CareTech Holdings PLC

Annual Report and Accounts 2019

Registered number 04457287

ABOUT US

Focusing on the high acuity special education social care population we support children and adults through solutions that are 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's 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 social care. CareTech provides the right solution for complex and difficult situations through our nationally recognised expertise in provision for children and young people including those with challenging behaviours, sexually offending behaviours or who have emotional and behavioural disorders. Our comprehensive service includes education in Ofsted registered schools of very high quality.

CareTech has pioneered outcomes and progression along Care Pathways including transition services for young people leaving care and for adults who are making the move into their own home after a lifetime in residential or institutional settings. We remain a national leader in the drive to enable people to live as independently as possible in a home of their own.

We believe in career development and creating learning opportunities and have developed an enviable reputation as a leading provider and organiser of modern apprenticeships across the UK, to members of staff, those we care and support for other organisations seeking to develop their teams.

Contents

An Enlarged Group Offering Extended Care Pathways

Cambian acquisition

On 19 October 2018, CareTech Holdings PLC acquired the entire share capital of Cambian Group PLC ('Cambian'). Cambian's services have a specific focus on children who present high severity needs with challenging behaviours and complex care requirements. The acquisition has extended our care pathway and given the Group (Caretech Holdings PLC and its subsidiaries) a broader geographic and acuity service offering which we will seek to capitalise on over the coming years.

The headline consideration for the acquisition was £359.9m (of which £241.7m was paid in cash), with the net price paid being £278.5m reflecting £81.5m of net cash held by Cambian on the date of acquisition. The acquisition was funded by the issue of 33.2m shares and new bank facilities.

Therefore, this report shows significant increases in Revenue, EBITDA and other income statement items reflecting the Cambian acquisition as well as presentational changes reflecting the on-going integration of the two businesses, most notably our new outcome-based operational segments: Adults Services, Children's Services and Foster Care.

2019 Financial and Operational Highlights

Highlights		
	Revenue £395.0m CareTech like-for-like **increased** to £196.5m (2018: £185.7m)	EBITDA (i) £73.5m **increased** by 67.4% (2018: £43.9m) CareTech like-for-like **increased** to £44.3m (2018 £43.9m)
	Underlying profit before tax (ii) £50.2m **increased** by 52.5% (2018 £32.9m)	Underlying basic earnings per share (ii) 37.6p **increased** by 7.2% (2018: 35.07p)
	Net Cash Inflows from operating activities(v) £66.3m (2018 £39.4m)	Property portfolio valuation(iv) £774m with net debt(iii) of £291.1m
	Operating profit £39.5m **increased** by 95.5% (2018: £20.2m)	Diluted earnings per share 18.31p **increased** by 30.2% (2018: 14.06p)
	Final dividend per share 7.95 p **increased** by 6% (2018: 7.5p)	

Operational highlights	Quality **CQC** Group: 95% (2018: 86%) **Ofsted** Group: 82% Caretech like-for-like 93% (2018: 86%)	Overall care capacity increased by 2,457[v] 5,079 places CareTech 2,620 (2018 2,622) Cambian 2,459

(i) EBITDA is operating profit stated before depreciation, share-based payments charge and non-underlying items (see page 88)

(ii) Underlying profit before tax and underlying basic earnings per share are stated before non-underlying items

(iii) Net Debt comprises cash and cash equivalents net of all loans and borrowings (see page 127)

(iv) September 2018 market value of CareTech property portfolio of £424m and Cambian £350m

(v) Cash flow from operations before non-underlying items and tax (and excluding capex) (see page 91)

CareTech at a Glance

Extraordinary Days Every Day

CARING EVERYDAY

The CareTech Group provides education, care and support to individuals in need. This is both children and adults who present with special and high severity needs, challenging behaviours and who have complex care requirements.

Since CareTech came to the AIM market 14 years ago, it has evolved through a mix of organic and acquisitive growth that has led to our current position as one of the best established and reputable national specialist education and social care providers. We provide services across England, Scotland and Wales in a highly fragmented UK social care market, covering the majority of the social care spectrum or care pathways.

Many of the tailor-made services are offered in specialist schools, residential care and community based settings. All the residential homes are registered with the UK Government regulator: Care *Quality Commission ('CQC'), Office for Standards in Education, Children's Services and Skills* ('Ofsted') and other relevant regulators. CareTech also provides care and support to a significant number of people who have their own tenancies (supported living) and in various day or support centres.

We provide services to over 4,000 adults and children across 550 locations. We work with the majority of Local Authorities and Clinical Commissioning Group in England, Scotland and Wales and employ approximately 10,000 people.

The total market value is estimated, (Laing and Buisson 2017) to be worth £7bn for children's services and £6bn for the care of 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. The Group observes an increased political and societal awareness concerning the funding of Social Care budget for adults and children. We believe budgets require additional funding, given the importance to the healthcare and social fabric of society in supporting an increasing population of the most vulnerable.

NATIONAL FOOTPRINT

CareTech is recognised as a leading high quality provider of individual tailor made solutions for people living in their own homes, attending special education needs schools, residential care or independent supported living schemes. We are a market leading provider offering a differentiated care pathway across three divisions:

Adults Services: 258 sites

Children's Services: 281 sites

Foster Care: 11 registered offices

CareTech's services are delivered from over 550 locations across England, Scotland and Wales with a strong presence of local brands and regional service delivery points.

Group Chairman's Statement

"Delivering high quality support and care to individuals with complex needs to achieve positive outcomes"

A year of delivery and change

I am privileged to present our results for the period ending 30 September 2019. In the year we are celebrating our 25th Anniversary in care, the Group has become a leading national social care provider to young people and adults and is now the largest provider of care and education services to children in the UK. This is a real milestone for CareTech. 2019 has proved to be another exceptionally busy and successful year, with the acquisition of Cambian delivering:

- an extended care pathway and broader geographic and acuity service offering;
- operational best practices across the Group to better service partners and service users;
- improved Ofsted quality ratings to 80%;
- synergies of £3m PBT synergies as set out in our acquisition plan;
- margin improvement to 13.4% pre-synergies; and
- delivering a transformational business which is earnings accretive for shareholders.

Whilst Cambian has been the largest acquisition in CareTech's history and significant progress has been made on its integration, our core business continues to grow and perform well. In this regard, I am pleased to report:

- like-for-like underlying performance in the CareTech business has increased;
- improvement on CQC and Ofsted Quality Ratings;
- accelerated organic growth initiatives including property purchases and reconfigurations;
- strong occupancy levels have been maintained throughout the year;
- staff retention initiatives have proven successful with retention rates ahead of sector average;
- exciting initiatives and partnerships launched by the CareTech Charitable Foundation.

Management have performed extremely well to manage these various workstreams whilst ensuring that the 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.

This is only possible due to the dedication, determination and hard work of our staff. To acknowledge their success, I was proud to celebrate their achievements with them at our fifth National Care Awards in November this year.

In line with our ethos of promoting the CareTech culture, the Group announced in October 2019, the most wide-ranging share ownership incentive plan to include c.600 individuals across the business including home managers, back office staff and executive management. This, together with our various training and incentive programmes, gives us a highly committed staff team who deliver positive outcomes for our service users.

Financial results and position

The Group's performance reflects the scale of the acquisition of Cambian and delivers a substantial increase in revenue, EBITDA and other income statement items together with the cash flows for the period following completion on 19 October 2018.

	2019	2018	Change
Revenue	£395.0m	£185.7m	113%
CareTech like-for-like revenue	£196.5m	£185.7m	6%
EBITDA(i)	£73.5m	£43.9m	67%
CareTech like-for-like EBITDA	£44.3m	£43.9m	1%
Underlying profit before tax(ii)	£50.2m	£32.9m	53%
Underlying basic earnings per share	37.60p	35.10p	7%
Statutory profit before tax	£24.3m	£15.4m	58%
Statutory earnings per share	18.38p	14.07p	31%
Cash flow from operating activities(iii)	£66.3m	£39.4m	68%
Final dividend per share	7.95p	7.50p	6%

I am pleased to report that the Group's trading performance in the year to date is in line with market expectations. This report includes presentational changes first outlined in the trading update issued on 1 May 2019 to reflect the on-going integration of the two businesses, most notably, in the reporting of operational information which is presented as the following three outcome-based operating divisions: Adults Services, Children's Services and Foster Care.

Revenue increased by 112.7% to £395.0m (2018: £185.7m). The split of revenue is £196.5m for CareTech and £198.5m for Cambian. Like-for-like CareTech's revenue in the period increased 5.8% from £185.7m.

Group EBITDA of £73.5m (2018: £43.9m) represents growth of 67.4% when compared with the same period last year. The split of EBITDA is £44.3m for CareTech and £29.3m for Cambian. Like-for-like, CareTech's EBITDA increased by 1% reflecting the effect of re-configurations during the year. The EBITDA margin was 18.6% (2018: 23.6%) which reflects the acquisition of Cambian whose margins are historically lower than the CareTech EBITDA margins. Like-for-like, CareTech EBITDA remained broadly flat at 22.5% reflecting business mix and timing of re-configurations.

Cambian's EBITDA margin, before synergies was 13.4%, which reflects a considerable increase on the last reported margin prior to the acquisition of 10.9% and a significant step towards our medium term target of 16%.

Underlying profit before tax increased by 52.5% to £50.2m (2018: £32.9m) and underlying basic earnings per share was 37.60p (2018: 35.07p), representing an improved return to shareholders following the Cambian acquisition.

We entered into new banking facilities at the time of the acquisition of Cambian which include term loans of £322m and an undrawn revolving credit facility of £25m. In January 2019, the Group completed its second ground rent transaction with Alpha Capital, raising £31m of net proceeds on attractive terms providing further capital for investment. The Group's property valuation of £774m was undertaken in September 2018, establishing a loan to value at approximately 40% whilst the net debt to EBITDA is just under 4.0x and the Board remain committed on reducing net debt to EBITDA in the medium term to under 3.0x.

Progress on Cambian

The acquisition of Cambian was immediately followed by the CMA placing a hold separate embargo over the combined business. Following the unconditional clearance of the acquisition from the CMA in February 2019, the integration of the two businesses commenced. Significant headway has been made into this.

Cambian shares CareTech's commitment to delivering the highest standards of care and together the Group will benefit from favourable demographics underpinned by the growth in outsourcing to the private sector and from the increasingly stringent regulatory environment. Ofsted ratings increased from 77% at the date of acquisition to 80% Good or Outstanding. Best practice is being shared across the group which we will seek to capitalise on over the coming years. The EBITDA margin of the Cambian business was 13.4%, before

(i) 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) Cash flow from operating activities before non-underlying items

synergies which shows considerable improvement when compared with their historic announced margins of 10.9% pre acquisition. This puts us in a good position to deliver our medium term target of 16% pre synergies as set out at the time of acquisition.

The Group reports that it has delivered £3m of pre-tax profit synergies for the year and is on track and already taken action to deliver pre-tax profit synergies of £5m for the year ended 30 September 2020. Initiatives that have been implemented include, inter alia:

- The former CEO, CFO, COO and all Non-Executive Board members of Cambian have left the Group;
- A number of senior management savings have been delivered;
- A number of back-office functions have been integrated and cost savings identified;
- The Group has exercised a break clause on the lease of the Cambian head office in Hammersmith and all employees have been relocated to the CareTech head office;
- A number of ongoing IT costs have been streamlined and a new IT strategy put in place; and
- A number of non-staff synergy savings such as in Procurement and Estates have been made.

Following a year of ownership, we have established a strong operational fit, enhanced our management team and extended our care pathways. This provides us with a solid platform to build upon in the future.

Dividend

The Board intends to maintain a progressive dividend policy. The Board has proposed a final dividend of 7.95p (2018: 7.5p) per share bringing the total dividend for the year to 11.7p (2018: 11.0p) per share. This represents a full year increase of 6.4% year on year. The final dividend will be paid, subject to shareholder approval, on 6 May 2020, with an ex-dividend date of 5 March 2020 and an associated record date of 6 March 2020.

Our Board

We were delighted to welcome Professor Moira Livingston to the Board as a Non-Executive Director on 1 May 2019. Moira has been involved in health and social care for 32 years and spent many years working initially as a Doctor in the field of older-age psychiatry and latterly as a senior clinical leader and manager in the NHS. Moira has held a number of Director level leadership roles in the healthcare sector and she will Chair the Group's Care Quality and Governance Committee as well as join the Remuneration Committee and the Audit Committee.

Mike Adams OBE also become an Executive Director which has enabled him to pursue a strategic role within the Group and to push forward the Purple business model. Purple's vision is to transform thinking and "change the conversation" by bringing together disabled people and business, creating sustainable solutions for the benefit of society and to add value to CareTech's growing service user base.

We also welcome Christopher Dickinson (FCA) to the Board as Group Chief Financial Officer on 13 January 2020. Christopher has spent the last year as Cambian Chief Financial Officer and prior to joining CareTech was a Managing Director at Jefferies where he acted for CareTech on its acquisition of Cambian. On behalf of the Group, I would also like to thank Gareth Dufton who stepped in as Interim Group Finance Director and has supported the Group on the sad passing of Michael Hill last December.

It is expected that an additional Non-Executive Director will be appointed during early 2020.

Our people

Our people are our most critical asset. Nothing of what we do to improve the lives of the adults and children placed in our care would be achievable without the hard work and dedication of the front-line 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 the Group and the care we provide. In terms of staff retention, the Group's retention rates sits at 74% (which is analysed as 77% for CareTech employees and 71% for Cambian employees) and compares favourably to the industry average of under 70%.

We continue to strive to be the 'employer of choice' within the sector. As part of the Group's focus on attracting and retaining the best talent in the sector, CareTech announced a new ExSOP and CSOP scheme in October 2019. This is the most wide-ranging share incentive plan to include approximately 600 individuals from across the business including home managers, back office staff and executive management, demonstrating our commitment to create a culture of share ownership and to ensure our staff share in the success of our business. We plan to introduce another CareTech Sharesave Scheme in early 2020 as part of our staff retention strategy.

To embed our culture across our business we reward our people throughout the year culminating in the fifth Care Awards ceremony in November 2019. We were delighted to host a number of parents, carers and families and also gave an opportunity for our shareholders to experience our culture first hand.

Social responsibility

The CareTech Foundation was created in 2017 and is an independent grant-making corporate foundation registered with the Charity Commission. It 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. CareTech has continued its support both financially and more widely during 2019 and I am pleased to see the Foundation growing from strength to strength. Highlights during the year include:

- launching a new partnership with Birkbeck, University of London in the construction and development of the world-first ToddlerLab which will incorporate the highest quality of technology to play a key role in the research and understanding of autism;
- recently supporting Depaul UK for their Mental Health and Wellbeing for Homeless Young People programme in the North East; and
- a new Staff Hardship Grants fund to enable us to provide small grants to CareTech staff was also launched.

We were also delighted to have officially supported the Special Olympics Great Britain (Team SOGB) at the March 2019 Special Olympics World Summer Games, held in Abu Dhabi, United Arab Emirates (UAE), with over 190 countries participating in a truly spectacular and successful global event. CareTech's involvement with Team SOGB and the World Games arose from the close pathway affinity between our national expertise in supporting people with learning disabilities through our living, learning and employment support services and the Special Olympics movement using sport to build confidence, skill and determination for athletes with intellectual and learning disabilities as a gateway to empowerment, competence, acceptance and joy. The Games were a real highlight on the 2019 World Sporting Humanitarian calendar and Team SOGB excelled against the competition winning an outstanding tally of 61 Gold, 57 Silver and 46 Bronze Medals.

Purple Tuesday was launched again on 12 November 2019 and was a huge success. The consumer spending power of disabled people and their families is worth £249 billion and is rising by an average of 14% per annum. Yet, less than 10% of businesses have a targeted plan to access the disability market. Purple is driving the agenda to improve awareness and the customer experience for disabled people.

Outlook and prospects

Our aim is to be the highest quality provider of quality support and care for individuals who often have complex needs. I am proud of our track record and the culture we have embedded within the organisation. We listen to our service users, their families, to our staff and work closely with the local authorities, independent inspectors and regulators to continually improve and set best practice.

The next financial year will see CareTech grow through the continued integration of the Cambian business together with organic developments and reconfigurations. In addition, we will continue to look at bolt-on acquisitions as part of our wider strategy to consolidate the market in the UK, as well as an opportunity in the Gulf region where we are in advanced discussions with a potential partner. We also continue to invest time in how we can enhance further the use of technology as a validation of our work as well as for diagnostic and assessment purposes.

As the business grows, we will continue to 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 in line with market expectations and care excellence which will help deliver our target of double digit growth in underlying EPS.

On behalf of our Board, I would like to thank our many stakeholders and all CareTech employees, including those joining us from Cambian during the year, for their dedication and commitment to the Company and for going the extra mile. Finally, I would also like to thank our shareholders for your continued support.

Farouq Sheikh
Group Executive Chairman
30 January 2020

Group Chief Executive's Statement and Performance Review

"Our focus remains to provide innovative service solutions that transform outcomes for service users and delivers value to commissioners"

Delivering purposeful progress

The Group has continued to build on our values driven, and quality focussed, approach to transforming outcomes for service users in our care, and delivering value to commissioners. During the year we have deepened our relationships with key stakeholders and are well positioned to serve local authority partners and communities with responsive and innovative service solutions. Our care priorities drive successful outcomes for our service users and follow closely the guidance from central Government and commissioning needs locally.

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 through the Cambian acquisition and plan for further senior appointments. These along with investment in our processes and new systems will drive efficiencies across the Group.

Commitment to high quality

Our commitment is to provide high quality support and care for all our services users. By embedding a culture of quality we have seen our quality ratings continually improve and this year is no exception. Our rising CQC ratings to 95% demonstrate the high standards of care our service users receive. We have also shown improvement in our Children's Services blended quality rating of 82% with both CareTech and Cambian showing improvement. This is a Key Performance Indicator for the Group. We have built and continue to strengthen an open and honest working relationship with our regulators and those who commission us to deliver services.

During the year, I am delighted that our teams have received external recognition for the quality of services we deliver. I would like to congratulate The Oakleaf Group for winning the Health Investor Awards 2019 'Complex Care Provider of the Year' award, Spark of Genius winning the LaingBuisson 'Public Private Partnership Award', and Branas Isaf for counting three winners in the National Wales Care Awards.

We are continually improving and examining ways to improve our quality standards including investing significantly in the training and induction of our staff and deciding to strengthen our internal compliance team. The appointment of Professor Moira Livingston to Chair our independent Care Quality and Governance Committee will reinforce our approach and ensure we deliver on our strategy.

Business performance

Following the acquisition of Cambian, it was announced that the Group has changed its reporting operating segments to more accurately reflect the Group's management and internal reporting structure, a review of each operational division is set out below:

1. **Adults Services**
Year to 30 September 2019

	CareTech
Revenue	£123.6m (2018: £118.7m)
EBITDA before unallocated costs	£32.7m (2018: £31.9m)
Capacity	1,968 (2018: 1,968)

Adults Services comprises the core CareTech Adult Learning Disabilities business, the Specialist Services business and Learning Services business.

The Group offers a flexible, person-centred approach with support offered on an individual planned basis both within a registered residential setting and in step-down supported housing. Demand remains high across the spectrum for the support of people with learning disabilities and the Group recognises an increasing complexity of need for referrals to specialist services within the Group. Specialist Services comprise the Adult Mental Health Services and Oakleaf Care (Hartwell). 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 market for high acuity care and the support of people with learning disability is estimated to be £5.8bn and growing year on year due to demographics and individuals living longer. 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.

Across the Group, the focus on quality continues with CQC ratings at 95% which compares favourably to 86% the previous year and the market average of 84%.

Revenues for the Division were £123.6m (2018: £118.7m) and EBITDA was £32.7m (2018: £31.9m). Revenues and EBITDA increased by 4.1% and 2.5% respectively. EBITDA margins broadly remained flat at 26.5% from 26.9% reflecting the change in mix of the business as the number of supported living beds grew. We expect to see the benefit during 2020 due to a number of reconfigurations which have come on stream during the second half of the year.

During the past year we have withdrawn 4 adult places in services for reconfiguration into new care models, a further 47 supported living contracts came to an end plus an additional 51 beds have been brought into service.

2. **Children's Services**
Year to 30 September 2019

	CareTech	Cambian	Total
Revenue	£64.8m (2018: £58.7m)	£165.7m	£230.6m
EBITDA before unallocated costs	£18.2m (2018: £17.0m)	£37.4m	£55.6m
Capacity	351 (2018: 353)	1,582	1,933

A number of children and young people need to live in specialised residential services and receive specialist education. As far as practicable we aim to help these children move into a family style environment. This segment contains children's residential care homes, which includes facilities for children with learning difficulties and emotional behavioural disorders (EBD), and specialist schools. The Group operates services that cater for local needs but also manage certain highly specialised services that have a national catchment. The Cambian acquisition has increased the geographical spread of Children's Services across the UK as well as increasing the types of services being offered including Complex Needs, Social, Emotional and Mental Health (SEMH) and Child and Adolescent Mental Health Services (CAMHS).

The Ofsted ratings for the CareTech services are 93% (2018: 86%) Good or Outstanding and 80% for the Cambian services compared with 77% at the date of acquisition. This results in a blended 82% Good and Outstanding ratings for Children's Services across the Group, an increase from 78% when compared with our half year results.

Revenues and EBITDA before unallocated costs for the Division were £230.6m and £55.6m respectively. Like-for-like, CareTech's revenues increased by 10.5% and EBITDA by 7.1%. During the year, we have seen an improvement in Cambian's EBITDA margins through increased staff retention and improved quality ratings which lead to increased occupancy levels which in turn lead to increased EBITDA margins.

There has been a net increase of 4 places in Cambian homes since acquisition due to one new home registration occurring in August 2019.

3. Foster Care
Year to 30 September 2019

	CareTech	Cambian	Total
Revenue	£8.0m (2018: £8.2m)	£32.8m	£40.8m
EBITDA before unallocated costs	£1.5m (2018: £1.9m)	£6.0m	£7.5m
Capacity	301 (2018: 301)	877	1,178

Foster Care comprises CareTech's and Cambian's fostering services.

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. Fostering is an important part of our care pathway and considerably less expensive than residential care. It is a generally held view 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.

The acquisition of Cambian enhances our Foster Care service through offering a more specialist therapeutic service. With a combined capacity of 1,178 places, the Group has established one of the largest independent fostering agencies in England and Wales.

Revenues for the Division were £40.8m analysed as CareTech £8.0m and Cambian £32.8m. EBITDA for this Division was £7.5m analysed as CareTech £1.5m and £6.0m Cambian.

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.

Summary and outlook

This has been a year of transformational change for CareTech and I am pleased to report that we are delivering all of our key objectives including the integration of the Cambian business.

Our strategy and the fundamentals of the markets we serve remain sound. We are integral to providing service solutions to commissioners to meet the specialist and complex needs of children and adults. Our opportunity over the medium term is to drive organic revenue and further consolidate our market position through bolt-on acquisitions that fit with our strategic objectives and meet our financial criteria.

We are a values driven, quality focused Group and I am confident that through the energy and commitment of all our people we will continue to innovate and transform care pathways.

I am honoured to lead a Group that is making a real difference to so many lives. I would like to conclude by expressing my sincere thanks to our staff at all levels in the organisation for their hard work, commitment and dedication to the organisation.

Haroon Sheikh
Group Chief Executive Officer
30 January 2020

Strategic Report

The Directors present their Strategic Report on the Group for the year ended 30 September 2019. 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, the Chief Executive's Statement, Strategic Report and Performance Review and Financial Review.

Our Market

There is a recognised shortage of high quality social care

***Adults Services**

People **75,000-80,000 currently live in care homes or NHS hospitals or are in supported living arrangements** **13% of the UK population have specific mental disorders**
Market for residential learning disabilities and supported living worth an annual **£5.8bn** **NHS/LA total spend on specialist services is worth an annual** **£10.1bn** **Market growth rate** **1.2% pa**

****Children's Services**

People **10,085** **Children in UK looked after outside foster care** **16,995** **Children in independent sector special schools and colleges**
Residential children's market across UK worth **£1.39bn** **Education and training in special schools and colleges**

£3.7bn
Market growth rate **1.2% pa**

**** Foster Care**

People **63,718** **Placed in foster care in England**
Foster care market across England worth **£1.95bn**
Market growth rate **5.2% pa**

*Data from Laing and Buisson Adult Specialist Care 2nd edition 2015/2016 report
**Data from Laing and Buisson Children's Services Market Report 3rd edition 2017 report

Our market is driven by three big trends: funding for healthcare, customer expectations and access to skilled care workers

Funding for healthcare

Key market drivers

The care market in which the Group operates is a UK market worth an estimated £13bn per annum and estimated to be growing by more than 5% per annum.

In 2017, the total market for specialist children's care services was worth approximately £7.2bn. The market is growing, driven by population growth and increasing survival rates of the current addressable population, as well as a greater awareness and, in certain cases, increased incidence of certain conditions amongst the underlying population.

The UK has a well established system of public and private providers of health and social care. Although the available resources to purchase social care remain largely static there is a known increase in demand across the whole spectrum, presenting purchasing bodies with a conundrum. 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.

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".

Social care funding has been prominent in the main parties' 2019 election campaign with both Conservative and Labour pledging to increase funding.

What this means for CareTech

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

The market segments served by CareTech is focussed on adults and children who present with high severity needs, challenging behaviours and who have complex care requirements. Hence budget cuts have a very limited impact on the Group. One of our differentiating factors is the concept of Care Pathways to reflect our optimism that users of our services can make progress with their lives. Our commitment to maximise independence is great for our service users, rewarding for our staff and strongly supported by those who commission and support our services. Our "outcome" focused approach for our service users has a wider impact on society including more individuals back into work, fewer individuals returning to care facilities, a reduction of adult prison population having been in care and children leaving care achieving educational attainment levels.

CareTech has been aligned to Local Authorities' purchasing principals and we work closely with Commissioners to ensure that we stay in tune with their approach to market management.

