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

We have audited the financial statements of CareTech Holdings PLC for the year ended 30 September 2011 which comprise the consolidated statement of comprehensive income, consolidated and Parent Company statement of changes in equity, consolidated and Parent Company balance sheet, consolidated and Parent Company cash flow statement and related notes. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the EU and, as regards the Parent Company financial statements, as applied in accordance with the provisions of the Companies Act 2006.

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

Respective responsibilities of Directors and auditor

As explained more fully in the Directors' Responsibilities Statement set out on page 28, the Directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit, and express an opinion on, the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's (APB's) Ethical Standards for Auditors.

Scope of the audit of the financial statements

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

Opinion on financial statements

In our opinion:

- the financial statements give a true and fair view of the state of the Group's and of the Parent Company's affairs as at 30 September 2011 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 EU;
- the Parent Company financial statements have been properly prepared in accordance with IFRSs as adopted by the EU and as applied in accordance with the provisions of the Companies Act 2006; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

Opinion on other matter prescribed by the Companies Act 2006

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

Matters on which we are required to report by exception

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

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

Graham Neale
Senior Statutory Auditor
for and on behalf of KPMG Audit Plc, Statutory Auditor

Chartered Accountants
One Snowhill
Snow Hill Queensway
Birmingham
B4 6GH
11 January 2012

Consolidated Statement of Comprehensive Income

for the year ended 30 September 2011

	Note	2011 Underlying £000	2011 Non-underlying[i] £000	2011 Total £000	2010 as restated[iii] Underlying £000	2010 as restated[iii] Non-underlying[i] £000	2010 as restated[iii] Total[iii] £000
Revenue	3	**109,150**	**–**	**109,150**	89,697	–	89,697
Cost of sales		**(66,487)**	**–**	**(66,487)**	(52,321)	–	(52,321)
Gross profit		**42,663**	**–**	**42,663**	37,376	–	37,376
Administrative expenses		**(22,312)**	**(8,105)**	**(30,417)**	(17,704)	(3,936)	(21,640)
Operating profit		**20,351**	**(8,105)**	**12,246**	19,672	(3,936)	15,736
EBITDA[ii]		**23,209**	**(4,521)**	**18,688**	22,438	(3,049)	19,389
Depreciation	12	**(2,680)**	**–**	**(2,680)**	(2,496)	–	(2,496)
Amortisation of intangible assets	13	**–**	**(3,584)**	**(3,584)**	–	(887)	(887)
Share-based payments charge		**(178)**	**–**	**(178)**	(270)	–	(270)
Operating profit		**20,351**	**(8,105)**	**12,246**	19,672	(3,936)	15,736
Financial income	8	**32**	**–**	**32**	23	–	23
Financial expenses	5,8	**(4,512)**	**(350)**	**(4,862)**	(3,293)	(4,903)	(8,196)
Profit before tax		**15,871**	**(8,455)**	**7,416**	16,402	(8,839)	7,563
Taxation	5,9	**(3,274)**	**1,670**	**(1,604)**	(3,121)	2,079	(1,042)
Comprehensive income for the year attributable to equity shareholders of the parent		**12,597**	**(6,785)**	**5,812**	13,281	(6,760)	6,521
Earnings per share							
Basic	10			**11.72p**			13.63p
Diluted	10			**11.70p**			13.55p

(i) Non underlying items comprise: amortisation of intangibles, acquisition expenses, bargain purchase credits, fair value adjustments on prior year acquisitions, gains or losses on disposal of plant and equipment, changes in value and additional finance payments in respect of derivative financial instruments, post acquisition integration and reorganisation costs, minimum future lease uplifts and provision for onerous leases. See note 5.
(ii) EBITDA is operating profit stated before depreciation, amortisation of intangible assets, and share-based payments charge.
(iii) See note 4.

