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## CareTech Holdings PLC

Annual Report and Accounts 2018

Registered number 04457287

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**CareTech provides high quality support and care for individuals who often have complex needs.**

**Delivering a safe and secure support of very high quality, ensuring that all our service users enjoy extraordinary days, every day.**

### **Our Purpose**

Delivering innovative social care on behalf of local authority and health service commissioners throughout the UK, CareTech has a long established reputation as a provider of high quality and safe services.

CareTech offers a comprehensive outsourcing service to commissioners with the experience and commitment to provide exactly what is required.

Focusing on the high acuity social care population we support children and adults through solutions that are both individual and tailor made to each of our service users.

Our core services provide for adults with learning disabilities, individuals who have or are recovering from mental illness, people with autistic spectrum disorder, people who have one or more physical impairments and provide care and rehabilitation for men with acquired brain injury ("ABI"). We deliver support through residential services and a wide choice of creative home based options.

Our children services cover assessment, residential care, education and fostering options, including specialist provision for very complex young people. We carefully and professionally support any child irrespective of their reasons for being in public care. We can provide the right solution for complex and difficult situations through our nationally recognised expertise in provision for children and young people who present with sexually offending behaviours or who have emotional and behavioural disorders. Our comprehensive service includes education in Ofsted registered schools of very high quality.

CareTech pioneered 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 remain a national leader in the drive to enable people to live in a home of their own.

We believe in opportunity and have developed an enviable reputation as a leading provider and organiser of modern apprenticeships within exciting projects across the UK.

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## Good progress across the Group

### Financial and Operational Highlights

Highlights	Revenue	Underlying EBITDA <sup>(i)</sup>
	£185.7m	£43.9m
	 increased by 11.9% (2017 £166.0m)	 increased by 10.0% (2017 £39.9m)
	Underlying profit before tax <sup>(ii)</sup>	Underlying basic earnings per share <sup>(ii)</sup>
	£32.9m	35.07p
	 increased by 11.9% (2017 £29.4m)	(2017: 38.03p)
	Net Cash inflows from operating activities	Overall care capacity increased by 88 <sup>(v)</sup>
	£30.9m (2017 £22.1m)	2,622 places (2017 2,534)
	with net debt <sup>(iii)</sup> of £147.0m (2017 £147.1m)	Occupancy 2,438 (2017 2,159)
	Property portfolio	Final dividend per share
	£424m	7.5p
	Independently valued (2017 £329m)	 increased by 13.6% (2017: 6.60p)
	Statutory Financial Highlights	
Statutory financial highlights	EBITDA <sup>(iv)</sup>	Operating profit
	£40.2m	£20.2m
	 increased by 10.4% (2017: £36.4m)	 decreased by 11.0% (2017: £22.7m)
	Diluted earnings per share	
	14.06p	
	 reduced by 44.8% (2017: 25.48p)	

- (i) Underlying EBITDA is operating profit stated before depreciation, share-based payments charge and non-underlying items
- (ii) Underlying profit before tax and underlying basic earnings per share are stated before non-underlying items.
- (iii) Net Debt as defined by the Group's Banking facilities and comprises cash and cash equivalents net of all Loans and Borrowings due to the Group's Bankers.
- (iv) EBITDA is operating profit stated before depreciation and share-based payments.
- (v) Overall capacity has increased by 88 with 69 additional beds in reconfigured services and new services, 69 new beds in Children's and 50 beds were withdrawn for reconfiguration.

## Group at a glance

### Extraordinary Care

#### CARING EVERYDAY

The company was formed in 1993 and was admitted to the AIM market at the London Stock Exchange in October 2005.

Since the CareTech Group came to the AIM market 13 years ago, it has evolved through a mix of organic and prudent acquisitive growth that has led to our current position as one of the best-established and reputable national social care providers. We have national coverage across England, Wales and Scotland in a highly fragmented UK social care market. We cover the majority of the social care spectrum except elderly care.

The CareTech Group provides care and support to individuals in need. This is mainly for people who have a learning disability, some of whom may have associated physical or psychological impairment. However, the company also supports a number of people with other disorders including those with autism, sensory impairment, physical disabilities or mental health problems.

Many of the services are offered in residential care settings in community based settings, including a number of nursing homes. All the residential homes are registered with the UK Government regulator, mainly with the Care Quality Commission, Ofsted and also with other regulators. CareTech also provides care and support to a significant number of people who have their own tenancies (supported living) and in various day centres or hostel type accommodation.

The total market value is estimated, (Laing and Buisson 2017) to be worth £7bn for children services and £5bn for the care of younger adults (below 65 years of age) in the learning disability and specialist services categories. The private sector share of this market has developed through successful outsourcing of services over the last 20 years and this trend is expected to continue. Local Authorities have largely protected their budgets for children and complex younger adults.

## Adult Services

### Adult Learning Disabilities

CareTech has always operated at the highest acuity range on the social care spectrum, providing individual tailor made solutions for people living in their own homes, residential care or independent supported living schemes. We believe that we should continue supporting those with the greatest need and this accords with local authority commissioning trends.

Adults with learning disabilities are increasingly being provided with direct funding to enable them to purchase their own care and support. We work actively with service users and advisory bodies to deliver self-directed support packages and see this as an increasingly important aspect of our service model, as well as offering commercial opportunity.

For many people with the most complex intellectual or physical challenges, residential care will continue to be the preferred option although the services will change in their approach as we move toward a more enabling, modern type of service. An alternative to residential care is the opportunity for people to live in a home of their own, sometimes shared with others. CareTech is a leader in the provision of supported living and offers packages of individualised self-directed support to people in their own homes.

### Childrens Services

#### Foster Care

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

### Specialist Services

Specialist services provision continues to dominate the health and social care agenda. Good specialist services is a significant contributor to a healthy community and national economy, while mental ill health is devastating to individuals and their families. Most commissioners are driven by a wish to reduce patient time in acute care and rely on creative outsourcing to dramatically cut the cost of specialist services care in hospital and within the criminal justice system.

CareTech's specialist services team works in partnership with the NHS and social service departments to ensure a successful transition out of acute care and the prison service, delivering pathways to an ordinary life. We also have an outstanding track record for diverting people away from acute care and supporting them in their own homes. CareTech's highly effective care teams are developing new ways to offer community support solutions and we believe that this will be an important growth platform in years to come.

For men with Acquired Brain Injury (ABI) we provide a range of pathways from rehabilitation through to long term and end of life care. CareTech offers highly specialised rehabilitation beds as well as a step down provision of community based beds.

### Young People Residential Services

For a relatively small number of children, residential care offers a safe and helpful solution for their care needs and CareTech has developed an extensive range of highly technical care and education environments where those children will thrive.

Our residential provision offers high staff ratios and highly skilled carers, capable of ensuring both safety and progression. These are high cost services where we aim for an intensive period of care and a strict timetable that delivers results at a fair price to commissioners. As far as practicable we aim to help

foster care family assessments and ongoing support to children who remain with their birth families and in their family home.

these children through our therapeutic care approach to move into a more normalised family style environment as soon as it is practicable to do so.

These services are highly integrated operations with dedicated staff ratios and may also include on site or dedicated educational facilities.

## Learning Services

Since modern apprenticeships started several years ago we have witnessed a dramatic shift in the way young people enter the adult workforce. People are increasingly opting for an apprenticeship as an alternative to or as well as attending University. This was especially true of the Care Sector but a whole new generation of young people are now looking at the apprenticeship model as their further training of choice.

Through acquisition and the development of established apprenticeship providers CareTech has embraced the opportunity to capitalise on this change and to work closely with government agencies to improve the quality and skill base of our national workforce. We have chosen to call our apprenticeship scheme a Learning Service to reflect the aspiration of the young people we work with.

Although Learning Services provide training across the whole workforce we have naturally developed expertise within the very extensive social care sector.

Learning services addresses an adult social care workforce in England of some 1.16m people, 905,000 of whom work within the independent sector (Skills for Care 2013).

There are 21,200 organisations providing Adult Social Care in England and the majority of these are operating at far too low a scale to deliver their own training or apprenticeship programmes. Dawn Hodge Associates received an "Outstanding" from Ofsted in 2017 and has significant market presence in social care and are well positioned to support both smaller companies as well as corporate providers.

The introduction of the apprenticeship levy has caused a decline in companies offering apprenticeships. However, the government has a target of 3 million apprenticeships by 2020. (Sourced from Gov.UK).

<b>Adult services</b> <b>Social care services for adults over the age of 18</b>	
<b>Adult Learning disabilities</b> Care capacity 2018  <b>1,754</b>  2017 [1,735] Contribution to Group revenue 54.4% (2017 52.9%)	Split by: - Residential care - Independent supported living - Community support services
<b>Specialist Support Services</b> Care capacity 2018  <b>214</b>  2017 [214] Contribution to Group revenue 8.2% (2017 9.3%)	Split by: - Residential care - Independent supported living - Community outreach
<b>Children services</b> <b>Social care services for children and Young People up to the age of 18</b>	
<b>Foster Care</b> Care capacity 2018  <b>301</b>  2017 [301] Contribution to Group revenue 4.4% (2017 5.2%)	Split by: - Residential care of children and young people - Family assessments in the home
<b>Young People Residential Services</b> Care capacity 2017  <b>353</b>  2017 [284] Contribution to Group revenue 31.6% (2017 26.4%)	Split by: - Residential care of children and young people - Education services for children and young people
<b>Learning Services</b> Apprentices 2018  <b>266</b>  2017 [509] Contribution to Group revenue 1.4% (2017 6.2%)	Split by: - Pre employment programmes - Development programmes - Apprenticeships



## **EXTRAORDINARY QUALITY**

### **Quality and expertise**

Delivering quality to achieve positive outcomes for our individuals is at the heart of the organisation. Our approach is to employ well qualified and skilled professionals who can ensure that we consistently exceed the expectation of our service users, their families, social workers and commissioners.

### **Placing people in the care of organisations that you can trust**

The business of care is predicated on relationships, as much as it is on the practical support and guidance that we offer on a daily basis. Troubled children need the warmth and challenging support of their care workers while disabled adults make best progress within the trust that a great relationship brings.

We are also mindful that social workers will prefer to place people in the care of organisations that share their commitment to optimism for service users, that they can rely on and deliver outstanding value.

## **EXTRAORDINARY CHOICE**

We fundamentally believe in choice for all our clients and our determination to provide this choice in all our services is uppermost in our commercial thinking.

### **Client focused innovative care pathway approach**

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

### **Innovate care pathways**

One of the characteristics that differentiates CareTech from the average provider is our commitment to opportunity. Long before it became fashionable we introduced the concept of a Care Pathway to reflect our optimism that users of our services can make progress in their lives. We were never content to accept that someone in residential care should always be in residential care and developed alternatives at an early stage in our development as a Group.

## **EXTRAORDINARY GROWTH**

CareTech is a public company which operates throughout England, Scotland and Wales. Our target in the next few years is to continue to grow and to combine this with care excellence. We continue to consolidate in a growing and highly fragmented market.

### **National presence**

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

### **Strong brand**

Financial security, probity and reliability combine to offer confidence in the CareTech brand. We offer high quality services with a strong ethical and value base with the benefits of scale, operating within friendly and trusted local service businesses.

## **Group Chairman's Statement**

### **Celebrating 25 years in business**

As previous press releases have mentioned, the sad and untimely death of the Group Finance Director, Michael Hill, I wish to express my own thoughts on this tragic event.

I first met and started working with Michael in 2010. Michael very quickly became an integral part of the CareTech family and in the ensuing years, particularly throughout significant periods of growth in the Group and its structure, I came to rely on Michael's financial wisdom and his calmness during long periods of negotiations. His innate professionalism and exemplary work ethic was widely respected by his peers.

Michael had a charming and exuberant personality and was much loved both by all who worked for Caretech. He was a shining light in treating people with both fairness and compassion.

Michael was my good friend and colleague for over eight years and I will miss him.

### **Another successful year creating a transformational platform for further expansion**

I am privileged to present our results for the period ended 30 September 2018 being our 25<sup>th</sup> year in business. This is a real milestone for CareTech and has proven to be another exceptionally busy and successful year, with the key highlights being:

- Accelerated organic initiatives including property purchases and reconfigurations
- Further strengthening of our management team and investment in IT systems
- Strengthening of our Care Pathways and outcomes for our service users
- Improvement on CQC and OFSTED Quality Ratings across the Group
- Exciting initiatives and partnerships launched by the CareTech Charitable Foundation
- Agreed highly complementary and significantly accretive acquisition of Cambian Group plc

It is really pleasing to note that, over these years, we continue to maintain our position as a leading care provider with our improved quality ratings across the Group.

I am personally reminded of our very humble beginnings all the way back in 1993, from our very first home in 44 The Avenue, Watford. Having just completed the Cambian acquisition post year end, we now have a national presence with over 450 homes and schools in the UK with around 10,000 staff supporting some 4,500 vulnerable young people and adults. This has been an incredible journey that has only been possible due to the hard work and dedication of each and everyone one of our staff that make up the CareTech family!

As we celebrated our 4<sup>th</sup> year of our National Care Awards on the 23<sup>rd</sup> of November many of our staff were there and received acknowledgement and thanks for their hard work. Personally it was so touching to have one of the parents, whose son was placed in our second home known as Morven Park back in 1994, pay tribute to the company for the care and support provided to her son for the 17 years he was with us. We are pleased that we still have an active engagement with her after her son sadly passed away. It is a testament to the relationship we build with the nearest and dearest of those we support.

When we set up CareTech all those years ago our underlying vision was very simple.

We wanted to build the very best designed homes, furnish them to the highest of standards and match this with an innovative person centric care and support package. We wanted to be different and create a feeling that parents, carers, care managers felt so overwhelmed with our unique offering that they instantly wanted to move in themselves! We saw this reaction over many of the homes we opened and this created a buzz in the sector!

And so 25 years on, our underlying vision remains the same. We will endeavour to develop the best designed and furnished homes – ones that we would be happy to live in ourselves. Coupled with this we will provide the bespoke support for our service users as we would want to provide for our nearest and dearest. If we sincerely stick to these simple principles we will always be at the forefront of our industry and, as a result, the financial metrics will take care of themselves.

Accordingly below is a summary of our financial results for this year are where:-

- Revenue has increased by 11.9% to £185.7m
- Underlying EBITDA has increased by 10.0% to £43.9m
- Underlying profit before tax has increased by 11.9% to £32.9m
- Underlying basic EPS at 35.07p per share
- Net Assets increased by 2.0% to £208.2m (2017: £204.2m)
- Cash inflows from operating activities before non-underlying items of £39.1m (2017: £32.7m) with net debt <sup>(iii)</sup> of £147.0m (2017: £147.1m)
- Full year dividend increased by 13.6% to 7.5p

All of the above mentioned initiatives demonstrate a solid performance on delivery of both the key financial and non-financial metrics and put the Group in a strong position to target further underlying EPS growth going forward.

The results are especially pleasing as management have had an extremely busy year producing solid financial year on year metrics whilst

- continuing with a significant number of organic and reconfiguration initiatives
- *improving care quality ratings across all service segments*
- maintaining strong occupancy across the portfolio of homes
- achieving industry leading staff retention rates
- *completing post year end, the transformational and highly complementary and accretive acquisition of Cambian Group plc*
- *enlarged Group property portfolio valuation updated as part of the transaction at £774m*

Management have done extremely well to manage these various work streams whilst ensuring the core business moves forward on all fronts.

The Group has stood out from its peers as a company that can successfully combine quality, integrity and sound financial acumen and has consistently achieved good care quality ratings. Our credibility as the provider of choice has never been stronger and we continue our successful growth strategy with a confident outlook.

Continuing with our strong organic growth, once again the Group has purchased a number of properties including Red Rock, Thorngarth, and Oaklea. Further investment has also been made during the year on previous purchases with over £1.2m invested in Beacon Reach, a school run by ROC Northwest, and £1.1m on Hidelow school in Shropshire. All of these projects will deliver incremental earnings as they reach mature occupancy. Pleasingly, ROC Northwest has won the coveted Laing and Buisson Award in Social Care for Children's Services.

During 2018, we again closed several services for reconfiguration which impacted the growth in revenue. Offsetting this, there are improved fees following reconfiguration plus the impact of cost saving initiatives and the time and attendance system has further improved underlying EBITDA. The Group's organic development programme will continue with further reconfigurations and, for 2019 we have a strong pipeline of development

opportunities with one property purchased soon after the year end.

The Group continue to look at a number of other acquisition opportunities and are confident that there will be further opportunities in the coming year.

In the 13 years since joining AIM, the business has transformed from being very focused on supporting adults with a learning disability through residential and day care settings to one where today we cater for young people and children with complex needs across a range of settings, be it residential, supported living or community support. We focus on the most complex and vulnerable young people and the market for this client group stands at over £10bn. There is currently an undersupply of specialist beds in this niche area and the market is growing by almost 3% per annum.

Over the years we have developed a range of care pathways and helped many that we support to live more independently. This is a fantastic outcome for both us and the individuals that we support and it also helps local authorities meet the ever increasing cost of social care provision.

Shortly after the year end the Acquisition of Cambian Group plc was completed.

Cambian is a leading Children's specialist education and behavioural health service provider. The Cambian Group's services have a specific focus on Children who present high severity needs with challenging behaviours and complex care requirements. Cambian currently looks after over 2,000 children and employs over 4,500 people across a portfolio of 222 residential facilities, specialist schools and fostering offices located in England and Wales.

Even with the significant growth we have achieved to date, and also with the Cambian acquisition post year end, we still have less than 5% of this very large and fragmented market. With the increasing regulatory burden, the opportunity for further consolidation is even more attractive.

#### **Dividend**

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

In 2018 there was a slight reduction in underlying diluted earnings per share of (2.96p) mainly due to the share placement in March 2017, which increased the number of shares in issue. The Board has proposed a final dividend of 7.5p (2017: 6.60p) per share bringing the total dividend for the year to 11.0p (2017: 9.90p) per share. This represents a full year increase of 11.1% year on year. The final dividend will be paid, subject to shareholder approval, on 8 May 2019, with an ex-dividend date of 7 March 2019 and an associated record date of 8 March 2019.

#### **Our Board**

There have been no changes to the Board during the year. Providing the foundation for further growth, the Senior Executive Team at CareTech has been strengthened by a number of senior appointments during the year.

During the year the Remuneration Committee, the Audit Committee and the Care Governance and Safeguarding Committee were unchanged.

As stated in the prospectus accompanying the Cambian acquisition it is our intention to add two additional independent non-executive directors to the Board within three months of Completion of this acquisition. Alongside additional non-executive appointments it is expected that, following our acquisition of Purple Zest, Mike Adams will become an executive director of the Group.

#### **Our people**

We have completed our planned evolution into two well defined operating divisions, Children Services and Adult Services, and this has generated organisational efficiencies. Simplifying the structure has also supported planning and service delivery with a more powerful approach to development.

Our continuing growth, measurable success and forward-looking approach are a reflection of the hard work and dedication of staff and managers throughout the organisation. I am always drawn to the achievements of our excellent front line staff, which is inevitable as we are first and foremost a care organisation. Their care and commitment would be much less without the dedicated support of our administrators and support teams whose hard work and energy is critical to the success of our Company and the care we provide.

In March 2016, the Company announced the creation of the CareTech Sharesave Scheme, a Government supported method for any of our staff to have the opportunity to participate in the Company's equity. In October 2017, we announced a second CareTech Sharesave Scheme and 259 members of staff chose to join this new saving scheme. We plan to introduce another CareTech Sharesave Scheme early in 2019 as this is one part of our staff retention strategy.

With the launch of the CareTech Charitable Foundation in May 2017 I am pleased that we were able to support members of the CareTech family even more. The Foundation has ambitious and clear sighted objectives to deliver meaningful impact to communities in the UK and overseas about which the staff of the Group and its service users feel proud and strongly-engaged, providing a unique contribution to the charitable marketplace consistent with the Group's values and approach.

### **Post Balance Sheet Events – Acquisition of Cambian Group plc and new Banking facilities**

As mentioned in my report above, I am extremely pleased to report that we completed the Acquisition of Cambian Group plc on 19 October 2018 following the Rule 2.7 Offer on 16 August 2018 and the Prospectus on 19 September 2018.

Work began on this Project at the beginning of the year and after several approaches and considerable due diligence it was pleasing to issue the Rule 2.7 Offer in August.

This offer could only be made with Shareholder Support, Banking Support and the agreement of the Cambian Board of Directors.

Shareholder support through Rule 2.4 Irrevocable Undertakings in July to the revised possible offer was important to being able to make a Recommended Offer for Cambian Group plc in August. The Rule 2.7 Offer was made with 9 Irrevocable Undertakings from Cambian plc Shareholders plus the Directors and 2 CareTech Holdings PLC Shareholders plus the Directors. I am very grateful for the support of our shareholders during this acquisition. I also welcome to the enlarged Group the new CareTech Shareholders who were Cambian Shareholders that took the Headline Offer.

Financing support was provided by Lloyds Bank PLC and National Westminster Bank PLC as Mandated Lead Arrangers who provided a Term and Revolving Facilities Agreement with total commitments of £438.7m in support to the Rule 2.7 Offer. Subsequently this was successfully syndicated and the final Bank draw down was £427.1m. I am grateful to the Banks for their backing.

The Board of Cambian Group plc played a key role in professionally dealing with our approaches and working well with the CareTech team during the due diligence process.

Now that the acquisition has completed we are working with the Competition and Markets Authority and planning I.T. integration. This is an exciting phase post acquisition and in the coming months I look forward to meeting more members of the Cambian team when I visit services.

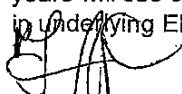
### **Outlook and Prospects**

We operate in a growing social care market worth over £10 billion per annum and we are well positioned to meet market demand. We have developed outcome based care pathways which deliver value based services for our Local Authority partners.

With the new long term Banking facilities and solid free cash flow generated from the enlarged Group, we look forward to the integration of Cambian during 2019.

Their focus on children who present high severity needs with challenging behaviours and complex care requirements is an excellent fit alongside the CareTech Children's services, and this extension of current care pathways and geographic presence is a major opportunity to the enlarged Group.

We have major investment plans for 2019 and beyond with key new organic developments and bolt-on acquisitions. Importantly, we also continue to see how we can enhance further, the use of technology as a validation of our work as well as for diagnostic and assessment purposes, whilst exploring international market opportunities and in particular the GCC. We will further strengthen our management team offering a forceful blend of experience, commercial wisdom and dedication to care. I have no doubt that the next few years will see continuing growth and care excellence which will help deliver our target of double digit growth in underlying EPS.



**Farouq Sheikh**  
Group Executive Chairman

## Strategic Report

The Directors present their Strategic Report on the Group for the year ended 30 September 2018. In preparing this report, the Directors have complied with S414C of the Companies Act 2006. The Strategic Report should be read in conjunction with the Strategic Review for the Group which includes the Highlights, Group at a glance, Chairman's Statement, Strategic Report, the Chief Executive's Statement and Performance Review and Financial Review.