Customer expectations

Key market drivers

The market that CareTech serves is regulated by Care Quality Commission (CQC) and the Office for Standards in Education, Children's Services and Skills (Ofsted) in England and equivalent regulatory bodies in Scotland and Wales. These bodies control and administer the registration, inspection and complaints procedures set out under applicable laws and regulations. In order to open a service, it needs to be registered with CQC or Ofsted, and must pass regular inspections to ensure it meets the minimum standards and requirements prescribed under laws and regulation. Commissioners placing adults or children into services expect high quality.

What this means for CareTech

We work closely with our Regulators and Commissioners across England, Scotland and Wales. CareTech is a very well known care company in public ownership and offers high quality services with a strong ethical and value based approach. We have leading quality ratings for both CQC and Ofsted and have ambitions to improve these. Our quality assurance is embedded within the organisation from the Home Manager, Regional Manager, and Operations Director through to the Chief Operational Officer and the Board. The Group uses Acoura and NYAS as independent suppliers, to audit and report monthly Health and Safety matters as well as all RIDDORS (Reporting of injuries, Diseases and Dangerous Occurrences).

Access to skilled care workers

Key market drivers

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

What this means for CareTech

We promote our values and culture by helping our employees and supporting them with regular supervision, training and clear career development programmes. To embed our culture across our business we reward our people throughout the year culminating in the Fifth Care Awards ceremony in November 2019. These initiatives promote staff continuity and leads to improved standards of care quality.

Our annual Staff Engagement Survey which took place in May 2019 and involved all staff and looked at values and questions across five engagement drivers: Trust, Teamwork, Empowering, Corporate Pride and Career Progression. The feedback has led to a communication plan that will lead to improved communication across the Group.

The Group continuously focusses on employee engagement and has launched the most wide-ranging share incentive plan across the business to include home managers, back office staff and executive management. In addition, it is the Company's intention to make a Save-As-You-Earn issuance for front line staff in due course. This scheme, 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.

CareTech is resilient to a 'hard Brexit' given the Group only trades within the UK and has limited exposure to nursing staff and the EU labour market. Our primary recruitment is focused on the UK labour market for support staff.

Our Strategy

CareTech's strategic objective is to be a leading national integrated provider of high quality social care pathways in the UK for children and adults, with continued growth and care excellence. We aim to distinguish ourselves from other providers by offering a bespoke range of options which meet the needs of Commissioners and offer service users a care pathway for the medium to long term where required. The CareTech Group's focus is the provision of high acuity specialist social care through three outcome-based sectors of Adults Services, Children's Services and Foster Care.

We achieve our strategic objective and drive growth in the profitability of the Group through a range of actions, including, but not limited to:

- focussing on areas of social care that have a high acuity level across the UK where demand for services from Local Authorities is expected to remain strong and fee rates are typically higher;

- targeting organic growth through increases in capacity and optimisation/ remodelling of existing and acquired properties to meet market demand and to achieve enhanced fee rates;

- maintaining high occupancy through the Group's facilities by attracting continued high level of referrals from Local Authorities on the back of strong regulatory ratings;

- continuing to invest in people and training to deliver social care expertise; leadership and high quality care;

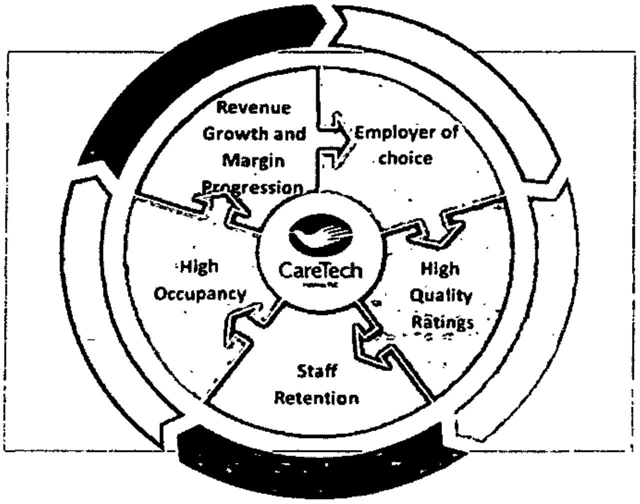
- investing in IT, systems, processes and controls to improve quality levels, manage risks effectively and improve occupancy;

- working closely with Local Authority ("LA") commissioners to help them deliver their statutory duties efficiently and with care and react to their changing demands;

- continuing to offer a strong national presence with local brands and regional service delivery points. This supports development of local relationships while offering the comfort, security and governance oversight of a well-resourced and strong group; and

- continuing to identify bolt-on acquisition opportunities offering complementary services or expanding the Group's geographical presence which offer the opportunity for the Group to increase market share in a highly fragmented market.

We have defined three pillars to executing our strategy.



Build the industry's best leadership and workforce

Employing approximately 9,000 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 with oversight of all interventions. Their care, commitment and dedication is critical to the success of our Company and the care we provide.

CareTech places emphasis on the provision of attractive working conditions and staff training. Part of our recruitment process is focused on matching the needs of the Group's service users to the skills values and behaviour of our staff, which necessitates a person centred approach to recruitment and on-boarding. We offer a range of learning and development to ensure that staff have the necessary knowledge, skills, competencies and attitudes to provide a high quality service of support and care in compliance with best practice, regulatory requirements and service specifications.

Have the highest quality ratings

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.

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.

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

- recruitment and retention of appropriate staff alongside appropriate training and induction;
- regular reporting from home managers through to locality managers, operational directors and divisional senior management as well as the CareTech Group's head of quality;

- "Line of sight" monitoring which looks for key performance indicators which support high quality services. Each service is rated internally and high potentials or early warning signs are identified and progress monitored by senior management to drive continuous improvement;

- an experienced internal quality and compliance team who operate across all divisions, reporting to senior management. The team undertake a programme of regular inspection and assessment of facilities and services against internal quality assurance frameworks and also carries out thematic reviews;

- A Care Quality and Governance Committee chaired by Professor Moira Livingston. The committee has oversight of all issues and reports relating to the well-being of service users; commissions enquiries into matters of concern; and strive to ensure that CareTech operates to the highest level of professional care standards;

- careful analysis of regulatory inspection reports from external regulators; and

- CareTech Board oversight through monthly reporting of key performance indicators and compliance data.

Achieve high occupancy through matching

Our 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.

Our services are in demand and occupancy has remained high despite unrecognised 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.

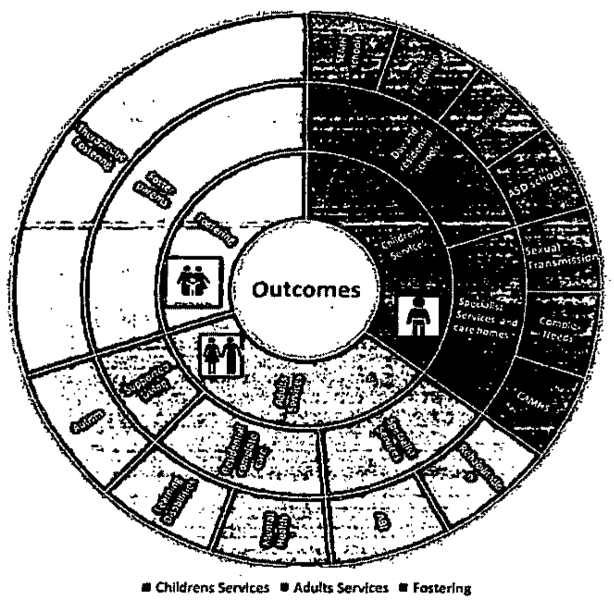
New residents arrive in a CareTech care home following a referral from a Local Authority or Clinical Commissioning Group care manager. Once a referral has been received, a resident assessment is typically followed by an assessment including a detailed matching of the proposed resident with a known or anticipated vacancy. The selection of new residents is undertaken with care and sensitivity to ensure the ongoing success of the service. This sometimes means that a home can have a short term vacancy. Local Authorities or Care Commissioning Groups are more likely to place a resident in a home that seeks to match each resident's need with those of the people already living there. This practice is commercially advantageous and maintains the success of an existing home and helps to ensure continuing high referral levels.

Our Business Model

Our purpose is to deliver innovative social care on behalf of Local Authority and Health Service Commissioners throughout the UK.

Innovate care pathways

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.



Adults Services

Adults services **Social care services for adults over the age of 18**	
Care capacity 2019 1,968 2018: 1,968 Contribution to Group revenue 31.3% (2018 63.9%) **Quality rating (CQC)** **95%** 2018: 86%	**Learning Disabilities** Supporting adults with conditions such as autism and learning difficulties including care and education needs. **Specialist Services** Assessment and specialised rehabilitation focus on providing active rehabilitation. Unique care programmes are developed and centre on the needs and goals of each resident, looking at short and long-term goals. Residents may also have associated complex cognitive impairments, challenging behaviours and/ or physical disabilities.

	Learning Services Pre-employment, development and apprenticeship programmes using public funds from the Skills Funding Agency to lay foundations to achieve their career goals whilst helping to provide businesses with the vital skills they need in their workforce.

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.

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.

Children's Services

Children's services **Social care services for children and young people up to the age of 18** ■	
Care capacity 2019 1,933 CareTech 351 2018: 353 Cambian 1,582 Contribution to Group revenue 58.4% (2018: 31.6%) **Quality (Ofsted)** 82% 2018: 86% (Caretech only)	**Residential care** Supporting children and young people with a range of complex conditions such as autism, learning difficulties, challenging social circumstances or traumatic experiences such as abuse, neglect or exploitation in residential care. **Education** CareTech is the largest provider of education services for children in the UK. Services focus on individuals who present with high severity needs, challenging behaviours and who have complex care requirements.

Residential

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 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.

Education

Our specialist education services are focused on the areas of social emotional and mental health, further education, Asperger syndrome and across the autism spectrum, from those with severe learning difficulties to those who are gifted and talented. Teachers and assistants are trained to a high standard in order to deal with the behavioural issues that pupils present. Our schools operates a 'waking day' curriculum encompassing the UK national curriculum and using modified or differentiated programmes of study to prepare students for the demands of adult life.

Foster Care

Foster Care ☐	
Care capacity 2019 1,178 CareTech 301 2018: 301 Cambian 877 Contribution to Group revenue 10.3% (2018: 4.4%) **Quality** 100% 2018: 100%	Residential care of children and young people Family assessments in the home

Most children enter foster care because they have been abused and/or neglected at home and need a new family care environment which offers the support they need. Other children may be fostered because a family breakdown (dysfunctional or in acute stress), a family illness or disability, or a death in a family means children need an alternative care solution such as fostering.

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

Revenue model

A significant majority of CareTech's revenue is from Local Authorities (LA) and Clinical Commissioning Group's (CCGs) for delivery of CareTech's specialist social care services. The Group works with over 250 Local

Authorities, Clinical Commissioning groups and Health Boards. Independent providers typically receive funding for their service provision in four main ways:

Framework agreements

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

Spot contracts

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

Block contracts

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

Private pay/ insurance

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

Clinical offering

CareTech has an in-house, clinically led multi-disciplinary team including doctors, psychologists, occupational therapists, speech and language therapists and nurses. The overall approach across the group is to ensure primarily a stable, secure and nurturing environment for the young people in its care then focus on individualised care plans for the young people, working closely with the care and educational teams. The strength of the clinical function in the Group is the integrated working. Our clinical team sit as part of the operations team and working very closely with our residential homes or schools and are involved in training and providing consultations and role modelling where needed to the care teams.

How do we operate responsibly?

The driving force underpinning CareTech's operation continues to be the provision of the highest quality of care to our service users.

Our commitment to 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. We promote our values and culture by helping our employees and supporting them with regular supervision, training and clear career development programmes. To embed our culture across our business we reward our people culminating in the Fifth Care Awards ceremony in November 2019. These initiatives promote staff continuity and lead to improved standards of care quality.

Out of a total of c.10,000 staff at the end of September 2019, 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 May 2019 and involved all staff and looked at values and questions across five engagement drivers: Trust, Teamwork, Empowering, Corporate Pride and Career Progression. 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.

The Group continuously focusses on employee engagement and has launched the most wide-ranging share incentive plan across the business to include home managers, back office staff and executive management. In addition, it is the Company's intention to make a Save-As-You-Earn issuance for front line staff in due course. This scheme, 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 paid £1m into the Apprenticeship Levy scheme in FY 18/19 and currently have 804 apprentices working across our business. All CareTech apprentices benefit from permanent employment contracts and are fully embedded in business activities to maximise learning.

We care about quality and safety

As a Group, our aim is to provide a safe working environment for service users, staff and visitors. Our aim is to be the highest quality provider across the breadth of our services.

For our Adult CQC registered services, quality ratings at 30 September 2019 were 95% "Good" or "Outstanding" (2018: 86%). For our Ofsted registered Children's services, ratings for the CareTech services at year end were 93% "Good" or "Outstanding" (2018: 86%) and 80% for the Cambian services, compared with 77% on acquisition. This performance is against a backdrop of the continued raising of quality standards in the sector reflected in an increasingly stringent regulatory environment. 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.

Our independent Care Quality and Governance Committee provides rigorous oversight of our regulatory and safeguarding performance and has been strengthened by the appointment of Professor Moira Livingston as Chair.

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

Our commitment to our service users

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

We have continued to strive for long-lasting improvements in our services in a way that is consistent with the interests and 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.

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, including an Art Competition held in September 2019 and a 'Blooming Marvellous' gardening competition.

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.

Our commitment to the UK social care sector

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 2019 the Group made charitable donations through the Caretech Foundation of £736,000 (2018: £380,000).

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 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.

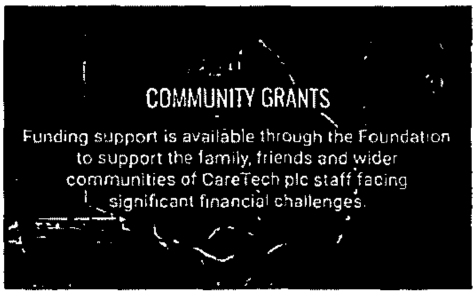
The Foundation's focus is devoted to supporting those in need in the UK and in developing countries overseas.

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

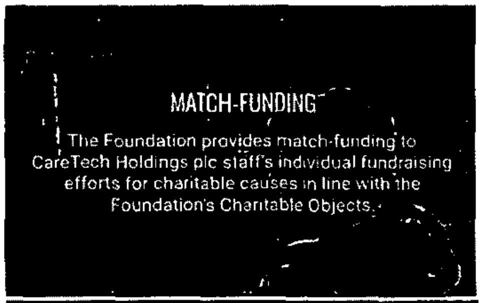
The CareTech Foundation supports a small number of significant partnerships with credible and high-quality charities and social enterprises consistent with its three key objectives. To be considered for the Foundation's support, any partnership must:

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

The Foundation has grown its Partnerships to include seven major programmes. During the year, the Foundation has launched a new partnership with Birkbeck, University of London in the construction and development of the world-first ToddlerLab. The ToddlerLab will incorporate the highest quality of technology to play a key role in the research and understanding of Autism. The Foundation has also recently supported Depaul UK for their Mental Health and Wellbeing for Homeless Young People programme in the North East.



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



The Foundation provides match-funding to CareTech staff's individual fundraising efforts for charitable causes in line with the Foundation's Charitable Objects. During the year, the Foundation supported 26 match funding grants to support CareTech staff's charitable fundraising activities.

During 2018/19, the Foundation launched a new Staff Hardship Grants fund to enable us to provide small grants to CareTech staff and those who may recently have left the company who find themselves in significant financial hardship or at serious risk of becoming in significant financial hardship.

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.

CareTech is delighted to have officially supported Special Olympics Great Britain (Team SOGB) at the March 2019 Special Olympics World Summer Games, held in Abu Dhabi, United Arab Emirates (UAE), with over 190 countries participating in a truly spectacular and successful global event. CareTech's involvement with Team SOGB and the World Games arose from the close pathway affinity between our national expertise in supporting people with learning disabilities through our living, learning and employment support services and the Special Olympics movement using sport to build confidence, skill and determination for athletes with intellectual and learning disabilities as a gateway to empowerment, competence, acceptance and joy. The Games were a real highlight on the 2019 World Sporting Humanitarian calendar and Team SOGB excelled against the competition winning an outstanding tally of 61 Gold, 57 Silver and 46 Bronze Medals.

Bringing disabled people and business together

There are more than 12 million disabled people in the UK who have a combined spending power of £249 billion. Purple, led by Mike Adams OBE, has been highly influential at a national level in shaping a new vision for disability designed to tackle the issues around employment and opportunities. The Purple vision is to be the catalyst for change in creating opportunities that transform futures by bringing together disabled people and business for a single purpose. On 12 November 2019, Mike Adams launched Purple Tuesday.

Our commitment to 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.

CareTech vehicles typically operate on a rolling four year contract hire agreement from our strategic partner, Fleet Alliance. By outsourcing fleet management, CareTech aims to take advantage of the most efficient technology when it becomes available.

Modern Slavery Act 2015

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

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

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

Anti-bribery and corruption

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

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

- Code of Conduct Policy – this sets out the behaviours we expect of our employees when acting for CareTech.
- Recruitment Policy – all of our employees are recruited after a robust recruitment process in line with UK employment laws and are required to undertake appropriate CRB checks.
- Whistleblowing Policy – we want colleagues to feel confident and empowered to raise any issues or concerns they may have; however, we have a whistleblowing policy in place. Our whistleblowing policy

helpline is managed by a third-party provider, enabling colleagues to raise concerns they may have about issues of safety or wrongdoing, anonymously if necessary. All such concerns received through the helpline are sent to the Head of Compliance for review, and to ensure that they are appropriately investigated and concluded.

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

General Data Protection Regulations (GDPR)

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

By order of the Board

Haroon Sheikh
30 January 2020

Our Key Performance Indicators

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

Financial

Revenue £395.0m (2018: £185.7m)	**How this is calculated** Revenue measures how we have filled our capacity, the fees we have charged, together with the impact of acquisitions. **Performance this year** Revenue has improved by £209.3m – 112.7% year on year. This reflects the acquisition of Cambian in October 2018 and organic growth achieved by the core business which has been in part reduced by the reconfiguration work on some properties, improved margins and acquisitions. Like-for-like, CareTech increased by 5.8% to £196.5m (2018: £185.7m).
EBITDA £73.5m (2018: £43.9m)	**How this is calculated** EBITDA is operating profit stated before Interest, Tax, Depreciation, Amortisation, share-based payments charge and non-underlying items which are described in note 4 to the Financial Statements. **Performance this year** The EBITDA has improved by £29.6m, a 67.4% year on year. This reflects the EBITDA contribution from the Cambian acquisition and organic growth achieved by the core business which has been in part reduced by the reconfiguration work on some properties, improved margins and acquisitions. CareTech like-for-like EBITDA increased by 1.0% to £44.3m (2018 £43.9m).
Underlying profit after tax and non-controlling interest £40.3m (2018: £26.5m)	**How this is calculated** Underlying profit after tax and non-controlling interest is the Group's profit after provision for taxation excluding non-underlying items such as amortisation of intangible assets after tax which are fully described in note 6 to the Financial Statements. **Performance this year** The profit after tax is 51.9% more than 2018 representing an improved return to shareholders following the Cambian acquisition.
Underlying basic EPS 37.60p (2018: 35.07p)	**How this is calculated** Underlying basic earnings per share is the profit after tax divided by the weighted number of ordinary shares which are fully described in notes 11 and 12 to the Financial Statements. **Performance this year** The underlying basic earnings per share has increased by 2.53p in the year.

Operating cash conversion 90.2% (2018: 89.9%)	**How this is calculated** Cash flow from operations before non-underlying items and tax (and excluding capex) divided by EBITDA. **Performance this year** Operating cash flow increased to 90.2% for the year. Cambian was acquired mid-October and in the pre-acquisition period (from 1 October to 18 October 2018) there were particularly strong cash receipts. The mid-month acquisition resulted in the Group being unable to count these receipts in the conversion calculation, whilst the payrolls, which typically go out at the end of the month, are counted in the combined Group cash flows. Excluding this, for the period 1 October 2018 to 30 September 2019, Cambian has a 100% EBITDA to cash conversion and CareTech has a 101% cash conversion.
Net Debt £291.1m (2018: £147.0m)	**How this is calculated** Net Debt comprises the balance at the year-end for cash and cash equivalents net of bank loans outstanding and finance lease and hire purchase contracts. **Performance this year** Bank debt at 30 September 2019 was £291.1m which is an increase of £144.1m from 30 September 2018 of £147.0m. The change reflecting the cash consideration and the associated financing necessary for the Cambian acquisition together with the receipt from the ground rent transaction.
Operational	
Capacity 5,079 places (2018: 2,622 places) CareTech 2,620 places (2018: 2,622 places) Cambian 2,459 places	**How this is calculated** The Group's capacity is the total number of Adults Services (1,968) Children's Services (1,933) and Foster Care (1,178) places that the Group is able to offer at that date. It is a total including residential care beds, independent supported living accommodation, community support service users and children that foster carers can currently look after. **Performance this year** Overall capacity has increased by 2,457 which is 93.7% increase. CareTech added 56 new beds whilst reconfigurations reduced capacity by a net 11 beds. A further 47 supported living contracts came to an end, resulting in a net decrease of 2 places for CareTech. There has been a net increase of 4 places in Cambian homes since acquisition due to one new home registration occurring in August 2019.
Mature Estate Occupancy 85% CareTech 92% (2018: 93%) Cambian	**How this is calculated** The Mature Estate Occupancy is the total number of Adult and Children Service Users placed in services that were open throughout the year. **Performance this year** CareTech's ratio has remained broadly unchanged at 92% and reflects the long length of stay that the majority of service users have in our services. The occupancy of the Cambian business as at 30 September each year is affected by the timing of the start of the educational year because a number of non-residential Cambian schools operate on a 38-week basis with the new

74%	education term commencing in October.
Blended occupancy 80% CareTech 87% (2018: 86%) Cambian 73%	**How this is calculated** 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. **Performance this year** The ratio decreased overall reflecting the Cambian business which has a lower occupancy level and is also impacted by the timing of the start of the educational year because a number of non-residential Cambian schools operate on a 38-week basis with the new education term commencing in October.

Quality

Regulatory rating (%) – facilities rated "Good" or "Outstanding" CQC Adult 95% (2018: 86%) Ofsted CareTech 93% (2018: 86%) Cambian 80% (2018: 77%)	**How this is calculated** The market that CareTech operates in is regulated by Ofsted and the Care Quality Commission and their equivalents in Scotland and Wales. Each facility is inspected and given a score, with a range of outcomes from "Outstanding", "Good", "Requires Improvement" to "Inadequate" (or equivalent). **Performance this year** Quality ratings continue to improve across the Group.

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. 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 defendable position in the case of tragedy.

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

Managing and mitigating risk

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 currently trades only within the UK and has no foreign exchange exposure. We have limited exposure to nursing staff and the EU 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.

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 Acoura, 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 though 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
30 January 2020

Group Financial Review

Highlights

- 2019 has been transformational for CareTech following the £359.9m acquisition of Cambian in October 2018
- 2019 results reported reflect the enlarged Group including the Cambian operations since acquisition
- Integration plan for the combined business is well underway
- Pre-tax profit synergies of £3m have been delivered
- Revenue: £395.0m
- EBITDA: £73.5m
- Non-underlying items of £23.3m comprising predominantly £10.3m acquisition expenses and £10.2m non-cash amortisation, reflecting the acquisition of Cambian in the year
- Statutory profit before tax: £24.3m
- Diluted underlying EPS: 37.48p and statutory EPS: 18.31p representing real value growth for shareholders
- Net debt: £291.1m
- Freehold portfolio valued at £774m on acquisition
- 90% EBITDA to operating cash conversion[i]
- Net assets: £335.4m

[i] Cambian was acquired mid-October and in the pre-acquisition period (from 1 October to 18 October 2018) there were particularly strong cash receipts. The mid-month acquisition resulted in the Group being unable to count these receipts in the conversion calculation, whilst the payrolls, which typically go out at the end of the month, are counted in the combined Group cash flows. Excluding this, for the period 1 October 2018 to 30 September 2019 Cambian has a 100% EBITDA to cash conversion and CareTech has a 101% cash conversion.

Results

Included in the Group consolidated results for the year ended 30 September 2019 are Cambian's revenue, EBITDA and other income statement items together with cash flows for the period following completion on 19 October 2018.

Following the acquisition of Cambian and to reflect the on-going integration of the two businesses, we are reporting three operating segments:

- Adults Services, comprising the core CareTech Adult Learning Disabilities business (ALD) as well as the Specialist Services business (SS) and Learning Services;
- Children's Services, comprising CareTech's and Cambian's children's services; and
- Foster Care, comprising CareTech's and Cambian's fostering services

For the year to 30 September 2019, we have also provided segmental data in Note 4 for the historic CareTech and Cambian businesses to enable a like for like analysis in the first year following the acquisition. For subsequent financial years, the results of the Group will be combined on the basis of the operating segments described above. The change in reporting segments reflects the way the business is managed and reported.

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

In assessing its performance, the Group has adopted a number of APMs because, statutory measures can have limitations as analytical tools and are necessary to readers of the accounts when understanding our performance relative to other companies in our sector and in the wider economy.

Our APMs referred to in this report and in the financial statements as a whole include, EBITDA, non-underlying items, underlying earnings and non-financial measures such as capacity, occupancy and regulator quality ratings. You can read more about APMs on page 142.

Capacity and occupancy

As at the balance sheet, date Group capacity was 5,079. CareTech's capacity was 2,620 with blended occupancy 87% and mature occupancy 92%. CareTech's organic developments have continued during the year ended 30 September 2019 with the addition of 56 new beds whilst reconfigurations reduced capacity by a net 11 beds. A further 47 supported living contracts came to an end, resulting in a net decrease of 2 places for CareTech.

The occupancy of the Cambian business as at 30 September each year is affected by the timing of the start of the educational year because a number of non-residential Cambian schools operate on a 38-week basis with the new educational term commencing in October, with total capacity at 2,459 with blended occupancy 73% and mature occupancy 74%.

