 53,362 |

b) Non-underlying items

Statutory measures are adjusted to exclude those events or transactions that, in the opinion of the Directors, by virtue of unusual size or nature, or an infrequent/one off occurrence, distort the understanding of the performance for the year or comparability between periods. Such items are separately classified as non-underlying items in these accounts. The Directors are of the view that the underlying items will improve a reader's understanding of the core performance of the businesses of the Group.

At the operating cost level, non-underlying items include expenses relating to the acquisition of new businesses; the integration of acquisitions and the reorganisation of the internal operating and management structure and redundancy costs; non-cash charges of amortisation of intangible fixed assets together with any impairment of intangible assets or goodwill; and any other items that may fit this definition. For the year ended 30 September 2021, a reversal of sleep-in provision and a gain on bargain purchase were included in the determination of operating profit. COVID-19 income and costs have been included as non-underlying operating profit for the years ended 30 September 2021 and 30 September 2020. Please refer Note 6 for a detailed explanation as to why each of these items are considered non-underlying.

At the financial expenses level, non-underlying items include costs relating to derivative financial instruments and include the movements during the year in the fair value of the Group's interest rate hedging arrangements which do not qualify for hedge accounting, together with the quarterly cash settlement and accrual thereof. These items are considered by the Directors to meet the definition of non-underlying items.

Appendix: Alternative Performance Measures continued

b) Non-underlying items continued

The impact of current and deferred tax on each of these items are considered in the non-underlying section, in addition to the impact of deferred tax on account of the rate change.

We present a reconciliation of our underlying earnings to our statutory profit on a line by line basis including Operating profit, Finance expenses, Profit before Tax and Taxation as follows:

| | Note | 2021 | | | 2020 | | |
|----------------------------|------|--------------------|----------------------------|-------------------|--------------------|----------------------------|-------------------|
| | | Underlying £000 | Non- underlying £000 | Statutory £000 | Underlying £000 | Non- underlying £000 | Statutory £000 |
| Operating profit | | 80,493 | (989) | 79,504 | 73,581 | (20,219) | 53,362 |
| Financial expenses | 9 | (12,158) | (1,112) | (13,270) | (13,928) | (1,611) | (15,539) |
| Profit before tax | | 68,335 | (2,101) | 66,234 | 59,653 | (21,830) | 37,823 |
| Taxation | 6,10 | (11,889) | (19,017) | (30,906) | (11,325) | 553 | (10,772) |
| Profit for the year | | 56,446 | (21,118) | 35,328 | 48,328 | (21,277) | 27,051 |

c) Net debt

A key performance indicator for many readers of accounts is the level of net debt within the business. Net debt comprises cash net of all loans and borrowings as defined by the Group's banking facilities. Accordingly, the Group provides information on its net debt which is reconciled to the statutory financial statements as follows:

| | Note | 2021 £000 | 2020 £000 |
|---|------|------------------|------------------|
| Net debt in the balance sheet comprises: | | | |
| Cash at bank and in hand | | 65,560 | 54,273 |
| Bank loans | 20 | (317,896) | (317,122) |
| Shareholder loan | | (1,758) | (1,833) |
| Lease and hire purchase contracts | 14 | (4,567) | (4,204) |
| Net debt at 30 September | | (258,661) | (268,886) |

d) Underlying earnings per share

Underlying earnings per share is calculated based on underlying profit for the year as calculated in note (b) above. This is reconciled to earnings per share in note 12.

e) Operating cash flows before non-underlying items

Operating cash flows before non-underlying items is calculated based on operating cash flows adjusted non-underlying cash flows as reconciled below.

| | Note | 2021 £000 | 2020 £000 |
|---|------|---------------|--------------|
| Operating cash flows before non-underlying items | | 96,594 | 94,222 |
| Non-cash adjustment | | 903 | - |
| Integration and restructuring costs | 6 | (4,177) | (3,795) |
| Payment of charitable donations | 6 | (1,203) | (702) |
| COVID-19 receipts | 6 | 2,692 | 2,550 |
| COVID-19 payments | 6 | (4,220) | (3,420) |
| Payment of acquisition costs | 6 | (759) | (545) |
| Cash inflows from operating activities | | 89,830 | 88,310 |

Directors and Advisers

Company Number

04457287

Registered Office

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

Directors

| | |
|------------------------|---------------------------------|
| Farouq Sheikh OBE | (Group-Executive-Chairman) |
| Haroon Sheikh | (Group Chief Executive Officer) |
| Christopher Dickinson | (Group Chief Financial Officer) |
| Mike Adams OBE | (Executive Director) |
| Karl Monaghan | (Non-Executive Director) |
| Jamie Cumming | (Non-Executive Director) |
| Prof. Moira Livingston | (Non-Executive Director) |

Solicitors

Charles Russell Speechlys
5 Fleet Place
London
EC4M 7RD

Ashurst LLP
Broadwalk House
5 Appold Street
London
EC2A 2HA

Nominated Adviser and Joint Broker

Panmure Gordon and Co
One New Change
London
EC4M 9AF

Joint Brokers

Numis Securities Ltd
10 Paternoster Square
London
EC4M 7LT

Auditor

Grant Thornton UK LLP
30 Finsbury Square
London
EC2A 1AG

Bankers

The Royal Bank of Scotland PLC
250 Bishopsgate
London
EC2M 4AA

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

Santander Corporate Banking
2 Triton Square
Regents Place
London
NW1 3AN

HSBC UK Bank PLC
60 Queen Victoria St
London
EC4N 4TR

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

Barclays
Level 12
1 Churchill Place
London
E14 5HP

Clydesdale Bank PLC
138 New Street
Birmingham
B2 4JQ

Credit Suisse AG
The Gate
Dubai
United Arab Emirates

Registrars

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




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CareTech Holdings PLC

5th Floor

Metropolitan House

3 Darkes Lane

Potters Bar

Hertfordshire

EN6 1AG

Tel: 01707 601800

www.caretech-uk.com