Consolidated Statement of Changes in Equity

for the year ended 30 September 2011

	Share capital £000	Share premium £000	Merger reserve £000	Retained earnings £000	Total equity £000
At 1 October 2009	225	38,852	5,037	3,300	47,414
Total comprehensive income					
Profit for the year	–	–	–	6,521	6,521
Transactions with owners recorded directly in equity					
Issue of ordinary shares	23	14,663	3,461	–	18,147
Equity settled share-based payments charge	–	–	–	270	270
Dividends	–	–	–	(2,326)	(2,326)
At 30 September 2010	248	53,515	8,498	7,765	70,026
At 1 October 2010	248	53,515	8,498	7,765	70,026
Total comprehensive income					
Profit for the year	–	–	–	5,812	5,812
Transactions with owners recorded directly in equity					
Equity settled share-based payments charge	–	–	–	178	178
Dividends	–	–	–	(2,802)	(2,802)
At 30 September 2011	**248**	**53,515**	**8,498**	**10,953**	**73,214**

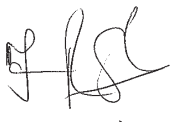
Consolidated Balance Sheet

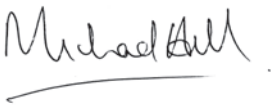
at 30 September 2011

	Note	2011 £000	2010 £000 as restated[i]	2009 £000 as restated
Non-current assets				
Property, plant and equipment	12	**189,504**	184,139	160,330
Other intangible assets	13	**36,483**	26,935	2,619
Goodwill	13	**30,059**	26,159	15,954
		256,046	237,233	178,903
Current assets				
Inventories		**315**	152	144
Trade and other receivables	15	**10,066**	11,282	10,253
Cash and cash equivalents	16	**13,414**	10,008	4,321
Tax recoverable		**–**	–	464
		23,795	21,442	15,182
Total assets		**279,841**	258,675	194,085
Current liabilities				
Loans and borrowings	17	**7,460**	5,866	6,125
Trade and other payables	18	**11,691**	13,684	9,211
Deferred and contingent consideration payable	23	**6,596**	6,582	6,868
Deferred income		**2,772**	3,252	4,467
Corporate tax		**4,139**	2,967	–
Derivative financial instruments		**2,921**	2,877	2,904
		35,579	35,228	29,575
Non-current liabilities				
Loans and borrowings	17	**133,271**	117,389	91,585
Deferred and contingent consideration payable	23	**–**	600	–
Deferred tax liabilities	19	**23,633**	20,905	12,710
Derivative financial instruments		**945**	3,437	3,271
Minimum future lease payments		**12,553**	11,090	9,530
Onerous lease provision	25	**646**	–	–
		171,048	153,421	117,096
Total liabilities		**206,627**	188,649	146,671
Net assets		**73,214**	70,026	47,414
Equity				
Share capital	21	**248**	248	225
Share premium		**53,515**	53,515	38,852
Merger reserve		**8,498**	8,498	5,037
Retained earnings		**10,953**	7,765	3,300
Total equity attributable to equity shareholders of the parent		**73,214**	70,026	47,414

(i) See note 4.

These financial statements were approved by the Board of Directors on 11 January 2012 and were signed on its behalf by:





F. Sheikh
Chairman

M. G. Hill
Group Finance Director

Company number: 4457287

Consolidated Cash Flow Statement

for the year ended 30 September 2011

	Note	2011 £000	2010 £000 as restated[i]
Cash flows from operating activities			
Profit before tax		**7,416**	7,563
Adjustments for:			
Financial income		**(32)**	(23)
Financial expenses		**4,862**	8,196
Adjustments for minimum future lease payment uplifts	25	**1,463**	1,560
Onerous lease provision charge		**646**	–
Depreciation	12	**2,680**	2,496
Amortisation	13	**3,584**	887
Share-based payments charge		**178**	270
Acquisition transaction costs		**1,310**	3,562
Post acquisition integration and re-organisation costs		**1,474**	1,099
Plant and equipment items written off		**219**	60
Profit on disposal of freehold property		**(144)**	(350)
Fair value adjustment in respect of prior years acquisitions		**230**	596
Bargain purchase credit		**(821)**	(3,828)
Operating cash flows before movement in working capital		**23,065**	22,088
Decrease in trade and other receivables		**879**	1,511
Decrease in trade and other payables		**(1,559)**	(3,777)
Increase in inventories		**(163)**	(8)
Operating cash flows before non underlying items		**22,222**	19,814
Non underlying items paid	5	**(3,990)**	(2,390)
Cash inflows from operating activities		**18,232**	17,424
Interest received		**32**	23
Tax (paid)/received		**(1,297)**	234
Net cash from operating activities		**16,967**	17,681
Cash flows from investing activities			
Proceeds from sale of property, plant and equipment		**1,007**	–
Acquisition of subsidiaries, net of cash acquired	23	**(13,625)**	(32,554)
Acquisition of property, plant and equipment		**(6,365)**	(7,849)
Acquisition of intangible assets		**(50)**	–
Acquisition of software	13	**(342)**	(713)
Net cash used in investing activities		**(19,375)**	(41,116)
Cash flows from financing activities			
Proceeds from the issue of share capital (net of costs)	21	**–**	14,647
Proceeds from new loan (net of costs)		**22,249**	24,992
Interest paid		**(4,794)**	(3,264)
Cash outflow arising from derivative financial instruments		**(2,797)**	(3,025)
Repayment of borrowings		**(5,000)**	(1,200)
Payment of finance lease liabilities		**(1,042)**	(702)
Dividends paid	22	**(2,802)**	(2,326)
Net cash from financing activities		**5,814**	29,122
Net increase in cash and cash equivalents		**3,406**	5,687
Cash and cash equivalents at start of year		**10,008**	4,321
Cash and cash equivalents at 30 September	16	**13,414**	10,008