Condensed Income Statement before non-underlying items

	2019 £m	2018 £m	Growth
Revenue	**395.0**	**185.7**	**112.7%**
Gross profit	133.0	65.3	
Administrative expenses excluding depreciation and share-based payments charge	(59.4)	(21.4)	
EBITDA	**73.5**	**43.9**	**67.4%**
EBITDA margin	*18.6%*	*23.6%*	
Depreciation	(10.6)	(5.9)	
Share-based payments charge	(0.1)	(0.2)	
Underlying operating profit	**62.9**	**37.8**	**66.4%**
Net financial expenses	(12.7)	(4.9)	
Underlying profit before tax	**50.2**	**32.9**	**52.6%**
Underlying taxation	(9.4)	(5.8)	
Underlying effective tax rate	*18.7%*	*17.6%*	
Underlying profit for the year	**40.7**	**27.1**	
Non-controlling interest	(0.4)	(0.6)	
Weighted average number of diluted shares (millions)	107.6	75.7	
Underlying basic earnings per share	37.60p	35.07p	
Full year dividend per share	11.7p	11.0p	

Revenue

Group revenue increased by 112.7% to £395.0m (2018: £185.7m) with like for like revenues increasing by 5.8% year on year.

In the established Adults Services segment we continued to experience high levels of occupancy and reported 93% occupancy at 30 September 2019. When this is blended with the facilities that are being reconfigured and so are under development, the blended occupancy level at 30 September 2019 was 89% of capacity (September 2018: 86%). As in recent years the demand for residential services continues to be encouraging for high acuity users.

Annual fee rate negotiations with Local Authorities across the Group have received a favourable response. The National Minimum Wage increased from 1 April 2019, as did increases to both employer and employee pension contributions. The Group believe this has positively influenced its discussions with Local Authorities, who recognise that front line staff are an integral part of quality of delivery.

In Children's Services, total revenue has risen by 292.9% reflecting that Cambian was the largest provider of specialist education and behavioural health services for children in the UK.

Table 2 - Revenue and EBITDA

	2019 Revenue £m	2019 EBITDA £m	2018 Revenue £m	2018 EBITDA £m
Adults Services				
CareTech	123.6	32.7	118.7	31.9
Cambian	-	-	-	-
	123.6	**32.7**	**118.7**	**31.9**
Children's Services				
CareTech	64.9	18.2	58.7	17.0
Cambian	165.7	37.5	-	-
	230.6	**55.7**	**58.7**	**17.0**
Foster Care				
CareTech	8.0	1.5	8.2	1.9
Cambian	32.8	6.0	-	-
	40.8	**7.5**	**8.2**	**1.9**
Total				
CareTech	196.5	52.4	185.7	50.8
Cambian	198.5	43.5	-	-
	395.0	**95.9**	**185.7**	**50.8**

EBITDA

Divisional EBITDA before unallocated overheads was £95.9m which comprises £52.4m for CareTech (and represents an increase of 3.3% year on year) and Cambian of £43.5m. Total unallocated corporate overheads are £22.3m resulting in EBITDA of £73.5m.

EBITDA margin has decreased from 23.6% to 18.6% as a consequence of the Cambian EBITDA margin being at a lower rate than the CareTech business prior to acquisition.

The EBITDA margin of the Cambian business was 13.4%, before synergies, showing improvement when compared with their historic announced margins (which, in June 2018, were announced at 11%). The medium term margin target for the Cambian business is 16%.

Operating profit and profit before tax

The Group presents Operating Profit and Profit Before Tax as both underlying and statutory results. Underlying operating profit of £62.9m is EBITDA after depreciation and share-based payments charge.

The depreciation charge is £10.6m (2018: £5.9m) reflecting the investment in land and buildings, motor vehicles and fixtures, fittings and equipment and the share-based payments charge of £60k (2018: £197k).

Statutory operating profit of £39.5m is underlying operating profit less amortisation of £10.2m (2018: £7.4m), acquisition costs of £10.3m (2018: £4.5m), reflecting the costs incurred in acquiring Cambian in October 2018 and other non-underlying items of £2.9m (2018: 5.6m).

Underlying financial expenses increased to £12.7m (2018: £4.9m) due to additional bank financing to fund the cash consideration of the acquisition of Cambian with non-underlying financial expenses of £2.4m (2018: £0.1m) relating to the non-cash movement in derivative financial instruments (£1.5m) which do not qualify for hedge accounting and £0.4m relating to the write off of finance fees on facilities extinguished in the year.

Underlying Profit Before Tax improved to £50.2m (2018: £32.9m) and statutory Profit Before Tax increased to £24.3m (2018: £15.4m).

Taxation

The effective underlying tax rate was 18.7% (2018: 17.5%) 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.

Earnings per share

The weighted average number of shares in issue rose to 107.6m mainly due to the issue of 33.2m as consideration shares as part of the Cambian acquisition in October 2018.

Underlying basic earnings per share increased by 7.2% to 37.60p from 35.07p in 2018.

Statutory earnings per share increased by 30.6% to 18.38p (2018: 14.07p).

Dividends

Our policy has been to increase the total dividend per year broadly in line with the movement in underlying diluted earnings per share. The final dividend will rise broadly in line with the increase in underlying earnings per share and increase to 7.95p per share (2018: 7.50p), bringing the total dividend for the year to 11.7p (2018: 11.0p), a growth of 6.4%. Dividend cover for 2019, based upon diluted earnings per share before non-underlying items is 3.18 times (2018: 3.19 times).

Cash flow and net debt

The cash flow statement and movement in Net Debt for the year is summarised below:

	2019 £m	2018 £m
EBITDA	73.5	43.9
Increase in working capital	(7.2)	(4.4)
Cash inflows from operating activities before non-underlying items	66.3	39.5
Tax paid	(5.9)	(4.1)
Interest paid	(10.9)	(4.7)
Dividends paid	(10.8)	(7.5)
Capital expenditure	(31.5)	(17.1)
Proceeds from disposal of fixed assets	31.8	-
Acquisition of Cambian net of cash	(160.3)	-
Non-underlying cash flows	(20.4)	(6.1)
New HP arrangements	(2.4)	-
Movement in Net Debt	(144.1)	0.1
Opening Net Debt	(147.0)	(147.1)
Net Debt as at 30 September 2019	(291.1)	(147.0)

A key feature of this business is its strong cash generation. Cash inflows from operating activities before non-underlying items were £66.3m (2018: £39.1m). Cash inflows from operating activities including the payment of integration and restructuring costs of £5.6m and acquisition costs of £14.4m were £45.4m (2018: £34.2m).

For the period 1 October 2018 to 30 September 2019 Cambian has a 100% EBITDA to cash conversion and CareTech has a 101% cash conversion. Cambian was acquired mid-October and in the pre-acquisition period (from 1 October to 18 October 2018) there were particularly strong cash receipts. The mid-month acquisition resulted in the Group being unable to recognise these receipts in the conversion calculation, whilst the payrolls, which typically go out at the end of the month, are recognised in the combined Group cash flows. Taking this into account, the EBITDA to operating cash conversion for the consolidated Group is 90%.

Capital expenditure was £31.5m (2018: £17.1m) which includes software development of £2.7m (2018: £3.9m) and payments of deferred consideration of £1.0m (2018: £Nil).

Other key cash flows in this period include payment of integration costs of £6.5m (2018: £4.3m), payment of acquisition costs of £14.4m (2018: £0.9m), bank fees paid on the new facility of £4.7m (2018: £nil), dividend payments of £10.8m (2018: £7.5m) and corporation tax payments of £5.9m (2019: £4.1m).

Net Debt at 30 September 2019 was £291.1m (2018: £147.0m), the increase reflecting the cash consideration of £160.1m and the associated financing necessary for the Cambian acquisition together with the £31m receipt of the ground rent transaction and the other cash flows identified above.

Acquisitions, share issue and bank facilities

On 19 October 2018, CareTech Holdings plc acquired the entire share capital of Cambian Group plc, a leading children's specialist education and behavioural health service provider. The headline consideration for the acquisition was £359.9m (of which £241.7m was paid in cash), with the net price paid being £278.5m reflecting £81.5m of net cash held by Cambian on the date of acquisition. The acquisition was funded by the issue of 33.2m shares and new bank facilities.

The Group entered into new Banking facilities of £322m and a revolving credit facility of £25m to a group of banks comprising Barclays Bank PLC, HSBC UK Banks plc, Santander UK plc, AIB Group (UK) plc, Clydesdale Bank PLC, Credit Suisse AG, Lloyds Bank plc and National Westminster Bank plc.

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 and the Cambian Group plc property portfolio was revalued by Knight Frank and the market value was £350m, a total of £774m.

CareTech's three key covenant ratios are leverage (ratio of net debt to covenant EBITDA to be no more than 4.9x), interest cover (ratio of covenant EBITDA to net finance costs to be no less than 4x) and LTV (ratio of property value to net debt to be no more than 62.5%). As at 30 September 2019, we were operating comfortably within these ratios at 3.9x, 6.45 and 42% respectively. The Board are committed to reducing Net Debt to under 3.0x in the medium term.

Ground rent transaction

In January 2019, the Group announced that it had completed a ground rent transaction with funds managed by Alpha Real Capital LLP ('Alpha') at a net initial yield of 2.85%. This transaction builds on the previous transaction with Alpha in February 2016.

Under the terms of the agreement, the freehold interest in 24 CareTech properties ("the Properties") were transferred to Alpha in exchange for a net cash sum of £31m and security of tenure with a 150-year lease term returning to CareTech a virtual freehold interest in each property. The commencing rent was £1.0m per annum which will rise with the Retail Price Index on a yearly basis between 0% and 5% per annum. The properties are located across England and Scotland, representing less than 8% of the aggregate number of freehold properties owned by the Group.

New accounting standards

IFRS 9

IFRS 9 'Financial instruments' became effective for the Group starting 1 October 2018 and replaced the requirements of IAS 39 'Financial Instruments: recognition and measurement'. The main changes introduced by the new standard are a new classification and measurement requirements for certain financial assets and a new Expected Credit Loss (ECL) model for the impairment of financials assets.

The Group has determined that the transition to IFRS 9 resulted in an additional charge of £0.5m. The chosen transition method is to make an adjustment against opening reserves and not to restate 2018 comparative information. There has been no other impact on the classification of assets and liabilities as a result of adopting this standard.

IFRS 15

IFRS 15 'Revenue from contracts with Customers' became effective for the Group starting from 1 October 2018 and provides a single, principles-based approach to the recognition of revenue from all contracts with customers. It focuses on the identification of performance obligations in a contract and requires revenue to be recognised when or as those performance obligations are satisfied.

The Group has determined that the transition to IFRS 15 has not resulted in any significant adjustments to the Group's reported revenue.

Future accounting standards – IFRS 16

IFRS 16 'Leases' became effective for the Group from 1 October 2019 and replaces the requirement of IAS 17 'Leases'. An asset representing the Group's right as a lessee to use a leased item, and a liability for future lease payments will be recognised for all leases, subject to limited exemptions for short term leases and low-value lease assets. The costs of leases will be recognised in the consolidated income statement split between depreciation of the lease asset and a finance charge on the lease liability. This is similar to the accounting for finance leases under IAS 17, but substantially different to the accounting of operating leases (under which no lease asset or liability was recognised, and rentals payable were charged to the consolidated income statement on a straight-line basis).

As a result of adopting the new rules, for the year ended 30 September 2020, the Group anticipate recognising an additional right of use asset of £72m and corresponding lease liability of £72m. The Group expects net profit before tax to decrease by £0.5m. EBITDA is estimated to increase by £8.0m as the operating lease rentals which were previously included in operating profit are excluded, with this increase being offset by additional estimated depreciation of £6.3m as the right-of-use assets are depreciated and estimated £2.3m of finance charge relating to the lease liability.

IFRS 16 will not have any impact on the underlying commercial terms of each lease, our banking covenants and will not have any impact on the commercial performance of the Group, nor the cash flow generated in the year.

Christopher Dickinson
Chief Financial Officer
30 January 2020

Board of Directors

Farouq Sheikh, Group Executive Chairman (aged 61)

Farouq 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.

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.

Haroon Sheikh, BSc Group Chief Executive Officer (aged 63)

Haroon, 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 Group 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.

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 The Prince of Wales. He is also a Member of the Court of the University of Hertfordshire.

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. In 2009 they were both finalists in the Ernst & Young Entrepreneur of the Year Awards and in 2016 they received the Outstanding Contribution Award at the Laing & Buisson Annual Healthcare Awards. In 2019 Haroon and Farouq were winners of the "Asian Business of the Year".

Haroon was a Founder Trustee of the CareTech Charitable Foundation formed in 2017 and is Chairman of the Trustees, working closely with the Group's Executive and independent Trustees.

Karl Monaghan, Non-Executive Director (aged 57)

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.

Mike Adams OBE, Executive Director (aged 48)

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 Government's flagship disability employment programme. Mike has been awarded an Honorary Doctor of Education for disability leadership from Anglia Ruskin University.

Mike was honoured with an OBE in 2012 for his services to disability.

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

Jamie Cumming, Non-Executive Director (aged 69)

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

Gareth Dufton FCA, Interim Group Finance Director (aged 43)

Gareth is a graduate of the University of Hertfordshire with a first class honours degree in accounting. He is a qualified chartered accountant who was admitted as a member of the ICAEW in 2001 and as a Fellow in 2013. He is a former partner of Moore Stephens LLP, the top 10 City based accountants where he played a key role in client liaison, undertaking a mix of audit, tax and corporate finance where he worked between 2000 and 2007. Gareth has experience working with both privately owned businesses and public companies assisting in raising finance, acquisitions and disposals.

Gareth has been involved in CareTech since 2000, initially advising as part of Moore Stephens and from 2007 working directly with the Company in a variety of roles ,including acting as Associate Finance Director between 2009 and 2016. He has provided support to CareTech at a senior level with finance matters including acquisitions, equity raising, renewal of debt facilities, share placement and disposals of properties.

Christopher Dickinson, Chief Financial Officer (aged 41)

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

Professor Moira Livingston, Non-Executive Director (aged 57)

Moira has been involved in health and social care for 34 years. Moira spent many years working initially as a Doctor in the field of older-age psychiatry and latterly as a senior clinical leader and manager in the NHS.

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

Corporate Governance Report

Introduction

The Board believes that an effective corporate governance framework is essential to underpin the success of the business, supporting management while ensuring an appropriate level of challenge and exercising proper oversight while facilitating decision making.

The Board is focused on taking steps to enhance standards of governance and disclosure towards the levels required for Premium Listed companies, should the Board ultimately decide to take that step. Board composition has been reviewed with the aim of achieving an appropriate level of independence and ensuring appropriate skillsets within the Non-Executive Director group, and meeting diversity goals. A first step in this process was completed in May 2019, with the appointment of Professor Moira Livingston as an Non-Executive Director and Chair of the Care Quality and Governance Committee. I am pleased to welcome Moira and I am confident that her commercial expertise will benefit the Board and the Company enormously.

The CareTech Board remains committed to achieving the highest standards of integrity, ethics, professionalism and business practice throughout its operations. Therefore, the Company has aligned its governance with best practice and is reporting against the provisions of the UK Corporate Governance Code on a comply or explain basis. The Code and associated guidance are available on the Financial Reporting Council website at www.frc.org.uk. A revised Code was published in July 2018 (the 2018 Code), which will become effective for accounting periods beginning on or after 1 January 2019. We have commenced our preparations for the key changes and will be examining current practices in relation to the requirements of the 2018 Code and will report in relation to them at the appropriate time. We have noted the Code provisions below where the Company does not comply with the Corporate Governance Code in full.

SECTION OF THE UK CORPORATE GOVERNANCE CODE	*HOW THE COMPANY COMPLIES WITH THE UK CORPORATE GOVERNANCE CODE*
The Role of the Board Every company should be headed by an effective board which is collectively responsible for the long-term success of the company	Details of CareTech's Board are set out on pages 59 and 60. 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 11.7 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. 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 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 There should be a clear division of responsibilities at the head of the company between the running of the board and the executive responsibility for the running of the company's business. No one individual should have unfettered powers of decision. The chairman is responsible for leadership of the board and ensuring its effectiveness on all aspects of its role. As part of their role as members of a unitary board, non-executive directors should constructively challenge and help develop proposals on strategy.	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, Professor Moira Livingston and Jamie Cumming are the CareTech Group's three Non-Executive Directors. Karl Monaghan, Professor Moira Livingston 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 (A.3.1); and

	2. At least half the board, excluding the Group Executive Chairman, are not independent non-executive directors (B.1.1) 3. The Chairman did not hold formal meetings with the non-executive directors independently of the executive directors, and thus has chosen not to comply with this provision of the Code (A.4.2) 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 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 one additional non- executive. 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 quality and governance committee are set out on pages 61 and 62.

	Directors' and officers' liability insurance The Company provides its directors and officers with the benefit of appropriate insurance, which is renewed annually.
Effectiveness The board and its committees should have the appropriate balance of skills, experience, independence and knowledge of the company to enable them to discharge their respective duties and responsibilities effectively. There should be a formal, rigorous and transparent procedure for the appointment of new directors to the board. All directors should be able to allocate sufficient time to the company to discharge their responsibilities effectively. All directors should receive induction on joining the board and should regularly update and refresh their skills and knowledge. The board should be supplied in a timely manner with information in a form and of a quality appropriate to enable it to discharge its duties. The board should undertake a formal and rigorous annual evaluation of its own performance and that of its committees and individual directors. All directors should be submitted for re-election at regular intervals, subject to continued satisfactory performance.	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 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 CareTech does not comply with the Code provision B.6. This will nevertheless be kept under review.

Accountability The board should present a fair, balanced and understandable assessment of the company's position and prospects. The board is responsible for determining the nature and extent of the principal risks it is willing to take in achieving its strategic objectives. The board should maintain sound risk management and internal control systems. The board should establish formal and transparent arrangements for considering how they should apply the corporate reporting and risk management and internal control principles and for maintaining an appropriate relationship with the company's auditors.	• The CareTech Board has established an audit committee, details of which are set out on page 61. • 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 35 to 36 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 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: o annual budgets are prepared for each operating business. Monthly management reporting focuses on actual performance against these budgets for each operating business; o management reports and external audit reports on the system of internal controls and any material control weaknesses that are identified; o whistleblowing helpline is managed by a third-party provider, enabling colleagues to raise concerns they may have about issues of safety or wrongdoing, anonymously if necessary. All such concerns received through the helpline are sent to the Head of Compliance for review, and to ensure that they are appropriate investigated and concluded; o discussions with management including those on the actions taken on problem areas identified by CareTech Board members or in the external audit reports; o policies and procedures for such matters as delegation of authorities, capital expenditure and treasury management as well as regular updates; and o 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 o review of the external audit work plans.
Remuneration Executive directors' remuneration should be designed to promote the long-term success of the company. Performance-related elements should be transparent, stretching and rigorously applied. There should be a formal and transparent procedure for developing policy on executive remuneration and for fixing the remuneration packages of individual directors. No director should be involved in deciding his or her own remuneration.	The composition and role of the Remuneration Committee is described below on page 61 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 2019, 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 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.

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 43 to 45 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.

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

Karl Monaghan, the Senior Non-Executive Director, Professor Moira Livingston 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 the Chair of the Audit Committee and a member of the Care Quality and Governance Committee and the Remuneration Committee.

Professor Moira Livingston is the Chair of Care Quality and Governance Committee and a member of the Audit Committee and the Remuneration Committee.

Jamie Cumming is the Chair of the Remuneration Committee and a member of the Audit Committee and Care Quality and Governance Committee.

Gareth Dufton was appointed the Interim Group Finance Director following the death of Michael Hill. Gareth is accountable to the Board for all financial matters. Following the appointment of Christopher Dickinson as Chief Financial Officer, Gareth resigned on 13 January 2020.

Christopher Dickinson was appointed Chief Financial Officer on 13 January 2020. Christopher is accountable to the Board for all financial matters.

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 2019:

	Board	Audit Committee	Remuneration Committee	Care Quality and Governance Committee
Farouq Sheikh	11	-	-	-
Haroon Sheikh	11	-	-	-
Michael Hill	3	1	1*	
Karl Monaghan	11	2	3	3
Mike Adams	11	1	3	3
Jamie Cumming	11	2	3	3
Gareth Dufton	7	-	2*	-
Professor Moira Livingston	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. CareTech does not comply with the Code provision B.2 as it does not have a nomination's committee. 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), Professor Moira Livingston and Jamie Cumming. The Interim 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 the following:

- monitor the integrity of the Financial Statements of the Company including results and other announcements of financial performance;
- review significant financial reporting issues and judgements;
- review and, where necessary, challenge the consistency of accounting policies and whether appropriate accounting standards have been used;
- review the contents of the Annual Report and Group Financial Statements and advise the Board on whether it is fair, balanced and understandable and provides the information necessary for shareholders to assess the Group's position, performance, business model and strategy;
- review the effectiveness of the Company's internal controls and risk management systems;
- consider the need for an internal audit function and make a recommendation to the Board (there is currently no internal audit function given the Group's size and business model; this will be reviewed for future years);
- review the Company's whistleblowing system and procedures for detecting fraud;
- review the Company's procedures for the prevention of bribery and receive reports on non-compliance;
- oversee the relationship with the external auditor, including assessing their independence and objectivity, and approval of auditor remuneration including the level of audit and non-audit fees'. Details of the amount paid to the external auditor during the year, for audit and other services, are set out in note 7 to the financial statements.
- review and approve the annual audit plan, and review the effectiveness and findings of the audit; and
- reporting to the Board on the proceedings of the committee and make recommendations to the Board on any area within the committee's remit.

As a new adopter of the Code, CareTech has elected not to comply with the Code provision C.3.8, this will nevertheless be kept under review as the Company continues to expand its compliance.

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 69 to 76. 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 2019 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 Quality and Governance Committee and what do they do?

The Care Quality and Governance Committee is chaired by Professor Moira Livingston 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.

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 Quality and Governance Committee. The committee is seen as a pioneering initiative that has won friends and encouragement from regulators and commissioners alike. The committee brings non-executive Directors into a much closer relationship with our everyday work and they have adopted a robust scrutiny approach to care practice. This in itself has had a positive impact on care quality and the executive team has been encouraged to introduce quality initiatives across the company.

The Group's Adults Services are 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 Adults Services. The National distribution across the four outcomes is shown in the table below with 95% of our services being either "Outstanding" or "Good". For the Group's services the published reports are as follows with the services in the outcomes as set out:-

CQC

Ratings	Outstanding	Good	Requires Improvement	Inadequate
National	4%	80%	15%	1%
Group	3%	92%	4%	1%

Adults 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's Services division is regulated by the Office for Standards in Education (Ofsted) in England and these services are rated as Outstanding, Good, Requires Improvement or Inadequate. 82% of our services are either "Outstanding" or "Good". For the Group's services the published reports are as follows with the services in the outcomes as set out:-

Ofsted

Ratings	Outstanding	Good	Requires Improvement	Inadequate
National*	17%	62%	20%	1%
Group	3%	79%	14%	4%

*Ofsted statistics refer to residential children's homes (excludes Education).

The Foster Care services in England are regulated by Ofsted and all 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 Adult and Children's Services have the majority of the Group's rated Residential Services as Excellent or Very Good for both the established services and the acquired services in Scotland.

The Care Quality and Governance 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 Quality and Governance Committee has invited operational managers, regulators and local safeguarding lead officers to attend its meetings.

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

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

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

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

How do we manage our internal controls and risks?

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

The recent challenging business climate has resulted in a sustained focus on the approach to risk. The Directors consider robust risk management to be crucial to the Group's success and give a high priority to ensuring that adequate systems are in place to evaluate and limit risk exposure. They have overseen the further development of processes and procedures for identifying, analysing and managing the significant risks faced by the Group. These risks have been discussed in the Strategic Report on page 35 and 36. 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 2019 there have been changes to the governance of data and the new General Data Protection Regulations (GDPR) 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.

Long-term viability of the Group

The Group does not comply with provision C2.2 to produce a viability statement in the form required by the Code. As an AIM listed company, it is not required to produce a formal viability statement and has chosen not to, given the Group's size and business model, though the Group will keep this under review for future years. However, the Board has considered the general viability of the Group, using a period of three years for their assessment. The assessment conducted considered the Group's revenue, EBITDA, operating profit, cash flows, risks management controls and loan covenants over the three-year period. The longer-term prospects of the Group are driven by its strategy and business model, as outlined on pages 16 to 31.

These metrics were subject to downside stress testing over the assessment period, taking account of the Group's current position, the Group's experience of managing adverse conditions in the past and the impact of a number of severe yet plausible scenarios based on the principal risks set out in the Strategic Report.

This review included the following key assumptions:

- No change in capital structure given the Group entered into new banking facilities in August 2018 to mature in 2022 and 2023.
- The government will not change its existing policy towards utilising private provision of social care services to supplement the Local Authority offering.

Based on the results of this analysis, the Directors confirm that they have a reasonable expectation that the Group will be able to continue in operation and meet its liabilities as they fall due over the next three years.

By order of the Board

Farouq Sheikh
Group Executive Chairman
30 January 2020

Directors' Report

The Directors present their report and the audited Group financial statements for the year ended 30 September 2019.

Principal activities

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

Business review and future developments

The results for the financial year ended 30 September 2019 are set out in the consolidated statement of comprehensive income detailed on page 88. Revenues for the year amount to £395.0m, operating profit for the year before non-underlying items amounted to £62.9m and operating profit after non-underlying items amounted to £39.5m.

On 19 October 2018, CareTech Holdings plc acquired the entire share capital of Cambian, a leading children's specialist education and behavioural health service provider. The headline consideration for the acquisition was £360m (of which £241.7m was paid in cash) with the net price being £278.5m reflecting £81.5m of net cash held by Cambian on the date of acquisition.

Key performance indicators are set out in the "Highlights" on page 3 and 4.

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 35 to 36.

Dividends

Dividends of £10.8m have been paid during the year. The Directors propose a final dividend of 11.7p per share (2018: 7.5p) 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 22 to the financial statements.

Directors

The names of the current Directors together with brief biographical details are shown on pages 43 to 45.