### Creating sustainable value in our markets

#### Our Market

The care market in which the Group operates is a UK market worth an estimated £10bn per annum across the *Adult Services for adults over the age of 18 and Children Services for children and young people up to the age of 18.*

*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". CareTech has been aligned to this set of purchasing principals and we work closely with commissioners to ensure that we stay in tune with their approach to market management.*

Most providers of social care have fewer than three services and this huge, fragmented range of providers dominates 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. Numerically the large providers will have a very small minority of the market capacity and all the evidence suggests that consolidation will continue, perhaps accelerate, during the foreseeable future.

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. One response has been to move money away from the NHS in order to allow local authorities greater purchasing power. However, the most significant change has been to a system of aggressive rationing. This has focused money on the areas of highest need such as complex children, very disabled or complex people with learning difficulties and hospital discharge schemes. This is where CareTech has developed its provision and helps to explain why spending cuts have had minimal impact on the Group.

<b>*Adult Services</b>	
<b>Adult Learning Disabilities</b> <ul style="list-style-type: none"> <li>- Residential care</li> <li>- Independent supported living</li> <li>- Community support services</li> </ul>	<b>Specialist Services</b> <ul style="list-style-type: none"> <li>- Residential care</li> <li>- Independent supported living</li> <li>- Community outreach</li> </ul>
<b>People</b>  <b>78,000 in the UK cannot live independently</b>	<b>People</b>  <b>13% of the UK population have specific mental disorders</b>
<b>Market for residential learning disabilities and supported living worth an annual</b>  <b>£5.8bn</b>	<b>NHS/LA total spend on specialist services is worth an annual</b>  <b>£10.1bn</b>

**\*\*Children Services**

<b>Foster Care</b> <ul style="list-style-type: none"> <li>- Fostering</li> <li>- Family assessments in the home</li> </ul>	<b>Young People Residential Services</b> <ul style="list-style-type: none"> <li>- Residential care of children and young people</li> <li>- Education services for children and young people</li> </ul>
<b>People</b> <b>51,850</b> <b>Placed in foster care in England</b>	<b>People</b> <b>10,085</b> <b>Children in UK looked after outside foster care</b>
<b>Foster Care market across England worth</b> <b>£1.57bn</b>	<b>Residential children's market across UK worth</b> <b>£1.39bn</b>
<b>Market growth rate</b> <b>1.5% pa</b>	<b>Market growth rate</b> <b>1.2% pa</b>

\*Data from Laing and Buisson Adult Specialist Care 2<sup>nd</sup> edition 2015/2016 report

\*\*Data from Laing and Buisson Children's Services Market Report 3<sup>rd</sup> edition 2017 report



## **A strategy to drive future growth**

Our Business Model represents how we aim to generate revenue and profit from our operations.

### **Our Business Model**

The Group aims to operate throughout mainland Britain in England, Wales and Scotland in partnership with local authorities and the NHS, facilitating the outsourcing process, driving value and removing risk.

During the period, the Group continued to develop and grow organically four existing operating divisions, which come under the two outcome-based sectors of Adult Services and Children Services. These four operating divisions are supported by the Learning Services Division. The growth going forward is underpinned by the strong starting position that we have built carefully over the past few years. We continue to extend both our geographic coverage and our outcome based Care Pathway range of services organically and through the purchase and sale of properties to meet the needs of our marketplace, specifically the requirement for greater acuity service provision. This ensures that CareTech is in a very strong position to address the demands of our evolving marketplace.

### **Our resources**

The key resources that we require to provide care are:

#### **People to provide care**

Staff and carers who have appropriate skills and qualities to look after children or adults in need of care and who remain fully trained.

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

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

#### **Buildings, homes and land**

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

#### **Financial resources**

Financial stability to be able to employ the right staff and to provide the right land and buildings.

### **Setting out our key strategic priorities**

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

### **Our strategy**

Our understanding of the social care market and our relationships with local authority commissioners is vital to our strategy. We are sensitive to the complex financial position that local authorities are in and their need to have trusted business partners who can help them deliver statutory duties efficiently and with care.

#### **Social Care expertise**

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

**High quality**

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

**Nationwide locations**

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

**Excellent reputation**

The CareTech brand is strong and our extensive relationships across the UK are 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.*

**High occupancy**

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

**Continued growth**

It is well known that demographic trends show growth in social care in the foreseeable future.

**Shareholder value**

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

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

<p>Underlying EBITDA</p> <p><b>£43.9m</b></p> <p>(2017: £39.9m)</p>	<p><b>How this is calculated</b></p> <p>Underlying EBITDA is the Earnings before Interest, Tax and Depreciation for the year excluding non-underlying items such as amortisation of intangible assets which are fully described in note 5 to the Financial Statements.</p> <p><b>Performance this year</b></p> <p>The underlying EBITDA has improved by £4.0m - 10% year on year. This reflects the organic growth achieved by the core business which has been in part reduced by the reconfiguration work on some properties, improved margins and acquisitions.</p>
<p>Underlying profit after tax and non controlling interest</p> <p><b>£26.5m</b></p> <p>(2017: £26.6m)</p>	<p><b>How this is calculated</b></p> <p>Underlying is the Group's profit after provision for taxation excluding non-underlying items such as amortisation of intangible assets after tax which are fully described in note 5 to the Financial Statements.</p> <p><b>Performance this year</b></p> <p>The underlying profit after tax is 0.4% lower than 2017. This reflects the improved underlying EBITDA, but with higher finance charges and an increased tax provision the profit after tax fell slightly.</p>
<p>Underlying basic EPS</p> <p><b>35.07p</b></p> <p>(2017: 38.03p)</p>	<p><b>How this is calculated</b></p> <p>Underlying basic earnings per share is the profit after tax divided by the weighted number of ordinary shares which are fully described in notes 10 and 11 to the Financial Statements.</p> <p><b>Performance this year</b></p> <p>The underlying basic earnings per share has reduced to 35.07p mainly due to the full impact of the shares issued in March 2017.</p>
<p>Net Debt</p> <p><b>£147.0m</b></p> <p>(2017: £147.1m)</p>	<p><b>How this is calculated</b></p> <p>Net Debt is defined in the Group's banking facilities and comprises the balance at the year-end for cash and cash equivalents net of bank loans outstanding and finance lease and hire purchase contract monies outstanding to the Group's bankers. It does not include the finance lease obligations as calculated under IAS 17 arising from the ground rent transaction which is not owed to the Group's bankers.</p> <p><b>Performance this year</b></p> <p>Bank debt at 30 September 2018 was £147.0m which is a reduction of £0.1m from 30 September 2017 of £147.1m. Finance leases with the Group's bankers at the year-end were £4.7m (2017 £6.0m) with the decrease due principally to the lease repayments net of the new investment in 36 new home vehicles during the year, which take our fleet to 480 vehicles. Net Debt in total reduced by £0.1m between 30 September 2017 and 30 September 2018.</p>

<p>Capacity</p> <p><b>2,622 places</b></p> <p>(2017: 2,534 places)</p>	<p><b>How this is calculated</b></p> <p>The Group's capacity is the total number of Adult Service and Children Service 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.</p> <p><b>Performance this year</b></p> <p>Overall capacity has increased by 88 which is 3.4% increase.</p> <p>Adult Learning new homes increased capacity by 69. There were 69 new beds in Children's and 50 beds were withdrawn for reconfiguration.</p>
<p>Mature Estate Occupancy</p> <p><b>93%</b></p> <p>(2017:93%)</p>	<p><b>How this is calculated</b></p> <p>The Mature Estate Occupancy is the total number of Adult and Children Service Users placed in services that were open throughout the year.</p> <p><b>Performance this year</b></p> <p>The ratio has remained unchanged at 93% and reflects the long length of stay that the majority of service users have in our services.</p>
<p>Blended occupancy</p> <p><b>86%</b></p> <p>(2017:86%)</p>	<p><b>How this is calculated</b></p> <p>Blended occupancy is the total number of Adult and Children Service Users actually placed as a percentage of the Group's total capacity and so reflects facilities undergoing development and reconfiguration.</p> <p><b>Performance this year</b></p> <p>The ratio has remained at 86% and reflects the additional beds in reconfigured services brought back into capacity and the reduction in those withdrawn for reconfiguration plus new beds coming into service.</p>

## **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 Company will be held to blame. To date this has not occurred but we take the 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 Company 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 risk and mitigating risk**

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

We have thoroughly reviewed our operations. The Group trades only within the UK and has no foreign exchange exposure. *We have limited exposure to nursing staff and the E.U. labour market.* Our primary recruitment is focused on the UK labour market for support staff and the recruitment of new staff is the factor that we are managing and we continue to monitor closely.

In 2017 the Apprenticeship Levy was introduced and we are confident that the Learning Division through DHA is well placed to take full advantage of the new market structure.

## **Our risks**

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

The market for the provision of social care services continues to be dynamic, presenting both risks and opportunities. 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.

### **• Service offer and user needs**

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

- **Quality and safety**

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

- **Service value**

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

- **Reputation**

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

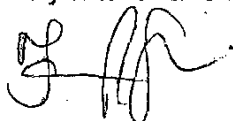
- **Growth funding**

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

- **Manage debt**

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

**By order of the Board**



Farouq Sheikh  
Group Executive Chairman

## Group Chief Executive's Statement and Performance Review

### A strong foundation built over 25 years

#### Overview

I am pleased to report again on a successful year that reflects the hard work of our management team, the enthusiasm of our staff and the support of our Board.

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

The Group has also continued to develop through organic growth and reconfigurations and has further strengthened an experienced management team with skilled leaders.

In 2017, I was extremely proud with the establishment of the CareTech Charitable Foundation which is devoted to supporting the social care sector. There have been a number of key long term projects started in the year both in the UK and abroad. This is further discussed in the Corporate Social Responsibility section of the report.

There have been a number of staff initiatives to aid retention including the second Sharesave Scheme and a Level 5 in Care Management training scheme for Managers.

On 19 October 2018 the recommended acquisition of Cambian by the Group was completed. I would like to take this opportunity to welcome Anne Marie Carrie as Chief Operating Officer, and the whole Cambian staff team, as well as the 2,000 children who use their services, to the CareTech Group.

I strongly believe that the CareTech offerings in learning difficulties and specialist services for adults including residential services and fostering for young people, is highly complementary to Cambian's positions in children's residential care, specialist education and therapeutic fostering. Furthermore the geographic reach of the services has been broadened, now providing a nationwide network.

We are now ideally positioned to better serve local authority partners and communities with an integrated care offering, to provide best value to purchasers and successful outcomes for our service users.

#### Consolidation and creating new opportunities

CareTech remains at the forefront of social care outsourcing in the UK across both Children and Adult services and, in the year, there has been a further increase in working closely with commissioners and regulators.

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

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

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

#### Communication

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

as the Regulators.

### **Independence**

- In our social care and health contracts we aim to help our service users to return to an ordinary independent life. It may be children who can return to their birth families or live independently. It may be adults who we can help on the pathway to recovery following a specialist services breakdown, or acquired brain injury or people with learning disability who we can support towards independent living.

### **Housing care and support**

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

### **Self-directed support**

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

### **Quality and dignity**

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

### **Progress in the year**

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

Overall capacity has increased by 88, with a net 19 in Adult Services whilst Childrens Services have added 69 beds in the year principally in 9 services.

The Group also continues to realise the benefit of organisational improvements put in place over the past few years. We have continued to strengthen our management structure with further senior appointments planned and to improve the efficiency of our processes following further investment in new systems which have gone live or we are working on now. We are seeing the benefits of new executive appointments which continue to have a positive impact across the services.

New systems were procured during the year for the Group's recruitment and training solutions including e-learning with standard automated reports as well as for maintenance, hosting, data analytics and e-compliance in order to benefit from cutting edge technology.

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



## Care Pathway Range and Services

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

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

We remain committed to the growth of residential care solutions for adults and children with the most complex needs and the Group has embraced the development of home based solutions including foster care where demand for more specialist services remains strong. Our residential care services for children cater for young people with particularly difficult issues and offer a national service; with strong growth seen in the North of England with ROC Northwest which has expanded both in care and educational services. In the year we have purchased properties in Scotland and North West England for both Spark of Genius and ROC Northwest to develop into new services. Our adult services offer a solid and reliable provision across the whole spectrum of service offerings which now includes acquired brain injuries and we see a particular volume demand in the area of supported living, balanced by renewed demand for more specialised residential care solutions.

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

## Overview of progress

Our focus during the past year has continued to be further building on the businesses which established the Care Pathways whilst introducing innovative new solutions to meet the challenges faced by care commissioners and then adding newly acquired businesses with complementary offerings.

Capacity has increased by 88 places principally because we have continued to reconfigure services and added new beds through acquiring properties. Occupancy levels within our mature services remain at a creditable 93%, or 86% when taking into account our services under development and transition.

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

Personalisation to us means recognising people as individuals who have strengths and preferences and putting them at the centre of their own care and support.

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

Our two business divisions of Adult Services and Children Services comprise the following four Care Pathways and our Learning Services division.

1. Adult Learning Disabilities  
Year to 30 September 2018

Revenue	£101.0m (2017: £87.7m)
Contribution to Group Revenue	54.4% (2017: 52.9%)
Underlying EBITDA before unallocated costs	£27.0m (2017: £26.3m)
Capacity	1,754 (2017: 1,735)

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

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

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

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

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

During the past year we have withdrawn 50 places in services for reconfiguration into new care models and have developed 26 beds through reconfiguration plus an additional 43 beds have been brought into service.

2. Specialist Services  
Year to 30 September 2018

Revenue	£15.3m (2017: £15.5m)
Contribution to Group Revenue	8.2% (2017: 9.3%)
Underlying EBITDA before unallocated costs	£4.4m (2017: £3.9m)
Capacity	214 (2017: 214)

Specialist Services comprise the Adult Mental Health Services and Oakleaf Care (Hartwell).

Capacity is unchanged in Specialist Services during the year.

The principal reason for the increase in underlying EBITDA is an improved Margin.

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

The adult services for this Care Pathway include a community based hospital, adult residential care homes, independent supported living and community outreach with some transitional services transferred within the Group.

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

The growth of social care is certain and the response by Government to one of the key difficulties is progressing. There has been some progress in the removal of large numbers of learning disabled people from the controversial "Treatment and Assessment Centres" operating at various locations throughout the UK. CareTech has never operated any centres of this type but we understand that the CEO of NHS England has been tasked with ensuring that these centres are re-provided as a matter of urgency. CareTech is seeking opportunities to support the project and to offer a comprehensive solution within its community homes.

We are well positioned for expansion in Specialist Services and have a sustainable infrastructure to deliver growth including plans to provide care for women with acquired brain injury in 2019.

### 3. Foster Care Year to 30 September 2018

Revenue	£8.2m (2017: £8.6m)
Contribution to Group Revenue	4.4% (2017: 5.2%)
Underlying EBITDA before unallocated costs	£1.9m (2017: £1.9m)
Capacity	301 (2017: 301)

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

The unchanged capacity, and fall in revenue but stable underlying EBITDA in Foster Care is due to the competitive nature of the market as well the change to family assessments in the home. It is also due to capacity being reported on the basis of the children that carers are able to look after rather than the number that they are approved for.

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

In March 2016, 63,718 were looked after in foster care in the UK. Over time independent agencies have absorbed a larger proportion of fostering activity, as local authorities have seen their volumes remain static and their share fall. (LaingBuisson Children's Services Market Report Third Edition 2017).

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

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

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

Demand for foster care has increased overall but we have noted an increasing trend among some local authorities to make provision in-house for all but the most complex children. In our view this is an expensive and unsustainable approach that exposes local authority commissioners to risk. Our own services are being maintained at an acceptable level.

In October 2017 the All Wales Framework for the provision of foster care services outcome was that TLC (Wales) was ranked 1 and was placed in the New Tier 1. Unfortunately, the benefits of this change are taking longer to come through and turnover last year was lower than anticipated, although the margin improved by over 1% due to tight cost controls.

Looking forward, we are training our foster carers with the skills required to manage more complex work and have linked the fostering division with our residential team for children so that we can maintain an effective care pathway.

#### 4. Young People Residential Services Year to 30 September 2018

Revenue	£58.7m (2017: £43.8m)
Contribution to Group Revenue	31.6% (2017: 26.4%)
Underlying EBITDA before unallocated costs	£17.0m (2017: £13.2m)
Capacity	353 (2017: 284)

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

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

In December 2015 ROC Northwest was added and gave a further geographic spread to fit between the current Children residential services in Scotland (Spark of Genius and ACAD). North Wales (Brans Isaf) and South Wales (Greenfield) and services in Staffordshire and Yorkshire. It also strengthened the residential care and education services for young people with complex needs, especially EBD.

In the year this segment benefited from new services which have added 69 beds to capacity with additions to Spark of Genius, ROC Northwest and the original Childrens services.

Spark of Genius which provides significant benefits across the division due to their well-established education facilities across Scotland and North East England which complement the ROC Northwest and Welsh education facilities. In the year the Education capacity increased by 69 to close at 353 Young People.

At the Laing Buisson Awards in November 2017 the winners in Social Care for Children's Services was ROC Northwest.

Children residential services have been growing as our reputation for quality care and support spreads. We are currently developing new beds and places that have been commissioned during the past year.

5. Learning Services  
Year to 30 September 2018

Revenue	£2.5m (2017: £10.4m)
Contribution to Group Revenue	1.4% (2017: 6.2%)
Underlying EBITDA before unallocated costs	£0.5m (2017: £0.9m)

Learning Services comprises Dawn Hodge Associates that is a regional provider specialising in the social care sector and was acquired in 2017. This division has been reconfigured and as a result turnover has reduced and there has been an impairment to goodwill of £2m. However, it is anticipated that the current year will show an improved performance once the changes made have taken affect.

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

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

Progress has been made in identifying the potential for Learning Services to add value to CareTech's attraction and recruitment of staff and their retention, helping new employees gain the skills and qualifications to grow a successful career in care through an Apprenticeship.

The Aspire programme developed as a unique and innovative scheme that will ensure all CareTech's support workers receive mandatory and statutory training to the highest standard whilst also being offered the opportunity to complete a Level 2 or Level 3 Apprenticeship which has been carefully tailored to suit their role and 140 completed this apprenticeship in the last academic year.

CareTech apprentices continue their training with 266 CareTech support workers undertaking the apprenticeship programme.

*The Team Leader programme has 22 staff members on Level 5 programmes.*

In early 2016 Dawn Hodge Associates retained its Ofsted "Outstanding" which is an achievement that we are very pleased to have attained and provides an excellent base to build upon.

During 2017 with the introduction of the Apprenticeship Levy there have been significant changes to the Learning sector, but we believe that we are well placed to take advantage of the new market conditions.

However, the Learning Service Division faced a challenging start to the new Learning sector year. A reorganisation of the management of the division was undertaken and the budget for the rest of 2019 is expected to show an improvement on last year.

#### **Acquisition of Cambian**

As we have outlined in the prospectus the two businesses will be run with the CareTech and Cambian brands retained and with no material change to CareTech's or Cambian's current operational sites. Over the coming months a dedicated plan to review the two businesses will be undertaken with limited disruption to the underlying operations of each business.

Within the enlarged Group the CareTech operations come under John Ivers, Chief Operating Officer of CareTech. Anne Marie Carrie leads the Cambian operations as Chief Operating Officer of Cambian and both John and Anne Marie report to me as Group Chief Executive Officer.

I am looking forward to utilising fully the operational expertise across the enlarged Group which will enable the creation of a robust and sustainable operating model to better serve local authority partners and service users. The combined operational expertise will be able to deliver strong service user outcomes, implement positive staff engagement and improve care quality. In particular, through the combination, Cambian should be able to leverage CareTech's highly developed recruitment and retention functions, which have contributed to CareTech achieving staff turnover rates of 22.5% which I believe is substantially better than the sector average.

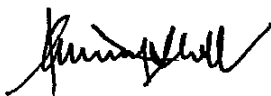
There is also the opportunity for CareTech's Learning Services division, which assists young people in obtaining employment opportunities and apprenticeships, to augment Cambian's service and care pathway.

### **Outlook**

The coming year shows every sign of being good for health and social care providers and especially for those *with an established reputation for quality and innovation.*

This year there has been significant policy development and we see some indicators that local authorities have recognised the need to maintain, or grow, their social care budgets.

May I also take this opportunity to welcome all staff who have joined the CareTech family and also would like to thank all of the staff teams across the Group for their hard work and commitment during the past year.



**Haroon Sheikh**  
Group Chief Executive Officer

## Corporate Social Responsibility

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

Established during 2017, the CareTech Foundation is an independent grant-making corporate foundation registered with the Charity Commission. Funded and founded by the Group, the Foundation has an independent Board of trustees responsible for delivering its Charitable Objects. The Foundation has ambitious and clear-sighted objectives to deliver meaningful impact to communities in the UK and overseas about which the staff of the Group and its service users feel proud and strongly engaged, providing a unique contribution to the charitable marketplace consistent with the Group's values and approach.

In the year to September 2018 the Group made charitable donations through the Charity Foundation of £380,000 (2017: £4,970).

The CareTech Foundation is the first corporate foundation in the UK social care sector, demonstrating the company's commitment to wider society and to its staff and its desire to play a strong leadership role within the social care sector.

The CareTech Charitable Foundation's work is focused on the following three key objectives:

- 1) *Physical and learning disabilities and Specialist Services.* Supporting disabled people and those with long-term health difficulties, including those with Specialist Services conditions and complex physical and learning disabilities.
- 2) *Skills development for the care sector.* Skills development for those from deprived and disadvantaged backgrounds for careers in the care sector.
- 3) *Supporting our communities and the CareTech family.* Developing an ambitious corporate social responsibility programme in partnership with the Group, supporting the family and friends of the Group's staff facing significant financial, health or similar challenges.

The Foundation's focus is devoted to supporting those in need in the UK and in developing countries overseas.

The CareTech Charitable Foundation delivers its key objectives through the following key approaches:

- **Partnership Grant-giving.** The CareTech Charitable Foundation supports a small number of significant partnerships with credible and 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 on 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.
- **Responsible Business.** Strengthening the Group's strong track record in recognising its responsibilities to the environment and communities in which it operates, the Foundation is funded to bring together and enhance the Company's responsible business activities. In particular, the Foundation seeks to mobilise a significant staff volunteering programme, building a portfolio of high-quality and credible opportunities available to staff and relevant to the skills of the business staff and the local communities in which the Group operates.
- **Match-funding.** The Foundation provides match-funding to CareTech staff's individual fundraising efforts for charitable causes in line with the Foundation's Charitable Objects.

- **Family & Friends grants.** Modest funding support will be available through the Foundation to support the family and friends of CareTech staff facing significant challenges over the above that properly covered by virtue of staff members' employment contracts.

#### **We care about our service users**

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

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

The further expansion of our Care Pathway strategy seeks to provide our service users with "whole of life" solutions to their needs, maximising independence where possible by encouraging education, promoting choice, being proactive with family members, providing training for employment where feasible and nurturing personal ambition where helpful. In the year we have been celebrating the achievements of our service users across the country, they have been busy creating art pieces for an Art Competition and the finalists are having another series of local awards presentations with a national presentation in November 2018 following the successes in 2015, 2016 and 2017.

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

#### **We care about the environment**

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

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

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

#### **We care about our staff**

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

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

In early December 2015 we held our first staff awards ceremony with 10 categories for staff and staff teams across each Division. Large events were held in November 2016 and 2017 and the fourth care awards ceremony was in November 2018.