Net debt in the balance sheet comprises:

	Note	2011 £000	2010 £000 as restated[i]
Cash at bank and in hand	16	**13,414**	10,008
Bank loans	17	**(138,350)**	(120,934)
Finance lease and hire purchase contracts	17	**(2,381)**	(2,321)
Net debt at 30 September		**(127,317)**	(113,247)

(i) See note 4.

Notes

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 2011 comprise the Company and its subsidiaries (together referred to as the "Group"). The consolidated financial statements are presented in GBP (£), which is the Company's functional currency, rounded to the nearest thousand. The Parent Company financial statements present information about the Company as a separate entity and not about its Group.

The consolidated financial statements were approved for release by the Board of Directors on 11 January 2012.

Going concern

The Group's business activities together with the factors likely to affect its future development, performance and position are set out in the Chairman's Statement and Chief Executive's Statement and Operating Review on pages 6 to 11. The financial position of the Group, its cash flows, liquidity position and borrowing facilities are described in the Financial Review on pages 14 to 16. In addition, note 24 to the financial statements includes the Group's objectives, policies and processes for managing its capital, its financial risk management objectives, details of its financial instruments and hedging activities and its exposures to credit risk, interest rate risk and liquidity risk. As highlighted in that note, the Group meets its day-to-day working capital requirements through a mixture of bank facilities which are sufficient, with cash flow from profits, to fund present commitments.

A new facility was agreed with the Group's bankers in April 2010 and expires in April 2013. The current economic conditions create some uncertainty over the level of funding available for the Group's services and the Directors acknowledge the net current liabilities at each balance sheet date. Nevertheless, the Group's forecasts and projections, taking account of reasonably possible changes in trading performance, show that the Group expects to be able to operate within the current levels of its facilities.

The Directors have a reasonable expectation that the Group has adequate resources to continue in operational existence for the foreseeable future. Thus they continue to adopt the going concern basis of accounting in preparing the annual financial statements.

2 Accounting policies

(a) Applicable Accounting Standards

The Company is a company incorporated in the UK.

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

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

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

Endorsed		Effective for periods beginning on or after:
IAS 24	Related Party Disclosures (revised 2009) – Makes changes to the related party disclosure requirements for government related entities, and the definition of a related party.	1 January 2011

The Directors anticipate that the above Standard will be adopted in the Group's financial statements for the period commencing 1 October 2011 and that its adoption will have no material impact on the financial statements of the Group.

For the year ended 30 September 2011 the following accounting standards, interpretations and amendments were adopted:

- IFRIC 19 – Extinguishing financial liabilities with equity instruments
- Amendment to IFRS 2 – Group cash-settled share-based payment transactions
- Amendment to IFRS 8 – Operating segments
- Amendment to IAS 17 – Leases
- Amendment to IAS 32 – Classification of Rights Issues

In addition to the above, amendments to a number of standards under the annual improvements project to IFRS, which are mandatory for the year ended 30 September 2011, have been adopted in the year.

None of these have had a material impact on the Group's financial statements.

(b) Measurement convention

The financial statements are prepared on the historical cost basis except that the following assets and liabilities are stated at their fair value: derivative financial instruments.