In accordance with the articles of association, Farouq Sheikh, Haroon Sheikh and Moira Livingston 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:

Director's name	***Title***
Farouq Sheikh	Group Executive Chairman
Haroon Sheikh	Group Chief Executive Officer
Gareth Dufton	Interim Group Finance Director
Mike Adams	Executive Director
Karl Monaghan	Non-executive Director
Jamie Cumming	Non-executive Director
Professor Moira Livingston	Non-executive Director

Professor Moira Livingston was appointed as a Non-Executive Director in June 2019. Professor Livingston chairs the Group's Care Quality and Governance Committee. Also in June 2019, Mike Adams OBE, who was formerly a Non-Executive Director, became an Executive Director to enable him to pursue a strategic role within the Group.

Gareth Dufton was appointed as Interim Group Finance Director in January 2019 following the sad passing of Michael Hill. Christopher Dickinson (FCA) joined CareTech plc in January 2019 as Cambian Chief Financial Officer having previously been a Managing Director of Jefferies where he acted for CareTech plc on its merger with Cambian. Prior to Jefferies, Chris spent 14 years in the investment banking division of J.P. Morgan and three years at Deloitte, qualifying as a Chartered Accountant. With effect from 13 January 2020, Christopher Dickinson has been appointed as Chief Financial Officer and has joined the Board.

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 69.

Directors' insurance

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

Share capital

Substantial shareholdings

As at 12 December 2019, 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 69.

	No. of Ordinary shares of 0.5p	Percentage %
Liontrust Asset Mgt	16,095,333	14.4
Lombard Odier Asset Mgmt	14,512,689	12.9
Richard I Griffiths (Guernsey)	9,521,409	8.5
Hof Hoorneman Bankiers (Netherlands)	9,403,288	8.4
Canaccord Genuity Wealth Mgt (London)	6,750,000	6.0

Capital structure

As at 30 September 2019, the Company had 109,144,369 issued ordinary shares of 0.05 pence each. The company has, and as at 30 September 2019 had, one class of ordinary shares and each share carries the right to one vote at general meetings of the Company and to participate in any dividends declared in accordance with the articles of association. No person has any special rights of control over the Company's share capital.

Financial instruments

The Group is exposed to a combination of price, credit, interest rate and cash flow risks. The Group uses financial instruments including cash, borrowings and interest rate swaps, the main purpose of which are to raise finance for the Group's activities and to manage interest rate risks. Disclosures in respect of these instruments are set out in note 25 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 Sharesave share option schemes for eligible employees in both 2016 and 2017, details of which can be found in note 21 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 5 March 2019 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.

Post balance sheet events

On 21 November 2019 an interim dividend of 3.75p per share was paid to shareholders.

On 8 November 2019, the Group issued 2,504,475 new ordinary shares of 0.5p in the Company (the "New Ordinary Shares") under the Executive Shared Ownership Plan ("ExSOP") to 30 members of the senior and executive management team. An award under the ExSOP enables the participant to benefit only from the future growth in the value of the New Ordinary Shares above their market value on the award date, in excess of a "carrying cost" of 3% per annum.

The vesting of the ExSOP requires specific performance conditions being satisfied. As with the previous issuance of the ExSOP, the target is an EPS Target which requires the growth in the Company's underlying Diluted EPS over the three-year period beginning on the date of issue of the awards to be at least 15% (being an average 5% annual growth rate, calculated without compounding). Participants may not normally realise any such benefit from the ExSOP awards before 8 November 2022.

Going concern

The Group's business activities together with the factors likely to affect its future development, performance and position are set out in the Group Chairman's Statement and Group Chief Executive's Statement and Performance Review on pages 7 to 11 and pages 12 to 15. The financial position of the Group, its cash flows, liquidity position and borrowing facilities are described in the Financial Review on pages 37 to 42. In addition, note 25 to the financial statements includes the Group's objectives, policies and processes for managing its capital, its financial risk management objectives, details of its financial instruments and hedging activities and its exposures to credit risk, interest rate risk and liquidity risk. As highlighted in that note, the Group meets its day-to-day working capital requirements through cash flow from profits which together with existing bank facilities which are sufficient to fund present commitments. Term facilities are utilised to fund capital expenditure and short-term flexibility is achieved by the utilisation of cash resources in respect of financial liabilities, which are shown in the table in note 25 and indicates their contractual cash flow maturities.

During the year, the Group entered into new Banking facilities with a consortium of eight banks (Barclays Bank plc, HSBC UK Bank plc, Santander UK plc, AIB Group (UK) plc, Clydesdale Bank plc and Credit Suisse AG, Lloyds Bank plc and National Westminster Bank plc) for committed financing by way of term loans of between 3.5 to 5 years up to £322m. In addition to the term loans, a £25m revolving credit facility is available to provide working capital for the Enlarged Group together with a day to day overdraft facility of £2m. There are a number of Banking Covenants which ratchet depending on time and Group performance. The Directors forecast that they are able to meet all Banking Covenants which are reviewed regularly.

As part of the Acquisition, of Cambian 2018 the Group's property portfolio was revalued by Knight Frank and Cushman and Wakefield and the market value was £774m. These valuations are not reflected in the Consolidated Statement of Financial Position. The ground-rent transaction during the year raised £31m of net cash on less than 10% of the Group's freehold asset portfolio.

The Group's underlying operating business is cash generative, much of the business has a long term profile with both debtor days and creditor days comparatively low. Non underlying costs arising from the acquisition of Cambian together with the integration costs and costs in realising synergies have substantially been settled during the year. As at the balance sheet date, the Group had cash balances of £29m.

The Directors have prepared a cash flow forecast taking into account all expected cash flows for 12 months from the date of signing these financial statements. After making due enquiries, the Directors have a reasonable expectation that the Group has adequate resources to continue in operational existence for the foreseeable future.

Accordingly, the Directors continue to adopt the going concern basis of accounting for the Group and Parent Company in preparing the consolidated financial statements.

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
30 January 2020

Directors' Remuneration Report

Statement from the Chairman of the Remuneration Committee

Jamie Cumming
Chairman of the Remuneration Committee

Dear Shareholder,

On behalf of the Board, I am pleased to present the Directors' Remuneration Report (DRR) for the year ended 30 September 2019. CareTech is listed on the AIM market of the London Stock Exchange and, the information provided is disclosed to fulfil the requirements of AIM Rule 19. This report is split into two main parts:

- **This statement to shareholders** which includes a summary of our approach to pay, our policy, remuneration outcomes for the year just ended and how we intend to operate remuneration arrangements for the year ahead; and

- **The Annual Report on Remuneration** which provides more detail on the above, as well as setting out other remuneration-related disclosures.

CareTech is not required to comply with Schedule 8 of the Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2013 but as you will read, we have made a number of enhancements to our disclosures this year, which we intend to continue to provide in future years. We hope you will welcome the additional information.

Remuneration Committee
The Remuneration Committee currently comprises three Non-Executive Directors, Jamie Cumming (Chairman), Karl Monaghan and Professor Moira Livingston, and meets at least twice each year. The Committee members have no personal financial interest, other than as shareholders, in the matters to be decided and all are considered to be independent Directors of the Company. 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.

Professor Moira Livingston was appointed during this financial year to augment our number of Non-Executive Directors following the appointment of Mike Adams as an Executive Director of the Company.

The Committee's principal duties are to review the scale and structure of the remuneration and service contracts for Executive Board Directors 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 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 for the year under review: base salary; annual bonus; benefits; and pension.

CareTech did not grant any long term incentive awards to Executive Directors in the year ending 30 September 2019. Executive Directors have subsisting options under the Group's Executive Shared Ownership Plan (ExSOP). In October 2019, the Remuneration Committee did make awards to the Executive Directors and other employees. Further details are provided in the Annual Report on Remuneration.

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

Directors' service agreements
All Executive Directors' service contracts are subject to a 6 or 12 months' notice (period) of termination on either side.

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

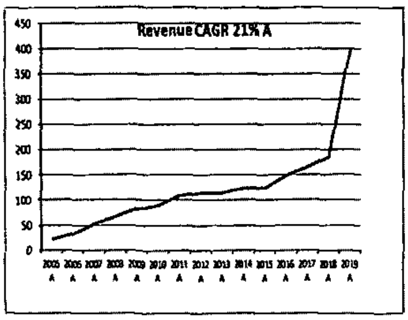
Business context
CareTech have 25 years of experience in the care sector and 13 years on the public markets. In that time, the business has grown from a single home to 550 facilities with 10,000 staff supporting 4,500 service users. Since listing on AIM in 2005 (IPO), the business has transformed from being focused on supporting adults with a learning disability through residential and day care settings to one today where we cater for young people and children with complex needs across a range of settings, be it residential, education, CAMHS or community support.

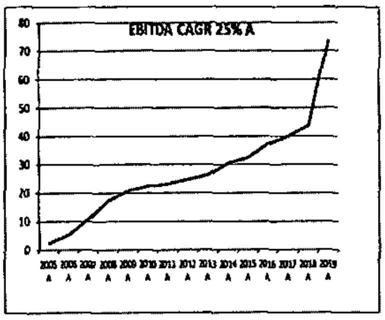
The business has expanded its range of services to encompass mental health, education, children's residential care and therapeutic fostering. The transformational acquisition of Cambian in October 2018, coupled with the unconditional CMA clearance in February 2019, increased the range of services and the UK geographic spread of our services. Over the last 25 years, CareTech has become a trusted partner for Local Authorities with a proven track record of delivering the highest standards of care and governance. Across the Group, CQC quality ratings are 95% Good or Outstanding in Adults Services, this compares favourably to the market average of 84% and against our last update report. The Ofsted ratings for the CareTech services are 93% Good or Outstanding and 80% for the Cambian services resulting in a blended 82% Good and Outstanding ratings for Children's Services across the Group.

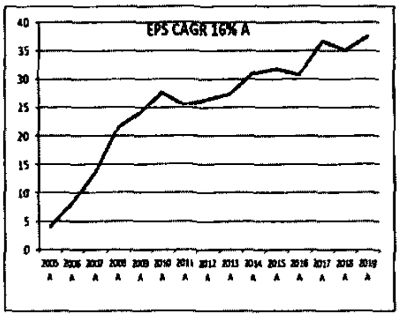
Over the years, CareTech has developed a range of care pathways and helped many of the adults and young people that we support to live more independently. This is an outstanding outcome for both Caretech and the individuals the company supports and assists Local Authorities to meet the ever-increasing cost of social care provision.

Since IPO, EBITDA and EPS have grown by CAGR of 26% and 20%. CareTech's market capitalisation has gone from £60m at IPO through to £400m, an increase of over six-fold in size. The Group has put in place a Dividend policy which increases in line with growth in underlying EPS. It is within this context that the Committee has considered remuneration over recent years in order to align Executive Board Directors remuneration with the sector and the size of the business and its organisational structure.

The Company's growth in revenue, EBITDA and Underlying EPS are graphically demonstrated as follows:







Remuneration decisions and outcomes

Salary
The following table sets out salaries for our Executive Directors for the year ending 30 September 2019 and intended salaries effective for the year ending 30 September 2020.

Executive Directors		2019 salary with effect from 1 October 2018	2020 salary with effect from 1 October 2019
Group Executive Chairman	Farouq Sheikh	£350,000	£400,000 (+14%)
Group Chief Executive Officer	Haroon Sheikh	£400,000	£450,000 (+12.5 %)
Executive Director	Mike Adams OBE	£125,000*	£125,000 (+0%)
Group Interim Finance Director	Gareth Dufton	£207,000**	£207,000 (+0%)
Chief Financial Officer	Christopher Dickinson	N/A	£278,000***

* from appointment as an executive Director on 1 June 2019.
** from appointment on 10 December 2018
*** from appointment on 13 January 2020

2019 bonus
The Committee assessed outcomes over the year ending 30 September 2019 with respect to Group Underlying EPS, EBITDA and the quality of regulatory reports, and determined that bonuses of either 50% or 100% of the maximum (of 100% of salary) were appropriate for the Executive Directors. Achievement against these measures is described in more detail in the Annual Report on Remuneration.

2020 bonus
For the year ending 30 September 2020, maximum bonus opportunities will be 100% of salary for the Group Executive Chairman and Group Chief Executive Officer, and 50% for the Executive Director and Chief Financial Officer. For the FY20 bonus, we will have the same mix of three measures, being a third each on EPS, EBITDA and the quality of regulatory reports. In line with our approach for the FY19 bonus, we will retrospectively set out the targets set and the performance achieved in next year's Annual Report on Remuneration.

Executive Shared Ownership Plan (ExSOP)
CareTech operates a discretionary ExSOP for Executive Directors and other selected senior executives. There were no ExSOP grants in the year ending 30 September 2019. The most recent ExSOP grant was in November 2019, as disclosed in Stock Exchange announcements at the time and summarised in the "at a glance" table below. Details of Directors' interests and share option details for ExSOP and Sharesave awards are provided in the Annual Report on Remuneration. The ExSOP provides each holder of shares awarded pursuant to the ExSOP (ExSOP Shares) a joint beneficial ownership in the ExSOP shares (shared with the Employee Benefit Trusts) such that upon sale of the ExSOP shares, the holder will be entitled to the proceeds of the sale less the initial market value of the ExSOP shares and a carrying cost of 3% per annum. The ExSOP shares have a 3 year vesting period with vesting subject to performance criteria being met and are usually conditional on continuous employment.

All-employee share-based arrangements
CareTech operates Sharesave option arrangements, allowing all employees (including Executive Directors) to participate in share ownership and to share in our success over the medium term. CareTech also operates a Company Share Option Plan (CSOP) for selected individuals below Board level.

Executive remuneration at a glance
This table summarises the approach to remuneration arrangements for Executive Directors for FY19 and intended operation for FY20.

Element of remuneration	Year ending 30 September 2019	Year ending 30 September 2020
Salary	Group Exec Chair – £350,000 Group CEO – £400,000 Executive Director–£69,667 Group Interim FD – £155,250	Group Exec Chair – £400,000 (+14%) Group CEO – £450,000 (+10%) Executive Director–£125,000 Group Interim FD – £207,000 Chief Financial Officer – £278,000
Maximum Discretionary Bonus Opportunity	Group Exec Chair & Group CEO – 100% of salary payable in cash Executive Director 50% of salary payable in cash Group Interim FD – 50% of salary payable in cash.	Group Exec Chair & CEO – 100% of salary payable in cash Executive Director 50% of salary payable in cash Group Interim FD – 50% of salary payable in cash Chief Financial Officer – 50% of salary payable in cash
Bonus performance measures	3 measures each with equal weighting: adjusted EPS; EBITDA; and quality of regulatory reports	
ExSOP options	No grants in the year	Grants made in October 2019 (number of shares): Group Exec Chair – 400,000 Group CEO – 400,000 Executive Director – 93,750 Chief Financial Officer – 155,250
Pension arrangements	15% of salary pension contribution (which can be taken as 13% of salary cash allowance)	

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Annual Report on Remuneration

Directors' Remuneration (audited)

The table below reports a single figure of total remuneration for each of the Directors for the financial year ended 30 September 2019 and their comparative figures for the financial year ended 30 September 2018.

	Salary and fees		Benefits		Annual bonus		LTIP		Pension		Total	
	2019	2018	2019	2018	2019	2018	2019	2018	2019	2018	2019	2018
	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000
Executive Directors												
Farouq Sheikh	350	396	32	21	350	315	–	–	53	48	785	778
Haroon Sheikh	400	453	58	58	400	283	–	–	62	53	920	847
Michael Hill	71	278	7	26	–	180	–	–	–	30	78	514
Gareth Dufton	155	–	6	–	100	–	–	–	17	–	278	–
Mike Adams OBE	69	–	3	–	–	–	–	–	–	–	72	–
Non-Executive Directors												
Karl Monaghan	53	53	–	–	–	–	–	–	–	–	53	53
Mike Adams OBE	-	42	–	–	–	–	–	–	–	–	-	42
Professor Moira Livingston	15	-	-	-	-	-	-	-		-	15	-
Jamie Cumming	42	42	–	–	–	–	–	–	–	–	42	42
Total	1,155	1,264	106	105	850	778	–	–	132	129	2,243	2,276

Notes to the table:

- Michael Hill, the Company's then Group Finance Director, passed away on 9 December 2018. Gareth Dufton was appointed as Interim Group Finance Director the following day. Remuneration details for Michael Hill and Gareth Dufton represent only those amounts in relation to their services as a Director on the Board.
- Similarly, remuneration details for Mike Adams OBE above represent only those amounts in relation to his services as an Executive Director and Non-Executive Director on the Board respectively, following his change in role during June 2019.
- Professor Moira Livingston was appointed as a Non-Executive Director in June 2019.

Benefits

Benefits include car allowance (or company vehicle), vehicle expenses and healthcare insurance.

Annual bonus

Annual bonus awards were made in respect of the year ended 30 September 2019. Executive Directors were eligible for a maximum bonus opportunity of either 50% or 100% of salary. For the avoidance of doubt, Non-Executive Directors are not eligible to participate in any annual bonuses or share-based incentives at CareTech.

The awards were structured by reference to performance against three performance measures and targets, all equally weighted. If an individual target is met, a third of the bonus award is payable. The following table sets out the performance measure, the weighting, the target and the outcome in respect of the bonus for the year ended 30 September 2019.

Performance measure	Weighting	Target	Outcome
Group underlying EPS	One third	35.2p	37.6p resulting in one third payable
Group EBITDA	One third	£71.0m	£73.5m resulting in one third payable
Quality % of Regulatory reports rated good or outstanding, and there are also no serious reputational risks identified	One third	90%	93% resulting in one third payable
Total	**100% of the maximum bonus opportunity available is payable**		

Long Term Incentive Plan (LTIP)

CareTech does not operate a typical LTIP in the form of performance shares. CareTech does occasionally *grant share options and shares under its Executive Shared Ownership Plan (ExSOP) to the Executive*

Directors. No grants were made in the year ending 30 September 2019.

In November 2019, the Remuneration Committee made awards to the Executive Directors (and other senior management) under the ExSOP. These awards are subject to a time-related performance condition measured over a three year period beginning at the date of the grant. The performance condition is that the underlying EPS increased by 15% by the third anniversary of the grant. The awards to the Executive Directors were:

Group Executive Chairman – 400,000 shares
Group CEO – 400,000 shares
Executive Director – 93,750 shares
Chief Financial Officer – 155,250

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

Pension arrangements
Executive Directors are offered a contribution of 15% of salary into a pension plan. Alternatively, they can take this as a cash allowance of 13% of salary in lieu of a pension contribution.

Non-Executive Director Fees
The following sets out the current fees policy for Non-Executive Directors:
- Base fee of £42,000; and
- Additional fee of £10,500 for the role of Senior Independent Director.

Directors' share options and Sharesave options
On 29 March 2017 the Group's ExSOP was created. Farouq Sheikh and Haroon Sheikh each own 320,000 ordinary shares of 0.5p respectively and Gareth Dufton owns 75,000 ordinary shares of 0.5p respectively under the Group's Executive Shared Ownership Plan 2017 (see note 21).

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 and Haroon Sheikh 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 and Haroon Sheikh did not participate in the Sharesave Scheme 2017as they already save £500 a month under the Sharesave Scheme 2017 and this is a HMRC limit.

Gareth Dufton holds options over 30,000 shares at an exercise price of 305p which were awarded in August 2010.

Christopher Dickinson is interested in 155,250 ordinary shares in CareTech pursuant to the Executive Shared Ownership Plan, details of which were announced on 8 November 2019.

No other Director has any share options in the Company.

None of the options above are subject to clawback arrangements, however it is a requirement of the ExSOP that the employee must have continuous service by the third anniversary for the shares to vest.

The total number of shares issued in the ExSOP and options in the approved share option scheme in November 2019 was 4.9 million shares representing less than 5% of the Company's share capital.

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 2019 Number of ordinary 0.5p shares	30 September 2018 Number of ordinary 0.5p shares
Westminster Holdings Limited (1)	**10,547,864**	9,763,519
Cosaraf Pension Fund (2)	**230,000**	170,000
Sheikh Holdings Group (3)	**500,000**	-
Farouq Sheikh	**638,919**	638,919
Haroon Sheikh	**690,226**	690,226
Karl Monaghan	**41,795**	34,250
Jamie Cumming	**2,500**	-
Mike Adams	**2,145**	2,145
Gareth Dufton	**23,601**	not appointed

Notes to the table:

(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.
(3) Grosvenor UK Limited is beneficially interested in these shares via a Contract for Difference (CFD) which was effected at a price of 350p per shares. Grosvenor UK Limited is a wholly owned subsidiary of Sheikh Holdings Group Investments Limited, which is wholly owned by Haroon and Farouq Sheikh and their immediate family.

Additional disclosures relating to CEO pay

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

- Percentage change in CEO remuneration
- Historic CEO pay

Percentage change in CEO remuneration

The following table compares the percentage change in the CEO's salary, benefits and annual bonus to the average percentage change in salary, benefits and bonus for all employees from the year ending 30 September 2018 to the year ending 30 September 2019.

Change in remuneration	*Salary*	*Benefits*	*Annual bonus*
Chief Executive Officer	0%	52%	11%
Average pay of all employees	6.1%	25%	37%

Historic CEO pay

The following table sets out historic CEO pay over the past 10 years. The single figure of total remuneration is provided, as well as the annual bonus expressed as a percentage of the maximum for the year.

In the years to 2017, the maximum potential bonus for the CEO was 25%, changing to 100% in 2018. As set out above CEO pay has been reviewed together with Executive Board remuneration periodically to align it with the growth in the Group, the changes in organisational structure and the sector as a whole.

Year ending 30 September	Chief Executive	Single figure of total remuneration £000	Annual bonus as a % of maximum	LTIP as a % of maximum
2019	Haroon Sheikh	920	100%	n/a
2018	Haroon Sheikh	794	62%	n/a
2017	Haroon Sheikh	430	64%	n/a
2016	Haroon Sheikh	375	76%	n/a
2015	Haroon Sheikh	304	96%	n/a
2014	Haroon Sheikh	298	69%	n/a

Year ending 30 September	Chief Executive	Single figure of total remuneration £000	Annual bonus as a % of maximum	LTIP as a % of maximum
2013	Haroon Sheikh	247	0%	n/a
2012	Haroon Sheikh	259	0%	n/a
2011	Haroon Sheikh	246	0%	n/a
2010	Haroon Sheikh	290	100%	n/a

Notes to the table:

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

By order of the Board

Jamie Cumming
Chairman of the Remuneration Committee
30 January 2020

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 preparing the annual report in accordance with applicable law and regulations. Having taken advice from the Audit Committee, the Directors consider the annual report and the financial statements, taken as a whole, provides the information necessary to assess the Company's performance, business model and strategy and is fair, balanced and understandable.

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
30 January 2020

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 2019, which comprise the Consolidated Income Statement, the Consolidated Balance Sheet, the Consolidated Statement of Changes in Equity, the Consolidated Statement of Cash Flows, the Company Balance Sheet, the Company Statement of Changes in Equity and notes to the financial statements, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union and, as regards the parent company financial statements, as applied in accordance with the provisions of the Companies Act 2006.

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 2019 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.

Conclusions relating to principal risks and going concern

We have nothing to report in respect of the following information in the annual report, in relation to which the ISAs (UK) require us to report to you whether we have anything material to add or draw attention to:

- the disclosures in the annual report set out on pages 35 and 36 that describe the principal risks and explain how they are being managed or mitigated;
- the directors' confirmation, set out on page 64 of the annual report that they have carried out a robust assessment of the principal risks facing the group, including those that would threaten its business model, future performance, solvency or liquidity;
- the directors' statement, set out on pages 67 and 68 of the financial statements about whether the directors considered it appropriate to adopt the going concern basis of accounting in preparing the financial statements and the directors' identification of any material uncertainties to the group and the parent company's ability to continue to do so over a period of at least twelve months from the date of approval of the financial statements; or

As an AIM listed company, the company is not required to comply with Listing Rule 9.8.6R(3) and therefore we do not report on whether we have anything material to add or to draw attention to in respect of the directors' statement relating to going concern required under the Listing Rules in accordance with Listing Rule 9.8.6R(3) and whether it is materially consistent with our knowledge obtained in the audit.

The directors have explained on page 64 why they have not given an explanation as to how they have assessed the prospects of the group, over what period they have done so and why they consider that period to be appropriate, and their statement as to whether they have a reasonable expectation that the group will be able to continue in operation and meet its liabilities as they fall due over the period of their assessment, including any related disclosures drawing attention to any necessary qualifications or assumptions, and therefore we do not report on whether we have anything material to add or to draw attention to in respect of this matter.

GrantThornton

Overview of our audit approach

- Overall materiality: £2.2m, which represents 5% of the group's profit before taxation, after adjustment for acquisition-related and other specific non-routine items.
- Key audit matters for the group were identified as follows:
  - Occurrence of revenue,
  - Valuation of intangible costs,
  - Valuation of goodwill,
  - Acquisition accounting,
  - Presentation of non-underlying items,
  - Ground rent transactions, and
  - Completeness and accuracy of non-current provisions – sleep-in.
- We performed a full scope audit of the financial statements of the parent company and of the financial information of Cambian Group Limited. We performed specified audit procedures on the financial information of certain smaller Group entities and we performed analytical procedures over the remaining components.
- The acquisition of Cambian Group Limited caused a key change in the scope of the audit from prior year.