Out of a total of 5,560 staff at the end of September 2018, 69% are female and equal opportunity for all remains at the heart of our recruitment policies and the diversity of our workforce bears this out. We value our staff at all levels and work closely with them through our robust human resources department to foster consultation in all matters, ensure fair pay for all, maximise conditions of service and facilitate flexible working where feasible.



The Staff Engagement Survey which took place in 2017 and involved all staff and looked at values and questions across five engagement drivers. The feedback has led to a Communication Plan that will lead to improved communication across the Group.

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

Our Sharesave share option scheme had been launched in March 2016 with a plan to offer new invitations regularly and to be available to all our employees. Over 200 staff participated in the 3 year scheme launched in 2016. We have repeated the sharesave option scheme in October 2017 with a further 259 staff participating in the new 3 year scheme. It is proposed to launch another scheme in early 2019. This participation, along with regular senior management share option awards, contributes to the fulfilment of our desire to reward staff for loyalty, diligence and commitment to high standards of service.

### **We care about quality and safety**

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

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

Regulation is vigorously applied with routine and regular inspections being made by the Care Quality Commission ("CQC") and Ofsted in England and the services are regulated by the Care and Social Services Inspectorate Wales ("CSSIW") in Wales and by the Care Inspectorate for Scotland.

We continue to resource our own highly experienced internal quality and compliance teams which undertake a programme of regular inspection and assessment and give constructive feedback backed by training and supervision if the requirement is there. We engage the services of outsourced expert advisers ensuring best practice and procedures are maintained.

### **We care about our communities**

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

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

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

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

### **Outlook**

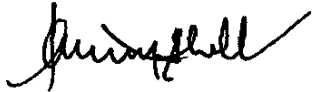
The coming year shows every sign of being good for health and social care providers and especially for those with an established reputation for quality and innovation.

This year there has been significant policy development and we see some indicators that local authorities have recognised the need to maintain, or grow their social care budgets.

In our view we are in a period in which consolidation will again feature strongly within the corporate sector and we are alert to quality opportunities that may arise. However, we are mindful about acquisition and have robust criteria which must be satisfied to ensure that any acquired business fits our long term strategic objectives.

This has been another progressive year for CareTech and I am indebted to the strong management team who have overseen the provision of diligent and tailored services in what has been a challenging environment for the care sector.

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

A handwritten signature in black ink, appearing to read 'Haroon Sheikh', with a stylized flourish at the end.

**Haroon Sheikh**  
Group Chief Executive Officer

## Group Financial Review

I am delighted that this year marks CareTech's 25<sup>th</sup> year in business looking after service users.

The Group has continued to make good progress in 2018.

In October 2018 after the year end, the Group completed the acquisition of Cambian and also has put in place new Banking facilities to provide stability for the coming years.

These results reported are for the CareTech operations only and in 2019 the results will reflect the *Enlarged Group including the Cambian operations*.

### Results

Underlying operating profit improved by 10.5% at £37.8m compared with £34.2m last year. Until 2013 the Group had been making strategic acquisitions to gain market share and extend the care pathway range of services. Since 2013 the focus had been on both organic development and cost efficiencies as well as acquisitions. With two share placements, improved banking facilities and a Ground Rent fund transaction the Group has raised £87m which has been used for acquisitions with five completed in the last four years.

Underlying basic earnings per share are 35.07p (2017: 38.03p). In the year underlying profit before taxation increased by 11.9% to £32.9m and underlying profit after tax has risen by 1.9% to £27.1m (2017: £26.6m) due in part to the increase in the effective tax rate. The weighted average number of diluted shares rose to 75.7m (2017: 70.1m) being an increase of 8.0%. Basic earnings per share decreased by 44.8% to 14.07p (2017: 25.48p) and profit after tax attributable to the owners of the parent reduced by 40.3% to £10.6m (2017: £17.8m).

Cash inflows from operating activities before tax and non-underlying items paid were £39.1m (2017: £32.7m), an increase of 19.6%. Net debt to the Group's bankers at the year end of £147.0m has reduced by £0.1m for the year (2017: £147.1m).

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

**Table 1 –Condensed Income Statement before non-underlying items**

	2018 £m	2017 £m	Growth
Revenue	185.7	166.0	11.9%
Gross profit	65.3	59.9	
Administrative expenses excluding depreciation and share based payments	(21.4)	(20.0)	
Underlying EBITDA	43.9	39.9	10.0%
Underlying EBITDA margin	23.6%	24.0%	
Depreciation	(5.9)	(5.5)	
Share-based payments charge	(0.2)	(0.2)	
Underlying operating profit	37.8	34.2	10.5%
Net financial expenses	(4.9)	(4.8)	
Underlying profit before tax	32.9	29.4	11.9%
Underlying taxation	(5.8)	(2.8)	
Underlying effective tax rate	17.5%	9.3%	
Underlying profit for the year	27.1	26.6	
Non-controlling interest	(0.6)	-	
Weighted average number of diluted shares (millions)	75.7	70.1	
Underlying basic earnings per share	35.07p	38.03p	
Full year dividend per share	11.00p	9.90p	

## Revenue

Revenue of £185.7m (2017: £166.0m) was 11.9% higher than in 2017.

In the established Adult Learning Disabilities segment we continued to experience high levels of occupancy and reported 86% occupancy at 30 September 2018. When this is blended with the facilities that are being reconfigured and so are under development, the overall occupancy level during the second half of the year and at 30 September 2018 was 86% of capacity (September 2017: 86%). As in recent years the demand for residential services continues to be encouraging for high acuity users.

As set out in the Chief Executive's statement and note 4 to these accounts, we are again reporting segmental information for the financial year and last year, which includes information on client capacity and revenue for each segment.

The continued development of our care pathways and a growing range of service options has led to the proportion of Adult services revenue rising from 62.2% in 2017 to 62.6% in 2018 and underlying EBITDA before Group Costs moving from 65.3% in 2017 to 61.8% in 2018.

The Young People Residential services total revenue has risen by 34% with Specialist Services falling by 1.1%, Foster Care falling by 4.7% and Learning Services by 76%. Their total proportion of the EBITDA before Group costs has moved from 34.6% in 2017 to 38.2% in 2018 due mainly to the new services opening in the Young People Residential services.

**Table 2 - Revenue**

	2018	2018	2017	2017
	Revenue	Underlying EBITDA	Revenue	Underlying EBITDA
	£m	£m	£m	£m
Adult Learning Disabilities	101.0	27.0	87.7	26.3
Specialist Services	15.3	4.4	15.5	3.9
Adults Services	116.3	31.4	103.2	30.2
Young People Residential Services	58.7	17.0	43.8	13.2
Foster Care	8.2	1.9	8.6	1.9
Learning Services	2.5	0.5	10.4	0.9
Childrens Services	69.4	19.4	62.8	16.0
Less unallocated Group costs	-	(6.9)	-	(6.3)
	185.7	43.9	166.0	39.9

## Underlying EBITDA and total EBITDA

Underlying EBITDA has grown by 10% from £39.9m in 2017 to £43.9m in 2018. Underlying EBITDA margin has decreased from 24% to 23.6% mainly due to the margin in the total of the acquired businesses being at a lower rate than the other businesses, and the growth in services businesses that require little capital expenditure like Foster Care and the Learning Division.

The Adult Learning Disabilities, Specialist Services and Young People Residential Services segments have higher margins but normally require considerable capital expenditure to increase capacity, whilst Supported Living, Foster Care and Learning Services operate at a lower margin in part because they do not require capital expenditure to increase capacity and are not reliant on the Group's properties.

Administrative expenses, before depreciation and share-based payments charges were £21.4m (2017: £20.0m) and increased by £1.4m during the year. In 2017 they represented 12.0% of Group revenue and in 2018 this reduced to 11.5% of Group revenue.

There has been a further considerable effort in the year to tighten administrative expenses with further back office systems centralisation and procurement successes for the Group.

The reconfiguration of services is a central part of the Board's strategy to grow organically. It enhances average fee rates and maintains the Group's reputation as a provider of highest quality of care.

In the year there has also been a continued focus on purchasing properties which are then converted to new services.

The number of employees in management and administration has reduced by 40. The Time and Attendance system has been implemented across all of the residential services in the year which will further our back office centralisation and ensure that staff are paid more accurately and quickly, as well as giving reliable data on staff rotas and attendance in each service. A new integrated Recruitment system has been implemented in the year.

Total EBITDA has increased from £36.4m in 2017 to £40.2m in 2018.

### **Operating profit and profit before tax**

The depreciation charge is £5.9m (2017: £5.5m) and reflects the investment in land and buildings, motor vehicles and fixtures, fittings and equipment.

After this charge and the share-based payments, underlying operating profit grew 10.5% to £37.8m (2017: £34.2m).

Total operating profit reduced by £2.5m to £20.2m (2017: £22.7m).

Net underlying financial expenses increased to £4.9m (2017: £4.8m) due to additional finance leases taken out on new home vehicles during the year.

Underlying profit for the year improved to £27.1m (2017: £26.6m).

Total profit before tax decreased by 8.4% to £15.4m (2017: £16.8m).

### **Taxation and diluted earnings per share**

The effective underlying tax rate was 17.5% (2017: 9.3%) and reflects management's expectations of future capital investment through organic developments and reconfigurations relative to available capital allowances and the impact of the reduction in the main rate of corporation tax in the year, whilst last year also had the release of a provision for tax no longer required.

The weighted average number of shares in issue rose by 8.1% mainly due to the share placement in March 2017. The underlying basic earnings per share fell to 35.07p in 2018 from 38.03p in 2017.

Basic earnings per share reduced by 44.8% to 14.07p (2017: 25.48p)

### **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 in line with the increase in underlying operating profit and increase to 7.5p per share (2017: 6.60p), bringing the total dividend for the year to 11.00p (2017: 9.90p), a growth of 11.1%. Dividend cover for 2018, based upon diluted earnings per share before non-underlying items is 3.19 times (2017: 3.84 times).

### Non-underlying items

As fully explained on the face of the Consolidated Statement of Comprehensive Income and in note 5, the Directors have separately disclosed a number of non-underlying items in order to improve understanding of the underlying trading performance achieved by the Group. Total non-underlying items represent a net charge of £17.6m at operating level (2017: £11.5m) and the principal items are the amortisation of intangible assets and integration and reorganisation costs plus costs of the acquisition.

### Cash flow and net debt

The cash flow statement and movement in net debt to the Group's bankers for the year is summarised below:

	2018	2017
	£m	£m
Underlying EBITDA	43.9	39.9
(Increase) in working capital	(4.8)	(7.2)
Cash inflows from operating activities before non-underlying items	39.1	32.7
Tax paid	(4.1)	(6.3)
Interest paid	(4.7)	(5.0)
Dividends paid	(7.5)	(5.9)
Acquisitions and capital expenditure	(17.1)	(36.4)
Share Placement	-	37.4
Cash flow before adjustments	5.7	16.5
Non-underlying cashflows including derivative financial instruments	(5.6)	(7.2)
Movement in net debt to the Group's bankers	0.1	9.3
Opening net debt to the Group's bankers	(147.1)	(156.4)
Closing net debt to the Group's bankers	(147.0)	(147.1)

Net debt to the Group's bankers at 30 September 2018 of £147.0m (2017: £147.1m) has decreased by £0.1m during the financial year, with an investment of £17.1m in acquisitions and capital improvements during the year.

### Operating cash flows before non-underlying items

The £39.1m (2017: £32.7m) cash inflow from operating activities, before non-underlying items, represents 89% (2017: 82%) underlying EBITDA cash conversion ratio.

### Interest and dividend cash flows

Interest paid of £4.7m (2017: £5.0m) is reflective of the financial expenses per the Consolidated Statement of Comprehensive Income, whilst dividends paid are consistent with the relevant section earlier in the review.

## Acquisitions and capital expenditure

During the year we invested total funds of £17.1m (2017: £36.4m) on capital expenditure. The Group acquired Purple Zest Limited in July 2018 for a total consideration of £0.1m in cash.

Capital expenditure of £15.9m (2017: £17.7m) includes £10.9m to update our portfolio of assets.

## Banking arrangements for the Group for the year

The Group had entered into new Banking facilities with Lloyds Bank plc and National Westminster Bank plc for committed financing by way of term loans of between 3.5 to 5 years up to £334m and a short term bridge loan of approx. £80m. The short bridge loan was repaid in November 2018 following completion using principally Cambian's significant cash position.

In addition to the Term Loans and Bridge Loan, a £25m revolving credit facility is available to provide working capital for the Enlarged Group and an uncommitted accordion facility of up to £30m for general Corporate and Working Capital purposes (including acquisitions).

The new facilities of the Term Loans and Bridge Loan with an aggregate size up to £414m have been utilised for the cash consideration of the acquisition, following the repayment of the Group's existing bank debt facilities of approx. £150m and the payment of debt financing fees of up to approx. £6m. The amount available for the draw down under the Term Loans was reduced in the event that the actual cash consideration payable under the transaction was less than £253m.

As part of the Acquisition, in September 2018 the Group's property portfolio was revalued by Cushman and Wakefield and the market value was £424m. The Cambian Group plc property portfolio was revalued by Knight Frank and the market value was £350m.

Following completion of the Acquisition, Lloyds Bank plc and Nat West Markets plc, who had underwritten the funding, completed the syndication of the Term Loans and revolving credit facility successfully. The syndication was significantly oversubscribed showing strong support for both the Group and the acquisition.

The final 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 and Credit Suisse AG, in addition to Lloyds Bank plc and National Westminster Bank plc.

The Enlarged Group loan to value based only on the property valuations is c42% whilst the proforma net debt to EBITDA of the Enlarged Group is 4.3x which is expected to reduce to under 4x in the short term.

## Post Balance Sheet Events

In October 2018 there were a group of related Post Balance Sheet Events.

There was the Acquisition effected by way of a Court Sanctioned Scheme under Part 26 of the Companies Act whereby the Group became the holder of the entire issued and to be issued share capital of Cambian Group plc. The Acquisition completed following the Admission of the Enlarged Share Capital to trading on AIM on 19 October 2018. The Headline Offer for each Cambian share was 100p in cash and 0.267 of a new CareTech Share; alternatively the Full Cash Alternative for each Cambian share was 190p in cash.

The majority of the Cambian Shareholders took the Headline Offer and so became shareholders in the Enlarged Group with 33.2m new shares in the Group being issued. There was also the financing of the acquisition which is discussed above.

## **Outlook**

The Group is now in a better position than ever before to continue its growth as a pioneering provider of specialist social care services in a UK market which is continuing to grow yet remains fragmented.

A handwritten signature in black ink, appearing to read 'F. Sheikh', with a long, sweeping horizontal stroke extending to the right.

**Farouq Sheikh**  
Executive Group Chairman



## Board of Directors

### 1- Farouq Sheikh Group Executive Chairman (aged 60)

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

Farouq is a leading business entrepreneur, philanthropist and investor within the UK. Farouq has initiated and overseen the successful equity investments and the subsequent exits for 3i Group PLC (in 1996 and 2002) and Barclays Private Equity (in 2002 and 2005). His intimate knowledge of the marketplace, and his commercial and negotiating expertise assisted in the Group's growth. Under his stewardship, CareTech's basic underlying earnings per share has grown significantly from 4.1p in 2005 to 35.07p in the current financial year.

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

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

Farouq was a Founder Trustee of the CareTech Charitable Foundation formed in 2017.

### 2- Haroon Sheikh BSc Group Chief Executive Officer (aged 62)

Haroon Sheikh, a London University graduate, is one of the UK's leading entrepreneurs, philanthropists and community figureheads and one of the founders of CareTech. Haroon brings commercial acumen, related industry experience and property knowledge which has been essential in the growth of the business. As Chief Executive Officer, he is actively involved in the day-to-day running of the business and over time has been instrumental in nurturing and supporting the senior management team, bringing together disciplines in care, commerce and property. He has a deep commitment and passion to delivering high-quality care and support to people with a learning disability.

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

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

Haroon's most recent social enterprise was establishing the COSARAF Charitable Foundation to benefit communities and individuals in the UK and abroad. As trustee for International Development, Haroon established the COSARAF Feeding Project which supports the feeding of over 1500 women and children daily as well as supporting education and water projects in various rural villages across Africa and Asia.

Haroon was a Founder Trustee of the CareTech Charitable Foundation formed in 2017 and is Chairman of the Trustees.

### 3- Karl Monaghan Non-Executive Director (aged 56)

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.

4- Dr. Mike Adams OBE Non-Executive Director (aged 47)

Mike has a significant track record in the social care, health and disability sectors. He is currently CEO of Purple Zest Limited, a disability organisation that supports both disabled people and businesses. 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 Governments 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.

Mike became a Trustee of the CareTech Charitable Foundation in 2017.

5- Jamie Cumming Non- Executive Director (aged 68)

Jamie Cumming 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 Canter Fitzgerald Europe, Jamie has significant experience in working with small and mid-sized UK companies. Jamie currently utilizes 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.

## Corporate Governance Report

### Do we comply with the UK Corporate Governance Code?

CareTech is incorporated in England (Registration Number 4457287) which is also currently its sole country of operation.

As a company admitted to trading on AIM, the Company is not required to comply with a particular corporate governance code. However, it is required to provide details of any corporate governance code that it has decided to apply and state how it complies with that code.

The CareTech Board remains committed to achieving the highest standards of integrity, ethics, professionalism and business practice throughout its operations. Accordingly, the CareTech Directors have chosen to report against the UK Corporate Governance Code published in July 2018 ("UK Corporate Governance Code"). Whilst the Company does not comply with the Corporate Governance Code in full, the Company does comply with a number of areas as set out below:

#### **HOW THE COMPANY COMPLIES WITH THE UK CORPORATE GOVERNANCE CODE**

<b>SECTION OF THE UK CORPORATE GOVERNANCE CODE</b>	<b>HOW THE COMPANY COMPLIES WITH THE UK CORPORATE GOVERNANCE CODE</b>
<b><i>Board leadership and company purpose</i></b> A successful company is led by an effective and entrepreneurial board, whose role is to promote the long-term sustainable success of the company, generating value for shareholders and contributing to wider society.  The board should establish the company's purpose, values and strategy, and satisfy itself that these and its culture are aligned. All directors must act with integrity, lead by example and promote the desired culture.  The board should ensure that the necessary resources are in place for the company to meet its objectives and measure performance against them. The board should also establish a framework of prudent and effective controls, which enable risk to be assessed and managed.	Details of CareTech's Board are set out on pages 40 and 41. The CareTech Board has collective responsibility for the management, strategic direction and performance of the Company. The CareTech Board provides leadership within a framework of prudent and effective controls seeking to enable risk to be appropriately assessed and managed.  The CareTech 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 to return 75.5 pence per ordinary shares to Shareholders. The CareTech Group has also had direct involvement in a variety of community-based programmes further improving the CareTech Group's service reputation and helping to foster a strengthened relationship with local authorities.

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In order for the company to meet its responsibilities to shareholders and stakeholders, the board should ensure effective engagement with, and encourage participation from, these parties.

The board should ensure that workforce policies and practices are consistent with the company's values and support its long-term sustainable success. The workforce should be able to raise any matters of concern.

CareTech's key strategic priorities include a continual focus on improving the quality and scope of its business, increasing market share and growing shareholder value. The CareTech Board recognises that key to achieving its strategy is the attraction and retention of talented and committed personnel at every level of the organisational hierarchy and the CareTech Board have put in place policies and procedures to achieve this. The CareTech Board ensures that the CareTech Group is appropriately funded to deliver its strategy. The CareTech Board appreciates that effective communication and engagement with the Company's shareholders and the investment community as a whole is a key objective. The views of both institutional and private shareholders are important. The Group Executive Chairman has overall responsibility for ensuring this communication is effectively conveyed and for making the CareTech Board fully aware of key shareholders' views, comments and opinions. Contact with investors throughout the year is a priority and the CareTech Board strives to look after their interests. General presentations to major shareholders following the publication of the CareTech Group's annual and interim results are conducted by the Group Executive Chairman and the Group Finance Director as are regular meetings through the year with fund managers and investment analysts.

Effective communication with employees and care commissioners is also vital to achievement of the CareTech Group's strategy. The CareTech Group has a number of initiatives and policies to engage its employees through training and development, supervision, recognition of

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achievement through staff awards, staff engagement surveys and development of a communication plan. The CareTech Board believe that its workforce policies, including its in-house training and HR systems support the CareTech Group's focus on the provision of quality services and allow for sustainable growth. The CareTech 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 CareTech Group's quality ratings, which are above the industry average. The CareTech Board also believe the CareTech Group's sales and marketing function have established strong relationships with care commissioners and regulators and actively strives to maintain these relationships. Being a socially responsible organisation with a focus on ethical standards aligned with economic objectives remains a core aim. The CareTech Directors believe 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 CareTech Group's framework of controls includes identification and management of any conflicts of interests. The CareTech 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 CareTech's success. In addition, the CareTech Directors can

impose limits or conditions when giving authorisation if they think this is appropriate. It remains the CareTech Board's intention to report annually on the Company's procedures for ensuring that the CareTech Board's power of authorisation in respect of conflicts is operated effectively and that procedures have been followed.

### ***Division of Responsibilities***

The chair leads the board and is responsible for its overall effectiveness in directing the company. They should demonstrate objective judgement throughout their tenure and promote a culture of openness and debate. In addition, the chair facilitates constructive board relations and the effective contribution of all non-executive directors, and ensures that directors receive accurate, timely and clear information.

The board should include an appropriate combination of executive and non-executive (and, in particular, independent non-executive) directors, such that no one individual or small group of individuals dominates the board's decision-making. There should be a clear division of responsibilities between the leadership of the board and the executive leadership of the company's business.

Non-executive directors should have sufficient time to meet their board responsibilities. They should provide constructive challenge, strategic guidance, offer specialist advice and hold management to account.

As Group Executive Chairman, Farouq Sheikh leads the CareTech Board and is responsible for its effective running. The Group Chief Executive is Haroon Sheikh (brother of Farouq Sheikh) and Karl Monaghan, the Senior Independent Director, Mike Adams and Jamie Cumming are the CareTech Group's three Non-Executive Directors. Both Karl Monaghan and Jamie Cumming are considered to be independent. Although Karl Monaghan has served on the CareTech Board for more than nine years, the CareTech Board are satisfied that there are no matters which affects the independence of his judgment and as such that Karl continues to act independently.

The CareTech Board has identified areas around board composition whereby it currently does not comply with the UK Corporate Governance Code:

1. The Group Executive Chairman of the board is not independent; and
2. At least half the board, excluding the Group Executive Chairman, are not independent non-executive directors.

Collectively, the Non-Executive Directors bring a valuable range of expertise and experience in assisting the CareTech Group to achieve its strategic aims and provide constructive challenge

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The board, supported by the company secretary, should ensure that it has the policies, processes, information, time and resources it needs in order to function effectively and efficiently.

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

The CareTech Board have identified areas where it intends to strengthen its corporate governance. In particular the CareTech Board intends to appoint at least two additional non- executive directors within three months of Completion. Alongside these appointments, it is also intended that Mike Adams will become an executive director of CareTech. Mike is chief executive officer of Purple Zest Limited which has received an investment from CareTech for a 60 per cent. shareholding in Purple Zest Limited.