(c) Basis of consolidation

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

(d) Property, plant and equipment

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

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

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

2 Accounting policies (continued)

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

Depreciation is charged to the income statement over the estimated useful lives of each part of an item of property, plant and equipment. Land (which comprises approximately 50% of the land and buildings balance) is not depreciated. The Directors reassess the residual value estimates, particularly in respect of properties, on an annual basis. The estimated useful lives are as follows:

- freehold buildings — 2% straight-line;
- long leasehold property — over the life of the lease (to a maximum of 50 years);
- short leasehold property — over the life of the lease;
- fixtures, fittings and equipment — 15% straight line or 25% reducing balance dependent on date of acquisition; and
- motor vehicles — 25% reducing balance.

(e) Intangible assets and goodwill

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

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

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

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

Amortisation is charged to the income statement on a straight-line basis over the estimated useful lives of intangible assets unless such lives are indefinite. Intangible assets with an indefinite useful life and goodwill are systematically tested for impairment at each balance sheet date. Other intangible assets are amortised from the date they are available for use. The estimated useful lives are as follows:

- Customer relationships — 3–20 years; and
- Software and licences — 5 years.

(f) Inventories

Inventories are valued at the lower of cost and net realisable value. The cost of inventories is based on a first-in first-out cost basis.

(g) Cash and cash equivalents

Cash and cash equivalents comprise cash balances and call deposits. Bank overdrafts that are repayable on demand and form an integral part of the Group's cash management are included as a component of cash and cash equivalents for the purpose only of the statement of cash flows.

(h) Derivative financial instruments and hedging

Derivative financial instruments

Derivative financial instruments are recognised at fair value, remeasured at each reporting date. The gain or loss on re-measurement to fair value is recognised immediately in finance income or expense. However, where derivatives are designated as a hedging instrument and qualify for hedge accounting, recognition of any resultant gain or loss depends on whether or not the hedges are assessed as effective.

The fair value of interest rate swaps is the estimated amount that the Group would receive or pay to terminate the swap at the balance sheet date, taking into account current interest rates and the current creditworthiness of the swap counterparties.

Cash flow hedges

Where a derivative financial instrument is designated as a hedge of the variability in cash flows of a recognised asset or liability, or a highly probable forecast transaction, the effective part of any gain or loss on the derivative financial instrument is recognised directly in the hedging reserve. Any ineffective portion of the hedge is recognised immediately in the income statement.

For cash flow hedges, the associated cumulative gain or loss is removed from equity and recognised in the income statement in the same period or periods during which the hedged forecast transaction affects profit or loss.

When a hedging instrument expires or is sold, terminated or exercised, or the entity revokes designation of the hedge relationship but the hedged forecast transaction is still expected to occur, the cumulative gain or loss at that point remains in equity and is recognised in accordance with the above policy when the transaction occurs. If the hedged transaction is no longer expected to take place, the cumulative unrealised gain or loss recognised in equity is recognised in the income statement immediately.

(i) Impairment (excluding deferred tax assets)

The carrying amounts of the Group's assets are reviewed at each balance sheet date to determine whether there is any indication of impairment. If any such indication exists, the asset's recoverable amount is estimated.

For goodwill, assets that have an indefinite useful life and intangible assets that are not yet available for use, the recoverable amount is estimated at each balance sheet date.

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

2 Accounting policies (continued)

Calculation of recoverable amount

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

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

Reversals of impairment

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

An impairment loss in respect of goodwill is not reversed.

In respect of other assets, an impairment loss is reversed when there is an indication that the impairment loss may no longer exist or there has been a change in the estimates used to determine the recoverable amount.

An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

(j) Interest-bearing borrowings

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

(k) Employee benefits

Defined contribution plans

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

Short-term benefits

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

Share-based payment transactions

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

(l) Provisions

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

(m) Revenue

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

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

(n) Expenses

Finance lease payments

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

Non underlying items

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

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 income statement using the effective interest rate method.

Interest income and interest payable is recognised in the income statement as it accrues, using the effective interest method. Interest income also includes gains arising on the change in fair value of hedging instruments in the income statement.

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 hedging instruments that are recognised in the income statement.