Key audit matters

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

Key Audit Matters – group	How the matter was addressed in the audit – group
Occurrence of revenue 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. In addition, IFRS 15 'Revenue from Contracts with Customers' involves significant management judgement for the recognition of contract revenue and therefore there is a risk that a material error could occur if it was incorrectly recognised. Due to the manual nature of the information on which billing and credit notes are based on, there is a risk that revenue is inaccurately recognised. Additionally, there is a presumed risk of fraud in revenue recognition and therefore occurrence of revenue was identified as a significant risk, which was one of the most significant assessed risks of material misstatement.	Our audit work included, but was not restricted to: • considering the group's revenue recognition accounting policies to check these were appropriately applied to the revenue streams and assessing compliance with IFRS 15; • evaluating and testing the design and operating effectiveness of key controls over the admission, discharges and fee movement during the year for the material revenue streams (Adult, Children and Fostering). The testing of these revenue streams was disaggregated between CareTech and Cambian due to the different control environments; • substantive testing was performed on revenues in those smaller entities where we did not place reliance upon the operating effectiveness of controls; • agreeing a sample of revenue transactions to subsequent cash receipt and/or evidence of right to revenue recognition given performance obligations of the service provided; • completing analytical procedures on revenue based on occupancy numbers across the group; and • testing the completeness of credit notes recognised in the year against revenues billed in advance for discharged service users. The group's accounting policy on revenue is shown in note 2 to the financial statements and related disclosures are included in note 4. **Key observations** Our audit testing did not identify any material misstatements in relation to the occurrence of revenue.
Valuation of intangible costs The group has a net book value of £7.3m of capitalised software and licences as at 30 September 2019. The valuation of intangible assets under IAS 36 'Impairment of Assets' is a key risk. The intangible assets must be reviewed for impairment indicators annually. We therefore identified valuation of intangible costs as a significant risk, which was one of the most significant assessed risks of material misstatement.	Our audit work included, but was not restricted to: • evaluating the group's accounting policy for consistency with IAS 36 and considering whether these policies have been applied appropriately across the group; and • inspecting impairment reviews prepared by management to ensure that the carrying value of intangible assets was not overstated. This incorporated challenge of management's forecasts for cash-generating units and testing management's sensitivity analysis of

Key Audit Matters – group	How the matter was addressed in the audit – group
	the applicable discount rate applied in these forecasts. The group's accounting policy on capitalisation and valuation of intangible costs is shown in note 2 to the financial statements and related disclosures are included in note 14. **Key observations** Our audit testing did not identify any material misstatements in the valuation of intangible costs.
Valuation of goodwill The group has a significant goodwill balance of £79.5m at the year end, largely arising as a result of the acquisition of Cambian Group Limited which took place on 19 October 2018. Under IAS 36 'Impairment of assets' there is significant judgement surrounding the recognition and measurement of goodwill. The key judgements are the determination of the CGUs, the forecast growth rates and the applicable discount rates. Additionally, IAS 36 requires that assets are not carried at more than their recoverable amount. We therefore identified the valuation of goodwill as a significant risk, which was one of the most significant assessed risks of material misstatement.	Our audit work included, but was not restricted to: • evaluating the group's accounting policy for consistency with IAS 36 and considering whether the accounting policy has been applied accurately and consistently across the group; • testing the arithmetical accuracy and integrity of the underlying data used by management in their impairment assessment by checking the consistency of formulae used and agreeing inputs to supporting documentation including historic profit and loss data and individual market results; • challenging management's assessment of CGUs within the business for reasonableness; • using our in-house valuation specialists as an auditor's expert to assess the reasonableness of the discount rates applied to cash flows for each CGU; and • challenging management's assumptions concerning forecast cash flows, based on historical trends and any changes in customer preferences and regulations; and The group's accounting policy on the valuation of goodwill is shown in note 2 to the financial statements and related disclosures are included in note 14. **Key observations** Our audit testing did not identify any material misstatements in the valuation of goodwill at the year end.
Acquisition accounting The group acquired Cambian Group Limited on 19 October 2018. IFRS 3, 'Business combinations' involves significant judgement regarding acquisition accounting and there is a risk that material error could occur in the reporting of this business	Our audit work included but was not restricted to: • inspecting documentation from the Competitions and Market Authority and management to ensure the date of control

Key Audit Matters – group	How the matter was addressed in the audit – group
combination. We therefore identified acquisition accounting, being the accounting and disclosure of the business combination, as a significant risk, which was one of the most significant assessed risks of material misstatement.	was accurately recorded and reflective of when control was obtained; • evaluating the calculations and management judgements on the fair value of assets and liabilities acquired, including any identified intangibles on the acquisition of Cambian Group Limited in line with IFRS 3; • We engaged internal experts to assist with our audit of significant inputs to the acquisition accounting; • Inspecting evidence to support the completeness of provisions and liabilities and the recoverability of receivables; • Testing opening balances including the inspection of underlying documentation to support the balances; and • Performing testing to ensure that transactions undertaken in the pre-acquisition period were eliminated from the consolidation. The group's accounting policy on business combinations is shown in note 2 to the financial statements and related disclosures are included in note 5. **Key observations** Our audit testing did not identify any material misstatements in accounting for the acquisition.
Presentation of non-underlying items The group separately discloses a number of profit and loss line items into underlying and non-underlying items. Management believes the disclosure is helpful to the users of the financial statements, but it has a significant impact on the presentation of the results and can involve judgement. We therefore identified the presentation of non-underlying items as a significant risk, which was one of the most significant assessed risks of material misstatement.	Our audit work included, but was not restricted to: • evaluating the presentation and classification of non-underlying items. This involved detailed challenge and testing of management's workings, and challenge by the audit team in respect of the items included as non-underlying to ensure that the items were correctly treated; and • We have also verified the accuracy of information through examination of corroborating evidence on a sample basis. The group's accounting policy on non-underlying items is shown in note 2 to the financial statements and related disclosures are included in note 6. **Key observations** Our audit testing did not identify any material misstatements in the presentation of non-underlying items within the financial statements.
Ground rent transactions The group has entered into ground rent transactions, whereby properties are sold to	Our audit work included, but was not restricted to:

Key Audit Matters – group	How the matter was addressed in the audit – group
financial institutions and leased back. The ground rent was judgmentally split into land and buildings in the ratio 75:25 based on the economic life of each element, the estimated split of value between the elements, and the likelihood of certain future events occurring that could affect the lease term. There was a profit on disposal of £4.6m recognised in respect of the land element in non-underlying items. An option exists to repurchase the assets 125 years into the lease term for £1. In addition, step-in rights exist that may be exercised by the lessor during this 125 year period. This is a judgemental area; because the split of land and buildings is quantitatively material and subjective, and the presence of an option to repurchase the leased assets is one of a number of indicators that influences the judgement as to the nature of the lease as operating or financing in nature. We therefore identified ground rent transactions as a significant risk, which was one of the most significant assessed risks of material misstatement.	• obtaining and inspecting management's calculation of the profit on disposal which included an assessment on the judgemental split of land and buildings and the profit included in non-underlying items; • reperforming the calculation of the profit on disposal to verify mathematical accuracy; • agreeing key amounts included in the calculation to supporting documentation; • challenging management on the key assumptions within the underlying workings and corroborating explanations received to supporting evidence where appropriate, including through the use of an auditor's expert; • Challenging management's assessment of the nature of the option agreement, including whether it had economic substance or was likely to be exercised; • Obtaining a third party accounting firm's assessment, prepared for (and received from) management, of the accounting judgements and estimates inherent in the transaction, discussing this directly with management and the management's expert, and challenging and obtaining supporting evidence for the assertions made within it as to the judgements made, and; • Assessing the disclosure of judgements and estimates made in respect of the ground rent transaction. The group's accounting policy on ground rent transactions is shown in note 2 to the financial statements and related disclosures are included in note 6. **Key observations** Our audit testing did not identify any material misstatements in the treatment of ground rent transactions during the year.
Completeness and accuracy of non-current provisions – sleep-in As at 30 September 2019, the group's provisions include an amount for sleep-in payments. There is currently an ongoing legal case involving employees and the care provider, Mencap. The case relates to the application of minimum wage law for care workers on "sleep-in" shifts. The case is scheduled to be trialled in front of the Supreme Court. As a result, there is uncertainty around the outcome of the case, which could have a material impact on amounts the group is liable for. The determination of whether a provision is required, and its quantum, is a	Our audit work included, but was not restricted to: • Obtaining an understanding of the position taken by management based on discussion with the in-house legal team and management; • Obtaining management's workings of the provisions and checking the mathematical calculations to supporting documentation for the costs to verify the amount of the provision; and traced a sample of employees to and from the payroll system; and

Key Audit Matters – group	How the matter was addressed in the audit – group
significant judgement exercised by management. We therefore identified the completeness and accuracy of the sleep-in provisions as a significant risk, which was one of the most significant assessed risks of material misstatement.	• Challenging management assumptions used in calculating the amount of sleep in liability and corroborating these to third party data. The group's accounting policy on the provisions is shown in note 2 to the financial statements and related disclosures are included in note 20. **Key observations** Our audit testing did not identify any material misstatements in the completeness and accuracy of sleep-in provisions during the year.

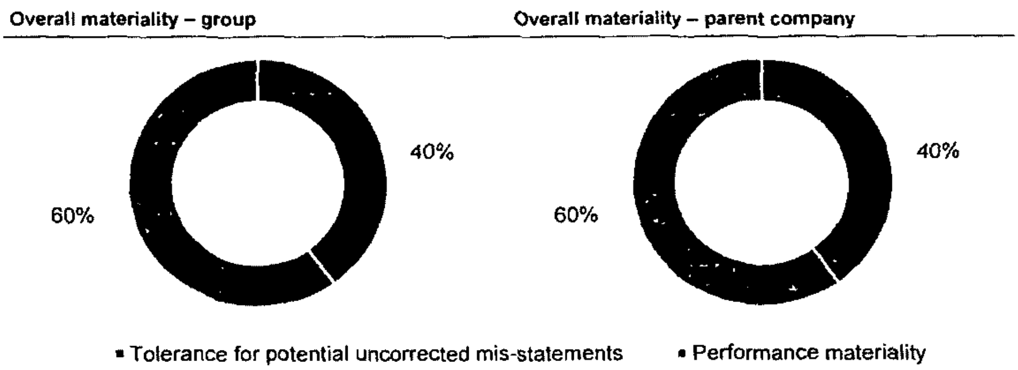
Our application of materiality

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 company
Financial statements as a whole	£2,153,000, which is 5% of the group's profit before tax after adjustment for acquisition-related and other specific non-routine items. This benchmark is considered the most appropriate because it is most reflective of the underlying performance of the business. Materiality for the current year is higher than the level that we determined for the year ended 30 September 2018 to reflect the change in benchmark from 4% of the group's underlying operating profit stated before depreciation, amortisation and share-based payments charges to 5% of the group's normalised profit before tax, which is higher. The change in benchmark is as a result of it being considered most reflective of the group's underlying performance.	£1,729,000, which is 2% of the company's total assets capped at its component materiality. This benchmark is considered the most appropriate because the company holds the group's investments and other assets and does not trade. Materiality for the current year is higher than the level that we determined for the year ended 30 September 2018 as the company's total assets has increased due to the acquisition of Cambian Group Limited, and so has the level at which materiality has been capped, for the same reason.
Performance materiality used to drive the extent of our testing	60% of financial statement materiality.	60% of financial statement materiality.
Specific materiality	We determined a lower level of specific materiality for certain areas such as directors' remuneration and related party transactions.	We determined a lower level of specific materiality for certain areas such as directors' remuneration and related party transactions.
Communication of misstatements to the audit committee	£107,650 and misstatements below that threshold that, in our view, warrant reporting on qualitative grounds.	£86,450 and misstatements below that threshold that, in our view, warrant reporting on qualitative grounds.

The graph below illustrates how performance materiality interacts with our overall materiality and the tolerance for potential uncorrected misstatements.



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 the relative size of each component as a percentage of total group assets, liabilities, revenues and EBITDA; We performed a full scope audit of the financial statements of the parent company and of the financial information of Cambian Group Limited. We performed specific audit procedures on the financial information of certain smaller Group entities and we performed analytical procedures over the remaining components.
- Evaluating controls over the financial reporting systems identified as part of our risk assessment. We tested the operating effectiveness of controls relating to revenue recognition, payroll expenses and operating expenses to assess whether the controls were designed, implemented and operating effectively. Due to the results of our controls testing on Cambian Group Limited's revenues, we revised our audit approach and performed substantive testing.
- The acquisition of Cambian Group Limited on 19 October 2018 for £359m caused a key change in scope of the audit from the prior year. We assessed the accounting treatment for the acquisition. Cambian Group Limited has been identified as individually financially significant to the Group. Changes include additional full scope audit for Cambian Group Limited and new identified risk areas of acquisition accounting and valuation of goodwill.
- Inspecting the process management follow to prepare and report results. Management prepare and report on the results on a group basis rather than on a company basis. The subsidiaries in the group are 100% controlled by the company, apart from Spark of Genius (North East) LLP which is 50% owned, and the company provides a *guarantee for all the subsidiaries' liabilities, apart from those stated in note 27 of the financial statements.*

Other information

The directors are responsible for the other information. The other information comprises the information included in the annual report and accounts, other than the financial statements and our auditor's report thereon. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

In this context, we also have nothing to report in regard to our responsibility to specifically address the following items in the other information and to report as uncorrected material misstatements of the other information where we conclude that those items meet the following conditions:

- *Fair, balanced and understandable (set out on page 77)* – the statement given by the directors that they consider the annual report and financial statements taken as a whole is fair, balanced and understandable and provides the information necessary for shareholders to assess the group's performance, business model and strategy, is materially inconsistent with our knowledge obtained in the audit; or

- Audit committee reporting (set out on page 61) – the section describing the work of the audit committee does not appropriately address matters communicated by us to the audit committee; or

As an AIM listed company, the company is not required to comply with Listing Rule 9.8.10R(2) and therefore we do not report on whether we have nothing to report in regard to our responsibility to specifically address the directors' statement of compliance with the UK Corporate Governance Code and the parts of the directors' statement required under the Listing Rules relating to the company's compliance with the UK Corporate Governance Code containing provisions specified for our review in accordance with Listing Rule 9.8.10R(2), and to report as uncorrected material misstatements of the other information where we conclude that the directors' statement does not properly disclose a departure from a relevant provision of the UK Corporate Governance Code.

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 77, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the group's and the parent company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the group or the parent company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

Use of our report

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

Philip Westerman
Senior Statutory Auditor
for and on behalf of Grant Thornton UK LLP
Statutory Auditor, Chartered Accountants
London
30 January 2020

Consolidated Income Statement

for the year ended 30 September 2019

		2019			2018		
			Non-			Non-	
		Underlying	underlying (ii)	Total	Underlying	underlying (ii)	Total
	Note	£000	£000	£000	£000	£000	£000
Revenue	4	394,994	-	394,994	185,689	-	185,689
Cost of sales		(262,018)	-	(262,018)	(120,387)	-	(120,387)
Gross profit		132,976	-	132,976	65,302	-	65,302
Administrative expenses		(70,121)	(23,379)	(93,500)	(27,543)	(17,573)	(45,116)
Operating profit		62,855	(23,379)	39,476	37,759	(17,573)	20,186
EBITDA (i)		73,546	-	73,546	43,862	-	43,862
Depreciation	13	(10,631)	-	(10,631)	(5,906)	-	(5,906)
Amortisation of intangible assets	6,14	-	(10,188)	(10,188)	-	(7,428)	(7,428)
Acquisition expenses	6	-	(10,331)	(10,331)	-	(4,525)	(4,525)
Profit on ground rent transaction	6	-	4,565	4,565			
Other non-underlying items	6	-	(7,425)	(7,425)	-	(5,620)	(5,620)
Share-based payments charge		(60)	-	(60)	(197)	-	(197)
Operating profit		62,855	(23,379)	39,476	37,759	(17,573)	20,186
Finance expenses	6,9	(12,690)	(2,446)	(15,136)	(4,867)	51	(4,816)
Profit before tax		50,165	(25,825)	24,340	32,892	(17,522)	15,370
Taxation	6,10	(9,423)	5,209	(4,214)	(5,751)	1,625	(4,126)
Profit for the year		40,742	(20,616)	20,126	27,141	(15,897)	11,244
Non-controlling interest		(422)	-	(422)	(596)	-	(596)
Profit for the year attributable to owners of the parent		40,320	(20,616)	19,704	26,545	(15,897)	10,648
Earnings per share							
Basic	11,12	37.60p		18.38p	35.07p		14.07p
Diluted	11,12	37.48p		18.31p	35.06p		14.06p

There was no comprehensive income other than that passing through the Consolidated Income Statement and accordingly no separate statement of comprehensive income has been prepared.

(i) EBITDA is operating profit stated before depreciation, share-based payments charge and non-underlying items.
(ii) Non-underlying items comprise: amortisation, acquisition expenses, integration, reorganisation and redundancy costs and profit associated with the ground rent transaction and are explained in note 6.

Consolidated Balance Sheet

as at 30 September 2019

	Note	2019 £000	2018 £000
Non-current assets			
Property, plant and equipment	13	609,658	301,109
Other intangible assets	14	80,348	40,128
Goodwill	14	79,456	43,689
		769,462	384,926
Current assets			
Inventories		998	898
Trade and other receivables	15	53,011	31,747
Cash and cash equivalents		29,238	9,421
		83,247	42,066
Total assets		852,709	426,992
Current liabilities			
Loans and borrowings	17	1,663	153,830
Trade and other payables	18	58,937	24,875
Ground rent liabilities arising under IAS17		100	50
Deferred and contingent consideration payable		-	966
Deferred income	16	28,710	3,372
Corporation tax		13,777	6,836
Derivative financial instruments	25	-	152
		103,187	190,081
Non-current liabilities			
Loans and borrowings	17	318,652	2,580
Ground rent liabilities arising under IAS17		15,031	7,244
Deferred tax liabilities	19	63,951	18,854
Provisions	20	14,884	-
Derivative financial instruments	25	1,640	-
		414,158	28,678
Total liabilities		517,345	218,759
Net assets		335,364	208,233
Equity			
Share capital	22	545	379
Share premium	23	121,304	120,820
Shares held by Executive Shared Ownership Plan	23	(3,537)	(4,750)
Merger reserve	23	125,536	9,023
Non-controlling interest		957	639
Retained earnings	23	90,559	82,122
Total equity attributable to equity shareholders of the parent		335,364	208,233

These financial statements were approved by the Board of Directors and authorised for issue on 30 January 2020 and were signed on its behalf by:

Farouq Sheikh
Group Executive Chairman
Company number: 04457287

Christopher Dickinson
Chief Financial Officer

Consolidated Statement of Changes in Equity
as at 30 September 2019

	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 2017	379	120,778	(4,750)	78,771	9,023	204,201	-	204,201
Profit for the year and 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
Adoption of IFRS 9[1]	-	-	-	(525)	-	(525)	-	(525)
Restated at 1 October 2018	**379**	**120,820**	**(4,750)**	**81,597**	**9,023**	**207,069**	**639**	**207,708**
Profit for the year and total comprehensive income	-	-	-	19,704	-	19,704	-	19,704
Issue of ordinary shares	166	484	-	-	116,513	117,163	-	117,163
Equity-settled share-based payments charge	-	-	-	60	-	60	-	60
Redemption of share options	-	-	1,213	-	-	1,213	-	1,213
Dividends	-	-	-	(10,802)	-	(10,802)	-	(10,802)
Minority interest	-	-	-	-	-	-	318	318
Transactions with owners recorded directly in equity	166	484	1,213	(10,742)	116,513	107,634	318	107,952
At 30 September 2019	**545**	**121,304**	**(3,537)**	**90,559**	**125,536**	**334,407**	**957**	**335,364**

Notes:
[1] The Group has applied IFRS 9 using the cumulative effect method. Under this method the comparative information is not restated. See note 2

Consolidated Statement of Cash Flows

for the year ended 30 September 2019

	Note	2019 £000	2018 £000
Cash flows from operating activities			
Profit before tax		24,340	15,370
Adjustments for:			
Finance expenses	9	15,136	4,816
Depreciation	13	10,631	5,906
Amortisation	14	10,188	7,428
Acquisition expenses	6	10,331	4,525
Profit arising from the ground rent transaction	6	(4,565)	-
Other non-underlying items	6	7,425	5,620
Share-based payments charge	8	60	197
Operating cash flows before movement in working capital		73,546	43,862
Increase in inventory		(100)	(63)
Increase in trade and other receivables		(6,518)	(8,228)
(Decrease)/increase in trade and other payables		(604)	3,875
Operating cash flows before adjustment items		66,324	39,446
Integration and restructuring costs	6	(5,597)	(3,652)
Payment of charitable donations	6	(736)	(380)
Payments made under onerous contracts		(151)	(377)
Payment of acquisition costs		(14,393)	(839)
Cash inflows from operating activities		45,447	34,198
Tax paid		(5,889)	(4,135)
Net cash from operating activities		39,558	30,063
Cash flows from investing activities			
Proceeds from sale of property, plant and equipment		23,894	1,201
Payments for business combinations	5	(160,271)	(72)
Acquisition of property, plant and equipment	13	(27,810)	(14,519)
Acquisition of software	14	(2,699)	(2,538)
Payment of deferred consideration		(966)	-
Net cash used in investing activities		(167,852)	(15,928)

Consolidated Statement of Cash Flow

(continued)

for the year ended 30 September 2019

	Note	2019 £000	2018 £000
Cash flows from financing activities			
Proceeds from share capital	22	1,697	42
Proceeds from finance sale and leaseback		7,888	-
Interest paid		(10,945)	(4,650)
Cash outflow arising from derivative financial instruments		(308)	(649)
Bank loans drawdown		431,910	11,035
Loan arrangement fees paid		(4,696)	(1,436)
Repayment of borrowings		(263,576)	(5,775)
Payment of finance lease liabilities		(3,057)	(2,189)
Dividends paid	24	(10,802)	(7,494)
Net cash arising from/(used in) from financing activities		148,111	(11,116)
Net increase in cash and cash equivalents		19,817	3,019
Cash and cash equivalents at 1 October		9,421	6,402
Cash and cash equivalents at 30 September		29,238	9,421

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 2019 comprise the Company and its subsidiaries (together referred to as the "Group"). The consolidated financial statements are presented in pounds sterling, which is the Company's functional currency, rounded to the nearest thousand. The Parent Company financial statements on pages 136 to 141 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 30 January 2020.

Going concern

The Group's business activities together with the factors likely to affect its future development, performance and position are set out in the Group Chairman's Statement and Group Chief Executive's Statement and Performance Review on pages 7 to 11 and pages 12 to 15. The financial position of the Group, its cash flows, liquidity position and borrowing facilities are described in the Group Financial Review on pages 37 to 42. 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 cash flow from profits which together with existing bank facilities which are sufficient to fund present commitments. Term facilities are utilised to fund capital expenditure and short-term flexibility is achieved by the utilisation of cash resources in respect of financial liabilities, which are shown in the table in note 25 and indicates their contractual cash flow maturities.

During the year, the Group entered into new Banking facilities with a consortium of eight banks (Barclays Bank PLC, HSBC UK Bank plc, Santander UK plc, AIB Group (UK) plc, Clydesdale Bank PLC and Credit Suisse AG, Lloyds Bank plc and National Westminster Bank plc) for committed financing by way of term loans of between 3.5 to 5 years up to £322m. In addition to the Term Loans, a £25m revolving credit facility is available to provide working capital for the Enlarged Group together with a day to day overdraft facility of £2m. There are a number of Banking Covenants which ratchet depending on time and Group performance. The Directors forecast that they are able to meet all Banking Covenants which are reviewed regularly.

As part of the Acquisition, of Cambian 2018 the Group's property portfolio was revalued by Knight Frank and Cushman and Wakefield and the market value was £774m. These valuations are not reflected in the Consolidated Statement of Financial Position. The ground-rent transaction during the year raised £31m of net cash on less than 10% of the Group's freehold asset portfolio.

The Group's underlying operating business is cash generative, much of the business has a long term profile with both debtor days and creditor days comparatively low. Non underlying costs arising from the acquisition of Cambian together with the integration costs and costs in realising synergies have substantially been settled during the year. As at the balance sheet date, the Group had cash balances of £29m.

The Directors have prepared a cash flow forecast taking into account all expected cash flows for 12 months from the date of signing these financial statements. After making due enquiries, the Directors have a reasonable expectation that the Group has adequate resources to continue in operational existence for the foreseeable future.

Accordingly, the Directors continue to adopt the going concern basis of accounting for the Group and Parent Company in preparing the consolidated financial statements.

2 Accounting policies

(a) Applicable accounting standards

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

New and amended standards and interpretations effective in the year

IFRS 9 Financial Instruments

The Group has adopted IFRS 9 Financial Instruments. The date of initial application was 1 October 2018. In accordance with the transaction provisions in the Standard, comparatives have not been restated. The Group has not applied the requirements of IFRS 9 to instruments that were derecognised prior to 1 October 2018.

The Group has reviewed its financial assets and liabilities from the impact of IFRS 9 as follows:

Classification and measurement

IFRS 9 contains three principal classification categories for financial assets: measured at amortised cost, fair value through profit and loss and fair value through other comprehensive income.

The Group's financial assets at 30 September 2019 consist primarily of trade receivables, which will continue to be reflected at amortised cost as the Group's business model is to collect contractual cash flows from customers, which are solely payments of principal.

In respect of the classification and measurement of financial liabilities, the accounting has remained largely the same as under IAS 39. Financial liabilities are measured at amortised cost or at fair value through profit and loss (FVTPL). Financial liabilities are classified as at FVTPL when the liability is (i) contingent consideration of an acquirer in a business combination, (ii) held for trading or (iii) it is designated as FVTPL.

Impairment of financial assets
IFRS 9 requires an expected credit loss (ECL) model to be applied to financial assets rather than the incurred credit loss model required under IAS 39. The ECL model requires the Group to account for expected losses as a result of credit risk on initial recognition of financial assets and to recognise changes in those expected credit losses at each reporting date.

The main area of focus to the Group is considered to be the impairment provisioning of trade receivables. For trade receivables, the Group uses the simplified approach under IFRS 9 to recognise lifetime expected credit losses. For trade receivables, the Group recognises a loss allowance for expected credit losses at amount equal to the lifetime expected credit loss (ECL). In calculating, the Group uses its historical experience, external indicators and forward-looking information to calculate the expected credit losses using a provision matrix. This is recorded through the use of an allowance account. When a trade receivable is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against the allowance account. Changes in the carrying amount of the allowance account are recognised in profit or loss.

In assessing the credit risk, the majority of CareTech's customer are Local Authorities controlled by the UK Government. The credit risk associated with trade receivables with Local Authorities controlled by the UK Government is considered low. The remainder of the Group's customer are private payers. Management have made an assessment of the recoverability of trade debtors under the new ECL requirements and this has resulted in an additional charge of £0.5m which was made as an opening balance adjustment as at 1 October 2018.