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

***Group Executive Chairman***

Overall leadership of the Board;

Ensuring the Board as a whole plays a full part in the development and determination of the

- CareTech Group's strategic objectives;
- Ensuring the effectiveness of the CareTech Board;
- Setting the agenda and tone for the CareTech Board;
- Ensuring the Board receives accurate, timely and clear information;

- Responsibility for reviewing and agreeing the training and development needs of CareTech Board members; and
- Promoting the highest standards of integrity, probity and corporate governance throughout the Company and particularly at CareTech Board level.

***Group Chief Executive Officer***

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

***Senior Independent non-executive director***

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



#### ***Non-executive directors collectively***

- Constructively challenging the executive directors; and
- Oversight of the delivery of the Company's strategy within the risk and control frameworks.

#### ***Company Secretary***

- Ensuring all Board and Committee meetings are properly held;
- Assisting the Group Executive Chairman and Group Chief Executive Officer in ensuring the directors are provided with all relevant information;
- Organising directors' training requirements; and
- Maintaining the Group's governance and compliance with the AIM Rules for Companies.
- Details of the CareTech Board's committees, including the audit committee, remuneration committee and the care governance and safeguarding committee are set out on pages 57-58.

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#### ***Composition, succession and evaluation***

Appointments to the board should be subject to a formal, rigorous and transparent procedure, and an effective succession plan should be maintained for board and senior management. Both appointments and succession plans should be based on merit and objective criteria and, within this context, should promote diversity of gender, social and ethnic backgrounds, cognitive and personal strengths.

Matters are delegated to Board Committees, individual Directors or executive management where appropriate. To date, given the stage of the CareTech Group's development, it has been felt the functions of a Nominations Committee can be adequately fulfilled by deliberation of the full CareTech Board; this will nevertheless be kept under review. When the need for additional Non-Executive Directors are identified, the CareTech Board appoints advisers to nominate experienced relevant and appropriate candidates. Currently

The board and its committees should have a combination of skills, experience and knowledge. Consideration should be given to the length of service of the board as a whole and membership regularly refreshed.

Annual evaluation of the board should consider its composition, diversity and how effectively members work together to achieve objectives. Individual evaluation should demonstrate whether each director continues to contribute effectively.

CareTech Board members meet the candidates and come to a collective view on appointments.

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

Whilst the performance of each the CareTech Directors is kept under review, no formal evaluation is currently conducted by CareTech

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#### ***Audit, risk and internal control***

The board should establish formal and transparent policies and procedures to ensure the independence and effectiveness of internal and external audit functions and satisfy itself on the integrity of financial and narrative statements.

The board should present a fair, balanced and understandable assessment of the company's position and prospects.

The board should establish procedures to manage risk, oversee the internal control framework, and determine the nature and extent of the principal risks the company is willing to take in order to achieve its long-term strategic objectives.

- The CareTech Board has established an audit committee, details of which are set out on page 56.
- The Committee meets at least twice each year and receives reports from the Company's management and external auditor relating to the annual and interim accounts and the accounting and internal control systems throughout the Group. The Committee has direct and unrestricted access to the external auditor and reviews all services being provided by them to evaluate their independence and objectivity, taking into consideration relevant professional and regulatory requirements in order to ensure that said independence and objectivity are not impaired by the provision of permissible, non-audit services. The Committee has carefully considered the level of non-audit services and has concluded that this does not impact on the independence of the auditors.

- The CareTech Board is ultimately responsible for the CareTech 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 an absolute assurance against material misstatement or loss.
- The CareTech Directors consider robust risk management to be crucial to the CareTech 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 CareTech Group. Risks facing the CareTech Group are described on pages 20 to 21 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 CareTech Board.
- A process of control and hierarchical reporting provides for a documented and auditable trail of accountability. These procedures are relevant across all CareTech Group operations; they provide

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for successive assurances to be given at increasingly higher levels of management and, finally, to the Board.

- The new General Data Protection Regulations (GDPR) 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 CareTech Group.
- The processes used by the CareTech Board to review the effectiveness of the system of internal controls include the following:
  - annual budgets are prepared for each operating business. Monthly management reporting focuses on actual performance against these budgets for each operating business;
  - management reports and external audit reports on the system of internal controls and any material control weaknesses that are identified;
  - discussions with management including those on the actions taken on problem areas identified by CareTech 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; and
  - review of the adequacy of the level of experienced and professional staff throughout the business and the expertise of individual staff members so that they are capable of carrying out their

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individual delegated responsibilities; and  
– review of the external audit work plans.

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### **Remuneration**

Remuneration policies and practices should be designed to support strategy and promote long-term sustainable success. Executive remuneration should be aligned to company purpose and values, and be clearly linked to the successful delivery of the company's long-term strategy.

A formal and transparent procedure for developing policy on executive remuneration and determining director and senior management remuneration should be established. No director should be involved in deciding their own remuneration outcome.

Directors should exercise independent judgement and discretion when authorising remuneration outcomes, taking account of company and individual performance, and wider circumstances.

The composition and role of the Remuneration Committee is described below on page 56 and includes details of CareTech Directors' remuneration, shareholdings and share options scheme information. A key CareTech Group strategy is to attract and retain talented and committed personnel at every level of the organisational hierarchy and the Remuneration Committee aims to foster remuneration philosophy, policies and procedures to achieve this.

The CareTech Group operates in a highly competitive environment. For the CareTech 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 CareTech Group. In 2017, Deloitte LLP 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 CareTech 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

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should be aligned with the interests of shareholders. The remuneration strategy is designed to be in line with the CareTech Group's fundamental values of fairness, competitiveness and to support the CareTech 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 CareTech Group's strategic goals.*

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

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

The CareTech Board meets in formal session regularly, usually once each month, and members are supplied with financial and operational information in good time for scrutiny in advance of these meetings. The CareTech Board holds other board meetings specifically for significant transactions involving raising money like a ground rent transaction, or spending money like a significant acquisition.

The CareTech 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 CareTech that they are reserved to the CareTech 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; and
- shareholder communications.

The CareTech 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 CareTech that they are reserved to the CareTech 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; and
- shareholder communications.

## Who is on our Board?

As Group Executive Chairman, Farouq Sheikh leads the Board and is responsible for its effective running. The Group Chief Executive is Haroon Sheikh. The Directors' biographies appear on pages 40 to 41 and detail their experience and suitability for leading and managing the Group.

Farouq Sheikh as Group Executive Chairman leads the company's strategic development and takes a special responsibility in respect of acquisitions and investor relations.

Haroon Sheikh is the Group Chief Executive and accountable to the Board for the day to running of the company as well as management of the strategic plan.

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

Karl Monaghan is a member of both the Audit Committee (Chairman) and Care Governance and Safeguarding Committee and the Remuneration Committee.

Mike Adams OBE is a member of the Audit Committee and the Remuneration Committee, as well as the Care Governance and Safeguarding Committee (Chairman).

Jamie Cumming is a member of the Audit Committee and Care Governance and Safeguarding Committee as well as the Remuneration Committee (Chairman).

Gareth Dufton has been appointed as Interim Group Finance Director following the death of Michael Hill.

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

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

## How do we deal with conflicts of interest?

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

## Board and Committee meetings

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

The Directors attended the following meetings in the year to 30 September 2018:

	Board	Audit Committee	Remuneration Committee	Care Governance & Safeguarding Committee
Farouq Sheikh	14	-	*1	-
Haroon Sheikh	14	-	-	-
Michael Hill	14	*2	*4	-
Karl Monaghan	14	2	4	2
Mike Adams	13	2	4	3
Jamie Cumming	14	2	4	3
* by invitation				

The Board holds other Board Meetings specifically for significant transactions like the Cambian acquisition and its financing.



## **What decision-making responsibilities does the Board have?**

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

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

Matters are delegated to Board Committees, individual Directors or executive management where appropriate. The Directors believe the Board is soundly constituted although, at this stage of the Group's development, it is felt the functions of a Nominations Committee can be adequately fulfilled by deliberation of the full Board; this will nevertheless be kept under review. When the need for an additional Non-Executive Director is identified the Board appoints advisors to nominate experienced relevant and appropriate candidates. Board members meet the candidates and come to a collective view on appointments.

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

The Audit Committee comprises Karl Monaghan (Chairman), Mike Adams and Jamie Cumming. The Group Finance Director and representatives of the external auditor attend meetings by invitation as required. The committee meets at least twice each year and is responsible for making recommendations to the Board on the appointment of auditors and the audit fee for reviewing the conduct and control of the annual audit fee; for reviewing the conduct and control of the annual audit and for reviewing the internal financial controls.

The Committee has direct and unrestricted access to the external auditor and reviews all services being provided by them to evaluate their independence and objectivity, taking into consideration relevant professional and regulatory requirements in order to ensure that said independence and objectivity are not impaired by the provision of permissible, non-audit services. The Committee has carefully considered the level of non-audit services and have concluded that this does not impact on the independence of the auditors. Details of the amount paid to the external auditor during the year, for audit and other services, are set out in note 6 to the financial statements.

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

The composition and role of the Remuneration Committee is set out in the Remuneration Report on pages 63 to 65. Also detailed in that report are Directors' remuneration, shareholdings and share options scheme information.

The committee will review the performance of executive directors and set the scale and structure of their remuneration. The committee will review the basis of the executive service agreements with due regard to the interests of shareholders and determine from time to time the allocation of share options to employees.

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

The Group operates in a highly competitive environment. For the Group to continue to compete successfully, it is essential that the level of remuneration and benefits offered achieve the objectives of attracting, retaining, motivating and rewarding the necessary high calibre of individuals at all levels across the Group. In 2017 Deloitte LLP 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.

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

The Care Governance and Safeguarding Committee is chaired by Mike Adams and the other members of the Board Committee are Karl Monaghan and Jamie Cumming plus the Chief Operating Officer John Ivers and the Director of Compliance and Regulation Amanda Sherlock.

The committee will closely examine and pursue improvement to all matters relating to care governance and the safeguarding of those we support.

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

The Group has always been regarded as a careful and thoughtful provider of care and the Committee was formed to closely examine and pursue improvements to all matters relating to the care governance and the safeguarding of those we support, including health and safety, across the Group. Last year it included external attendees to its meetings such as the Head of Safeguarding for Hertfordshire County Council and received external presentations such as Conflict Management from Maybo to help the Committee understand best practice and in 2017 met with CQC.

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

The Group has 144 adult services regulated by the Care Quality Commission (CQC) who assess the services against approved essential standards of quality and safety. The regulators test and publicly record whether services are compliant or non-compliant against those standards.

The new monitoring system has four levels of CQC reporting outcomes and has been applied so far by CQC to all of our Adult Services. The National distribution across the four outcomes is shown in the table below with 96% of services being either "Good" or "Requires Improvement" is a service which has a requirement that needs to improve to achieve good. Above "Good" is Outstanding for 3% of services and below is "Inadequate"

for 1%. For the Group's services the published reports are as follows with the services in the outcomes as set out:-

Ratings	Outstanding	Good	Requires Improvement	Inadequate
National	3%	79%	17%	1%
CareTech	1%	85%	13%	1%

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

Our Children division is regulated by the Office for Standards in Education (Ofsted) in England and these services are rated as Outstanding or Good under the old monitoring system. Since April 2017 for Residential Services there is no longer an overall rating and services are rated under three domains and the Group has had 15 published reports. The Fostering services in England are regulated by Ofsted Outstanding and all three services are rated Good. In Wales the services are regulated by the Care and Social Services Inspectorate Wales (CSSIW) and are not currently rated on any form of scale. The Care Inspectorate of Scotland who regulate both Adults and Children 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.

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

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

## Have we maintained an effective relationship with our shareholders?

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

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

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

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

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

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

## How do we manage our internal controls and risks?

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

The recent challenging business climate has resulted in a sustained focus on the approach to risk. The Directors consider robust risk management to be crucial to the Group's success and give a high priority to ensuring that adequate systems are in place to evaluate and limit risk exposure. They have overseen the further development of processes and procedures for identifying, analysing and managing the significant risks faced by the Group. These risks have been discussed in the Strategic Report on page 14 to 21. These processes have been implemented during the year under review and up to the date of approval of this annual report and financial statements. The processes and procedures are regularly reviewed by the Board.

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

In 2018 there have been changes to the governance of data and the new General Data Protection Regulations (G.D.P.R.) changed how the Group manages, protects and administers data. A team of Senior Managers looked at 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;
- discussions with management including discussions on the actions taken on problem areas identified by Board members or in the external audit reports;
- policies and procedures for such matters as delegation of authorities, capital expenditure and treasury management as well as regular updates;
- review of the adequacy of the level of experienced and professional staff throughout the business and the expertise of individual staff members so that they are capable of carrying out their individual delegated responsibilities; and
- review of the external audit work plans.

By order of the Board



**Farouq Sheikh**  
Executive Group Chairman

## Directors' Report

The Directors present their report and the audited Group financial statements for the year ended 30 September 2018.

### Business review and future developments

The consolidated statement of comprehensive income detailed on page 74 sets out the Group's financial results for the year.

Key performance indicators are set out in the "Highlights" on page 3.

### 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 14 to 21.

### Dividends

Dividends of £7.5m have been paid during the year. The Directors propose a final dividend of 7.5p per share (2017: 6.60p) subject to the approval at the forthcoming Annual General Meeting.

### Share listing

The Company's ordinary shares are admitted to and traded on AIM, a market operated by the London Stock Exchange. Further information regarding the Company's share capital, including movements during the year are set out in note 21 to the financial statements.

### Financial instruments

The Group is exposed to a combination of price, credit, interest rate and cash flow risks. The Group uses financial instruments including cash, borrowings and interest rate swaps, the main purpose of which are to raise finance for the Group's activities and to manage interest rate risks. Disclosures in respect of these instruments are set out in note 24 to the financial statements.

### Employees

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

The Group established new sharesave share option schemes for eligible employees in both 2016 and 2017, details of which can be found in note 20 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 6 March 2018 the Directors were granted authority to allot shares with an aggregate nominal value of up to the value of one third of the share capital of the Company.

*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.*

### Substantial shareholdings

As at 6 December 2018, being the date of the preliminary results announcement, the Company had been notified of, or was otherwise aware of, the following substantial interests of 3% or more in the ordinary share capital of the Company, other than those in respect of the Directors which are set out in the Remuneration Report on page 64.

	No. of Ordinary shares of 0.5p	Percentage %
Lion Asset Mgt	15,035,845	13.81
Richard I Griffiths (Guernsey)	10,576,972	9.71
Teleos Capital Partners (Zug)	9,236,241	8.48
1798 Volantis(London)	8,089,515	7.43
Hof Hoomeman Bankiers (Netherlands)	6,410,400	5.89
Canaccord Genuity Wealth Mgt (London)	6,360,969	5.84
Majedie Asset Mgt (London)	3,657,412	3.36

### Directors

The names of the current Directors together with brief biographical details are shown on pages 40 to 41.

In accordance with the articles of association, M Adams and J Cumming retire by rotation and, being eligible, offer themselves for re-election.

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

Farouq Sheikh  
Haroon Sheikh  
Karl Monaghan  
Mike Adams  
Michael Hill  
Jamie Cumming

With effect from 10 December 2018 Gareth Dufton has been appointed as Interim Group Finance Director. It is expected that he will join the Board on an interim basis in due course.

The terms of the Directors' service contracts and details of the Directors' interests in the shares of the Company, together with details of share options granted and any other awards made to the Directors, are disclosed in the Remuneration Report commencing on page 63.

### Directors' insurance

### **Directors' insurance**

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

### **Post Balance Sheet Events**

In October 2018 the Group completed the Acquisition of the Cambian Group plc when the admission of the Enlarged Share Capital of the Group to trading on AIM occurred.

In August 2018 the Group had entered a new committed Term and Revolving Facilities Agreement with its Bankers which enabled it to make the recommended offer for Cambian Group plc. Following completion the committed facility was syndicated and the monies drawn totalling £322m under the term loan. This was utilised to clear the existing Bank facilities and also the Cambian Shareholders.

On 22 November 2018 an interim dividend of 3.50p per share was paid to shareholders.

### **Going concern**

After making appropriate enquiries and reviewing the year end balance sheet position, the Directors have reasonable expectations that the Group is well placed to manage its business risks successfully and has adequate resources to continue in operational existence for at least the next 12 months. The Group has prepared detailed budgets and cash flow forecasts and have considered the capital and working capital requirements. There are a number of Banking Covenants which ratchet depending upon time and Group performance. The Directors forecast that including the Cambian Group plc that they are able to meet all banking covenants which are reviewed regularly. For this reason the Directors continue to adopt the going concern basis for the Enlarged Group in preparing the financial statements.

### **Auditor**

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

By order of the Board



**Farouq Sheikh**  
Group Executive Chairman

Metropolitan House  
3 Darkes Lane  
Potters Bar  
Hertfordshire EN6 1AG

## Remuneration Report

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

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

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

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

### Remuneration Policy

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

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

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

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

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

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

In 2017 Deloitte LLP were commissioned to prepare a Benchmarking report which provided for each benchmarking group a quartile analysis of the different elements of pay for a number of management roles and non-executive director roles.

Bonuses were paid in the year 2017/18 regarding the financial years 2016 and 2017 to Executive Directors and were triggered by the achievement of Underlying EBITDA targets.

The potential Bonus for the financial year 2018 will be triggered by Underlying EBITDA and also comprises other measures of quality, EPS and occupancy.



## Remuneration Report (continued)

### Directors' service agreements

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

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

### Directors Remuneration (audited)

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

Year to 30 September	Salary & Fees		Benefits		Annual Bonus		Total		Pension	
	2018	2017	2018	2017	2018	2017	2018	2017	2018	2017
	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000
<b>Current Directors</b>										
Farouq Sheikh	396	336	21	22	315	77	732	435		
Haroon Sheikh	453	326	58	52	283	52	794	430		
Karl Monaghan	53	50					53	50		
Mike Adams	42	40					42	40		
Michael Hill	278	211	26	21	180	37	484	269	30	12
Jamie Cumming	42	40					42	40		
<b>Total</b>	<b>1,264</b>	<b>1,003</b>	<b>105</b>	<b>95</b>	<b>778</b>	<b>166</b>	<b>2,147</b>	<b>1,264</b>	<b>30</b>	<b>12</b>

### 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 2018	30 September 2017
	Number of Ordinary 0.5p Shares	Number of Ordinary 0.5p Shares
Westminster Holdings Limited (1)	9,763,519	9,763,519
Cosaraf Pension Fund (2)	170,000	170,000
Farouq Sheikh	638,919	638,919
Haroon Sheikh	690,226	690,226
Michael Hill	137,405	137,405
Karl Monaghan	34,250	34,250
Mike Adams	2,145	2,300

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

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

#### **Directors' share options and Sharesave options**

Farouq Sheikh, Haroon Sheikh and Michael Hill had owned 285,000, 380,000 and 166,250 ordinary shares of 0.5p respectively under the Group's Executive Shared Ownership Plan established in April 2012 which completed the three year period in April 2017 (see note 20). As part of the placing announced on 22 March 2017, Farouq Sheikh, Haroon Sheikh and Michael Hill have each now taken sole ownership of 153,919, 205,226 and 89,786 ordinary shares. These ordinary shares were included in a 12 month lock-in covering in aggregate, 2% of the Company's issued share capital which has now expired.

On 29 March 2017 the Group's Executive Shared Ownership Plan 2017 was created. Farouq Sheikh, Haroon Sheikh and Michael Hill own 320,000, 320,000 and 189,000 ordinary shares of 0.5p respectively under the Group's Executive Shared Ownership Plan 2017 (see note 20).

On 17 March 2017 the Company granted options in aggregate over 474,581 ordinary shares pursuant to the CareTech Holdings PLC Sharesave Scheme 2017. It is a 3 year contract with a start date of 1 May 2017 with options exercisable at a price of 194 pence per share between 1 May 2019 and 31 October 2019. Within the options described above, there were options granted to Farouq Sheikh, Haroon Sheikh and Michael Hill of 9,278 each under the Sharesave Scheme.

On 17 October 2017 the Company granted options in aggregate over 254,681 ordinary shares pursuant to the CareTech Holdings PLC Sharesave scheme 2017. It is a 3 year contract with a start date of 1 December 2017 with options exercisable at a price of 308 pence per share between 1 December 2020 and 31 May 2021. Farouq Sheikh, Haroon Sheikh and Michael Hill did not participate in the sharesave scheme 2017 as they already save £500 a month under the sharesave scheme 2017 and this is a HMRC limit.

None of the Directors have any other share options in the Company.

By order of the Board



**Jamie Cumming**  
Chairman of the Remuneration Committee

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

## Statement of Directors' Responsibilities

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

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

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

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

The Directors confirm that:

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

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

By order of the Board



**Farouq Sheikh**  
Group Executive Chairman

Metropolitan House  
3 Darkes Lane  
Potters Bar  
Hertfordshire EN6 1AG

## **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 2018 which comprise the Consolidated Statement of Comprehensive Income, the Consolidated Statement of Financial Position, the Consolidated Statement of Changes in Equity, the Consolidated Statement of Cash Flow, the Company Statement of Financial Position, the Company Statement of Changes in Equity, the Company Statement of Cash Flow, notes to the financial statements and company 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 Financial Reporting Standards (IFRSs) as adopted by the European Union and, as regards the parent company financial statements, as applied in accordance with the provisions of the Companies Act 2006.

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 2018 and of the group's profit for the year then ended;
- the group financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union;
- *the parent company financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union and as applied in accordance with the provisions of the Companies Act 2006; and*
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

#### **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.*

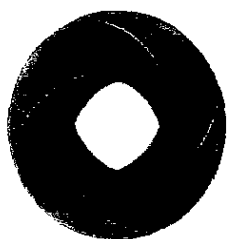
#### **Who we are reporting to**

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.

#### **Conclusions relating to going concern**

We have nothing to report in respect of the following matters in relation to which the ISAs (UK) require us to report to you where:

- the directors' use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the directors have not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the group's or the parent company's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.



### Overview of our audit approach

- Overall materiality: £1,760,000, which represents 4% of the group's underlying EBITDA;
- Key audit matters were identified as occurrence of revenue, capitalisation of plant, property and equipment and the validity of capitalisation of development costs;
- We performed a full scope audit of the financial information of the UK head office, in respect of the parent company and the group consolidation; and
- There were no key changes in the scope of the audit from the prior year.

### Key audit matters

Key audit matters are those matters that, in our professional judgment, 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.

We did not identify any Key Audit Matters relating to the audit of the financial statements of the parent company.