2 Accounting policies (continued)

Pre-contract costs

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

(o) Operating leases

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

The Group accounts for sale and leaseback transactions according to the nature of the lease arrangement which arises. Transactions which give rise to an operating lease, in which substantially all the risks and rewards of ownership are transferred, result in a profit or loss on disposal being recognised immediately, calculated by reference to the sale price and the previous carrying value. Profits or losses arising on transactions giving rise to a finance lease, where the Group retains substantially all the risks and rewards of ownership, are deferred and amortised over the shorter of the lease term and the life of the asset.

(p) Taxation

Tax on the profit or loss for the year comprises current and deferred tax. Tax is recognised in the 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 enacted or substantively enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years.

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

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

(q) Underlying EBITDA and underlying earnings per share

Underlying EBITDA as defined on page 30 is the key profit measure used by the Board to assess the trading performance of the Group as a whole.

A measure of underlying earnings and underlying earnings per share has been presented in order to present the earnings of the Group after non underlying items which are not considered to impact an assessment of the trading performance of the Group.

(r) Business combinations

Accounting for business combinations

From 1 October 2009 the Group has applied IFRS 3 Business Combinations (2008) in accounting for business combinations. The change in accounting policy has been applied prospectively.

Business combinations are accounted for using the acquisition method as at the acquisition date, which is the date on which control is transferred to the Group. Control is the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, the Group takes into consideration potential voting rights that currently are exercisable.

Acquisitions on or after 1 October 2009

For acquisitions on or after 1 October 2009, the Group measures goodwill at the acquisition date as:

- the fair value of the consideration transferred; plus
- the recognised amount of any non-controlling interests in the acquiree; plus
- if the business combination is achieved in stages, the fair value of the existing equity interest in the acquiree; less
- the net recognised amount (generally fair value) of the identifiable assets acquired and liabilities assumed.

When the excess is negative, a bargain purchase gain is recognised immediately in the income statement.

The consideration transferred does not include amounts related to the settlement of pre-existing relationships. Such amounts are generally recognised in the income statement.

Costs related to the acquisition, other than those associated with the issue of debt or equity securities, that the Group incurs in connection with a business combination are expensed as incurred.

Any contingent consideration payable is recognised at fair value at the acquisition date. If the contingent consideration is classified as equity, it is not remeasured and settlement is accounted for within equity. Otherwise, subsequent changes to the fair value of the contingent consideration are recognised in finance income or expense in the income statement.

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

2 Accounting policies (continued)

Acquisitions between 1 October 2006 and 1 October 2009

For acquisitions between 1 October 2006 and 1 October 2009, goodwill represents the excess of the cost of the acquisition over the Group's interest in the recognised amount (generally fair value) of the identifiable assets, liabilities and contingent liabilities of the acquiree. When the excess was negative, a bargain purchase gain was recognised immediately in the income statement.

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

Acquisitions prior to 1 October 2006 (date of transition to IFRSs)

In respect of acquisitions prior to 1 October 2006, goodwill represents the amount recognised under the Group's previous accounting framework, UK GAAP.

3 Segmental information

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

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

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

During the year the Directors undertook a comprehensive review and re-organisation of the Group's internal management structure following the significant acquisition activity in the second half of the 2010 year end. Internal management and financial reporting has been realigned to assess financial performance using the Group's four operating segments focused on delivering high quality services across a national platform through local relationships. Our 4 segments are, Adult Learning Difficulties ("ALD"), Young People Residential Services ("YPR"), Foster Care and Family Services ("FFS") and Mental Health ("MH"). There has been no aggregation of the operating segments in arriving at these reportable segments.

The segment results for the year ended 30 September 2011, on a restated basis for the year ended 30 September 2010 and the reconciliation of the segment measures to the respective statutory items included in the consolidated financial information are as follows:

Year ended 30 September 2011

Continuing operations

	ALD	YPR	FFS	MH	Total
Client capacity	**1,413**	**108**	**401**	**134**	**2,056**
Revenue (£000)	**75,738**	**14,158**	**13,045**	**6,209**	**109,150**
EBITDA (£000)	**17,992**	**4,528**	**3,238**	**1,911**	**27,669**

Year ended 30 September 2010

Continuing operations

	ALD	YPR	FFS	MH	Total
Client capacity	1,352	100	239	118	1,809
Revenue (£000)	72,225	8,156	5,905	3,411	89,697
EBITDA (£000)	19,892	2,603	1,950	977	25,422