Aside from trade receivables, the carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets.

The table below illustrates the classification and measurement of financial assets and financial liabilities under IFRS 9 and IAS 39 at the date of initial application.

Category	Original Measurement category under IAS 39	New measurement category under IFRS 9	Carrying amount under IAS 39 £000	Additional allowance recognised under IFRS 9 £000	New carrying amount under IFRS 9 £000
Trade and other receivables	Loans and receivables	Financial assets at amortised cost	31,747	(525)	31,222
Cash and bank balances	Loans and receivables	Financial assets at amortised cost	9,421	N/A	9,421
Trade and other payables	Financial liabilities at amortised cost	Financial liabilities at amortised cost	24,875	N/A	24,875
Loans and borrowings	Loans and payables	Financial liabilities at amortised cost	156,410	N/A	156,410
Derivative financial instruments	FVTPL	FVTPL	152	N/A	152

IFRS 15 Revenue from Contracts with Customers

The Group has adopted IFRS 15 Revenue from Contracts with Customers from 1 October 2018 and has adopted the modified retrospective approach without restatement of comparatives. IFRS 15 provides a single, principles-based approach to the recognition of revenue from all contracts with customers. It focuses on the identification of performance obligations in a contract and requires revenue to be recognised when or as those performance obligations are satisfied.

CareTech Holdings plc provide care services to vulnerable adults and children which are consumed as soon as they are provided. CareTech satisfies its performance obligations as care services are rendered to the client. There are no significant financing components and invoice payment terms are typically 30 days. For Fostering Services, CareTech is acting as a principal as contracts are between CareTech and the Local Authority and separately between CareTech and foster carers with a number of performance conditions attached to each. Our contracts provide that CareTech are entitled to consideration based on the amount of care services delivered (for example number of days worth of care delivered in the period) and an agreed rate. On this basis, CareTech have applied the practical expedient set out in IFRS 15 para 121.

This has not resulted in any significant adjustments to the Group's revenue as reported.

Contract assets and liabilities/accrued and deferred income

The Group recognises contract liabilities for consideration received in respect of unsatisfied performance obligations and reports these amounts as deferred income in the balance sheet (see note 16). An example of this is where the Group will invoice in advance for education services. This is held in deferred income until the service has been provided.

Similarly the Group recognises a contract asset when a contract has been agreed with a customer and a service user has been admitted to our facilities but no sales invoice has been issued. This is disclosed as accrued income.

The Group will estimate the accrued income using the agreed contractual rate and the number of days where the service user was receiving care from the Group.

Revenue disaggregation
The vast majority of the Group's customers are state owned entities such as Local Authorities. All the Group's operations are within the UK. As such the Group have determined that because its revenue is earned in one geographical location to one specific type of customer, it is appropriate to report the revenue recognised from contracts with customers in the same operating segments as are used for segmental analysis (see note 4).

Adopted IFRS not yet applied

At the date of authorisation of these financial statements, certain new standards, amendments and interpretations to existing standards have been published by the IASB but are not yet effective and these have not been applied early by the Group. Management anticipates that the following pronouncements relevant to the Group's operation will be adopted in the Group's accounting policies for the first period beginning after the effective date of the pronouncement, once adopted by the EU:

Title	Subject	Effective date per standard
IFRS 16	Leases	1 January 2019
IFRIC 23	Uncertainty over Income Tax Treatments	1 January 2019
Amendments to IFRS 9 (Oct 2017)	Prepayment Features with Negative Compensation	1 January 2019
Amendments to IAS 28 (Oct 2017)	Long-term Interests in Associates and Joint Ventures	1 January 2019 per IASB. EU adoption date to be confirmed
Annual Improvements to IFRS Standards 2015–2017 Cycle (Dec 2017)	Annual Improvements to IFRSs: 2015-17 Cycle	1 January 2019 per IASB. EU adoption date to be confirmed
Amendments to IAS 19 (Feb 2018)	Plan Amendment, Curtailment or Settlement	1 January 2019 per IASB. EU adoption date to be confirmed
Amendments to References to the Conceptual Framework in IFRS Standards	Amendments to References to the Conceptual Framework in IFRS Standards	1 January 2020 per IASB. EU adoption date to be confirmed
Amendments to IFRS 3 (Oct 2018)	Definition of Business	1 January 2020 per IASB. EU adoption date to be confirmed
Amendments to IAS 1 and IAS 8 (Oct 2018)	Definition of Material	1 January 2020 per IASB. EU adoption date to be confirmed
IFRS 17	Insurance Contracts	1 January 2021 per IASB. EU adoption date to be confirmed
Amendments to IFRS 10 and IAS 28 (Sept 2014)	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture	Postponed

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 have performed a detailed review of the Group's lease arrangements and further information has been provided in note 26.

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 above, other than potentially IFRS 16, will not have a material impact on the financial information of the Group in future reporting periods.

(b) Measurement convention

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

(c) Basis of consolidation

The Group financial statements consolidate those of the parent company and all of its subsidiaries as of 30 September 2019. 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 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 2(p).

Depreciation is charged to the consolidated income statement over the estimated useful lives of each part of an item of property, plant and equipment. Land is not depreciated. The Directors reassess the residual value estimates, particularly in respect of properties, on an annual basis. The estimated useful lives are as follows:

• freehold buildings	2% straight-line to residual value;
• long leasehold property	over the life of the lease;
• short leasehold property	over the life of the lease;
• fixtures, fittings and equipment	15% straight line; and
• motor vehicles	25% reducing balance.

(e) Intangible assets and goodwill

All business combinations are accounted for by applying the acquisition method as described in note 2(s). Goodwill represents the excess of the fair value of the consideration over the fair value of the assets, liabilities and contingent liabilities acquired on acquisition of subsidiaries. Identifiable intangibles are those which can be sold separately or which arise from legal rights regardless of whether those rights are separable.

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

Negative goodwill (bargain purchase credit) arising on an acquisition is recognised immediately in the consolidated income statement.

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

Expenditure on research activities is recognised as an expense in the period in which it is incurred. Included within software are development costs in relation to software which are capitalised when the related projects meet the recognition criteria of an internally generated intangible asset, the key criteria being as follows:

(a) technical feasibility of 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 income statement on a straight-line basis over the estimated useful lives of intangible assets unless such lives are indefinite. The estimated useful lives are as follows:

- customer relationships 1–20 years; and
- software and licences 5 years.

(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 (under IFRS 9)

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:

- Financial assets at amortised cost
- Financial assets/liabilities held 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 income statement are presented within finance costs or finance income, except for impairment of trade receivables which is presented within other administrative expenses.

Financial assets at amortised cost
Financial assets at amortised cost 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 income statement. The fair values of financial assets in this category are determined by reference to active market transactions or using a valuation technique where no active market exists.

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

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

From time to time, the long term debt held by the Group are either refinanced as these come to maturity or the margin on these facilities moves in line with the ratio of the Group's net debt to EBITDA. In either scenario, the Group reviews whether the debt is accounted for as a modification or an extinguishment of the liability. A substantial modification should be accounted for as an extinguishment of the existing liability and the recognition of a new liability. A non-substantial modification should be accounted for as an adjustment to the existing liability. Both the quantitative and qualitative aspects of the modification are taken into account to ascertain whether the modification is substantial and these can include the change in covenants, repayment dates and the effective interest rate. If modification accounting is adopted, the carrying value of the existing liability is adjusted for fees paid or costs incurred and the effective interest rate is amended at the modification date. If extinguishment accounting is adopted, the existing liability is de-recognised and the new or modified liability is recognised at its fair value, the gain or loss equal to the difference between the carrying value of the old liability and the fair value of the new one is recognised, any incremental costs or fees incurred and any consideration paid or received is recognised in profit or loss and a new effective interest rate for the modified liability is calculated and used in future periods.

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

Derivatives are initially recognised at fair value at the date a derivative is entered into and are subsequently remeasured to their fair value at each balance sheet date. A derivative with a positive fair value is recognised as a financial asset whereas a derivative with a negative fair value is recognised as a financial liability. The resulting gain or loss is recognised in the consolidated income statement immediately. A derivative is presented as a non-current asset or non-current liability if the Group has an unconditional right to defer payment beyond 12 months. Otherwise derivatives are presented as current assets or liabilities.

FY2018 Financial Instruments Accounting policy under IAS 39
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 income statement.

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

Calculation of recoverable amount
The recoverable amount of 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 income statement over the period of the borrowings on an effective interest basis.

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

Interest on qualifying assets is capitalised in accordance with IAS 23 borrowing costs. Refer to note 9.

(k) Employee benefits

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

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

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

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

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

(l) Provisions

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

(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 educational services is recognised when the young person is in school, over the academic year, as this is when the customer is receiving the educational services.

Revenue in respect of apprenticeship and related learning services is recognised over time and at a point in time. 80% of the revenues are recognised over time as the courses are delivered. 20% of the funding is directly linked to course completion milestones reached by apprentices at which point the remaining funding 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 revenue until the service is provided. Revenue is recognised net of VAT and credit notes.

(n) Non-underlying items

The Group has applied an income statement format which seeks to highlight significant items within Group results for the year. Such items may include significant restructuring and onerous lease provisions, fair values movements in contingent consideration, profit or loss on disposal or termination of operations, litigation costs and settlement of share based payments, profit or loss on disposal of investments and impairment of assets. The Group exercises judgement in assessing the particular items which, by virtue of their scale and nature should be disclosed in the Income Statement and related notes as non-underlying items. The Group believes that such a presentation is useful for the users of the financial statements in helping to provide a balanced view of, and relevant information on, the Group's financial performance. Details are included in note 5.

(o) 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.

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

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

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

(p) Operating leases

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

(q) Taxation

Tax on the profit or loss for the year comprises current and deferred tax. Tax is recognised in the consolidated income statement except to the extent that it relates to items recognised directly in equity, in which case it is recognised in equity. Current tax is the expected tax payable on the taxable income for the year, using tax rates and laws enacted or substantively enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years.

Deferred tax is provided on temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The following temporary differences are not provided for: the initial recognition of goodwill; the initial recognition of assets or liabilities that affect neither accounting nor taxable profit other than in a business combination, and differences relating to investments in subsidiaries to the extent that they will probably not reverse in the foreseeable future.

The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates and laws enacted or substantively enacted at the balance sheet date. A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be utilised. The carrying amounts of deferred tax assets are reviewed at each balance sheet date.

(r) Business combinations

The Group applies the acquisition method in accounting for business combinations. The consideration transferred by the Group to obtain control of a subsidiary is calculated as the sum of the acquisition-date fair values of assets transferred, liabilities incurred and the equity interests issued by the Group, which includes the fair value of any asset or liability arising from a contingent consideration arrangement. The calculation of contingent consideration is based on the provisions included in the sale and purchase agreement of each acquisition and is updated if circumstances change. Acquisition costs are expensed as incurred. Assets acquired and liabilities assumed are measured at their acquisition-date fair values.

3 Accounting estimates and judgements

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

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

Estimates

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

Goodwill
The Group annually tests whether there is any impairment in goodwill, in accordance with the accounting policy outlined in Note 1. Determining whether goodwill is impaired requires comparison of the value in use for the relevant CGUs to the net assets attributable to these CGUs. The value in use calculation is based on an estimate of future cash flows expected to arise from the CGUs and these are discounted to net present value using an appropriate discount rate. In calculating value in use, management judgement is required in forecasting cash flows of cash generating units, in determining terminal growth values and in calculating an appropriate discount rate. The goodwill impairment test is sensitive to these estimates. The Group has performed sensitivity analysis over the value in use calculation with respect to the key estimates. The discount rates applied in these calculations are disclosed in Note 14.

Determining the useful life of intangible assets requires judgement. Management regularly reviews these useful lives and changes them if necessary to reflect current conditions. Changes in useful lives can have a significant impact on the amortisation charge for the year. The amortisation expense in the year by class of intangible asset and the weighted average remaining useful lives for each category of intangible assets are disclosed in Note 2(e) above.

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. The estimated useful lives and depreciation policies for property, plant and equipment are disclosed in Note 2(d) above.

Impairment of trade receivables
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. The Group applies the IFRS 9 simplified model of recognising lifetime expected credit losses (ECL) for all trade receivables as these items do not have a significant financing component.

In measuring the ECL, the trade receivables have been assessed on a collective basis as they possess shared credit risk characteristics. The provision matrix used to calculate the ECL is based on the facts available at the time and are also determined by using profiles, based upon past practice, applied to aged receivables. In assessing the ECL, judgement is required, 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. Further information regarding ECL is given in Note 25.

Judgements

Business Combination
Judgement is required in determining the fair value of assets and liabilities on the date of acquisition as well as determining the date of acquisition of Cambian. For the fair values, the Directors have made judgements around the valuation of property, plant and equipment and intangible assets based on external valuations they commissioned. The fair values of trade and other receivables and trade and other receivables reflect their value on a going concern basis. In determining the date of acquisition, the Board has assessed this as the date on which it obtained control over Cambian in accordance with IFRS3 paragraph 8, as 19 October 2019. This is the date on which the shares of Cambian were delisted from the London Stock Exchange. This is also the date in which the exposure, or rights, to variable returns from its involvement with Cambian were obtained. Disclosure in respect of the business combination is given in Note 5a.

Provisions
As part of the business combination, certain provisions were identified including sleep-in payments and onerous contracts. A "sleep-in" payment refers to a type of work, common in the care sector, where employees "sleep-

in" and are paid an allowance for doing so. HMRC's initial view was that hours spent by employees performing sleep-in count as "working time" and therefore should be included when calculating whether or not someone has been paid in accordance with the National Minimum Wage Regulations 2015. In November 2017, HMRC reiterated its position and invited companies to join the Social Care Compliance Scheme, a self-reporting scheme aimed at concluding historic payments regarding sleep-ins. Whilst a number of other care service providers have challenged HMRC's original view, if it is ultimately individually determined that the Group had to pay each individuals engaged in a sleep-in an amount by reference to the National Minimum Wage, the additional cost could be material. A Court of Appeal judgment in case of Royal Mencap Society v Tomlinson-Blake [2018] EWCA 1641 found that the care workers who did "sleep-ins" overnight in that case were available for work during their sleeping shift, rather than actually working. Accordingly, HMRC are considering the implications of this judgement. Since this Court of Appeal ruling, the Supreme Court has agreed to hear an appeal to the judgement. The outcome of the case and therefore the implication on HMRC's position is uncertain and the Directors have used their judgement to provide for this matter for the affected employees. Amounts in respect of sleeps and onerous contracts are not separately disclosed to avoid any potential prejudice in the outcome of each matter.

Ground rent transaction under IAS17
As part of the accounting for the ground rent transaction, judgement is required in determining whether the subsequent lease back is an operating lease or finance lease, based on an evaluation of the terms and conditions of the arrangements and whether it obtains all of the significant risks and rewards of ownership of these properties, in accordance with IAS17. In determining the nature of the lease, it is recognised that there is a significant element of judgement and that there is an element of each type of lease embedded within. Having considered the overall transaction and evaluated the terms and conditions of the arrangement, the directors concluded that in substance the land element of the leases represented an operating lease and the building elements represented a finance lease, with a split of 75:25 respectively. This analysis required judgements around the economic life of each element of the arrangement, the estimated split of the value of each element, and the likelihood of certain future events occurring that could affect the lease term. The lease contains an option with an exercise price of £1 and is exercisable 125 years into the lease term. Within the terms of the lease contract exists a number of step-in rights and default clauses that are afforded to the landlord. Principally, these step-in rights relate to loss of regulatory registrations and changes in control of the lessee, which are not within the control of the company and could well occur within 125 years. The Board are of the view that it cannot be determined with reasonable certainty that these step-in rights will not be exercised, and therefore the option to reacquire the assets is not substantive and the Group will not have the right to exercise its option to repurchase the freehold interests in the properties disposed of through the sale and leaseback arrangement entered into with Alpha. As a result of the above, the risks and rewards of ownership of the land element lie with Alpha. Further information on the profit recognised from this transaction of £4.6m is provided in Note 6.

Capitalised development costs
Capitalisation of development costs within software and licences requires the Directors to make judgements in allocating staff time appropriately to relevant projects and in assessing the technical feasibility and economic potential of those projects as well as forecasts for the useful economic life of each asset have been used. The useful economic life of development costs is determined to be 5 years.

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

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

The results as at the balance sheet date report segmental information on the Group's three operating divisions (and the comparative information has been represented on this basis):

- Adults Services, comprising the core CareTech Adult Learning Disabilities business (ALD) as well as the Specialist Services business (SS) and Learning Services;
- Children's Services, comprising CareTech's and Cambian's children's services; and

- Foster Care, comprising CareTech's and Cambian's fostering services.

For the current financial year ending 30 September 2019, the Group will also provide the segmental data for the historic CareTech and Cambian businesses to enable a like for like analysis in the first year following the acquisition. For subsequent financial years, the results of the Group will be combined on the basis of the operating segments described above.

	Year to 30 September 2019			Year to 30 September 2018		
	CareTech	Cambian	Total	CareTech	Cambian*	Total
Adults Services						
Client capacity	**1,968**	-	**1,968**	1,968	-	1,968
Revenue £000	**123,635**	-	**123,635**	118,736	-	118,736
EBITDA £000	**32,726**	-	**32,726**	31,885	-	31,885
Children's Services						
Client capacity	**351**	**1,582**	**1,933**	353	-	353
Revenue £000	**64,848**	**165,727**	**230,575**	58,707	-	58,707
EBITDA £000	**18,227**	**37,405**	**55,632**	17,024	-	17,024
Foster Care						
Client capacity	**301**	**877**	**1,178**	301	-	301
Revenue £000	**8,031**	**32,753**	**40,784**	8,246	-	8,246
EBITDA £000	**1,508**	**6,043**	**7,551**	1,898	-	1,898
Total						
Client capacity	**2,620**	**2,459**	**5,079**	2,622	-	2,622
Revenue £000	**196,514**	**198,480**	**394,994**	185,689	-	185,689
EBITDA £000	**52,461**	**43,448**	**95,909**	50,807	-	50,807

* The figures for Cambian for 2018 have not been included in this table because Cambian was not controlled by CareTech during the year ending 30 September 2018.

Reconciliation of EBITDA to profit after tax;

	Year ended 30 September 2019 £000	Year ended 30 September 2018 £000
EBITDA before unallocated costs	**95,909**	50,807
Unallocated corporate overheads	**(22,363)**	(6,945)
EBITDA	**73,546**	43,862
Depreciation	**(10,631)**	(5,906)
Share-based payments charge	**(60)**	(197)
Non-underlying items	**(23,379)**	(17,573)
Operating profit	**39,476**	20,186
Finance expenses	**(15,136)**	(4,816)
Profit before tax	**24,340**	15,370
Taxation	**(4,214)**	(4,126)
Non-controlling interest	**(422)**	(596)
Profit after tax	**19,704**	10,648

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 are not measures used by the CODM to assess performance and to make resource allocation decisions.

5 Business Combinations

(a) Acquisition of Cambian Group plc

On the 19 October 2018 Caretech Holdings plc acquired the entire share capital of Cambian Holdings plc for £359.9m.

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 rationale for the acquisition was:

- 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.

The book values attributable to the acquisition were £201.9m net assets and fair value adjustments were £122.6m.

The acquisition table is as follows:-

	Book values £000s	Fair value adjustments £000s	Total £000s
Intangible assets	38,496	8,859	47,355
Property, plant & equipment	165,096	142,474	307,570
Trade and other receivables	11,366	(2,000)	9,366
Prepayments	2,532	-	2,532
Cash	81,467	-	81,467
Trade and other payables	(33,812)	(1,000)	(34,812)
Provisions (note 20)	(12,758)	-	(12,758)
Deferred income	(21,965)	-	(21,965)
Corporation tax	(5,073)	-	(5,073)
Finance leases	(515)	-	(515)
Deferred Tax	(22,912)	(25,727)	(48,639)
Net Assets on acquisition	**201,922**	**122,606**	**324,528**
Consideration paid			359,920
Goodwill			35,392

Consideration paid:	**£000**
Cash	241,738
Settled in shares	118,182
Total consideration	359,920

Reconciliation to the cash flow statement	**£000**
Cash paid	241,738
Cash acquired	(81,467)
Payments for business combination net of cash acquired	160,271

Goodwill arises as a result the surplus of consideration over the fair value of the separately identifiable assets acquired.

Costs relating to this acquisition are expensed in the Income Statement in accordance with IFRS3 and are identified in note 6, non-underlying items.

The book values of the assets and liabilities were extracted from the underlying accounting records of the acquired entities on the date of acquisition. The book value of receivables represent the gross contractual amounts receivable, all of which are considered recoverable. The fair value adjustments to property, plant and equipment, intangible assets, trade and other payables and trade and other receivables are to reflect their value on a going concern market basis. The property, plant and equipment and the intangible assets were both externally valued, based on forecast cashflows. The adjustment to deferred tax is the tax impact of the aforementioned adjustment. The remaining goodwill is attributable to the future economic benefits arising from assets which are not capable of being individually identified and separately recognised, these include the value of the assembled workforce within the business acquired.

The consideration paid in shares was measured at the market price on the day of the acquisition.

(b) Acquisition after the balance sheet date

Subsequent to the year end, on 23 December 2019, the Group acquired a 51% interest in AS Investment Holdings Ltd and AS1 Investment Holdings Ltd (the "AS Group") which holds a majority equity interest in an out-patient facility in Abu Dhabi and a mental health outpatient group of clinics (the "Investment").

The initial consideration for the Investment is £7.2m[1], to be satisfied by £3.6m in cash, the issue of 431,465 CareTech new ordinary shares ("Consideration Shares") and a payment of £1.8m into the investment to drive growth (the "Initial Consideration"). In addition to the Initial Consideration, there is also a performance driven earn-out mechanism of up to £1.6m[1] to be paid out in 2021. The Consideration Shares will be subject to certain lock in arrangements for a period of 24 months.

The AS Group was established in 2015 by Shafqat Malik, co-founder and CEO, to introduce best in class mental healthcare services in the Middle East and North Africa region. The group has an agreement with a leading NHS Foundation Trust Hospital in the mental healthcare arena in the UK for the provision of services in the greater Middle Eastern area. The current operations comprise an outpatient facility in the emirate of Abu Dhabi offering the following services: child and adolescent mental healthcare services, adult psychiatry and psychology services, training, education, to professionals and bespoke services to schools.

In addition the group owns a majority equity interest in a premier mental health outpatient group of clinics focussing on providing highest quality specialised medical care for neurological, psychiatric and psychological conditions. Key service offerings include psychiatry, psychology, occupational therapy and rehabilitation.

Given the proximity of the announcement to the completion date of the transaction, it is not possible to give a preliminary acquisition table at this time.

(1)Based on an exchange of rate of GBP1: AED 4.7735

6 Non-underlying items

Non-underlying items are those items of financial performance which, in the opinion of the Directors, should be disclosed separately in order to improve the readers understanding of the trading performance of the Group. Non-underlying items comprise the following:

	Note	2019 £000	2018 £000
Amortisation of intangible assets		10,188	7,428
Acquisition expenses	(i)	10,331	4,525
Profit arising from the ground rent transaction	(ii)	(4,565)	-
Integration and restructuring costs	(iii)	5,597	2,863
Onerous leases	(iv)	1,092	377
Charitable donations	(v)	736	380

Impairment of goodwill		-	2,000
Other non-underlying expenses		7,425	5,620
Included in administrative expenses		23,379	17,573
Finance expenses			
Fair value movements relating to derivative financial	(vi)	1,487	(787)
Charges relating to derivative financial instruments	(vi)	217	513
IAS 17 lease imputed interest		345	223
Termination of old banking arrangements	(vii)	397	-
Included in finance expenses		2,446	(51)
Tax on non-underlying items			
Current tax	(viii)	(1,090)	(1,004)
Deferred tax	(ix)	(4,119)	(621)
Included in taxation		(5,209)	(1,625)
Total non-underlying items		20,616	15,897

(i) In accordance with IFRS 3 (as revised) items associated with business combinations have been taken to the income statement as incurred and includes costs relating to the review by the Competition and Markets Authority ("CMA").

(ii) Profit arises from a ground rent transaction with Alpha Real Capital LLP at a net yield of 2.85% which raised £31.0m in cash to further support its growth strategy. The £31.0m proceeds are categorised as £23.1m relating to the operating lease element and £7.9m relating to IAS 17 ground rent liabilities.

(iii) During the year, the Group implemented a reorganisation of its internal operating, finance, IT and management structures with a view to achieving the integration of the Cambian business combination into the Group, achieving greater flexibility, accountability and performance of a number of its back office divisions. Costs incurred in the year include redundancy costs, post termination payments and transformation project delivery costs which comprise the costs of staff teams incurred in respect of the reorganisation, costs related to the dual running and knowledge transfer of the back office division as part of the integration project and professional fees incurred in respect of advice and consultancy activities associated with the integration and restructuring.

(iv) The present value of the future cash flows receivable from the operation of certain leased assets has been assessed as being lower than the present value of the rental payments to which the Group is committed. Therefore, the Group has provided for £1,092,000 (2018: £377,000) being the present value of any onerous element of the remaining lease life.

(v) These charges represent charitable donations made to the Caretech Charitable Foundation, an independent grant- making corporate foundation registered with the Charity Commission. Funded and founded by CareTech Holdings plc, the Foundation has a number of independent Trustees responsible for delivering its Charitable Objects. The Trustees also include Haroon and Farouq Sheikh, Christopher Dickinson and Mike Adams, Directors of the Group.

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

(vii) As part of the Cambian business combination, the Group entered into new banking arrangements, extinguishing the previous arrangements and in accordance with IFRS 9, the costs of the extinguished bank facilities were written off.

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

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

	2019	2018

	£000	£000
Derivative financial instruments	219	(134)
Full provision for deferred tax under IAS 12	-	846
Intangible assets	2,357	(124)
Roll over relief	(776)	-
Other adjustments	2,319	33
	4,119	621

Other adjustments comprise a number of deferred tax movements which are individually insignificant.