Key Audit Matters - Group	How the matter was addressed in the audit - Group
<p>Occurrence of revenue</p> <p>Revenue is comprised of a number of different revenue streams, including the provision of care services, fostering services and learning services.</p> <p>Under International Standard on Auditing (UK) 240 'The Auditor's Responsibilities Relating to Fraud in an Audit of Financial Statements', there is a rebuttable presumed risk that revenue may be misstated due to fraud.</p> <p>There are a significant number of service users and sites within the group. Due to the manual nature of the information on which billing and credit notes are based on, we identified occurrence of revenue as a significant risk, which was one of the most significant assessed risks of material misstatement.</p>	<p>Our audit work included, but was not restricted to:</p> <ul style="list-style-type: none"> <li>• considered the revenue recognition policies to check these were appropriately applied to the revenue streams and to ensure compliance with applicable accounting standards;</li> <li>• evaluating the design and implementation of key controls around the revenue cycle including the admissions and discharge process for service users;</li> <li>• for a sample of both new and existing service users, we agreed the receipt of revenue to remittance advice from Local Authorities;</li> <li>• completing substantive analytical procedures on revenue based on occupancy numbers across the group to identify unusual trends in the year; and</li> <li>• selecting and testing a sample of credit notes raised during the year and</li> </ul>

Key Audit Matters - Group	How the matter was addressed in the audit - Group
	<p>subsequent to the year-end to confirm there was no gross up of revenues.</p> <p>The group's accounting policy on revenue recognition is shown in note 2(m) to the financial statements and related disclosures are included in note 4.</p> <p>Key observations Our testing did not identify any material misstatements in relation to the occurrence of revenue.</p>
Capitalisation of plant, property and equipment	<p>The group's net book value of plant, property and equipment increased from £297,170,000 at 30 September 2017 to £301,109,000 at 30 September 2018. There were additions in the year totalling £15,616,000.</p> <p>The group invests significant amounts in plant, property and equipment annually and therefore there is a risk that a material error could occur if items have been incorrectly capitalised. We therefore identified capitalisation of plant, property and equipment as a significant risk, which was one of the most significant assessed risks of material misstatement.</p> <p>Our audit work included, but was not restricted to:</p> <ul style="list-style-type: none"> <li>• agreeing a sample of capital expenditure in the year to supporting documentation and tested that the accounting treatment was appropriate and in accordance with the requirements of International Accounting Standard (IAS) 16 'Property, Plant and Equipment';</li> <li>• agreeing that appropriate de-recognition of assets has occurred when replacement or refurbishment projects have taken place in the year on a sample basis; and</li> <li>• obtaining finance and operating lease schedules and agreed that new leases were correctly recognised in line with third party documentation.</li> </ul> <p>The group's accounting policy on plant, property and equipment is shown in note 2(d) to the financial statements and related disclosures are included in note 12.</p> <p>Key observations Our testing did not identify any material misstatements in the capitalisation of plant, property and equipment during the year.</p>
The validity of capitalisation of development costs	<p>The group capitalises intangible assets within software and licences The amount capitalised in the year amounted to £2,538,000 (2017: £3,414,000).</p> <p>Our audit work included, but was not restricted to:</p> <ul style="list-style-type: none"> <li>• evaluate the group's accounting policy for consistency under IAS 38 and</li> </ul>

Key Audit Matters - Group	How the matter was addressed in the audit - Group
<p>The capitalisation of development costs under IAS 38 'Intangible Assets' involves significant judgement as to whether they should be recognised and therefore there is a risk that a material error could occur if items have been incorrectly capitalised. We therefore identified the validity of capitalisation of development costs as a significant risk, which was one of the most significant assessed risks of material misstatement.</p>	<p>whether these policies have been applied accurately and consistently;</p> <ul style="list-style-type: none"> <li>• agreeing the development costs meet the criteria for capitalisation stated within IAS 38 on a sample basis;</li> <li>• obtaining an understanding of the projects under development through the analysis of papers prepared by management to agree these projects meet the recognition criteria under IAS 38;</li> <li>• confirming that salaries were capitalised in accordance with IAS 38 on a sample basis, in particular that the developments meet the technical and commercial feasibility criteria; and</li> <li>• agreeing a sample of relevant payroll costs to payroll records.</li> </ul> <p>The group's accounting policy on development costs is shown in note 2(e) to the financial statements and related disclosures are included in note 13.</p> <p>Key observations Our testing did not identify any material misstatements in the validity of capitalisation of development costs during the year.</p>

### Our application of materiality

We define materiality as the magnitude of misstatement in the financial statements that makes it probable that the economic decisions of a reasonably knowledgeable person would be changed or influenced. We use materiality in determining the nature, timing and extent of our audit work and in evaluating the results of that work.

Materiality was determined as follows:

Materiality Measure	Group	Parent
Financial statements as a whole	<p>We determined materiality for the audit of the group financial statements as a whole to be £1,760,000, which is 4% of the group's underlying operating profit stated before depreciation, amortisation of intangible assets, and share-based payments charge (EBITDA). This benchmark is considered the most appropriate because of the nature of the listing of the group on the AIM market and hence the focus by various stakeholders on this balance. Underlying EBITDA represents a key performance measure for the group and due to the non-recurring nature of the exceptional items, we consider it appropriate that these are excluded. This approach is consistent with prior year.</p> <p>Materiality for the current year is higher than the level that we determined for the year ended 30 September 2017 to reflect the increase in the underlying EBITDA of the group compared to the prior period.</p>	<p>We determined materiality for the audit of the parent company financial statements to be £1,574,000, which is 0.5% of the parent's total assets.</p> <p>This benchmark is considered the most appropriate as the parent company does not trade.</p> <p>Materiality for the current year is higher than the level that we determined for the year ended 30 September 2017 based on the increased level of total assets.</p>
Performance materiality used to drive the extent of our testing	<p>We use a different level of materiality, performance materiality, to drive the extent of our testing and this was set at 60% of financial statement materiality for the audit of the group financial statements.</p>	<p>We use a different level of materiality, performance materiality, to drive the extent of our testing and this was set at 60% of financial statement materiality for the audit of the parent company financial statements.</p>
Specific materiality	<p>We also determine a lower level of specific materiality for</p>	<p>We also determine a lower level of specific materiality for</p>



	certain areas such as directors' remuneration and related party transactions.	certain areas such as related party transactions.
Communication of misstatements to the audit committee	We determined the threshold at which we will communicate misstatements to the audit committee to be £88,000. In addition we will communicate misstatements below that threshold that, in our view, warrant reporting on qualitative grounds.	We determined the threshold at which we will communicate misstatements to the audit committee to be £78,000. In addition we will communicate misstatements below that threshold that, in our view, warrant reporting on qualitative grounds.

### **An overview of the scope of our audit**

Our audit approach was a risk-based approach founded on a thorough understanding of the group's business, its environment and risk profile and in particular included:

- 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 each as a percentage of total group assets, liabilities, revenues and underlying EBITDA;
- Management prepare and report on the results on a group basis rather than on a company basis, all of which conduct activities within the UK. The subsidiaries in the group are 100% controlled by CareTech Holdings PLC, apart from Spark of Genius (North East) LLP which is 50% owned, Purple Zest Limited which is 60% owned and the company provides a guarantee for all the subsidiary liabilities apart from a limited number of subsidiaries as stated in note 14 of the financial statements. All accounting records and the finance team are located at head office within a shared service centre and accordingly, our work was conducted there. At the parent entity level, we have also tested the consolidation process; and
- We evaluated controls over the financial reporting systems identified as part of our risk assessment and addressed critical accounting matters. We tested the controls around revenue recognition and operating expenses to confirm the controls were designed and operating effectively. We then undertook substantive testing on significant transactions and material account balances.

### **Other information**

The directors are responsible for the other information. The other information comprises the information included in the annual report set out on pages 1 to 65, 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.

**Matters 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

**Responsibilities of directors for the financial statements**

As explained more fully in the Statement of Directors' Responsibilities set out on page 66 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](http://www.frc.org.uk/auditorsresponsibilities). This description forms part of our auditor's report.

*Grant Thornton UK LLP*

Malcolm Gomersall  
Senior Statutory Auditor  
for and on behalf of Grant Thornton UK LLP  
Statutory Auditor, Chartered Accountants  
Milton Keynes  
20 December 2018

# Consolidated Statement of Comprehensive Income

for the year ended 30 September 2018

		2018			2017		
	Note	Underlying £000	Non- underlying <sup>(i)</sup> £000	Total £000	Underlying £000	Non- underlying <sup>(i)</sup> £000	Total £000
Revenue	4	185,689	-	185,689	166,018	-	166,018
Cost of sales		(120,387)	-	(120,387)	(106,110)	-	(106,110)
<b>Gross profit</b>		<b>65,302</b>	<b>-</b>	<b>65,302</b>	<b>59,908</b>	<b>-</b>	<b>59,908</b>
Administrative expenses		(27,543)	(17,573)	(45,116)	(25,758)	(11,483)	(37,241)
<b>Operating profit</b>		<b>37,759</b>	<b>(17,573)</b>	<b>20,186</b>	<b>34,150</b>	<b>(11,483)</b>	<b>22,667</b>
EBITDA <sup>(ii)</sup>		43,862	(3,620)	40,242	39,885	(3,487)	36,398
Depreciation	12	(5,906)	-	(5,906)	(5,525)	-	(5,525)
Amortisation of intangible assets	5,13	-	(7,428)	(7,428)	-	(7,190)	(7,190)
Acquisition cost	5	-	(4,062)	(4,062)	-	(806)	(806)
Acquisition adjustments	5	-	(2,463)	(2,463)	-	-	-
Share-based payments charge		(197)	-	(197)	(210)	-	(210)
<b>Operating profit</b>		<b>37,759</b>	<b>(17,573)</b>	<b>20,186</b>	<b>34,150</b>	<b>(11,483)</b>	<b>22,667</b>
Financial expenses	5,8	(4,867)	51	(4,816)	(4,770)	(1,118)	(5,888)
<b>Profit before tax</b>		<b>32,892</b>	<b>(17,522)</b>	<b>15,370</b>	<b>29,380</b>	<b>(12,601)</b>	<b>16,779</b>
Taxation	5,9	(5,751)	1,625	(4,126)	(2,744)	3,814	1,070
<b>Profit for the year</b>		<b>27,141</b>	<b>(15,897)</b>	<b>11,244</b>	<b>26,636</b>	<b>(8,787)</b>	<b>17,849</b>
Non-controlling interest		(596)	-	(596)	-	-	-
<b>Profit and comprehensive income for the year attributable to owners of the parent</b>		<b>26,545</b>	<b>(15,897)</b>	<b>10,648</b>	<b>26,636</b>	<b>(8,787)</b>	<b>17,849</b>
<b>Earnings per share</b>							
Basic	10,11	<u>35.07p</u>		<u>14.07p</u>	<u>38.03p</u>		<u>25.48p</u>
Diluted	10,11	<u>35.06p</u>		<u>14.06p</u>	<u>38.02p</u>		<u>25.48p</u>

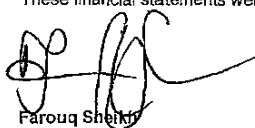
- (i) Non-underlying items comprise: amortisation of intangibles, acquisition expenses, fair value adjustments on acquisitions, changes in value and additional finance payments in respect of derivative financial instruments, integration, reorganisation and redundancy costs and provision for onerous leases. See note 5.
- (ii) EBITDA is operating profit stated before depreciation and share-based payments charge.

## Consolidated Statement of Financial Position as at 30 September 2018

	Note	2018 £000	2017 £000
<b>Non-current assets</b>			
Property, plant and equipment	12	301,109	297,170
Other Intangible assets	13	40,128	40,954
Goodwill	13	43,689	43,098
		<u>384,926</u>	<u>381,222</u>
<b>Current assets</b>			
Inventories		898	835
Trade and other receivables	15	31,747	23,519
Cash and cash equivalents	16	9,421	6,402
		<u>42,066</u>	<u>30,756</u>
<b>Total assets</b>		<u><b>426,992</b></u>	<u><b>411,978</b></u>
<b>Equity</b>			
Share capital	21	379	379
Share premium	21	120,820	120,778
Shares held by Executive Shared Ownership Plan	21	(4,750)	(4,750)
Merger reserve	21	9,023	9,023
Non-controlling interest		839	-
Retained earnings	21	82,122	78,771
<b>Total equity</b>		<u><b>208,233</b></u>	<u><b>204,201</b></u>
<b>Liabilities</b>			
<b>Non-current liabilities</b>			
Loans and borrowings	17	2,580	145,872
Ground rent liabilities arising under IAS17		7,244	7,294
Deferred tax liabilities	19	18,854	17,843
Deferred and contingent consideration payable	24	-	1,133
Derivative financial instruments	24	-	172
		<u>28,678</u>	<u>172,314</u>
<b>Current liabilities</b>			
Loans and borrowings	17	153,830	7,662
Trade and other payables	18	24,875	15,709
Ground rent liabilities arising under IAS17		50	50
Deferred and contingent consideration payable	24	966	2,420
Deferred income		3,372	1,762
Corporation tax		8,836	7,092
Derivative financial instruments	24	152	768
		<u>190,081</u>	<u>35,463</u>
<b>Total liabilities</b>		<u><b>218,759</b></u>	<u><b>207,777</b></u>
<b>Total equity and liabilities</b>		<u><b>426,992</b></u>	<u><b>411,978</b></u>

These financial statements were approved by the Board of Directors and authorised for issue on

and were signed on its behalf by:



Farouq Sheikh  
Group Executive Chairman  
Company number: 04457287

## Consolidated Statement of Changes in Equity as at 30 September 2018

	Share capital	Share premium	Shares held by Executive Shared Ownership Plan	Retained earnings	Merger reserve	Total Attributable to owners of the parent	Non- controlling Interest	Total Equity
	£000	£000	£000	£000	£000	£000	£000	£000
At 1 October 2016	321	81,750	(6,072)	66,645	9,023	151,667	-	151,667
Profit for the year	-	-	-	17,849	-	17,849	-	17,849
Total comprehensive income	-	-	-	17,849	-	17,849	-	17,849
Issue of ordinary shares	58	39,028	1,322	-	-	40,408	-	40,408
Equity settled share based payments charge	-	-	-	210	-	210	-	210
Dividends	-	-	-	(5,933)	-	(5,933)	-	(5,933)
Transactions with owners recorded directly in equity	58	39,028	1,322	(5,723)	-	34,685	-	34,685
At 30 September 2017	379	120,778	(4,750)	78,771	9,023	204,201	-	204,201
At 1 October 2017	379	120,778	(4,750)	78,771	9,023	204,201	-	204,201
Profit for the year	-	-	-	10,648	-	10,648	-	10,648
Total comprehensive income	-	-	-	10,648	-	10,648	-	10,648
Issue of ordinary shares	-	42	-	-	-	42	-	42
Equity settled share based payments charge	-	-	-	197	-	197	-	197
Dividends	-	-	-	(7,494)	-	(7,494)	-	(7,494)
Minority interest	-	-	-	-	-	-	639	639
Transactions with owners recorded directly in equity	-	42	-	(7,297)	-	(7,255)	639	(6,616)
At 30 September 2018	379	120,820	(4,750)	82,122	9,023	207,594	639	208,233

## Consolidated Statement of Cash Flow

for the year ended 30 September 2018

	Note	2018 £000	2017 £000
<b>Cash flows from operating activities</b>			
Profit before tax		15,370	16,779
Adjustments for:			
Financial expenses	8	4,816	5,888
Depreciation	12	5,906	5,525
Amortisation	13	7,428	7,190
Charitable foundation donation		380	-
Share-based payments charge	20	197	210
Acquisition transaction cost	5	4,062	806
Costs arising from placement of shares	5	-	348
Integration and restructuring costs	5	2,863	2,852
Release of deferred consideration	5	(1,095)	-
Termination of onerous contracts	5	377	287
Impairment of goodwill	5	2,000	-
Adjustments relating to prior acquisitions	5	1,558	-
		<hr/>	<hr/>
<b>Operating cash flows before movement in working capital</b>		43,862	39,885
Increase in Inventory		(63)	(20)
Increase in trade and other receivables		(8,228)	(2,641)
Increase/ (decrease) in trade and other payables		3,875	(4,519)
		<hr/>	<hr/>
<b>Operating cash flows before adjustment items</b>		39,446	32,705
Integration and restructuring costs	5	(3,652)	(4,006)
Payment of Charitable donations	5	(380)	-
Payments made under onerous contracts		(377)	(287)
		<hr/>	<hr/>
<b>Cash inflows from operating activities</b>		35,037	28,412
Tax paid		(4,135)	(6,295)
		<hr/>	<hr/>
<b>Net cash from operating activities</b>		30,902	22,117
		<hr/>	<hr/>
<b>Cash flows from investing activities</b>			
Proceeds from sale of property, plant and equipment		1,201	200
Payments for business combinations	23	(72)	(16,586)
Acquisition of property, plant and equipment		(14,519)	(15,888)
Acquisition of software	13	(2,538)	(3,867)
Payment of acquisition costs		(839)	(1,419)
		<hr/>	<hr/>
<b>Net cash used in investing activities</b>		(16,767)	(37,560)
		<hr/>	<hr/>

# **Consolidated Statement of Cash Flow** **(continued)** for the year ended 30 September 2018

## **Cash flows from financing activities**

	Note	2018 £000	2017 £000
Proceeds from the issue of share capital	21	42	37,829
Interest paid		(4,650)	(4,955)
Cash outflow arising from derivative financial instruments		(649)	(776)
Bank Loans drawdown		11,035	30,911
Loan arrangement fees paid		(1,436)	-
Repayment of borrowings		(5,775)	(37,400)
Payment of finance lease liabilities		(2,189)	(2,139)
Dividends paid	22	(7,494)	(5,933)
		<hr/>	<hr/>
<b>Net cash arising (used in)/ from financing activities</b>		<b>(11,116)</b>	<b>17,537</b>
		<hr/>	<hr/>
<b>Net increase in cash and cash equivalents</b>		<b>3,019</b>	<b>2,094</b>
<b>Cash and cash equivalents at 1 October</b>		<b>6,402</b>	<b>4,308</b>
		<hr/>	<hr/>
<b>Cash and cash equivalents at 30 September</b>	16	<b>9,421</b>	<b>6,402</b>
		<hr/>	<hr/>

# Notes to the Financial Statements

## 1 Background and basis of preparation

CareTech Holdings PLC (the "Company") is a company registered and domiciled in England and Wales. The consolidated financial statements of the Company for the year ended 30 September 2018 comprise the Company and its subsidiaries (together referred to as the "Group"). The consolidated financial statements are presented in GBP (£), which is the Company's functional currency, rounded to the nearest thousand. The Parent Company financial statements on pages 116 to 125 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 20 December 2018.

### Going concern

The Group's business activities together with the factors likely to affect its future development, performance and position are set out in the Chairman's Statement and Chief Executive's Statement and Performance Review on pages 9 to 13 and pages 22 to 29. The financial position of the Group, its cash flows, liquidity position and borrowing facilities are described in the Financial Review on pages 34 to 39. In addition, note 24 to the financial statements includes the Group's objectives, policies and processes for managing its capital, its financial risk management objectives, details of its financial instruments and hedging activities and its exposures to credit risk, interest rate risk and liquidity risk. As highlighted in that note, the Group meets its day-to-day working capital requirements through a mixture of bank facilities which are sufficient, with cash flow from profits, to fund present commitments. Term facilities are utilised to fund capital expenditure and short-term flexibility is achieved by the utilisation of cash resources in respect of financial liabilities, which are shown in the table in note 24 and indicates their contractual cash flow maturities. There are a number of Banking Covenants which ratchet depending on time and Group performance. The Directors forecast that they are able to meet all Banking Covenants which are reviewed regularly.

The Group had entered into new Banking facilities with Lloyds Bank plc and National Westminster Bank plc for committed financing by way of term loans of between 3.5 to 5 years up to £334m and a short term bridge loan of approx. £80m. The short bridge loan was repaid in November 2018 following completion using principally Cambian's significant cash position.

In addition to the Term Loans and Bridge Loan, a £25m revolving credit facility is available to provide working capital for the Enlarged Group and an uncommitted accordion facility of up to £30m for general Corporate and Working Capital purposes (including acquisitions).

The new facilities of the Term Loans and Bridge Loan with an aggregate size up to £414m have been utilised for the cash consideration of the acquisition, following the repayment of the Group's existing bank debt facilities of approx. £150m and the payment of debt financing fees of up to approx. £6m. The amount available for the draw down under the Term Loans was reduced in the event that the actual cash consideration payable under the transaction was less than £253m.

As part of the Acquisition, in September 2018 the Group's property portfolio was revalued by Cushman and Wakefield and the market value was £424m. The Cambian Group plc property portfolio was revalued by Knight Frank and the market value was £350m. These valuations are not reflected in the Consolidated Statement of Financial Position.

Following completion of the Acquisition, Lloyds Bank plc and Nat West Markets plc, who had underwritten the funding, completed the syndication of the Term Loans and revolving credit facility successfully. The syndication was significantly oversubscribed showing strong support for both the Group and the acquisition.

The final 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 and Credit Suisse AG, in addition to Lloyds Bank plc and National Westminster Bank plc.



The Enlarged Group loan to value based only on the property valuations is c42% whilst the proforma net debt to EBITDA of the Enlarged Group is 4.3x which is expected to reduce to under 4x in the short term.

The Directors have a reasonable expectation that the Group has adequate resources to continue in operational existence for the next 12 months from the date of signing these financial statements. The Directors forecast that including the Cambian Group plc that they are able to meet all banking covenants which are reviewed regularly. For this reason the Directors continue to adopt the going concern basis for the Enlarged Group in preparing the 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 Financial Reporting Standards as adopted by the EU ("Adopted IFRSs") and those parts of the Companies Act 2006 relevant to those companies which report in accordance with IFRS.

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

#### **Adopted IFRS not yet applied**

At the date of authorization of these financial statements, certain new standards, amendment and interpretations to existing standards have been publishing by the IASB but are not yet effective and 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:

- IFRS 9 Financial Instruments (effective 1 January 2018)
- IFRS 15 Revenue from Contracts with Customers (effective 1 January 2018)
- IFRS 16 Leases (effective 1 January 2019)
- Clarification and Measurement of Share-based Payment Transactions (Amendment to IFRS 2) (effective 1 January 2018)

IFRS 16 will replace IAS 17 for accounting periods commencing on or after 1 January 2019 and from the perspective of the group as lessee will require (subject to certain practical expedients) most of the group's lease obligations (including the recent sale and leaseback transaction) to be reflected on balance sheet with a corresponding asset reflecting the right to use the underlying leased asset.

Management are currently performing a detailed review of the Group's lease arrangements and are deciding on how IFRS 16 will be implemented and are considering which practical expedients might apply and whether or not the standard will be implemented on a full or partial retrospective basis. The full impact of IFRS 16 is therefore not yet known.

The Group's current lease accounting policy and lease disclosures are included in notes 17 and 25.

There are other standards and interpretations in issue but these are not considered to be relevant to the Group.

The directors expect that the adoption of the standards listed below, other than potentially IFRS 16, will not have a material impact on the financial information of the Group in future reporting periods. This includes both IFRS 9 Financial Instruments and IFRS 15 Revenue from Contracts from Customers.

#### **(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 2018. All subsidiaries have a reporting date of 30 September. 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.

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

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

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

Depreciation is charged to the consolidated statement of comprehensive income over the estimated useful lives of each part of an item of property, plant and equipment. Land 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 (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 statement of comprehensive income.

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 and licences 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 the completed intangible asset has been established;
- (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 statement of comprehensive income 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.        |

#### **(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 and are measured initially at fair value adjusted by transactions costs, except for those carried at fair value through profit or loss which are measured initially at fair value. Subsequent measurement of financial assets and financial liabilities are described below.