Reconciliation of EBITDA to profit before tax:

	2011 £000	2010 £000
Underlying EBITDA before unallocated costs	**27,669**	25,422
Unallocated costs	**(4,460)**	(2,984)
Underlying EBITDA	**23,209**	22,438
Depreciation	**(2,680)**	(2,496)
Amortisation	**(3,584)**	(887)
Share based payments charge	**(178)**	(270)
Non underlying items	**(4,521)**	(3,049)
Operating profit	**12,246**	15,736
Financial income	**32**	23
Financial expenses	**(4,862)**	(8,196)
Profit before tax	**7,416**	7,563

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.

4 Restatements

Comparative information has been changed for the following:

(i) Acquisition and development related staff costs of £1,993,000 for the year ended 30 September 2010 have been reclassified such that they are charged against administrative expenses before non underlying items in the Consolidated Statement of Comprehensive Income rather than within non underlying items. This has resulted in a change to the disclosed non-statutory EBITDA before non-underlying items as set out below. Consequently the taxation charge before non-underlying items is also restated by £558,000;

(ii) The carrying value of derivative financial instruments of £6,314,000 previously shown within non-current liabilities as at 30 September 2010 has been reclassified into estimated current and non-current amounts of £2,877,000 and £3,437,000 respectively. This analysis between current and non-current liabilities is in accordance with the estimated discounted contractual cash flow maturities of these derivative financial instruments. There is no effect on profit, cash flows or basic and diluted earnings per share from these adjustments;

(iii) At 30 September 2010 the current liability balance for deferred and contingent consideration payable of £14,735,000 included £7,500,000 in respect of a currently exercisable one-way option to acquire freehold property entered into by the Group at the same time as a business combination which was completed during the year ended 30 September 2010. A corresponding property asset had also been recognised, reflecting the cost of the property under the option. During the current year the Directors have reconsidered the nature of the asset acquired as part of the business combination. Since the Group was under no obligation to proceed with the acquisition of the property they have concluded that the asset acquired was in fact the option to make that acquisition, rather than the property itself. The fair value of the option at acquisition was £nil. As a consequence an adjustment has been made to reduce both deferred and contingent consideration and property, plant and equipment by £7,500,000 in the balance sheet as at 30 September 2010. In addition this results in the reclassification of £417,000 of finance charges into Administrative Expenses for the year ended 30 September 2010. The disclosure of the acquisitions in the year ended 30 September 2010 has been restated for this adjustment. The option expired in December 2011. There is no effect on profit before tax, cash flows or basic and diluted earnings per share from these adjustments;

(iv) In the Consolidated Balance Sheet, accruals relating to minimum future lease payments (the difference between operating lease rentals on a cash and straight-line charge basis), previously disclosed within Trade and other payables as current liabilities, have been reclassified in a separate line item as non-current liabilities as they will reverse in periods which are several years in the future. There is no effect on profit, cash flows or basic and diluted earnings per share from these adjustments;

(v) In accordance with IFRS3, revisions have been made during the measurement period to the fair values of the identifiable assets acquired and the liabilities assumed as a result of business combinations undertaken in the year ended 30 September 2010. As a result, additional corporation tax liabilities of £700,000 were recognised, an adjustment to trade and other payables of £47,000 was made and a corresponding reduction in deferred consideration of £653,000 was recognised;

(vi) In the Consolidated Balance Sheet, inventories amounting to £152,000 have been reclassified in a separate line item within current assets; and

(vii) The balance sheet as at 30 September 2009 has been restated for items (ii), (iv) and (vi).