7 Auditor's remuneration

	2019 £000	2018 £000
Fees payable to the Group's auditor for the audit of the consolidated and parent company's annual accounts	397	163
Audit of the accounts of subsidiaries	14	12
Audit related assurance services	28	14
Company secretarial	13	9
All other non-assurance services	214	326

Other non-assurance services of £326,000 in 2018 and £214,000 in 2019 represents the reporting accountant work carried out on the acquisition of Cambian Group plc.

8 Staff numbers and costs

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

	Number of employees 2019	2018
Operational and service delivery staff	9,111	5,149
Maintenance	111	29
Management and administration	707	261
	9,929	5,439

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

	2019 £000	2018 £000
Wages and salaries	203,387	93,137
Share-based payments charge	60	197
Social security costs	19,523	8,618
Other pension costs	4,467	1,527
	227,437	103,479

9 Finance expenses

	2019 £000	2018 £000
Interest expense on financial liabilities at amortised cost:		
On bank loans and overdrafts	12,345	4,527
Finance charges in respect of finance leases	345	340
Underlying financial expenses	12,690	4,867
Derivative financial instruments (note 6)	1,704	(274)
IAS 17 lease imputed interest (note 6)	345	223
Termination of old banking arrangements (note 6)	397	-
Total finance expenses	15,136	4,816

In accordance with IAS 23, borrowing costs at £186,000 (2018: £155,000) 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 3.5%.

10 Taxation

(a) Recognised in the consolidated income statement

	2019 £000	2018 £000
Current tax expense		
Current year	(8,842)	(4,622)
Current tax on non-underlying items (note 6)	1,090	1,004
Corporation tax overprovided in previous periods	-	(359)
Total current tax	(7,752)	(3,977)
Deferred tax expense		
Current year	(581)	(770)
Deferred tax on non-underlying items (note 6)	4,119	621
Total deferred tax	3,538	(149)
Total tax in the consolidated income statement	(4,214)	(4,126)

(b) Reconciliation of effective tax rate

	2019 £000	2018 £000
Profit before tax for the year	24,340	15,370
Tax using the UK corporation tax rate of 19.0% (2018: 19.0%)	4,625	2,920
Non-deductible expenses including impairment charge	2,438	1,059
Other tax adjustments	(3,625)	27
Gains on which roll-over relief is claimed	776	-
Corporation and deferred tax overprovided in previous periods	-	120
Total tax in the consolidated income statement	4,214	4,126

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. Other tax adjustments comprise a number of items which are individually insignificant.

11 Earnings per share

	2019 £000	2018 £000
Profit attributable to ordinary shareholders	19,704	10,648
Weighted number of shares in issue for basic earnings per share	107,231,912	75,690,422
Effects of share options in issue	365,090	25,235
Weighted number of shares for diluted earnings per share	107,597,002	75,715,657

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	18.38p	14.07p
Diluted	18.31p	14.06p

12 Underlying earnings per share

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

	2019 £000	2018 £000
Profit attributable to ordinary shareholders	19,704	10,648
Non-underlying items (note 6)	20,616	15,897
Underlying profit attributable to ordinary shareholders	40,320	26,545
Underlying earnings per share (pence per share)		
Basic	37.60p	35.07p
Diluted	37.48p	35.06p

13 Property, plant and equipment

	Land and buildings £000	Fixtures, fittings and equipment £000	Motor vehicles £000	Total £000
Cost				
At 1 October 2017	281,113	26,894	11,606	319,613
Acquisitions through business combinations	260	20	-	280
Additions	8,781	5,973	862	15,616
Remeasurement[(i)]	(4,997)	-	-	(4,997)
Disposals	(852)	(4,475)	(670)	(5,997)
At 30 September 2018	284,305	28,412	11,798	324,515
At 1 October 2018	284,305	28,412	11,798	324,515
Acquisitions through business combinations	295,208	11,599	390	307,197
Additions	16,342	11,866	2,305	30,513
Disposals	(15,803)	(3,061)	(1,076)	(19,940)
At 30 September 2019	580,052	48,816	13,417	642,285
Depreciation and impairment				
At 1 October 2017	5,937	11,890	4,616	22,443
Depreciation charge for the year	558	3,766	1,582	5,906
Disposals	(6)	(4,475)	(462)	(4,943)
At 30 September 2018	6,489	11,181	5,736	23,406
At 1 October 2018	6,489	11,181	5,736	23,406
Depreciation charge for the year	1,717	7,430	1,484	10,631
Disposals	(213)	(630)	(567)	(1,410)
At 30 September 2019	7,993	17,981	6,653	32,627
Net book value				
At 1 October 2017	275,176	15,004	6,990	297,170
At 30 September 2018	277,816	17,231	6,062	301,109
At 30 September 2019	572,059	30,835	6,764	609,658

Included in the result for the year is a profit of £4,565,000 (2018: £146,000) 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 £4,437,000 (2018: £4,665,000).

[(i)]The re-measurement between tangible and intangible assets in the comparative period arises from the finalisation of the acquisition accounting for the Selbourne Care Limited acquisition which took place on 19 June 2017.

Land and buildings

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

	2019	2018
	£000	£000
Freehold	520,550	243,675
Leasehold	51,509	34,141
	572,059	277,816

The Directors believe that the market value of the Group's current freehold property portfolio is £774m (comprising CareTech's properties and properties acquired as part of the Cambian transaction) as at 30 September 2019 (2018: £424m for the CareTech properties only). The CareTech Group and the Cambian Group hold portfolios of freehold and leasehold assets which Cushman & Wakefield and Knight Frank LLP have valued at £424.1 million and £350.0 million respectively, as at 19 September 2018. These valuations are based on the aggregate market value of the properties for use as care facilities and these valuations would be lower if the properties were disposed of for an alternative use or sold individually. All of the Group's freehold properties are pledged as security for bank borrowings.

14 Intangible assets

	Goodwill £000	Software and licences £000	Customer relationships £000	Total £000
Cost				
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	1,685	-	3,312	4,997
At 30 September 2018	45,717	19,951	63,344	129,012
At 1 October 2018	45,717	19,951	63,344	129,012
Acquisitions through business combinations	35,392	-	47,354	82,746
Additions for the year	375	3,054	-	3,429
At 30 September 2019	81,484	23,005	110,698	215,187
Amortisation and impairment				
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
At 30 September 2018	2,028	12,597	30,570	45,195
At 1 October 2018	2,028	12,597	30,570	45,195
Amortisation for the year	-	3,066	7,122	10,188
At 30 September 2019	2,028	15,663	37,692	55,383
Net book value				
At 1 October 2017	43,098	8,097	32,857	84,052
At 30 September 2018	43,689	7,354	32,774	83,817
At 30 September 2019	79,456	7,342	73,006	159,804

Amortisation

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

	2019 £000	2018 £000
Administrative expenses	10,188	7,428

14 *Intangible assets (continued)*

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

Cash-generating units comprise operating segments. This is the lowest level at which goodwill is monitored for impairment by management. There are no intangible assets with indefinite useful lives (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 and expected changes in direct costs during the periods.

In arriving at the values assigned to each key assumption management make reference to past experience and external sources of information regarding the future – for example changes in tax rates. The key features of these calculations are shown below:

	2019	2018
Period over which management approved forecasts are based	1 year	1 year
Growth rate applied beyond approved forecast period	2%	2%
Pre-tax discount rate		
Adults Services	8%	8%
Children's Services	10%	10%
Foster Care	12%	12%

In preparing value in use calculations for cash-generating units, the Group has assumed a growth rate of 2%, into perpetuity. The discount rates used in each value in use calculation have been based upon the Group's post tax WACC together with 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:

	2019	2018
	£000	£000
Adults Services	27,525	23,238
Children's Services	44,769	13,289
Foster Care	7,162	7,162
	79,456	43,689

15 Trade and other receivables

	2019 £000	2018 £000
Trade receivables (note 25)	38,299	21,421
Other debtors and prepayments	8,343	6,209
Accrued income (note 16)	6,369	4,117
	53,011	**31,747**

These balances do not include deferred income.

16 Accrued income and deferred income

	Accrued income £000	Deferred income £000
At 1 October 2018	4,117	(3,372)
Amounts acquired at acquisition	1,337	(24,992)
Revenue recognised in the reporting period.	(5,454)	28,364
Revenue billed in period but relates to future periods	-	(28,710)
New accrued revenue	6,369	-
At 30 September 2019	**6,369**	**(28,710)**

There was a significant change in the accrued income and deferred income balances as a result of the acquisition of Cambian. Cambian has a different billing profile and as a result of the acquisition, the deferred revenue related to income billed in advance for education over the Autumn school term. This income is held in deferred income until the service is provided.

The Directors consider that the carrying value of accrued income and deferred income approximates its fair value.

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 25.

	2019 £000	2018 £000
Non-current liabilities		
Secured bank loans	315,878	-
Finance lease liabilities	2,774	2,580
	318,652	2,580

	2019 £000	2018 £000
Current liabilities		
Secured bank loans	-	151,748
Finance lease liabilities	1,663	2,082
	1,663	153,830

Terms and debt repayment schedule

	Currency	Nominal interest rate (%)	Year of maturity	Book Value 2019 £000	Book Value 2018 £000
Term loan	£	2.25 (2018: 2.25)[1]	2022	167,000	120,499
Term loan	£	2.50 (2018: 2.25)[1]	2023	148,878	-
Revolving credit facility term loan	£	2.75 (2018: 2.25)[1]	2023	-	31,249
				315,878	151,748

[1] The margin on the facilities is stated at the current rate and can change between 1.50% and 3.25% based on the ratio of the Group's Net Debt to EBITDA

The Group entered into new banking facilities following the acquisition of Cambian and the previous banking facilities were extinguished. The facility is a term loan of £322m and revolving credit facility of £25m to a group of banks comprising Barclays Bank PLC, HSBC UK Banks PLC, Santander UK PLC, AIB Group (UK) PLC, Clydesdale Bank PLC, Credit Suisse AG, Lloyds Bank PLC and National Westminster Bank PLC and is stated net of loan finance costs in accordance in IAS 23. The loans disclosed in prior year were extinguished.

Finance lease liabilities

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

Finance lease liabilities are payable as follows:

	Minimum lease payments 2019 £000	Interest 2019 £000	Principal 2019 £000	Minimum lease payments 2018 £000	Interest 2018 £000	Principal 2018 £000
Less than one year	1,783	120	1,663	2,200	118	2,082
Between one and five years	2,906	132	2,774	2,802	222	2,580
	4,689	252	4,437	5,002	340	4,662

18 Trade and other payables

	2019 £000	2018 £000
Trade payables	12,378	3,808
Accrued expenses	46,559	21,067
	58,937	24,875

19 Deferred tax assets and liabilities

Recognised deferred tax assets and liabilities

Deferred tax assets and liabilities are attributable to the following:

	2019		2018	
	Assets £000	Liabilities £000	Assets £000	Liabilities £000
Property, plant and equipment	-	42,213	-	1,901
Intangible assets	-	18,270	-	14,395
Derivative financial instruments	(278)	-	-	(59)
Share-based payments	(90)	-	(443)	-
Rolled-over gains on property, plant and equipment	-	3,836	-	3,060
Tax (assets) / liabilities	(368)	64,319	(443)	19,297
Net of tax assets		(368)		(443)
Net deferred tax liabilities		63,951		18,854

There are no unrecognised deferred tax assets or liabilities.

19 Deferred tax assets and liabilities (continued)

Movement in deferred tax during the year:

	1 October 2018 £000	Recognised in income £000	Acquired in business combination £000	30 September 2019 £000
Property, plant and equipment	1,901	(141)	40,453	42,213
Derivative financial instruments	(59)	(219)	-	(278)
Intangible assets	14,395	(4,311)	8,186	18,270
Share options	(443)	353	-	(90)
Rolled-over gains on property	3,060	776	-	3,836
	18,854	(3,542)	48,639	63,951

Movement in deferred tax during the previous year:

	1 October 2017 £000	Recognised in income £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
	17,843	149	862	18,854

20 Provisions

	£000
At 1 October 2018	-
Acquired in business combination	12,758
Charge to income statement	2,126
At 30 September 2019	14,884

Provisions principally comprise an amount provided for "sleep-in payments" and a provision for onerous contracts. These have been explained in note 3 to the financial statements.

21 Employee benefits

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. All share options are equity settled.

Share options granted in 2009 have now expired.

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

The grant of the ExSOP scheme requires specific performance conditions being satisfied. The EPS Target requires the growth in the Company's underlying Diluted EPS over the Performance Period to be at least 15% (being an average 5% annual growth rate, calculated without compounding) during the year.

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 2019 are as follows:

Date of grant	Scheme	Options remaining as at 30 Sep 2018	Options lapsed to 30 Sep 2019	Options exercised to 30 Sep 2019	Options remaining 30 Sep 2019	Option price (pence) 30 Sep 2019
4 Aug 2009	Approved Scheme	28,222	(28,222)	-	-	n/a
4 Aug 2009	Unapproved Scheme	23,331	(23,331)	-	-	n/a
3 Aug 2010	Approved Scheme	33,546	-	-	33,546	305
3 Aug 2010	Unapproved Scheme	33,873	-	-	33,873	305
17 Mar 2016	Share Save Scheme 2016	341,220	-	(264,129)	77,071	194
29 Mar 2016	Executive Share Ownership Plan 2016	1,919,000	(100,000)	(390,000)	1,429,000	247.5
1 Dec 2017	Share Save scheme 2017	220,600	-	-	220,600	308

The charge for the year was £60,000 (2018: £197,000) relates to the ExSOP Scheme 2017, the CareTech Holdings 2016 Sharesave Scheme and the CareTech Holdings 2017 Sharesave Scheme. The weighted average price of the remaining options is 254.8p.

Subsequent events:

On 8 November 2019, the Group issued 2,504,475 new ordinary shares of 0.5p in the Company (the New Ordinary Shares) under the Executive Shared Ownership Plan (Share Plan) to 30 members of the senior and executive management team. An award under the Share Plan enables the participant to benefit only from the future growth in the value of the New Ordinary Shares above their market value on the award date, in excess of a "carrying cost" of 3% per annum.

The vesting of the Share Plan requires specific performance conditions being satisfied. As with the previous issuance of the Share Plan, the target is an EPS Target which requires the growth in the Company's underlying Diluted EPS over the three-year period beginning on the date of issue of the awards to be at least 15% (being an average 5% annual growth rate, calculated without compounding). Participants may not normally realise any such benefit from the Share Plan awards before 8 November 2022.

22 Equity

	2019	**2018**
Share Capital	**£000**	**£000**
Allotted, called up and fully paid:		
109,144,369 (2018: 75,691,423) ordinary shares of 0.5p each	545	379
53,402 deferred shares of 0.5p each	-	-
	545	379

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:

2019

	At 1 October 2018	Issued during the acquisition of Cambian	Issued under Save as You Earn Scheme	At 30 September 2019
Ordinary shares of 0.5p each	75,691,423	33,188,817	264,129	109,144,369
Deferred shares of 0.5p each	53,402	-	-	53,402

2018

	At 1 October 2017	Issued under Save as You Earn Scheme	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

23 Reserves

(a)Share Premium Account

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

	2019	2018
	£000	£000
Opening balance 1 October 2018	120,820	120,778
Premium on issue of shares	484	42
At 30 September 2019	121,304	120,820

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

(b) Merger reserve

The merger reserve represents the premium arising on the ordinary shares issued as consideration for the acquisition of shares in another company (merger relief) (note 5).

	2019	2018
	£000	£000
Opening balance 1 October	9,023	9,023
Issue of shares	118,182	-
Costs associated with share issue	(1,669)	-
At 30 September	125,536	9,023

(c) 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.

(d) Retained earnings

Retained earnings includes all current and prior period retained profits and share-based employee remuneration. Dividend distributions payable to equity shareholders are included in other liabilities when the dividends have been approved in a general meeting prior to the reporting date.

24 Dividends

The aggregate amount of dividends comprises:

	2019	2018
	£000	£000
Interim dividend paid in respect of prior year but not recognised as liabilities in that year (3.50p per share, (2018: 3.30p per share))	2,645	2,498
Final dividend paid in respect of the prior year (7.50p per share, (2018: 6.60p per share))	8,157	4,996
Aggregate amount of dividends paid in the financial year (11.00p per share (2018: 9.90p per share))	10,802	7,494

The aggregate amount of dividends proposed and not recognised as liabilities as at the year end is 11.7p per share, £13,000,000 (2018: 11.00p per share, £8,166,018).

25 *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. The amounts presented in balance sheet in relation to the Group's trade receivables are presented net of loss allowances. The Group measures loss allowances at an amount equal to the lifetime expected credit losses (ECL's) using both quantitative and qualitative information and analysis based on the Group's historical experience and forward looking information. During the year there was a charge to the consolidated income statement of £403,000 (2018: £46,000) to increase the loss allowance.

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

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

	2019 £000	2018 £000
Not due	23,417	10,918
Not more than three months past due	12,217	5,021
More than three months but not more than six months past due	2,665	5,482
Trade receivables (note 15)	38,299	21,421

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

	£000
At 1 October 2017	715
Charged to the consolidated income statement	46
At 30 September 2018	761
Adoption of IFRS 9	525
Charged to the consolidated income statement	403
At 30 September 2019	1,689

Interest rate risk
The Group finances its operations through called up share capital, retained profits, bank borrowings, and the sale of assets if appropriate. The Group's income is by its nature relatively stable and its growth is, inter alia, impacted by inflation. Group policy is to balance interest rate fixes between the short, medium and long term. The benchmark rate for bank borrowings is LIBOR. The Group has not adopted hedge accounting. As at 30 September, the Group carried 5 hedging instruments, details of which are as follows:

- a 3 year swap commencing 16 May 2019 at pre-determined amounts initially starting at £21.6 million at LIBOR fixed at 1.076%
- a 3 year swap commencing 16 May 2019 at pre-determined amounts initially starting at £21.6 million at LIBOR fixed at 1.056%
- a 3 year swap commencing 16 May 2019 at pre-determined amounts initially starting at £27.6 million at LIBOR fixed at 1.076%
- a 3 year swap commencing 16 May 2019 at pre-determined amounts initially starting at £21.6 million at LIBOR fixed at 1.071%
- a 3 year swap commencing 16 May 2019 at pre-determined amounts initially starting at £27.6 million at LIBOR fixed at 1.066%

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

	Effective Interest rate %	Carrying Amount £000	2019 Contractual Cash flows £000	< 1 year £000	1 – 5 Years £000	5 years & over £000
Trade and other payables		(58,937)	(58,937)	(58,937)	-	-
IAS 17 Ground rent		(15,131)	(15,131)	(100)	(500)	(14,531)
Secured bank loans	3.5%	(315,878)	(355,569)	(10,146)	(345,423)	-
Finance lease liabilities	6%	(4,437)	(4,689)	(1,783)	(2,906)	-
Derivative financial instruments		(1,640)	(1,640)	-	(1,640)	-
		(396,023)	**(435,966)**	**(70,966)**	**(350,469)**	**(14,531)**

	Effective Interest rate %	Carrying Amount £000	2018 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 rent		(7,294)	(7,294)	(50)	(198)	(7,046)
Secured bank loans	5%	(151,748)	(155,386)	(155,386)	-	-
Finance lease liabilities	11%	(4,662)	(5,002)	(2,200)	(2,802)	-
Deferred and contingent consideration		(966)	(966)	(966)	-	-
Derivative financial instruments		(152)	(152)	(152)	-	-
		(189,697)	(193,675)	(183,629)	(3,000)	(7,046)

See note 17 for the maturity dates and interest rates charged on the secured bank loans.

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:

	2019	2018
	£000	£000
Net debt	291,077	146,989
Equity (see note 22)	335,364	208,233

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 7.95p per share demonstrating a confident view of the Group's fundamental strength.

Net Debt

Net Debt comprises cash and cash equivalents net of all loans and borrowings.

	Note	2019	2018
		£000	£000
Net Debt in the balance sheet comprises:			
Cash and cash equivalents		29,238	9,421
Bank loans	17	(315,878)	(151,748)
Finance lease and hire purchase contracts	17	(4,437)	(4,662)
Net Debt at 30 September		(291,077)	(146,989)

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 2019, 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 £1,950,000 (2018: £410,000). 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 2019 £000	Fair value 2019 £000	Carrying amount 2018 £000	Fair value 2018 £000
Financial Instruments at amortised cost				
Cash at bank and in hand	29,328	29,328	9,421	9,421
Trade receivables (note 15)	38,299	38,299	21,421	21,421
Trade payables (note 18)	(12,378)	(12,378)	(3,808)	(3,808)
Secured bank loans (note 17)	(315,878)	(315,878)	(151,748)	(151,748)
Contingent consideration	-	-	(966)	(966)
Held at fair value through profit and loss:				
Derivative financial instruments	(1,640)	(1,640)	(152)	(152)

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 the derivatives financial instruments, these were entered into to manage the Group's exposure to interest rate risk on its external borrowings.

Fair value hierarchy

The financial instruments carried at fair value by valuation methods are:

	2019 £000	2018 £000
Level 1 – unadjusted quoted prices in active markets for identical assets or liabilities	-	-
Level 2 – inputs other than quoted prices included within level 1 that are observable for the asset or liability either as a direct price or indirectly derived from prices	(1,640)	(152)
Level 3 – inputs for the asset or liabilities that are not based on observable market data *	-	(996)

* The financial liability measured at fair value in the Consolidated Balance Sheet at 30 September 2018 is deferred consideration. This liability has now been settled.

26 Operating leases

Non-cancellable operating lease rentals are payable as follows:

	2019		2018	
	Land and buildings £000	Other £000	Land and buildings £000	Other £000
Within one year	6,426	1,935	3,974	244
Between two and five years	12,425	2,726	8,156	265
More than five years	228,127	-	119,466	-
	246,978	4,661	131,596	509

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 income statement in respect of operating leases:

	2019		2018	
	Land and buildings	Other	Land and Buildings	Other
	£000	£000	£000	£000
Charge for amounts currently payable	6,300	1,841	4,345	759
Total recognised in the consolidated income statement	6,300	1,841	4,345	759

27 *Related parties*

During the year, CareTech Holdings plc paid rent totalling £226,000 (2018: £198,000) in respect of properties in which Farouq Sheikh and Haroon Sheikh have an interest. At the year-end rent of £20,000 (2018:£104,000) was outstanding.

Dividends paid to Directors in the year totalled £157,000 (2018: £147,000).

Transactions with key management personnel

	2019	2018
	£000	£000
Salary	4,775	3,007
Benefits	354	134
Bonus	1,110	871
Total short term remuneration	6,239	4,012
Post-employment benefits	288	-
Share based payments	50	-
	6,577	4,012

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

Directors' emoluments are set out on page 73.

During the year, the Group made donations to the CareTech Charitable Foundation which are set out in note 6.

28 Impact of IFRS 16

IFRS 16 "Leases" will be adopted by the Group on 1 October 2019 for the financial year ending 30 September 2020. IFRS 16 will primarily change lease accounting for lessees. Under the new standard, lease agreements will give rise to the recognition of an asset representing 'right of use' assets to be recognised on the balance sheet for almost all leases. This is expected to result in a significant increase in both assets and liabilities recognised. The costs of operating leases currently included within operating costs will be split and the financing element of the charge will be reported within finance expense whilst the total expense recognised in the Income Statement over the life of each lease will be unaffected by the standard.

The overall impact on earnings is not expected to be material. Finance lease obligations as at 30 September 2019 are set out in Note 25, "Financial Instruments" and the commitments under non-cancellable operating leases are set out in Note 26, "Operating leases".

CareTech will implement IFRS 16 from 1 October 2019 applying the modified retrospective approach. The right of use asset at 1 October 2019 will be set equal to the lease liability of the outstanding lease payments due to the lessor as at that date.

CareTech have performed an assessment of the impact of IFRS 16, having made the following assumptions:

- The discount rate to be used to calculate the financing component is the Group's incremental cost of borrowing. For this assessment CareTech have used a single discount rate of 3.5% as the Directors consider that the all of the leases have similar characteristics
- All short term leases which expire on or before 30 September 2020 where the annual rental cost is below £2,500 per month have been excluded.
- All low value leases have been excluded.
-

Based on the assessment, CareTech anticipate recognising an additional right of use asset at 1 October 2019 of:

Right of use asset	**£000**
Property right of use assets	67,418
Equipment right of use assets	4,300
Total right of use assets	71,718

On transition, CareTech would recognise a corresponding financial liability for the same amount as the right of use asset.

CareTech have estimated the impact of the change of accounting standard on the income statement and EPS, assuming that the only leases to be considered are the ones identified at transition date and the discount rate used will be the Group's incremental cost of borrowing.

	FY 2020 (estimated) £000	**FY 2021 (estimated) £000**	**FY2022 (estimated) £000**
Difference in EBITDA	8,025	7,595	5,963
Difference in IFRS16 Depreciation	(6,273)	(5,930)	(4,351)
Difference in IFRS 16 Interest	(2,302)	(2,108)	(1,940)
Difference in profit before tax	(550)	(443)	(328)
Difference in EPS	(0.50)	(0.41)	(0.30)

IFRS 16 will not have any impact on the underlying commercial terms of each lease; and will not have any impact on the commercial performance of the Group, nor the cash flow generated in the year.