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

Classification and subsequent measurement of financial assets

For the purpose of subsequent measurement, financial assets are classified into the following categories upon initial recognition:

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

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

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

#### Loans and receivables

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

#### Financial assets at FVTPL

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

#### Classification and subsequent measurement of financial liabilities

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

All interest-related charges and, if applicable, changes in an instrument's fair value that are reported in consolidated statement of comprehensive income 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 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 statement of comprehensive income 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.

#### **(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.

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

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

#### Calculation of recoverable amount

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

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

#### Reversals of impairment

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

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.

#### **(j) Interest-bearing borrowings**

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

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

Interest on qualifying assets is capitalised in accordance with IAS 23 borrowing costs. Refer to note 8.

#### **(k) Employee benefits**

##### **Defined contribution plans**

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

##### **Short-term benefits**

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

##### **Share-based payment transactions**

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

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

#### **(l) Provisions**

A provision, other than provisions for deferred taxation, is recognised in the balance sheet 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, future cash flows at a pre-tax risk-free rate.

#### **(m) 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 services are provided. Fostering revenue is recognised on the basis of the daily placements made with a full day's revenue recognised for every night a placement is with a foster carer.

Revenue in respect of learning services is directly linked to specific achievements, and milestones reached by apprentices at which point the funding from the Skills Funding Agency is receivable and recognised. A corresponding balance is recognised in receivables.

Income which has been invoiced but irrecoverable is treated as a bad debt expense. Revenue invoiced in advance is included in deferred income until the service is provided. Revenue is recognised net of VAT and credit notes.

#### **(n) Expenses**

##### **Finance lease payments**

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

##### **Non-underlying items**

Non-underlying items relate to events or transactions which, in the opinion of the Directors, by virtue of size and incidence are disclosed separately in order to improve a reader's understanding of the financial statements. Details are included in note 5.

##### **Financing costs**

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

Interest payable is recognised in the consolidated statement of comprehensive income as it accrues, using the effective interest method. Financing costs that are directly attributable to the acquisition or construction of a qualifying asset are capitalised as part of the cost of that asset.

Financing costs also include losses arising on the change in fair value of derivatives that are recognised in the consolidated statement of comprehensive income.

#### **(o) Operating leases**

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

#### **(p) Taxation**

Tax on the profit or loss for the year comprises current and deferred tax. Tax is recognised in the consolidated statement of comprehensive income except to the extent that it relates to items recognised directly in equity, in which case it is recognised in equity. Current tax is the expected tax payable on the taxable income for the year, using tax rates 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.

#### **(q) Underlying EBITDA and underlying earnings per share**

EBITDA is operating profit stated before depreciation and share-based payments charge and is the key profit measure used by the Board to assess the trading performance of the Group as a whole.

Underlying EBITDA is EBITDA before non-underlying items (see (n) and note 5).

A measure of underlying earnings and underlying earnings per share has been presented in order to present

the earnings of the Group after non-underlying items which are not considered to impact an assessment of the trading performance of the Group.

### **(r) Business combinations**

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 generally measured at their acquisition-date fair values.

## **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.

### **Estimates**

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

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

### **Goodwill**

The Directors use their judgement to determine the extent to which goodwill has a value which will benefit the performance of the Group over future periods. To assist in making this judgement, the Directors undertake an assessment, at least annually, of the carrying value of the Group's capitalised goodwill, using discounted cash flow forecasts to derive the "value in use" to the Group of the capitalised goodwill. In the assessment undertaken in 2017 value in use was derived from discounted 10 to 20 year cash flow projections using a year-on-year growth rate of 0% and discount rates relevant to the cost of capital adjusted for risks associated with the cash-generating unit. The projection period is, in the opinion of the Directors, an appropriate period over which to view the future results of the Group's businesses for this purpose. Changes to the assumptions of discount rates, growth rates, expected changes to costs and selling prices used in making these forecasts could significantly alter the Directors' assessment of the carrying value of goodwill.

### **Customer relationships**

The Group's management team assess each acquisition in the historical financial information period to identify the intangible assets that were acquired in each transaction that qualify for separate recognition. The assessment of the future economic benefits generated from acquired customer relationships, and the determination of the related amortisation profile, involves a significant degree of judgement based on management estimation of future potential revenue and profit and the useful lives of the assets. The valuation method used to value customer relationships is a multi-period excess earnings method. The useful economic life has been assessed as ranging from 1 to 20 years across the acquisitions. Annual reviews are performed to ensure the recoverability of this intangible asset.

### **Property, plant and equipment**

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

### **Contingent consideration payable on a business combination**



When, as part of a business combination, the Group defers a proportion of the total purchase consideration payable for an acquisition, the amount provided for is the acquisition date fair value of the consideration. Changes in estimated contingent consideration payable on acquisition are recognised in the consolidated income statement unless they are measurement period adjustments which arise as a result of additional information obtained after the acquisition date about the facts and circumstances existing at the acquisition date, which are adjusted against carried goodwill. Contingent consideration that is classified as equity is not re-measured and subsequent settlement is accounted for within equity.

## 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. An impairment test is a comparison of the carrying value of assets to their recoverable amount. Where it is higher than the recoverable amount, an impairment results. Amortisation and any impairment charges are included in administration expenses in the statement of comprehensive income. Intangible assets not yet ready for use are tested for impairment at least annually. Amortisation of each asset begins from the date the asset becomes available for use. Recoverable amounts have been measured based on value in use. Forecasts for the remaining life of each asset have been used (maximum five years).

### Current asset provisions

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

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

#### 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 Chief Executive Officer as he is primarily responsible for the allocation of resources to segments and the assessment of the performance of each of the segments.

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

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

Our two key segments are Adult Services (Adult) and Children Services (Children). Adult Services comprises the Adult Learning Disabilities (ALD) and Specialist Services (SS) divisions and the Children Services comprises Young People Residential Services (YPR), Foster Care (FC) and Learning Services (Learning).

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

The segment results for the year ended 30 September 2018, for the year ended 30 September 2017 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 2018								
Continuing Operations	ALD	SS	Adult	YPR	FC	Learning	Children	Total
Client Capacity	1,754	214	1,968	353	301	-	654	2,622
Revenue (£'000)	100,965	15,316	116,281	58,707	8,246	2,455	69,408	185,689
Underlying EBITDA before allocated cost (£'000)	26,995	4,442	31,437	17,024	1,898	448	19,370	50,807
Year ended 30 September 2017								
Continuing Operations	ALD	SS	Adult	YPR	FC	Learning	Children	Total
Client Capacity	1,735	214	1,949	284	301	-	585	2,534
Revenue (£'000)	87,752	15,486	103,238	43,798	8,626	10,356	62,780	166,018
Underlying EBITDA before allocated cost (£'000)	26,331	3,862	30,193	13,205	1,870	960	16,035	46,228
Reconciliation of EBITDA to profit after tax:							2018	2017
							£000	£000
Underlying EBITDA before unallocated costs							50,807	46,228
Unallocated costs							(6,945)	(6,343)
Underlying EBITDA							43,862	39,885
Depreciation							(5,906)	(5,525)
Share based payments charge							(197)	(210)
Non-underlying items							(17,573)	(11,483)
Operating profit							20,186	22,667
Financial expenses							(4,816)	(5,888)
Profit before tax							15,370	16,779
Taxation							(4,126)	1,070
Non-controlling interest							(596)	-
Profit after tax							10,648	17,849

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

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

## 5 Non-underlying items

Non-underlying items are those items of financial performance that, in the opinion of the Directors, should be disclosed separately in order to improve a reader's understanding of the underlying trading performance achieved by the Group as these are significant costs which are not part of the ordinary course of the business. Non-underlying items comprise the following:

	Note	2018 £000	2017 £000
Integration and restructuring costs	(i)	2,863	2,852
Termination of onerous leases	(i)	377	287
Share placement		-	348
Charitable donations		380	-
		<u>3,620</u>	<u>3,487</u>
EBITDA adjustments			
Amortisation		7,428	7,190
		<u>7,428</u>	<u>7,190</u>
Acquisition expenses		4,062	806
		<u>4,062</u>	<u>806</u>
Impairment of goodwill		2,000	-
Adjustment to deferred consideration		(1,095)	-
Adjustment relating to prior acquisitions		1,558	-
		<u>2,463</u>	<u>-</u>
Included in Administrative expenses		17,573	11,483
		<u>17,573</u>	<u>11,483</u>
<b>Financial expenses</b>			
Fair value movements relating to derivative financial instruments	(ii)	(787)	(1,107)
Other financing cost relating to ground rent		-	1,173
Charges relating to derivative financial instruments	(ii)	513	829
IAS 17 lease imputed interest	(ii)	223	223
		<u>(51)</u>	<u>1,118</u>
<b>Included in financial expenses</b>			
		(51)	1,118
		<u>(51)</u>	<u>1,118</u>
Tax on non-underlying items			
Current		(1,004)	(1,138)
Deferred tax	(iii)	(621)	(2,676)
		<u>(1,625)</u>	<u>(3,814)</u>
<b>Included in taxation</b>			
		(1,625)	(3,814)
		<u>(1,625)</u>	<u>(3,814)</u>
<b>Total non-underlying items</b>		<u>15,897</u>	<u>8,787</u>

- (i) The Group incurred a number of exceptional costs relating to the integration of recent acquisitions and the reorganisation of the internal operating and management structure and redundancy costs totalling £2,863,000 (2017: £2,852,000). Included in the year are acquisition expenses of £4,062,000 (2017: £806,000). Included in the cash flow statement are integration and reorganisation costs of £3,652,000 (2017: £4,006,000) and acquisition expenses of £839,000 (2017: £1,419,000) which were paid in the

year. The present value of the future cash flows receivable from the operation of certain leased assets has been assessed as being lower than the present value of the rental payments to which the Group is committed. Therefore, the Group has provided for £377,000 (2017: £287,000) being the present value of any onerous element of the remaining lease life.

- (ii) Non-underlying items relating to derivative financial instruments include the movements during the year in the fair value of the Group's interest rate swaps which are not designated as hedging instruments and therefore do not qualify for hedge accounting, together with the quarterly cash settlement, and accrual thereof.
- (iii) Deferred tax arises in respect of the following:

	2018 £000	2017 £000
<i>Derivative financial instruments</i>	(134)	(188)
Full provision for deferred tax under IAS 12	846	(981)
Intangible assets	(124)	730
Roll over relief	-	14
Prior year adjustment	39	3,101
Other adjustments	(6)	-
	<u>621</u>	<u>2,676</u>

## 6 Auditor's remuneration

	2018 £000	2017 £000
Fees payable to the Group's auditor for the audit of the consolidated and parent company's annual accounts	163	150
Audit of the accounts of subsidiaries	12	22
Audit related assurance services	11	13
Tax advisory services	-	-
Company secretarial	9	-
All other non-assurance services	543	11
Other non assurance services of £543k represents the reporting accountant work carried on the acquisition of Cambian Group plc.		

## 7 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	
	2018	2017
Operational and service delivery staff	5,149	4,414
Maintenance	29	44
Management and administration	261	286
	<u>5,439</u>	<u>4,744</u>

The aggregate payroll costs of these persons (including Directors) were as follows:

	2018 £000	2017 £000
Wages and salaries	93,137	77,386
Share-based payments charge	197	160
Social security costs	8,618	7,382
Other pension costs	1,527	976
	<u>103,479</u>	<u>85,904</u>

## 8 Finance expenses

	2018 £000	2017 £000
Interest expense on financial liabilities at amortised cost:		
On bank loans and overdrafts	4,527	4,439
Finance charges in respect of finance leases	340	331
	<hr/>	<hr/>
Underlying financial expenses	4,867	4,770
Derivative financial instruments (note 5)	(274)	895
IAS 17 lease imputed interest (note 5)	223	223
	<hr/>	<hr/>
Total financial expenses	4,816	5,888
	<hr/>	<hr/>

In accordance with IAS 23, borrowing costs at £155,000 (2017: £262,000) have been capitalised in the year on qualifying assets within property plant and equipment. The capitalisation rate used to determine the amount of borrowing costs capitalised is 5%.

## 9 Taxation

### (a) Recognised in the consolidation statements of comprehensive income

	2018 £000	2017 £000
<i>Current tax expense</i>		
Current year	(4,622)	(4,809)
Current tax on non-underlying items (note 5)	1,004	1,138
Corporation tax overprovided in previous periods	(359)	(80)
	<hr/>	<hr/>
Total current tax	(3,977)	(3,751)
	<hr/>	<hr/>
<i>Deferred tax expense</i>		
Current year	(873)	825
Adjustment in respect to prior year	103	1,320
Deferred tax on non-underlying items (note 5)	621	2,676
	<hr/>	<hr/>
Total deferred tax	(149)	4,821
	<hr/>	<hr/>
Total tax in the consolidated statement of comprehensive income	(4,126)	1,070
	<hr/>	<hr/>

**9 Taxation (continued)**

**(b) Reconciliation of effective tax rate**

	2018 £000	2017 £000
Profit before tax for the year	15,370	16,779
Tax using the UK corporation tax rate of 19.0% (2017: 19.5%)	2,920	3,272
Non-deductible expenses including impairment charge	1,059	636
Other tax adjustments	27	(613)
Corporation and deferred tax overprovided in previous periods	120	(4,365)
Total tax in the consolidated statement of comprehensive income	4,126	(1,070)

Changes to the UK corporation tax rates were substantively enacted as part of the Finance Bill 2017 (on 7 September 2017). This includes a reduction to the main rate to 17% from 1 April 2020. Deferred taxes at the balance sheet date have been measured using this enacted tax rate and reflected in these financial statements.

**10 Earnings per share**

	2018 £000	2017 £000
Profit attributable to ordinary shareholders	10,648	17,849
Weighted number of shares in issue for basic earnings per share	75,690,422	70,037,602
Effects of share options in issue	25,235	24,389
Weighted number of shares for diluted earnings per share	75,715,657	70,061,991

Diluted earnings per share is the basic earnings per share adjusted for the dilutive effect of the conversion into fully paid shares of the weighted average number of share options outstanding during the period.

**Earnings per share (pence per share)**

Basic	14.07p	25.48p
Diluted	14.06p	25.48p

## 11 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.

	2018 £000	2017 £000
Profit attributable to ordinary shareholders	10,648	17,849
Non-underlying items	15,897	8,787
Underlying profit attributable to ordinary shareholders	<u>26,545</u>	<u>26,636</u>
Underlying earnings per share (pence per share)		
Basic	35.07p	38.03p
Diluted	<u>35.06p</u>	<u>38.02p</u>

## 12 Property, plant and equipment

	Land and buildings £000	Motor vehicles £000	Fixtures, fittings and equipment £000	Total £000
<b>Cost</b>				
At 1 October 2016	252,917	10,516	21,401	284,834
Acquisition through business combinations	17,338	31	199	17,568
Additions	10,858	1,500	5,294	17,652
Disposals	-	(441)	-	(441)
<b>At 30 September 2017</b>	<b>281,113</b>	<b>11,606</b>	<b>26,894</b>	<b>319,613</b>
At 1 October 2017	281,113	11,606	26,894	319,613
Acquisitions through business combinations	260	-	20	280
Additions	8,781	862	5,973	15,616
Reclassification (see note 23)	(4,997)	-	-	(4,997)
Disposals	(852)	(670)	(4,475)	(5,997)
<b>At 30 September 2018</b>	<b>284,305</b>	<b>11,798</b>	<b>28,412</b>	<b>324,515</b>
<b>Depreciation and impairment</b>				
At 1 October 2016	5,420	3,137	8,610	17,167
Depreciation charge for the year	517	1,728	3,280	5,525
Disposals	-	(249)	-	(249)
<b>At 30 September 2017</b>	<b>5,937</b>	<b>4,616</b>	<b>11,890</b>	<b>22,443</b>
At 1 October 2017	5,937	4,616	11,890	22,443
Depreciation charge for the year	558	1,582	3,766	5,906
Disposals	(6)	(462)	(4,475)	(4,943)
<b>At 30 September 2018</b>	<b>6,489</b>	<b>5,736</b>	<b>11,181</b>	<b>23,406</b>
<b>Net book value</b>				
At 1 October 2016	247,497	7,379	12,791	267,667
<b>At 30 September 2017</b>	<b>275,176</b>	<b>6,990</b>	<b>15,004</b>	<b>297,170</b>
<b>At 30 September 2018</b>	<b>277,816</b>	<b>6,062</b>	<b>17,231</b>	<b>301,109</b>

Included in the result for the year is a profit of £146,000 (2017: nil profit) on the disposal of freehold property, plant and equipment and motor vehicles. Included in property, plant and equipment are amounts held under finance leases of £4,665,000 (2017: £5,990,000).



## 12 Property, plant and equipment (continued)

### Land and buildings

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

	2018 £000	2017 £000
Freehold	243,675	241,329
Leasehold	34,141	33,847
	<u>277,816</u>	<u>275,176</u>

The Directors believe that the market value of the Group's current freehold property portfolio is £424m as at 30 September 2018. There was an independent valuation of the Group's property portfolio in September 2018. All of the Group's freehold properties are pledged as security for bank borrowings.

## 13 Intangible assets

	Goodwill £000	Software and licences £000	Customer relationships £000	Total £000
<b>Cost</b>				
At 1 October 2016	43,049	13,999	58,532	115,580
Acquisition through business combinations	77	-	296	373
Additions	-	3,414	452	3,866
	<u>43,126</u>	<u>17,413</u>	<u>59,280</u>	<u>119,819</u>
At 30 September 2017	43,126	17,413	59,280	119,819
	<u>43,126</u>	<u>17,413</u>	<u>59,280</u>	<u>119,819</u>
At 1 October 2017	43,126	17,413	59,280	119,819
Acquisitions through business combinations	906	-	-	906
Additions	-	2,538	752	3,290
Reclassification (see note 12)	1,685	-	3,312	4,997
	<u>45,717</u>	<u>19,951</u>	<u>63,344</u>	<u>129,012</u>
At 30 September 2018	45,717	19,951	63,344	129,012
	<u>45,717</u>	<u>19,951</u>	<u>63,344</u>	<u>129,012</u>
<b>Amortisation and impairment</b>				
At 1 October 2016	28	6,663	21,886	28,577
Impairment	-	-	-	-
Amortisation for the year	-	2,653	4,537	7,190
	<u>28</u>	<u>9,316</u>	<u>26,423</u>	<u>35,767</u>
At 30 September 2017	28	9,316	26,423	35,767
	<u>28</u>	<u>9,316</u>	<u>26,423</u>	<u>35,767</u>
At 1 October 2017	28	9,316	26,423	35,767
Impairment	2,000	-	-	2,000
Amortisation for the year	-	3,281	4,147	7,428
	<u>2,028</u>	<u>12,597</u>	<u>30,570</u>	<u>45,195</u>
At 30 September 2018	2,028	12,597	30,570	45,195
	<u>2,028</u>	<u>12,597</u>	<u>30,570</u>	<u>45,195</u>
<b>Net book value</b>				
At 1 October 2016	43,021	7,336	36,646	87,003
	<u>43,021</u>	<u>7,336</u>	<u>36,646</u>	<u>87,003</u>
At 30 September 2017	43,098	8,097	32,857	84,052
	<u>43,098</u>	<u>8,097</u>	<u>32,857</u>	<u>84,052</u>
At 30 September 2018	43,689	7,354	32,774	83,817
	<u>43,689</u>	<u>7,354</u>	<u>32,774</u>	<u>83,817</u>

### 13 Intangible assets (continued)

#### Amortisation

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

	2018 £000	2017 £000
Administrative expenses	7,428	7,190

#### Impairment testing for cash-generating units containing goodwill

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

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

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

	2018	2017
Period over which management approved forecasts are based	1 year	1 year
Growth rate applied beyond approved forecast period	0%	0%
<b>Pre-tax discount rate</b>		
Adult Learning Disabilities division	8%	8%
Specialist Services division	10%	10%
Young People Residential Services division	8-12%	8-12%
Foster Care division	8-12%	8-12%
Learning Services division	12%	12%

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

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

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

	2018	2017
	£000	£000
Adult Learning Disabilities division	22,090	19,912
Specialist Services division	1,148	1,148
<b>Adult</b>	<b>23,238</b>	<b>21,060</b>
Young People Residential Services division	9,377	8,964
Foster care division	7,162	7,162
Learning Services division	3,912	5,912
<b>Children</b>	<b>20,451</b>	<b>22,038</b>
	<b>43,689</b>	<b>43,098</b>

#### 14 Group undertakings

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

Company Name	registration number	country of incorporation	Class of shares held	Ownership 2018	Ownership 2017
Addington House Limited	04404355	England and Wales	Ordinary	100 <sup>d</sup>	100 <sup>d</sup>
Advances In Autism Care & Education Limited	03252453	England and Wales	Ordinary	100 <sup>a</sup>	100 <sup>a</sup>
Applied Care and Development Limited	SC224352	Scotland	Ordinary	100 <sup>a</sup>	100 <sup>a</sup>
Ashcroft House Limited	03390658	England and Wales	Ordinary	100 <sup>c</sup>	100 <sup>c</sup>
Ashring House Limited	03370991	England and Wales	Ordinary	100 <sup>c</sup>	100 <sup>c</sup>
Ashview House Limited	03304446	England and Wales	Ordinary	100 <sup>c</sup>	100 <sup>c</sup>
Barleycare Limited	05156601	England and Wales	Ordinary	100 <sup>a</sup>	100 <sup>a</sup>
Beacon Care (Holdings) Limited	03293998	England and Wales	Ordinary	100	100
Beacon Care Investments Limited	04351554	England and Wales	Ordinary	100	100
Beacon Care Limited	03160894	England and Wales	Ordinary	100 <sup>c</sup>	100 <sup>c</sup>
Beech Care Limited	04050685	England and Wales	Ordinary	100 <sup>c</sup>	100 <sup>c</sup>
Branas Isaf (Ashfield House) Limited	05761962	England and Wales	Ordinary	100 <sup>h</sup>	100 <sup>h</sup>
Branas Isaf (Bythnod & Hendre Llwyd) Limited	04826628	England and Wales	Ordinary	100 <sup>h</sup>	100 <sup>h</sup>
Branas Isaf (Dewis Cyfarfod & Cysgod Cyfarfod) Limited	04828115	England and Wales	Ordinary	100 <sup>h</sup>	100 <sup>h</sup>
Branas Isaf (Education Centre ) Limited	04826662	England and Wales	Ordinary	100 <sup>a</sup>	100 <sup>a</sup>
Branas Isaf (Llyn Coed) Limited	04826774	England and Wales	Ordinary	100 <sup>h</sup>	100 <sup>h</sup>
Branas Isaf (Personal Development & Approach Training) Limited	04826959	England and Wales	Ordinary	100 <sup>h</sup>	100 <sup>h</sup>
Branas Isaf (Therapeutic Provision Limited)	05355404	England and Wales	Ordinary	100 <sup>h</sup>	100 <sup>h</sup>