The effect of the above on the financial information is as follows:

		Year ended 30 September 2010		
	Note	Previously stated £000	Adjustment £000	Restated £000
Income statement				
Administrative expenses	(iii)	(21,223)	(417)	(21,640)
Financial expenses	(iii)	(8,613)	417	(8,196)
Profit before tax		7,563	–	7,563
Taxation		(1,042)	–	(1,042)
Profit after tax		6,521	–	6,521
Earnings per share				
Basic		13.63p	–	13.63p
Diluted		13.55p	–	13.55p
Earnings per share before non underlying items				
Basic		30.77p	(3.00p)	27.77p
Diluted		30.57p	(2.98p)	27.59p
Balance sheet				
Property, plant and equipment	(iii)	191,639	(7,500)	184,139
Inventories	(vi)	–	152	152
Trade and other receivables	(vi)	11,434	(152)	11,282
Trade and other payables due within one year	(iv)(v)	(24,821)	11,137	(13,684)
Derivative financial instruments due within one year	(ii)	–	(2,877)	(2,877)
Tax payable	(v)	(2,267)	(700)	(2,967)
Deferred and contingent consideration due within one year	(iii)(v)	(14,735)	8,153	(6,582)
Minimum future lease payments	(iv)	–	(11,090)	(11,090)
Derivative financial instruments due after more than one year	(ii)	(6,314)	2,877	(3,437)
Net assets		70,026	–	70,026

4 Restatements (continued)

Adjustments (i) and (iii) also resulted in a change to the non-statutory EBITDA before non underlying items for year ended 30 September 2010 as follows:

	Year ended 30 September 2010 £000
EBITDA before non underlying items as previously stated	24,848
Acquisition and development related staff costs[i]	(1,993)
Reclassification of finance charges[iii]	(417)
EBITDA before non underlying items as restated	22,438

5 Non underlying items

Non underlying items are those items of financial performance that, in the opinion of the Directors, should be disclosed separately in order to improve a reader's understanding of the underlying trading performance achieved by the Group. Non underlying items comprise the following:

	Note	2011 £000	2010 £000 As restated[ix]
Acquisition expenses		**1,310**	3,562
Post acquisition integration and reorganisation cost	(i)	**1,693**	1,159
Fair value adjustments in respect of prior year acquisitions	(ii)	**230**	596
Acquisition and development costs		**3,233**	5,317
Bargain purchase credit (note 23)		**(821)**	(3,828)
Adjustments for minimum future lease payment uplift to IAS 17 (note 25)	(iii)	**1,463**	1,560
Onerous lease provision	(iv)	**646**	–
Included in EBITDA		**4,521**	3,049
Amortisation of intangible assets (note 13)		**3,584**	887
Included in administrative expenses		**8,105**	3,936
Loan finance costs written off on refinancing (note 8b)	(v)	**–**	1,675
Revaluation movements relating to derivative financial instruments	(vi)	**(2,447)**	139
Charges relating to derivative financial instruments (note 8b)	(vi)	**2,797**	3,089
Included in financial expenses		**350**	4,903
Tax on non underlying items (note 9):			
Current tax	(vii)	**(1,387)**	(2,215)
Deferred tax	(viii)	**(283)**	136
Included in taxation		**(1,670)**	(2,079)
Total non underlying items		**6,785**	6,760

(i) The Group incurred a number of costs relating to the integration of recent acquisitions and reorganisation of the internal operating and management structure. This comprises £760,000 of costs associated with restructuring the Adult Learning Difficulties Division, £714,000 of costs associated with the integration of acquisitions and the associated restructuring of the finance and support functions and a charge of £219,000 in respect of items of plant and equipment written off in the year. Included in the cash flow statement are acquisition expenses of £2,702,000 (2010: £1,231,000) and post acquisition integration and reorganisation costs of £1,288,000 (2010: £1,159,000), which were paid in the year.

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

(iii) Adjustments relate to non-cash additional charges under IAS 17 which incorporates recognising the effect of minimum future lease payment uplifts on a straight-line basis.

(iv) The present value of the future cash flows receivable from the operation of a leased asset 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 £646,000 being the present value of any onerous element of the remaining lease life.

(v) In April 2010, the Group completed a new banking facility agreement. As such the unamortised element of loan fee costs on the replaced debt was fully written off.

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

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

(viii) A deferred tax charge of £803,000 (2010: £148,000 credit) arises in respect of a charge relating to derivative financial instruments in (vii) above. In addition, a credit of £775,000 (2010: £1,251,000) arises in respect of changes in future corporation tax rates, together with a credit from the effects of full provision for deferred tax under IAS 12 amounting to £311,000 (2010: £1,535,000 charge).

(ix) See note 4.