29 Group undertakings

The Group has the following investments in trading subsidiaries included in the consolidated results for the year. The operating subsidiaries are engaged in either owning property ("Property") or in the provision of services to adults or children ("Trading"). Additionally, the Group has subsidiaries that are non-trading, act as holding companies, or are dormant ("Non-trading")

Company	Company number	Country of incorporation	Type	Ownership 2019 %	Ownership 2018 %
Addington House Limited *	4404355	England and Wales	Operating	100	100
Advanced Childcare Services Limited *	07559570	England and Wales	Non-trading	100	-
Advances In Autism Care & Education Limited *	3252453	England and Wales	Non-trading	100	100
Applied Care and Development Ltd *	SC224352	Scotland	Operating	100	100
Ashcroft House Limited *	3390658	England and Wales	Operating	100	100
Ashring House Limited *	3370991	England and Wales	Operating	100	100
Ashview House Limited *	3304446	England and Wales	Operating	100	100
Barleycare Limited *	5156601	England and Wales	Operating	100	100
Beacon Care Holdings Limited *+	3293998	England and Wales	Non-trading	100	100
Beacon Care Investments Limited *+	4351554	England and Wales	Non-trading	100	100
Beacon Care Limited *	3160894	England and Wales	Non-trading	100	100
Beech Care Limited *	4050685	England and Wales	Operating	100	100
Branas Isaf (Ashfield House) Limited *	5761962	England and Wales	Operating	100	100
Branas Isaf (Bythnod & Hendre Llwyd) Limited *	4826628	England and Wales	Operating	100	100
Branas Isaf (Dewis) Limited *	4828115	England and Wales	Operating	100	100
Branas Isaf (Education Centre) Limited *	4826662	England and Wales	Operating	100	100
Branas Isaf (Llyn Coed) Ltd*	4826774	England and Wales	Operating	100	100
Branas Isaf (personal development & approach training) Limited *	4826959	England and Wales	Non-trading	100	100
Branas Isaf (Therapeutic Provision Limited) *	5355404	England and Wales	Non-trading	100	100
Branas Isaf Holdings Ltd *	4827227	England and Wales	Non-trading	100	100
Branas Isaf Personal Development Centre Ltd *	3744583	England and Wales	Non-trading	100	100
Bright Care Limited *	4050733	England and Wales	Operating	100	100
By the Bridge Holdings *	05712186	England and Wales	Non-trading	100	-
By the Bridge Limited *	04050928	England and Wales	Operating	100	-
By the Bridge Management Company Limited *	8587714	England and Wales	Non-trading	100	-
By the Bridge North West Limited *	05448746	England and Wales	Operating	100	-
Cambian Asperger Syndrome Services Limited *	04117476	England and Wales	Operating	100	-
Cambian Autism Services Limited *	03449214	England and Wales	Operating	100	-
Cambrian Care (Powys) Limited *	3813824	England and Wales	Non-trading	100	-
Cambian Childcare Limited *	04280519	England and Wales	Operating	100	-
Cambian Childcare Properties Limited*	05274924	England and Wales	Property	100	-
Cambian Education Services Limited *	05554772	England and Wales	Non-trading	100	-
Cambian FS Limited *	09501886	England and Wales	Non-trading	100	-
Cambian Group Holdings Limited *	08929407	England and Wales	Non-trading	100	-

Company	Company number	Country of incorporation	Type	Ownership 2019 %	Ownership 2018 %
Cambian Group Limited *+	8929371	England and Wales	Non-trading	100	-
Cambian Heritage I Limited *	5150238	England and Wales	Non-trading	100	-
Cambian Heritage II Limited *	3898254	England and Wales	Property	100	-
Cambian Interact Care Limited *	4822716	England and Wales	Operating	100	-
Cambian Properties (UK) Limited *	5554819	England and Wales	Non-trading	100	-
Cambian Signpost Limited *	6253729	England and Wales	Operating	100	-
Cambian Whinfell School Limited *	4617562	England and Wales	Operating	100	-
Cameron Care Limited *	SC283940	Scotland	Operating	100	100
Care Support Services Limited *	5356025	England and Wales	Operating	100	100
CareTech Community Services (No 2) Limited *	3894564	England and Wales	Operating	100	100
CareTech Community Services Limited *+	2804415	England and Wales	Operating	100	100
CareTech Consulting Limited*	7186925	England and Wales	Non-trading	100	100
CareTech Estates (No 2) Limited *+	6518327	England and Wales	Property	100	100
CareTech Estates (No 3) Limited *+	6518491	England and Wales	Property	100	100
CareTech Estates (No 4) Limited *+	6543818	England and Wales	Property	100	100
CareTech Estates (No 5) Limited *+	7027116	England and Wales	Property	100	100
CareTech Estates (no 6) Limited *+	8420656	England and Wales	Property	100	100
CareTech Estates (no 7) Limited *+	8628141	England and Wales	Property	100	100
CareTech Estates Limited *+	5964868	England and Wales	Property	100	100
CareTech Foster Care Limited *	5185612	England and Wales	Non-trading	100	100
CareTech Fostering Holdings Limited *	7206363	England and Wales	Non-trading	100	100
CareTech Fostering Services *	7205262	England and Wales	Non-trading	100	100
CareTech Housing Services *	3438332	England and Wales	Non-trading	100	100
CareTech International (Previously Family Assessment Services Limited) Limited *	6902547	England and Wales	Non-trading	100	100
Clifford House Limited *	3320573	England and Wales	Non-trading	100	-
Colerne Community Care (kent) Limited *	2755757	England and Wales	Non-trading	100	100
Community Support Project Limited *+	5941774	England and Wales	Non-trading	100	100
Complete Care & Enablement Services Limited *	5905163	England and Wales	Operating	100	100
Continuum Care and Education Group Limited *	5804360	England and Wales	Non-trading	100	-
Counticare Limited *	2585666	England and Wales	Non-trading	100	100
Coveberry Limited *	1208511	England and Wales	Operating	100	100
Daisybrook Limited *	3026221	England and Wales	Operating	100	100
Dawn Hodge Associates Limited *	4130146	England and Wales	Operating	100	100
Delam Care Limited *	2995783	England and Wales	Operating	100	100
Delham Care Limited *	2748991	England and Wales	Non-trading	100	100
Elite Children's Care Limited *	5251327	England and Wales	Non-trading	100	-
Emeraldpoint Limited *	3098166	England and Wales	Operating	100	100
EQL Solutions Limited *+	8758477	England and Wales	Operating	100	100
Farrow House Limited *	3504115	England and Wales	Non-trading	100	-
Fostering Support Group Limited *	2359399	England and Wales	Operating	100	100
Franklin Homes Limited *	3002865	England and Wales	Operating	100	100

Company	Company number	Country of incorporation	Type	Ownership 2019 %	Ownership 2018 %
Glenroyd House Limited *	4326288	England and Wales	Operating	100	100
Gloucestershire Autism Services Limited *	3091510	England and Wales	Non-trading	100	100
Green Corns Limited *	3918305	England and Wales	Non-trading	100	-
Greenfields Adolescent Development Limited *	4068839	England and Wales	Operating	100	100
Greenfields Care Group Limited *	4642100	England and Wales	Non-trading	100	100
Hereson House Limited *	4385252	England and Wales	Operating	100	100
Herts Care (Escort and Supervision Services) Limited *	3648069	England and Wales	Non-trading	100	-
Herts Care Group Limited *	4539660	England and Wales	Non-trading	100	-
Herts Care Limited *	3400914	England and Wales	Non-trading	100	-
Herts Care Property Limited *	4132387	England and Wales	Non-trading	100	-
Huntsmans Lodge Limited *	4668317	England and Wales	Operating	100	100
Independent Childcare Group of Schools Limited *	2525026	England and Wales	Non-trading	100	-
Inhoco 2993 Limited *	4495879	England and Wales	Non-trading	100	-
K O B Care Limited *	3039698	England and Wales	Non-trading	100	100
Kirkstall Lodge Limited *	4778674	England and Wales	Operating	100	100
Leigham Lodge Limited *	4583599	England and Wales	Operating	100	100
Lonsdale Midlands Limited *	2834141	England and Wales	Operating	100	100
Lyndhurst Psychiatric Residential Care Limited*	2958528	England and Wales	Non-trading	100	100
Magnolia Court Limited *	5444649	England and Wales	Operating	100	100
Mason Property Development Company Limited *	4308273	England and Wales	Property	100	100
Oakleaf Care (Hartwell) Limited *	5225317	England and Wales	Operating	100	100
One Six One Limited *	4136284	England and Wales	Operating	100	100
One Step (Support) Limited *	4534652	England and Wales	Operating	100	100
Onetrue Step Limited *	8339192	England and Wales	Non-trading	100	100
Outlook Fostering Services Limited *	4357704	England and Wales	Operating	100	100
Palm Care Limited *	4050739	England and Wales	Operating	100	100
Park Foster Care Ltd *	4861395	England and Wales	Operating	100	100
Park Foster Care Services Scotland Limited *	SC427502	Scotland	Operating	100	100
Phoenix Therapy and Care Limited *	SC254555	Scotland	Operating	100	100
Pinnacle Supported Living Limited *	2736242	England and Wales	Non-trading	100	100
Prestwood Residential Homes Ltd *	4129564	England and Wales	Operating	100	100
Primrose Court Limited *	4803769	England and Wales	Operating	100	100
Professional Integrated Care Services Limited*	4771613	England and Wales	Non-trading	100	100
Purple Zest Limited*+	11421082	England and Wales	Operating	100	60
Roborough House Limited *	5054294	England and Wales	Operating	100	100
ROC North West Ltd*	5564417	England and Wales	Operating	100	100
Rosedale Children's Services Limited *	4932054	England and Wales	Operating	100	100
SACCS Care Limited *	3400914	England and Wales	Non-trading	100	-
SACCS Limited *	4497910	England and Wales	Non-trading	100	-
Selborne Care Limited *	5513162	England and Wales	Operating	100	100
Selwyn Care Limited *	3737832	England and Wales	Operating	100	100
South East Care Services Limited *	2296352	England and Wales	Non-trading	100	100
Spark of Genius Limited *	SC479758	Scotland	Non-trading	100	100

Company	Company number	Country of incorporation	Type	Ownership 2019 %	Ownership 2018 %
Spark Of Genius (North East) LLP	OC384807	England and Wales	Operating	50	50
Spark Of Genius (Training) Limited *	SC196146	Scotland	Operating	100	100
St Michael's Support & Care Limited *	5978585	England and Wales	Operating	100	100
Sunnyside Care Homes Ltd *	4589719	England and Wales	Operating	100	100
The Community Care Company UK Limited *	2816119	England and Wales	Non-trading	100	100
TLC (Wales) Independent Fostering Limited *	4824925	England and Wales	Operating	100	100
Trojan Spark Limited *	SC453152	Scotland	Non-trading	100	100
Uplands (Fareham) Limited *	3488896	England and Wales	Operating	100	100
Valeo Community Projects Limited *	3941224	England and Wales	Non-trading	100	100
Valeo Limited *+	4099715	England and Wales	Operating	100	100
Victoria Lodge Limited *	4454845	England and Wales	Operating	100	100
Vosse Court Limited *	4778676	England and Wales	Operating	100	100
White Cliffs Lodge Limited *	4351559	England and Wales	Operating	100	100
Wyatt House Limited *	4319271	England and Wales	Non-trading	100	100
Advanced Childcare Capital Limited	107650	Jersey[2]	Non-trading	100	-
Advanced Childcare Finance Limited	107661	Jersey[2]	Non-trading	100	-
Advanced Childcare Group Limited	107672	Jersey[2]	Non-trading	100	-
Advanced Childcare Holdings Limited	107660	Jersey[2]	Non-trading	100	-
Cambian Capital Limited	87311	Jersey[2]	Non-trading	100	-
Cambian Developments I Limited	106304	Jersey[2]	Non-trading	100	-
Cambian Developments II Limited	104724	Jersey[2]	Non-trading	100	-
Cambian Developments Limited	102148	Jersey[2]	Non-trading	100	-
Cambian Finance Limited	91181	Jersey[2]	Non-trading	100	-
Cambian Holdings Limited	87312	Jersey[2]	Non-trading	100	-
Cambian Manco Limited	109922	Jersey[2]	Non-trading	100	-
Care Aspirations Finance Limited	101512	Jersey[2]	Non-trading	100	-
Care Aspirations Holdings Limited	101522	Jersey[2]	Non-trading	100	-
Care Asprirations Capital Limited	101503	Jersey[2]	Non-trading	100	-
H2O Limited	FC97291	Gibraltar	Non-trading	100	100
Hazeldene UK Limited[1]	FC015967	Gibraltar	Operating	100	100
Cambian Properties II Limited	91131	Jersey[2]	Property	100	-

[1] Has a UK designated trading branch, Hazeldene UK Limited
[2] Registered office 9 Burrard Street, St Helier, Jersey JE4 5SE
+ Owned directly by the Company
* These subsidiaries have taken advantage of the audit exemption under s479A and s479C of the Companies Act 2006 for the period ended 30 September 2019. As such, CareTech Holdings PLC has provided a guarantee against all debts and liabilities in these subsidiaries as at 30 September 2019.

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 2019 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 2019 detailed above with the exception of Hazeldene UK Limited, H2O Limited and Spark of Genius (North East) LLP and Advanced Childcare Capital Limited, Advanced Childcare Finance Limited, Advanced Childcare Group Limited, Advanced Childcare Holdings Limited, Cambian Capital Limited, Cambian Developments I Limited, Cambian Developments II Limited, Cambian Developments Limited, Cambian Finance Limited, Cambian Holdings Limited, Cambian Manco Limited, Care Aspirations Finance Limited, Care Aspirations Holdings Limited, Care Aspirations Capital Limited and Cambian Properties II Limited.

Wholly owned incorporated in Gibraltar and Jersey will not be covered by the parent company guarantee as they are incorporated outside of the UK.

Unless otherwise stated above, the registered offices of all subsidiaries is 5th Floor Metropolitan House, 3 Darkes Lane, Potters Bar, England, EN6 1AG with the exception of:

Company	Address
Applied Care and Development Ltd *	Netherlea House, Bankend Road, Dumfries, DG1 4AL
Cameron Care Limited *	Inspire Children Services, Lochview, Fort William, Inverness-Shire, PH33 7NP
Dawn Hodge Associates Limited *	Fiveways House, Buildwas Road, Neston, CH64 3RU
Park Foster Care Services Scotland Limited *	272 Bath Street, Glasgow, G2 4JR
Phoenix Therapy and Care Limited *	1 Lodge Street, Haddington, East Lothian, EH41 3DX
Professional Integrated Care Services Limited *	Tan Y Fron, Pontardulais Road, Crosshands, Carmarthenshire, SA14 6PG
Spark of Genius Limited *	Trojan House Pegasus Avenue, Phoenix Business Park, Paisley, PA1 2BH
Spark Of Genius (North East) LLP	King Edwin School Mill Lane, Norton, Stockton-On-Tees, North Yorkshire, TS20 1LG
Spark Of Genius (Training) Limited *	Trojan House Pegasus Avenue, Phoenix Business Park, Paisley, PA1 2BH
Trojan Spark Limited *	Trojan House Pegasus Avenue, Phoenix Business Park, Paisley, PA1 2BH
H2O Limited	Montagu Pavillion, 8-10 Queensway, Gibraltar
Hazeldene UK Limited	Montagu Pavillion, 8-10 Queensway, Gibraltar

Company Balance Sheet
as at 30 September 2019

	Note	2019 £000	2018 £000
Non-current assets			
Investments	32	**395,822**	35,623
		395,822	35,623
Current assets			
Trade and other receivables	33	**217,532**	278,108
Cash and cash equivalents		**1,012**	466
		218,544	278,574
Total assets		**614,366**	314,197
Current liabilities			
Loans and borrowings	34	-	151,748
Trade and other payables	35	**3,866**	1,446
		3,866	153,194
Non-current liabilities			
Loans and borrowings	34	**317,358**	-
Total liabilities		**321,224**	153,194
Net assets		**293,142**	161,003
Equity			
Share capital	37	**545**	379
Share premium		**121,304**	120,820
Merger reserve		**125,536**	9,023
Retained earnings		**45,757**	30,781
Total equity attributable to equity shareholders of the parent		**293,142**	161,003

Under section 408 of the Companies Act 2006 the Company is exempt from the requirement to present its own income statement. The profit for the year included in the financial statements of the Company was £25,778,000 (2018: £12,519,000).

These financial statements were approved by the Board of Directors and authorised for issue on 30 January 2020 and were signed on its behalf by:

Farouq Sheikh
Group Executive Chairman

Christopher Dickinson
Chief Financial Officer

Company number: 04457287

Company Statement of Changes in Equity

as at 30 September 2019

	Share capital £000	Share premium £000	Merger reserve £000	Retained earnings £000	Total Equity £000
At 1 October 2018	379	120,778	9,023	25,756	155,936
Profit for the year and total comprehensive income	-	-	-	12,519	12,519
Issue of shares	-	42	-	-	42
Dividends				(7,494)	(7,494)
At 30 September 2018	379	120,820	9,023	30,781	161,003
At 1 October 2018	**379**	**120,820**	**9,023**	**30,781**	**161,003**
Profit for the year and total comprehensive income				**25,778**	**25,778**
Issue of shares	**166**	-	**116,513**	-	**116,679**
Share Save Scheme charge	-	**484**	-	-	**484**
Dividends	-	-	-	**(10,802)**	**(10,802)**
At 30 September 2019	**545**	**121,304**	**125,536**	**45,757**	**293,142**

Company Notes to the Financial Statements

30 Accounting policies

(a) Basis of preparation
CareTech Holdings plc (the Company) meets the definition of a qualifying entity under Financial Reporting Standard (FRS) 100, issued by the Financial Reporting Council (FRC). Accordingly, the financial statements have been prepared in accordance with FRS 101 Reduced Disclosure Framework. The financial statements have been prepared on a historical cost basis except in respect of those financial instruments that have been measured at fair value at the end of each reporting period. Historical cost is generally based on the fair value of the consideration given in exchange for goods and services.

As permitted by FRS 101, the Company has taken advantage of the disclosure exemptions available under that standard in relation to share-based payment, financial instruments, capital management, presentation of comparative information in respect of certain assets, presentation of cash flow statement and certain related party transactions.

Accounting policies for financial instruments have been listed under part of the accounting policies for the main Group's consolidated accounts.

(b) Investments
Investments in subsidiary undertakings are stated in the balance sheet of the Company at cost less impairment written off.

(c) Cash and liquid resources
Cash, for the purpose of the cash flow statement, comprises cash in hand and deposits repayable on demand and those with maturities of three months or less from inception, less overdrafts payable on demand.

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

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

(e) Taxation
Tax on the profit or loss for the year comprises current and deferred tax. Tax is recognised in profit or loss except to the extent that it relates to items recognised directly in equity, in which case it is recognised in equity. Current tax is the expected tax payable on the taxable income for the year, using tax rates and laws enacted or substantively enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years.

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

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

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

(h) 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.

(i) 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

	2019 £000	2018 £000
Opening balance 1 October	9,023	9,023
Issue of shares (see note 23)	116,513	-
At 30 September	125,536	9,023

31 Dividends

The aggregate amount of dividends comprises:

	2019 £000	2018 £000
Interim dividend paid in respect of prior year but not recognised as liabilities in that year (3.50p per share (2018: 3.30p per share))	2,645	2,498
Final dividend paid in respect of the prior year (7.50p per share (2018: 6.6p per share))	8,157	4,996
Aggregate amount of dividends paid in the financial year (11.00p per share)	10,802	7,494

The aggregate amount of dividends proposed and not recognised as liabilities as at the year end is 11.7p per share, £13,000,000 (2018: 11.00p per share, £8,166,018).

32 Investments

	Shares in group undertakings £000
Cost and net book value	
At end of year	35,623
Acquisitions (see note 5)	359,920
Other additions	279
At 30 September	395,822

33 Trade and other receivables

	2019 £000	2018 £000
Amounts owed by Group undertakings	217,532	278,108

These balances accrue intercompany interest at a rate of 3% per annum. Please refer to Note 1 and the statement on going concern. Based on these factors described, the Directors consider that this debt is recoverable.

34 Interest-bearing loans and borrowings

This note provides information about the contractual terms of the Company's interest-bearing loans and borrowings. For more information about the Group's exposure to interest rate risk, please see note 25 in the Group accounts.

Terms and debt repayment schedule

	Currency	Nominal interest rate (%)	Year of maturity	Book Value 2019 £000	Book Value 2018 £000
Term loan	£	2.25 (2018: 2.25)[1]	2022	167,000	120,499
Term loan	£	2.50 (2018: 2.25)[1]	2023	150,358	-
Revolving credit facility term loan	£	2.75 (2018: 2.25)[1]	2023	-	31,249
				317,358	151,748

[1] The margin on the facilities is stated at the current rate and can change between 1.50% and 3.25% based on the ratio of the Group's Net Debt to EBITDA

The Group entered into new banking facilities following the acquisition of Cambian. The facility is a term loan of £322m and revolving credit facility of £25m to a group of banks comprising Barclays Bank PLC, HSBC UK Banks PLC, Santander UK PLC, AIB Group (UK) PLC, Clydesdale Bank PLC, Credit Suisse AG, Lloyds Bank PLC and National Westminster Bank PLC and is stated net of loan finance costs in accordance in IAS 23.

35 Trade and other payables

	2019 £000	2018 £000
Other creditors	3,866	1,446

36 Contingent liabilities

As per note 29, CareTech Holdings plc have taken the audit exemption for a number of subsidiaries by virtue of s479A of the Companies Act. A parent company guarantee has been provided for these entities under s479C of the Companies Act.

37 Called up share capital

	2019 £000	2018 £000
Allotted, called up and fully paid:		
109,144,369 (2018: 75,691,423) ordinary shares of 0.5p each	545	379
53,402 deferred shares of 0.5p each	-	-
	545	379

The holders of the ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at meetings of the Company. The deferred shares have no such rights. Details in respect of the movements in equity are given in note 22 to the Group financial statements.

Details in respect of the reserves are given in note 23 to the Group financial statements.

38 Staff numbers and costs

The Company has no employees (2018: none) other than the Directors. Directors emoluments are shown on page 73.

39 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 (2018: £nil).

Share-based payments
There was no expense for share-based payments relating to the Company in the year (2018: £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 21).

40 Related parties

The Company receives dividends from its subsidiaries according to their ability to remit them and received interest in intergroup loans. Other details of related party transactions have been given in note 27 to the consolidated accounts.

Under FRS 101, the Company is exempt from disclosing key management personnel compensation and transactions with other entities wholly owned by CareTech Holdings plc.

Appendix: Alternative Performance Measures

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

In assessing its performance, the Group has adopted a number of APMs because, statutory measures can have limitations as analytical tools and are necessary to readers of the accounts when understanding our performance relative to other companies in our sector and in the wider economy.

We set out below those APMs which management use in assessing its own performance and a reconciliation of those APMs to the statutory IFRS financial statements.

a) EBITDA

EBITDA is defined as Earnings Before Interest, Tax, Depreciation, Amortisation, share based payments and non-underlying items. EBITDA is considered the most relevant performance measure in our (and many other) sectors. We reconcile EBITDA to the statutory measure of operating profit on the face of the income statement as below:

		2019	2018
		£000	£000
EBITDA		**73,546**	43,862
Adjusted for:			
Depreciation	13	**(10,631)**	(5,906)
Amortisation of intangible assets	6,14	**(10,188)**	(7,428)
Profit on ground rent transaction	6	**4,565**	-
Acquisition cost	6	**(10,331)**	-
Other non-underlying items		**(7,425)**	(4,525)
Acquisition adjustments	6	-	(5,620)
Share-based payments charge		**(60)**	(197)
Operating profit		**39,476**	**20,186**

b) Non-underlying items

Non-underlying items relate to events or transactions that, 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. They include; costs relating to the acquisition of new businesses, the integration of acquisitions and the reorganisation of the internal operating and management structure, redundancy costs, costs associated with terminating lease agreements and profit arising on the ground rent transaction.

Also included are the non-cash charges of amortisation of intangible fixed assets together with any impairment of intangible assets or goodwill.

Non-underlying items also comprise costs relating to derivative financial instruments and include the movements during the year in the fair value of the Group's interest rate hedging arrangements which do not qualify for hedge accounting, together with the quarterly cash settlement and accrual thereof.

They also include the current tax and deferred tax adjustments relating to the above.

We present a reconciliation of our underlying earnings to our statutory profit on a line by line basis including Operating profit, Finance expenses, Profit before Tax and Taxation as follows:

		2019			2018		
	Note	**Underlying £000**	**Non-underlying £000**	**Statutory £000**	Underlying £000	Non-underlying £000	Statutory £000
Operating profit		**62,855**	**(23,379)**	**39,476**	37,759	(17,573)	20,186
Financial expenses	9	**(12,690)**	**(2,446)**	**(15,136)**	(4,867)	51	(4,816)
Profit before tax		**50,165**	**(25,825)**	**24,340**	32,892	(17,522)	15,370
Taxation	6,10	**(9,423)**	**5,209**	**(4,214)**	(5,751)	1,625	(4,126)
Profit for the year		**40,742**	**(20,616)**	**20,126**	27,141	(15,897)	11,244

c) Net Debt

A key performance indicator for many readers of accounts is the level of net debt within the business. Net Debt comprises cash net of all loans and borrowings as defined by the Group's banking facilities. Accordingly, the Group provides information on its net debt and which is reconciled to the statutory financial statements as follows:

	Note	2019 £000	2018 £000
Net Debt in the balance sheet comprises:			
Cash at bank and in hand		29,238	9,421
Bank loans	17	(315,878)	(151,748)
Finance lease and hire purchase contracts	17	(4,437)	(4,662)
Net debt at 30 September		(291,077)	(146,989)

d) Working capital conversion

The Group considers that a key element of its performance is the cash generation from its EBITDA and that there is a correlation between working capital performance and the quality of earnings. In the current year, the working capital conversion is impacted by the fact that Cambian was acquired mid-October and as such cash receipts in the first few weeks of the month are excluded, whereas payroll payments and creditor payments, which typically fall at the end of each month are included given a skewed working capital position. Accordingly, the Group provides a calculation of working capital conversion both including and excluding the first 19 days of October which is reconciled to the statutory financial statements as follows:

	2019 £000	2018 £000
Operating cash flows before adjustment items	66,324	39,446
EBITDA	73,546	43,862
Working capital conversion	90.2%	89.9%

	2019 £000	2018 £000
Operating cash flows before adjustment items	66,324	39,446
Cambian cash receipts & payments pre-acquisition	8,140	-
At 30 September	74,464	39,446
EBITDA	73,546	43,862
Working capital conversion	101.2%	89.9%

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Haroon Sheikh	(Group Chief Executive Officer)
Christopher Dickinson	(Chief Financial Officer)
Mike Adams	(Executive Director)
Karl Monaghan	(Non-Executive Director)
Jamie Cumming	(Non-Executive Director)
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