Branas Isaf Holdings Limited	04827227	England and Wales	Ordinary	100 <sup>a</sup>	100 <sup>a</sup>
Branas Isaf Personal Development Centre Limited	03744583	England and Wales	Ordinary	100 <sup>h</sup>	100 <sup>h</sup>
Bright Care Limited	04050733	England and Wales	Ordinary	100 <sup>c</sup>	100 <sup>a</sup>
Cameron Care Limited	SC283940	Scotland	Ordinary	100 <sup>a</sup>	100 <sup>a</sup>
Care Support Services Limited	05356025	England and Wales	Ordinary	100 <sup>a</sup>	100 <sup>a</sup>
CareTech Community Services ( No 2 ) Limited	03894564	England and Wales	Ordinary	100 <sup>a</sup>	100 <sup>a</sup>
CareTech Community Services Limited	02804415	England and Wales	Ordinary	100	100
CareTech Estates (No 2) Limited	06518327	England and Wales	Ordinary	100	100
CareTech Estates (No 3) Limited	06518491	England and Wales	Ordinary	100	100
CareTech Estates (No 4) Limited	06543818	England and Wales	Ordinary	100	100
CareTech Estates (No 5) Limited	07027116	England and Wales	Ordinary	100	100
Caretech Estates (no 6) Limited	08420656	England and Wales	Ordinary	100	100
Caretech Estates (no 7) Limited	08628141	England and Wales	Ordinary	100	100
CareTech Estates Limited	05964868	England and Wales	Ordinary	100	100
CareTech Foster Care Limited	05185612	England and Wales	Ordinary	100 <sup>i</sup>	100 <sup>i</sup>
Caretech Fostering Holdings Limited	07206363	England and Wales	Ordinary	100 <sup>a</sup>	100 <sup>a</sup>
Caretech Fostering Services Limited	07205262	England and Wales	Ordinary	100 <sup>m</sup>	100 <sup>m</sup>
CareTech Housing Services	03438332	England and Wales	Ordinary	100 <sup>a</sup>	100 <sup>a</sup>
Colerene Community Care (Kent) Limited	02755757	England and Wales	Ordinary	100 <sup>a</sup>	100 <sup>a</sup>
Community Support Project Limited	05941774	England and Wales	Ordinary	100	100
Complete Care & Enablement Services Limited	05905163	England and Wales	Ordinary	100 <sup>a</sup>	100 <sup>a</sup>
Counticare Limited	02585666	England and Wales	Ordinary	100 <sup>a</sup>	100 <sup>a</sup>
Coveberry Limited	01208511	England and Wales	Ordinary	100 <sup>a</sup>	100 <sup>a</sup>
Daisybrook Limited	03026221	England and Wales	Ordinary	100 <sup>a</sup>	100 <sup>a</sup>
Dawn Hodge Associates Limited	04130146	England and Wales	Ordinary	100 <sup>a</sup>	100 <sup>a</sup>
Delam Care Limited	02995783	England and Wales	Ordinary	100 <sup>a</sup>	100 <sup>a</sup>
Delham Care Limited	02748991	England and Wales	Ordinary	100 <sup>a</sup>	100 <sup>a</sup>
Emeraldpoint Limited	03098166	England and Wales	Ordinary	100 <sup>c</sup>	100 <sup>c</sup>
EQL Solutions Limited	08758477	England and Wales	Ordinary	100	100
Caretech International Limited	06902547	England and Wales	Ordinary	100	100

Fostering Support Group Limited	02359399	England and Wales	Ordinary	100 <sup>k</sup>	100 <sup>k</sup>
Franklin Homes Limited	03002865	England and Wales	Ordinary	100 <sup>a</sup>	100 <sup>a</sup>
Glenroyd House Limited	04326288	England and Wales	Ordinary	100 <sup>c</sup>	100 <sup>c</sup>
Gloucestershire Autism Services Limited	03091510	England and Wales	Ordinary	100 <sup>q</sup>	100 <sup>q</sup>
Greenfields Adolescent Development Limited	04068839	England and Wales	Ordinary	100 <sup>f</sup>	100 <sup>f</sup>
Greenfields Care Group Limited	04642100	England and Wales	Ordinary	100 <sup>a</sup>	100 <sup>a</sup>
Hazeldene UK Limited	FC015967	Gibraltar	Ordinary	100 <sup>o</sup>	100 <sup>o</sup>
Hereson House Limited	04385252	England and Wales	Ordinary	100 <sup>a</sup>	100 <sup>a</sup>
Huntsmans Lodge Limited	04668317	England and Wales	Ordinary	100 <sup>a</sup>	100 <sup>a</sup>
Kirkstall Lodge Limited	04778674	England and Wales	Ordinary	100 <sup>c</sup>	100 <sup>c</sup>
K O B Care Limited	03039698	England and Wales	Ordinary	100 <sup>q</sup>	100 <sup>q</sup>
Leigham Lodge Limited	04583599	England and Wales	Ordinary	100 <sup>c</sup>	100 <sup>c</sup>
Lonsdale Midlands Limited	02834141	England and Wales	Ordinary	100 <sup>a</sup>	100 <sup>a</sup>
Lyndhurst Psychiatric Residential Care	02958528	England and Wales	Ordinary	100 <sup>q</sup>	100 <sup>q</sup>
Magnolia Court Limited	05444649	England and Wales	Ordinary	100 <sup>d</sup>	100 <sup>d</sup>
Mason Property Development Company Limited	04308273	England and Wales	Ordinary	100 <sup>g</sup>	100 <sup>g</sup>
One Six One Limited	04136284	England and Wales	Ordinary	100 <sup>a</sup>	100 <sup>a</sup>
One Step (Support) Limited	04534652	England and Wales	Ordinary	100 <sup>b</sup>	100 <sup>b</sup>
Outlook Fostering Services Limited	04357704	England and Wales	Ordinary	100 <sup>a</sup>	100 <sup>a</sup>
Palm Care Limited	04050739	England and Wales	Ordinary	100 <sup>c</sup>	100 <sup>c</sup>
Park Foster Care Limited	04861395	England and Wales	Ordinary	100 <sup>a</sup>	100 <sup>a</sup>
Park Foster Care Services Scotland Limited	SC427502	Scotland	Ordinary	100 <sup>a</sup>	100 <sup>a</sup>
Phoenix Therapy and Care Limited	SC254555	Scotland	Ordinary	100 <sup>a</sup>	100 <sup>a</sup>
Pinnacle Supported Living Limited	02736242	England and Wales	Ordinary	100 <sup>q</sup>	100 <sup>q</sup>
Prestwood Residential Homes Limited	04129564	England and Wales	Ordinary	100 <sup>a</sup>	100 <sup>a</sup>
Primrose Court Limited	04803769	England and Wales	Ordinary	100 <sup>g</sup>	100 <sup>g</sup>
Professional Integrated Care Services	04771613	England and Wales	Ordinary	100 <sup>r</sup>	100 <sup>r</sup>
Purple Zest Limited	11421082	England and Wales	Ordinary	60	60
Roborough House Limited	05054294	England and Wales	Ordinary	100 <sup>a</sup>	100 <sup>a</sup>
Rosedale Children's Services Limited	04932054	England and Wales	Ordinary	100 <sup>a</sup>	100 <sup>a</sup>
Selwyn Care Limited	03737832	England and Wales	Ordinary	100 <sup>a</sup>	100 <sup>a</sup>

South East Care Services Limited	02296352	England and Wales	Ordinary	100 <sup>a</sup>	100 <sup>a</sup>
St Michael's Support & Care Limited	05978585	England and Wales	Ordinary	100 <sup>a</sup>	100 <sup>a</sup>
CareTech Consulting Limited	07186925	England and Wales	Ordinary	100 <sup>a</sup>	100 <sup>a</sup>
Sunnyside Care Homes Limited	04589719	England and Wales	Ordinary	100 <sup>a</sup>	100 <sup>a</sup>
The Community Care Company UK Limited	02816119	England and Wales	Ordinary	100 <sup>a</sup>	100 <sup>a</sup>
TLC (Wales) Independent Fostering Limited	04824925	England and Wales	Ordinary	100 <sup>l</sup>	100 <sup>l</sup>
Uplands (Fareham) Limited	03488896	England and Wales	Ordinary	100 <sup>j</sup>	100 <sup>j</sup>
Valeo Community Projects Limited	03941224	England and Wales	Ordinary	100 <sup>r</sup>	100 <sup>r</sup>
Valeo Limited	04099715	England and Wales	Ordinary	100	100
Victoria Lodge Limited	04454845	England and Wales	Ordinary	100 <sup>d</sup>	100 <sup>d</sup>
Vosse Court Limited	04778676	England and Wales	Ordinary	100 <sup>c</sup>	100 <sup>c</sup>
White Cliffs Lodge Limited	04351559	England and Wales	Ordinary	100 <sup>a</sup>	100 <sup>a</sup>
Wyatt House Limited	04319271	England and Wales	Ordinary	100 <sup>c</sup>	100 <sup>c</sup>
Spark of Genius Limited	SC479758	Scotland	Ordinary	100 <sup>a</sup>	100 <sup>a</sup>
Spark Of Genius (Training) Limited	SC196146	Scotland	Ordinary	100 <sup>n</sup>	100 <sup>n</sup>
Trojan Spark Limited	SC453152	Scotland	Ordinary	100 <sup>o</sup>	100 <sup>o</sup>
Spark Of Genius (North East) LLP	OC384807	England and Wales	Ordinary	50 <sup>o</sup>	50 <sup>o</sup>
Oakleaf Care (Hartwell) Limited	05225317	England and Wales	Ordinary	100 <sup>a</sup>	100 <sup>a</sup>
H2O	97291	Gibraltar	Ordinary	100 <sup>a</sup>	100 <sup>a</sup>
ROC North West Limited	05564417	England and Wales	Ordinary	100 <sup>a</sup>	100 <sup>a</sup>
Selborne Care Limited	05513162	England and Wales	Ordinary	100 <sup>a</sup>	-
One True Step Limited	08339192	England and Wales	Ordinary	100 <sup>s</sup>	-

<sup>1</sup> Has a UK designated trading branch, Hazeldene UK Limited

a a subsidiary of CareTech Community Services Limited

b a subsidiary of Community Support Project Limited

c a subsidiary of Beacon Care Holdings Limited

d a subsidiary of Beacon Care Investments Limited

e a subsidiary of H2O Limited

f a subsidiary of Greenfields Care Group Limited

g a subsidiary of Branas Isaf (Holdings) Limited

h a subsidiary of Branas Isaf Personal Development Centre Limited

i a subsidiary of Coveberry Limited

j a subsidiary of Outlook Fostering Services Limited

k a subsidiary of CareTech Foster Care Limited

l a subsidiary of Professional Integrated Care Services Limited

m a subsidiary of CareTech Fostering Holdings Limited

- n a subsidiary of Spark of Genius Limited
- o a subsidiary of Spark of Genius (Training) Limited
- q a subsidiary of The Community Care Company UK Limited
- r a subsidiary of Valeo Limited
- s a subsidiary of Selborne Care Limited

### 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 2018 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 2018 as detailed above with the exception of CareTech Community Services Limited, Hazeldene UK Limited, H2O Limited and Spark of Genius (North East) LLP.

CareTech Community Services Limited as the main trading entity will not take the exemptions as stakeholders require audited financial statements to be produced. Hazeldene UK Limited and H2O Limited will not be covered by the parent company guarantee as they are incorporated in Gibraltar.

### 15 Trade and other receivables

	2018 £000	2017 £000
Trade receivables (note 24)	21,421	14,688
Other debtors and prepayments	10,326	8,831
	<u>31,747</u>	<u>23,519</u>

### 16 Cash and cash equivalents

	2018 £000	2017 £000
Cash and cash equivalents	<u>9,421</u>	<u>6,402</u>

### 17 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 24.

	2018 £000	2017 £000
<b>Non-current liabilities</b>		
Secured bank loans	-	141,818
Finance lease liabilities	2,580	4,054
	<u>2,580</u>	<u>145,872</u>

	2018 £000	2017 £000
<b>Current liabilities</b>		
Secured bank loans	151,748	5,726
Finance lease liabilities	2,082	1,936
	<u>153,830</u>	<u>7,662</u>

#### Terms and debt repayment schedule

	Currency	Nominal interest rate (%)	Year of maturity	Book Value 2018 £000	Book Value 2017 £000
Term loan	£	2.25 (2017:2.25) <sup>1</sup>	2019	120,499	126,441
Revolving credit facility term loan	£	2.25 (2017:2.25) <sup>1</sup>	2019	31,249	21,103
				<u>151,748</u>	<u>147,544</u>

<sup>1</sup> The margin on the facilities has initially been set at 2.75% over LIBOR but reduces based on the ratio of the Group's net debt to EBITDA. The overall margin in the year is 2.25% over LIBOR.

The Group had entered into new Banking facilities with Lloyds Bank plc and National Westminster Bank plc for committed financing by way of term loans of between 3.5 to 5 years up to £334m and a short term bridge loan of approx. £80m. The short bridge loan was repaid in November 2018 following completion using principally Cambian's significant cash position.

In addition to the Term Loans and Bridge Loan, a £25m revolving credit facility is available to provide working capital for the Enlarged Group and an uncommitted accordion facility of up to £30m for general Corporate and Working Capital purposes (including acquisitions).

The new facilities of the Term Loans and Bridge Loan with an aggregate size up to £414m have been utilised for the cash consideration of the acquisition, following the repayment of the Group's existing bank debt facilities of approx. £150m and the payment of debt financing fees of up to approx. £6m. The amount available for the draw down under the Term Loans was reduced in the event that the actual cash consideration payable under the transaction was less than £253m.

As part of the Acquisition, in September 2018 the Group's property portfolio was revalued by Cushman and Wakefield and the market value was £424m. The Cambian Group plc property portfolio was revalued by Knight Frank and the market value was £350m.

Following completion of the Acquisition, Lloyds Bank plc and Nat West Markets plc, who had underwritten the funding, completed the syndication of the Term Loans and revolving credit facility successfully. The syndication was significantly oversubscribed showing strong support for both the Group and the acquisition.

The final 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 and Credit Suisse AG, in addition to Lloyds Bank plc and National Westminster Bank plc.

The Enlarged Group loan to value based only on the property valuations is c42% whilst the proforma net debt to EBITDA of the Enlarged Group is 4.3x which is expected to reduce to under 4x in the short term.



## Finance lease liabilities

The finance leases relate to company vehicles used in the business.

Finance lease liabilities are payable as follows:

	Minimum lease payments	Interest	Principal	Minimum lease payments	Interest	Principal
	2018	2018	2018	2017	2017	2017
	£000	£000	£000	£000	£000	£000
Less than one year	2,200	118	2,082	2,067	131	1,936
Between one and five years	2,802	222	2,580	4,273	219	4,054
	<u>5,002</u>	<u>340</u>	<u>4,662</u>	<u>6,340</u>	<u>350</u>	<u>5,990</u>

## 18 Trade and other payables

	2018	2017
	£000	£000
Trade payables	3,808	2,338
Accrued expenses	21,067	13,371
	<u>24,875</u>	<u>15,709</u>

## 19 Deferred tax assets and liabilities

Recognised deferred tax assets and liabilities

Deferred tax assets and liabilities are attributable to the following:

	2018		2017	
	Assets	Liabilities	Assets	Liabilities
	£000	£000	£000	£000
Property, plant and equipment		1,901		1,978
Intangible assets		14,395		13,408
Derivative financial instruments		(59)		(160)
Share-based payments	(443)		(443)	
Rolled-over gains on property, plant and equipment		3,060		3,060
	<u>(443)</u>	<u>19,297</u>	<u>(443)</u>	<u>18,286</u>
Tax (assets) / liabilities		(443)		(443)
Net of tax assets		<u>18,854</u>		<u>17,843</u>
Net deferred tax liabilities				

There are no unrecognised deferred tax assets or liabilities.

Movement in deferred tax during the year

	1 October 2017 £000	Recognised in income £000	Equity movement £000	Acquired in business combination £000	30 September 2018 £000
Property, plant and equipment	1,978	(77)	-	-	1,901
Derivative financial instruments	(160)	101	-	-	(59)
Intangible assets	13,408	125	-	862	14,395
Share options	(443)	-	-	-	(443)
Rolled-over gains on property	3,060	-	-	-	3,060
	<u>17,843</u>	<u>149</u>	<u>-</u>	<u>862</u>	<u>18,854</u>

Movement in deferred tax during the previous year

	1 October 2016 £000	Recognised in income £000	Adjustment £000	Acquired in business combination £000	30 September 2017 £000
Property, plant and equipment	4,014	(2,036)	-	-	1,978
Capitalised revenue costs	(872)	872	-	-	-
Derivative financial instruments	(348)	188	-	-	(160)
Intangible assets	12,511	(639)	-	1,536	13,408
ROC and Oakleaf intangibles	2,809	(2,809)	-	-	-
Share Options	(19)	-	(424)	-	(443)
Roll-over gains on property	3,457	(397)	-	-	3,060
	<u>21,552</u>	<u>(4,821)</u>	<u>(424)</u>	<u>1,536</u>	<u>17,843</u>

## 20 Employee benefits

### Defined contribution plans

The Group operates a number of defined contribution pension plans.

The total expense relating to these plans in the current year was £1,527,000 (2017: £976,000) of which £286,000 (2017: £Nil) was outstanding at the year end.

### Share-based payments

The Company operates five share option schemes: The CareTech Holdings 2005 Approved Share Option Scheme ("The Approved Scheme"); the CareTech Holdings 2005 Unapproved Share Option Scheme ("The Unapproved Scheme"), the CareTech Holdings 2005 Sharesave Scheme, the CareTech Holdings 2016 Share-Save Scheme and the CareTech Holdings 2017 Sharesave Scheme.

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 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:

Expected Volatility	-	25%
Expected dividend yield	-	3.90%
Risk free interest rate	-	2.39%
Vesting period	-	3 years

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

- 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).

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 2018 are as follows:

Date of grant	Scheme	Options granted	Options lapsed to 30 Sept 2018	Options exercised to 30 Sept 2018	Options remaining 30 Sept 2018	Option price (pence) 30 Sept 2018
2 May 2008	Approved Scheme	114,070	(104,700)	(9,370)	-	410
2 May 2008	Unapproved Scheme	23,843	(23,843)	-	-	410
4 August 2009	Approved Scheme	191,121	(137,447)	(25,452)	28,222	332.5
4 August 2009	Unapproved Scheme	165,050	(114,574)	(27,145)	23,331	332.5
3 August 2010	Approved Scheme	283,754	(215,514)	(34,694)	33,546	305
3 August 2010	Unapproved Scheme	210,653	(149,577)	(27,203)	33,873	305

17 March 2016	Share save Scheme 2016	474,581	(133,361)	-	341,220	194
29 March 2016	Executive Share Ownership Plan 2016	1,919,000	-	-	1,919,000	247.5
1 December 2017	Share save scheme 2017	254,681	(34,081)	-	220,600	308

The charge for the year £197,000 (2017: £210,000) relates to the ExSOP Scheme 2017, the CareTech Holdings 2016 Sharesave Scheme and the CareTech Holdings 2017 Sharesave Scheme.

## 21 Equity

	2018 £000	2017 £000
Share Capital		
<b>Allotted, called up and fully paid:</b>		
75,691,423 (2017: 75,679,937) ordinary shares of 0.5p each	379	379
53,402 deferred shares of 0.5p each	-	-
	<u>379</u>	<u>379</u>

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:

### 2018

	At 1 October 2017	Issued following share option exercises	At 30 September 2018
Ordinary shares of 0.5p each	75,679,937	11,486	75,691,423
Deferred shares of 0.5p each	53,402	-	53,402
	<u>75,733,339</u>	<u>11,486</u>	<u>75,744,825</u>

### 2017

	At 1 October 2016	Issued in connection with acquisitions	Issued in connection with share placing	Issued following share option exercises	At 30 September 2017
Ordinary shares of 0.5p each	64,196,903	344,305	11,000,000	138,729	75,679,937
Deferred shares of 0.5p each	53,402	-	-	-	53,402
	<u>64,250,305</u>	<u>344,305</u>	<u>11,000,000</u>	<u>138,729</u>	<u>75,733,339</u>

## Reserves

Share Premium Account – During the year, the issue of new shares charged to the share premium account are as follows:

	2018 £000	2017 £000
Opening balance 1 October 2017	120,778	81,750
Premium on issue of shares	42	39,028
At 30 September 2018	<u>120,820</u>	<u>120,778</u>

Share premium includes any premiums received on issue of share capital. Any transaction costs associated with the issuing of shares are deducted from share premium, net of any related income tax benefits.

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	2018 £000	2017 £000
Opening balance 1 October 2017	9,023	9,023
At 30 September 2018	<u>9,023</u>	<u>9,023</u>

## Shares Held by Executive Shared Ownership Plan

Further information relating to the EBT reserve of the Group is detailed in note 20 to the consolidated financial statements of the Group.

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.

## 22 Dividends

The aggregate amount of dividends comprises:

	2018 £000	2017 £000
Interim dividend paid in respect of prior year but not recognised as liabilities in that year (3.30p per share (2017: 3.00p per share))	2,498	1,923
Final dividend paid in respect of the prior year (6.60p per share (2017: 6.25p per share))	4,996	4,010
Aggregate amount of dividends paid in the financial year (9.90p per share (2017: 9.25p per share))	<u>7,494</u>	<u>5,933</u>

The aggregate amount of dividends proposed and not recognised as liabilities as at the year end is 11.00p per share, £8,166,018 (2017: 9.90p per share, £7,493,075).

## 23 Business Combinations

### (a) Selborne Care Limited (acquisition from 2017 financial statements)

On 19 June 2017 the Group acquired the equity of Selborne Care Limited, which provides a range of supported living, residential care and day opportunity services in Birmingham, Sandwell, Coventry and Warwickshire, Worcestershire, Wolverhampton, Bristol, South Gloucestershire, Bath and North East Somerset, Devon Plymouth and Cornwall.

The book values attributable to the acquisition were £13,807,000 net assets and provisional fair value and adjustments were £4,397,000. The provisional acquisition table provided was:

	Book values £000s	Fair value adjustment £000s	Total £000s
Intangible assets	296	-	296
Property plant & equipment	12,571	4,997	17,568
Trade and other receivables	989	(250)	739
Cash	2,590	-	2,590
Trade and other payables	(1,526)	(350)	(1,876)
Deferred Tax	(1,113)	-	(1,113)
Net Assets on acquisition	13,807	4,397	18,204
Cash paid	18,281		18,281
Goodwill			77

The acquisition accounting has been finalised and revised as follows:-

	Book values £000s	Fairvalue adjustment £000s	Total £000s
Intangible assets	296	3,312	3,608
Property plant & equipment	12,571	-	12,571
Trade and other receivables	989	(250)	739
Cash	2,590	-	2,590
Trade and other payables	(1,526)	(350)	(1,876)
Deferred Tax	(1,113)	(862)	(1,975)
Net Assets on acquisition	13,807	1,850	15,657
Cash paid	18,281		18,281
Goodwill			2,624

Goodwill that arose can be attributed to the workforce in place and other intangible assets which do not qualify for separate recognition. The remaining disclosures in relation to the acquisition of Selbourne Care Limited remain unchanged as stated in the 2017 financial statements.

### (b) Acquisitions 2018

The Group acquired one company during the year. On 6 July 2018, the Group acquired 60% of the share capital of Purple Zest Limited for a total consideration of £0.1m with goodwill of £0.05m.

The investment in Purple Zest Limited reflects CareTech's commitment to support a deeper understanding of disability issues and will build on Purple Conversation's innovative approach to supporting disabled people to attain employment and to support businesses, of all sizes and across all sectors, to have greater awareness and understanding of disability and to increase the number of disabled people employed.

The business has generated revenues of £0.3m and EBITDA of £nil in the year from acquisition to 30 September 2018.

The Group incurred legal and professional costs of £48k in relation to this acquisition, which were recognised in administration expenses.

### **(c) Acquisition after balance sheet date**

Subsequent to the year end the Group acquired Cambian Group plc and the details of this transaction are:

On 19 October 2018, the Group acquired 100% of the share capital of Cambian Group plc for a total consideration of £366m.

*Cambian is a leading Children's specialist education and behavioural health service provider looking after around 2,000 children across a portfolio of 222 residential facilities, specialist schools and fostering offices. It employs over 4,500 people.*

- The acquisition of Cambian is a unique opportunity for investors to enhance exposure to the growing UK market for social care services for children and adults.
- Highly complementary service offering and geographical coverage providing a nationwide integrated care pathway focused on higher acuity social care.
- Combined operational expertise to better service local authority partners, deliver strong user outcomes, implement positive staff engagement and improve care quality.
- Opportunity to unlock significant value through a compelling strategic fit, tangible near-term synergies and enhanced trading liquidity.

A full announcement and prospectus was issued on 19 September 2018.

Given the proximity of the announcement to the completion date of the transaction and as previously announced the requirement of merger clearance from Competition and Market Authority under Enterprise Act 2002, it is not possible to give preliminary acquisition table at this time.

The Group incurred legal and professional costs of £3.5m in relation to this acquisition in the year which were recognised in administration expenses.

As a result of this acquisition the Group entered into new bank facilities:-

On 19 October 2018, the Group had entered into new Banking facilities with Lloyds Bank plc and National Westminster Bank plc for committed financing by way of term loans of between 3.5 to 5 years for up to £322m and a short term bridge loan of approx. £80m. The short term bridge loan was repaid in November 2018 following completion using principally Cambian's significant cash position.

In addition to the Term Loans and Bridge Loan, a £25m revolving credit facility is available to provide working capital for the Enlarged Group and an uncommitted accordion facility of up to £30m for general Corporate and Working Capital purposes (including acquisitions).

## **24 Financial instruments**

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

#### Credit risk

Financial instruments which potentially expose the Group to credit risk consist primarily of cash equivalents and trade receivables. Cash equivalents are deposited only with major financial institutions that satisfy certain credit criteria.

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

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

The Group provides credit to customers in the normal course of business with a provision for specific doubtful receivables. The balance includes the amounts considered recoverable which also equals their fair value. The Group does not require collateral in respect of financial assets. During the year there was a charge to the consolidated statement of comprehensive income for bad or doubtful debts of £46,000 (2017: credit £100,000).

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

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

	2018 £000	2017 £000
Not due	10,918	7,240
Not more than three months past due	5,021	3,060
More than three months but not more than six months past due	5,482	4,388
Trade receivables (note 15)	<u>21,421</u>	<u>14,688</u>

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

	£000
At 1 October 2016	815
Credited to the consolidated statement of comprehensive Income	(100)
At 1 October 2017	<u>715</u>
Charged to the consolidated statement of comprehensive Income	46
At 30 September 2018	<u>761</u>

#### Interest rate risk

The Group finances its operations through called up share capital, retained profits, bank borrowings, and the sale of assets if appropriate. The Group's income is by its nature relatively stable and its growth is, inter alia, impacted by inflation. Group policy is to balance interest rate fixes between the short, medium and long term. The benchmark rate for bank borrowings is LIBOR. As at 30 September, the Group carried 4 hedging instruments, details of which are as follows:



- a 3 year swap commencing 28 January 2017 at pre-determined amounts initially starting at £35.2 million at LIBOR fixed at 1.032%
- a 3 year swap commencing 9 February 2017 at pre-determined amounts initially starting at £38.2 million at LIBOR fixed at 1.097%
- a 3 year swap commencing 9 February 2017 at pre-determined amounts initially starting at £18.1 million at LIBOR fixed at 1.097%
- a 3 year swap commencing 12 February 2017 at pre-determined amounts initially starting at £18.5 million at LIBOR fixed at 1.097%

#### 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.

2018						
	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		(24,875)	(24,875)	(24,875)	-	-
IAS 17 Ground		(7,294)	(7,294)	(50)	(198)	(7,046)
Secured bank loans	5%	(151,748)	(151,748)	(151,748)	-	-
Finance lease liabilities	11%	(4,662)	(4,662)	(2,082)	(2,580)	-
Deferred and contingent consideration		(966)	(966)	(966)	-	-
Derivative financial instruments		(152)	(152)	(152)	-	-
		(189,697)	(189,697)	(179,873)	(2,778)	(7,046)

2017

	Effective Interest Rate %	Carrying amount £000	Cash flows £000	< 1 year £000	1 – 5 years £000	5 years & over £000
Trade and other payables		(15,709)	(15,709)	(15,709)	-	-
IAS 17 Ground Rent payable		(7,344)	(7,344)	(50)	(198)	(7,096)
Secured bank loans	5%	(147,544)	(161,716)	(5,775)	(155,941)	-
Finance lease liabilities	11%	(5,990)	(5,990)	(1,936)	(4,054)	-
Deferred and contingent consideration		(3,553)	(3,553)	(2,420)	(1,133)	-
Derivative financial instruments		(940)	(940)	(768)	(172)	-
		(181,080)	(195,252)	(26,658)	(161,498)	(7,096)

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:

	2018 £000	2017 £000
Net debt	146,989	147,132
Equity (see page 75)	208,233	204,201

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 7.5p per share demonstrating a confident view of the Group's fundamental strength.

Net Debt

Net Debt as defined by the Group's Banking facilities and comprises cash and cash equivalents net of all Loans and Borrowings due to the Group's Bankers.

	Note	2018 £000	2017 £000
<b>Net debt in the balance sheet comprises:</b>			
Cash and cash equivalents	16	9,421	6,402
Bank loans	17	(151,748)	(147,544)
Finance lease and hire purchase contracts	17	(4,662)	(5,990)
<b>Net debt at 30 September</b>		<b>(146,989)</b>	<b>(147,132)</b>

Foreign currency risk

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

### Sensitivity analysis

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

At 30 September 2018, 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 £410,000 (2017: £430,000). Economic hedging instruments have been included in this calculation.

### Fair values

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

	Carrying amount 2018 £000	Fair value 2018 £000	Carrying amount 2017 £000	Fair value 2017 £000
<i>Loans and receivables:</i>				
Cash at bank and in hand (note 16)	9,421	9,421	6,402	6,402
Trade receivables (note 15)	21,421	21,421	14,688	14,688
<i>Amortised cost:</i>				
Trade payables (note 18)	(3,808)	(3,808)	(2,338)	(2,338)
Secured bank loans (note 17)	(151,748)	(151,748)	(147,544)	(147,544)
Contingent consideration (note 24)	(966)	(966)	(3,553)	(3,553)
<i>Held at fair value through profit and loss:</i>				
Derivative financial instruments	(152)	(152)	(940)	(940)

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

- for trade and other receivables and payables with a remaining life of less than one year the carrying amount is deemed to reflect the fair value;
- for cash and cash equivalents the amounts reported on the balance sheet approximates to fair value;
- for secured bank loans at floating rate the carrying value is deemed to reflect the fair value as it represents the price of the instruments in the market place; and
- for finance lease liabilities, all amounts are due within five years and are on terms similar to those estimated to be achievable in the market.
- for the derivatives financial instruments, these were entered into to manage the Group's exposure to interest rate risk on its external borrowings.
- for contingent consideration, this was entered into as part of the acquisition of Spark of Genius

The fair value will be determined with reference to:

- Spark of Genius's EBITDA performance over the four financial years ending 30 September 2019

### Fair value hierarchy

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

- Level 1 – unadjusted quoted prices in active markets for identical assets or liabilities: £nil (2017: £nil).
- Level 2 – inputs other than quoted prices included within level 1 that are observable for the asset or liability either as a direct price or indirectly derived from prices: liability £152,000 (2017: liability £940,000).
- Level 3 – inputs for the asset or liabilities that are not based on observable market data: liability £966,000 (2017: liability £3,553,000). The financial liability measured at fair value in the Consolidated Statement of Financial Position at 30 September 2018 is deferred consideration. The fair value of deferred consideration relates to the acquisitions completed in current and prior years and is the estimated cash flows payable. The cash flows are not discounted as management deem this to be immaterial to the future cash flows payable. The effects on the fair value of risk and uncertainty in the future cash flows are dealt with by adjusting the estimated cash flows. Should any of the acquired businesses not achieve its performance targets then the estimated cash flows may be reduced.

## 25 Operating leases

Non-cancellable operating lease rentals are payable as follows:

	2018		2017	
	Land and buildings £000	Other £000	Land and buildings £000	Other £000
Within one year	3,974	244	3,764	293
Between two and five years	8,156	265	8,635	286
More than five years	119,466	-	121,190	-
	<u>131,596</u>	<u>509</u>	<u>133,589</u>	<u>579</u>

Included in the operating lease rentals for land and buildings in more than five years are leases relating to the land element for the properties sold to third parties and then leased back on 150 year leases. During the year the following was recognised as an expense in the consolidated statement of comprehensive income in respect of operating leases:

	2018		2017	
	Land and buildings £000	Other £000	Land and Buildings £000	Other £000
Charge for amounts currently payable	<u>4,345</u>	<u>759</u>	<u>3,653</u>	<u>673</u>
Total recognised in the consolidated statement of comprehensive income	<u>4,345</u>	<u>759</u>	<u>3,653</u>	<u>673</u>

## 26 Related parties

During the year, CareTech Community Services Limited paid rent totalling £198,000 (2017: £188,250) in respect of properties in which F. Sheikh and H. Sheikh have an interest. At the year-end rent of £104,000 (2017: £81,000) was prepaid.

Dividends paid to Directors in the year totalled £147,000 (2017: £90,000).

Mike Adams, who is a non-executive director is also the chief operating officer of Purple Zest Limited a company which Caretech Holdings acquired a 60% shareholding in July 2018.

### Transactions with key management personnel

	2018 £000	2017 £000
Salary	3,007	2,493
Benefits	134	132
Bonus	871	186
	<hr/>	<hr/>
Total short term remuneration	4,012	2,811
Post employment benefits	-	-
Share based payments	-	-
	<hr/>	<hr/>
	4,012	2,811

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

Directors' emoluments are set out on page 64.

**Company Statement of Financial Position**  
as at 30 September 2018

	Note	2018 £000	2017 £000
<b>Non-current assets</b>			
Investments	29	35,623	35,301
		<u>35,623</u>	<u>35,301</u>
<b>Current assets</b>			
Trade and other receivables	30	278,108	269,304
Cash and cash equivalents		466	748
		<u>278,574</u>	<u>270,052</u>
<b>Total assets</b>		<u>314,197</u>	<u>305,353</u>
<b>Current liabilities</b>			
Loans and borrowings	31	151,748	5,755
Trade and other payables	32	1,446	1,130
		<u>153,194</u>	<u>6,885</u>
<b>Non-current liabilities</b>			
Loans and borrowings	31	-	142,532
		<u>-</u>	<u>142,532</u>
<b>Total liabilities</b>		<u>153,194</u>	<u>149,417</u>
<b>Net assets</b>		<u>161,003</u>	<u>155,936</u>
<b>Equity</b>			
Share capital	33	379	379
Share premium		120,820	120,778
Merger reserve		9,023	9,023
Retained earnings		30,781	25,756
<b>Total equity attributable to equity shareholders of the parent</b>		<u>161,003</u>	<u>155,936</u>

These financial statements were approved by the Board of Directors and authorised for issue on and were signed on its behalf by:



**Farouq Sheikh**  
Group Executive Chairman

Company number: 04457287

## Company Statement of Changes in Equity

as at 30 September 2018

	Share capital £000	Share premium £000	Merger reserve £000	Retained earnings £000	Total Equity £000
At 1 October 2016	321	81,750	9,023	17,800	108,894
Profit for the year	-	-	-	13,889	13,889
Total comprehensive income	-	-	-	13,889	13,889
Issue of shares	58	39,028	-	-	39,086
Dividends	-	-	-	(5,933)	(5,933)
Transactions with owners recorded directly in equity	58	39,028	-	(5,933)	(33,153)
At 30 September 2017	379	120,778	9,023	25,756	155,936
At 1 October 2017	-	-	-	12,519	12,519
Profit for the year	-	-	-	12,519	12,519
Total comprehensive income	-	-	-	12,519	12,519
Issue of shares	-	42	-	-	42
Dividends	-	-	-	(7,494)	(7,494)
Transactions with owners recorded directly in equity	-	42	-	(7,494)	(7,452)
At September 2018	379	120,820	9,023	30,781	161,003

## Company Statement of Cash Flow

for the year ended 30 September 2018

	2018 £000	2017 £000
<b>Cash flows from operating activities</b>		
Profit for the year	12,519	13,889
	<hr/>	<hr/>
<b>Operating cash flows before movement in working capital</b>	12,519	13,889
Movement in payables	316	(709)
Movement in intercompany balance	(8,804)	(39,551)
	<hr/>	<hr/>
<b>Net cash generated/ (used in) from operating activities</b>	4,031	(26,371)
	<hr/>	<hr/>
<b>Cashflows from investing activities</b>		
Acquisition of subsidiaries, net of cash acquired	(322)	=
	<hr/>	<hr/>
<b>Cash flows from financing activities</b>		
Dividends paid	(7,494)	(5,933)
Proceeds from the issue of new shares (net of costs)	42	39,086
Bank loans drawdown/ (repayments)	3,461	(6,301)
	<hr/>	<hr/>
<b>Net cash (used in)/ generated from financing activities</b>	(3,991)	26,852
	<hr/>	<hr/>
<b>Net (decrease)/ increase in cash and cash equivalents</b>	(282)	481
<b>Cash and cash equivalents at 1 October</b>	748	267
	<hr/>	<hr/>
<b>Cash and cash equivalents at 30 September</b>	466	748
	<hr/>	<hr/>



## Company Notes to the Financial Statements

### 27 Accounting policies

#### (a) Basis of preparation

The financial statements of the Company have been prepared and approved by the Directors in accordance with International Financial Reporting Standards as adopted by the EU ("Adopted IFRSs") and those parts of the Companies Act 2006 relevant to those companies which report in accordance with IFRS.

Under section 408 of the Companies Act 2006 the Company is exempt from the requirement to present its own comprehensive statement of income. The profit for the year dealt with in the financial statements of the Company was £12,519,000 (2017: £13,889,000).

#### (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 statement of comprehensive income over the period of the borrowings on an effective interest basis.

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

#### (e) Financial Instruments

Recognition, initial measurement and derecognition

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

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

#### (f) Taxation

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

#### (g) Revenue

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

(h) Share-based payments

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

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

(i) Dividends on shares presented within shareholders' funds

Dividends unpaid at the balance sheet date are only recognised as a liability at that date to the extent that they are appropriately authorised and are no longer at the discretion of the Company. Unpaid dividends that do not meet these criteria are disclosed in the notes to the financial statements.

(j) 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

	2018 £000	2017 £000
Opening balance 1 October 2017	9,023	9,023
At 30 September 2018	<u>9,023</u>	<u>9,023</u>

**28 Dividends**

The aggregate amount of dividends comprises:

	2018 £000	2017 £000
Interim dividend paid in respect of prior year but not recognised as liabilities in that year (3.30p per share (2017 3.00p per share))	2,498	1,923
Final dividend paid in respect of the prior year 6.60p per share) (2017: 6.25p per share))	4,996	4,010
Aggregate amount of dividends paid in the financial year (9.90p per share) (2017:9.25p per share))	<u>7,494</u>	<u>5,933</u>

The aggregate amount of dividends proposed and not recognised as liabilities as at the year end is 11.00p per share, £8,166,018 (2017: 9.90p per share, £7,493,075).

## 29 Investments

	Shares in group undertakings £000
<b>Cost and net book value</b>	
At beginning of year	35,301
Acquisition	322
At end of year	<u>35,623</u>

## 30 Trade and other receivables

	2018 £000	2017 £000
Amounts owed by Group undertakings	<u>278,108</u>	<u>269,304</u>

## 31 Interest-bearing loans and borrowings

This note provides information about the contractual terms of the Company's interest-bearing loans and borrowings. For more information about the Group's exposure to interest rate risk, see note 24.

	2018 £000	2017 £000
<b>Non-current liabilities</b>		
Secured bank loans	-	<u>142,532</u>
<b>Current liabilities</b>		
Current portion of secured bank loans	<u>151,748</u>	<u>5,755</u>

### Terms and debt repayment schedule

	Currency	Nominal interest Rate (%)	Year of maturity	Book value 2018 £000	Book value 2017 £000
Term loan	£	2.25 (2017:2.25) <sup>1</sup>	2019	120,499	127,184
Revolving credit facility term loan	£	2.25 (2017:2.25) <sup>1</sup>	2019	31,249	21,103
				<u>151,748</u>	<u>148,287</u>

<sup>1</sup> The margin on the facilities has initially been set at 2.75% over LIBOR but reduces based on the ratio of the Group's net debt to EBITDA. The overall margin is 2.25% over LIBOR.

The Group had entered into new Banking facilities with Lloyds Bank plc and National Westminster Bank plc for committed financing by way of term loans of between 3.5 to 5 years up to £334m and a short term bridge loan of approx. £80m. The short bridge loan was repaid in November 2018 following completion using principally Cambian's significant cash position.

In addition to the Term Loans and Bridge Loan, a £25m revolving credit facility is available to provide working capital for the Enlarged Group and an uncommitted accordion facility of up to £30m for general Corporate and Working Capital purposes (including acquisitions).

The new facilities of the Term Loans and Bridge Loan with an aggregate size up to £414m have been utilised for the cash consideration of the acquisition, following the repayment of the Group's existing bank debt facilities of approx. £150m and the payment of debt financing fees of up to approx. £6m. The amount available for the draw down under the Term Loans was reduced in the event that the actual cash consideration payable under the transaction was less than £253m.

As part of the Acquisition, in September 2018 the Group's property portfolio was revalued by Cushman and Wakefield and the market value was £424m. The Cambian Group plc property portfolio was revalued by Knight Frank and the market value was £350m.

Following completion of the Acquisition, Lloyds Bank plc and Nat West Markets plc, who had underwritten the funding, completed the syndication of the Term Loans and revolving credit facility successfully. The syndication was significantly oversubscribed showing strong support for both the Group and the acquisition.

The final 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 and Credit Suisse AG, in addition to Lloyds Bank plc and National Westminster Bank plc.

The Enlarged Group loan to value based only on the property valuations is c42% whilst the proforma net debt to EBITDA of the Enlarged Group is 4.3x which is expected to reduce to under 4x in the short term.

### 32 Trade and other payables

	2018 £000	2017 £000
Other creditors	1,446	1,130

### 33 Called up share capital

	2018 £000	2017 £000
<b>Allotted, called up and fully paid:</b>		
75,679,937 (2017: 64,196,903) ordinary shares of 0.5p each	379	379
53,402 deferred shares of 0.5p each	-	-
	<u>379</u>	<u>379</u>

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

Details in respect of the reserves are given in note 21 to the Group financial statements.

### 34 Employee benefits

#### Defined contribution plans

The Company operates a number of defined contribution pension plans.

The total Company expense relating to these plans in the current year was £nil (2017: £nil).

#### Share-based payments

There was no expense for share-based payments relating to the Company in the year (2017: £nil).

The grants and related accounting treatment adopted by the Company is identical to that operated by the Group under IFRS 2 "share-based payments" (see note 20).

### 35 Directors' remuneration

The analysis of Directors' emoluments and share options is included within the Remuneration Report on pages 63 and 64. This analysis forms part of these financial statements.

### 36 Staff numbers and costs

The Company has no employees (2017: none) other than the Directors. Directors' emoluments are paid by a subsidiary undertaking.

### 37 Related parties

During the year the Company received dividends of £9,800,000 (2017: £13,000,000) and received interest of £8,083,000 (2017: £6,409,000) and fees of £70,000 (2017: £70,000) from its subsidiary undertakings. The amount due to the Company from its subsidiary undertakings at the balance sheet date amounted to £278,846,000 (2017: £269,304,000).

### 38 Financial instruments

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

#### Credit risk

Management has a credit policy in place and exposure to credit risk is monitored on an ongoing basis. The Company provides credit to subsidiaries in the normal course of business. The balance includes the amounts considered recoverable which also equals to their fair value. The Company has collateral in respect of the investments it holds in its subsidiary undertakings. During the year there was no charge to the income statement for bad or doubtful debts (2017: £nil).

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

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

	2018 £000	2017 £000
Not due	278,108	269,304
Not more than three months past due	-	-
More than three months but not more than six months past due	-	-
More than six months past due	-	-
Trade receivables (note 30)	<u>278,108</u>	<u>269,304</u>

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

#### Interest rate risk

The Company finances its operations through called up share capital, retained profits, bank borrowings, and the sale of assets if appropriate. Group policy is to balance interest rate fixes between the short, medium and

long term. The benchmark rate for bank borrowings is LIBOR.

#### Liquidity risk

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

	Effective	Carrying	2018 Contractual	< 1	1 - 5	5 years
	Interest	Amount	Cash	year	years	& over
	rate %	£000	Flows	£000	£000	£000
Trade and other payables	-	(1,446)	(1,446)	(1,446)	-	-
Secured bank loans	5%	(151,748)	(151,748)	(151,748)	-	-
		<u>(153,194)</u>	<u>(153,194)</u>	<u>(153,194)</u>	<u>-</u>	<u>-</u>

	Effective	Carrying	2017 Contractual	< 1	1 - 5	5 years
	Interest	Amount	Cash	Year	years	& over
	rate %	£000	flows	£000	£000	£000
Trade and other payables	-	(1,130)	(1,130)	(1,130)	-	-
Secured bank loans	5%	(148,287)	(162,528)	(5,755)	(156,773)	-
		<u>(149,417)</u>	<u>(163,658)</u>	<u>(6,885)</u>	<u>(156,773)</u>	<u>-</u>

#### Capital risk management

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

The Company's capital structure is as follows:

	2018 £000	2017 £000
Net debt	151,748	148,287
Equity	161,003	155,936

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 7.5p per share demonstrating a confident view

of the Group's fundamental strength.

#### Foreign currency risk

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

#### Sensitivity analysis

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

At 30 September 2018 it is estimated that a general increase of 1% in interest rates would impact finance expense and decrease the Company's profit before tax and equity by approximately £410,000 (2017: £430,000). Hedging instruments have been included in this calculation.

#### Fair values

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

	Carrying amount 2018 £000	Fair value 2018 £000	Carrying Amount 2017 £000	Fair value 2017 £000
<b>Loans and receivables:</b>				
Cash at bank and in hand	466	466	748	748
Trade receivables (note 30)	278,108	278,108	269,304	269,304
<b>Amortised cost:</b>				
Other payables (note 32)	(1,446)	(1,446)	(1,130)	(1,130)
Secured bank loans (note 31)	(151,748)	(151,748)	(148,287)	(148,287)

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

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

## Directors and Advisers

### Company Number

04457287

### Registered Office

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Herts EN6 1AG

### Directors

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

### Nominated Adviser and Joint Broker

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### Joint Brokers

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### Registrars

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