6 Auditor's remuneration

	2011 £000	2010 £000
Audit of these financial statements	**55**	55
Amounts receivable by auditors and their associates in respect of:		
Audit of financial statements of subsidiaries pursuant to legislation	**230**	208
Other services relating to taxation	**–**	78
Services relating to corporate finance transactions entered into or proposed to be entered into by or on behalf of the Company or the Group	**–**	5
All other services	**12**	44

7 Staff numbers and costs

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

	Number of employees	
	2011	2010
Residential care staff	**3,154**	2,639
Maintenance	**17**	26
Management and administration	**213**	203
	3,384	2,868

The aggregate payroll costs of these persons were as follows:

	2011 £000	2010 £000
Wages and salaries	**52,749**	43,124
Share-based payments charge	**178**	270
Social security costs	**3,891**	3,556
Other pension costs	**113**	114
	56,931	47,064

8 Financial income and expenses

	2011 £000	2010 £000
(a) Financial income		
Interest income on financial assets not at fair value through profit or loss:		
On bank deposits	**32**	23
	32	23
(b) Financial expenses		
Interest expense on financial liabilities at amortised cost:		
On bank loans and overdrafts	**4,280**	3,093
Finance charges in respect of finance leases	**232**	200
Financial expenses before non underlying items	**4,512**	3,293
Derivative financial instruments (note 5)	**350**	3,228
Loan finance costs written off on refinancing (note 5)	**–**	1,675
	4,862	8,196

In accordance with the revision to IAS 23, borrowing costs at £580,000 (2010: £360,000) have been capitalised in the year. The capitalisation rate used to determine the amount of borrowing costs capitalised is 5%.

9 Taxation

(a) Recognised in the income statement

	2011 £000	2010 £000 As restated
Current tax expense		
Current year	**3,502**	3,657
Current tax on non underlying items (note 5)	**(1,387)**	(2,215)
Total current tax	**2,115**	1,442
Deferred tax expense		
Current year	**(539)**	999
Effect of changes in future tax rate	**(775)**	(1,251)
Deferred tax on non underlying items (note 5)	**803**	(148)
Total deferred tax	**(511)**	(400)
Total tax in income statement	**1,604**	1,042

(b) Reconciliation of effective tax rate

	2011 £000	2010 £000
Profit before tax for the year	**7,416**	7,563
Tax using the UK corporation tax rate of 27% (2010: 28%)	**2,002**	2,118
Non-deductible expenses	**1,364**	482
Effect of changes in future tax rate	**(775)**	(357)
Deferred tax adjustments in respect of prior years	**–**	(538)
Other deferred tax adjustments	**(987)**	(356)
Utilisation of tax losses	**–**	(307)
Total tax in income statement	**1,604**	1,042

The 2011 Budget on 23 March 2011 announced that the UK corporation tax rate will reduce to 23% over a period of 4 years from 2011. The first reduction in the UK corporation tax rate from 28% to 27% (effective from 1 April 2011) was substantively enacted on 20 July 2010, and further reductions to 26% (effective from 1 April 2011) and 25% (effective from 1 April 2012) were substantively enacted on 29 March 2011 and 5 July 2011 respectively.

This will reduce the Group's future current tax charge accordingly. The deferred tax liability at 30 September 2011 has been calculated based on the rate of 25% substantively enacted at the balance sheet date.

It has not yet been possible to quantify the full anticipated effect of the announced further 2% rate reduction, although this will further reduce the Group's future current tax charge and reduce the Group's deferred tax liability accordingly.

10 Earnings per share

	2011 £000	2010 £000
Profit attributable to ordinary shareholders	**5,812**	6,521
Weighted number of shares in issue for basic earnings per share	**49,586,656**	47,829,070
Effects of share options in issue	**106,227**	307,898
Weighted number of shares for diluted earnings per share	**49,692,883**	48,136,968

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	**11.72p**	13.63p
Diluted	**11.70p**	13.55p

11 Underlying earnings per share

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

	2011 £000	2010 £000 as restated
Profit attributable to ordinary shareholders	**5,812**	6,521
Non underlying items (note 5)	**6,785**	6,760
Underlying profit attributable to ordinary shareholders	**12,597**	13,281
Underlying earnings per share (pence per share)		
Basic	**25.40p**	27.77p
Diluted	**25.35p**	27.59p

12 Property, plant and equipment

	Land and buildings as restated £000	Motor vehicles £000	Fixtures, fittings and equipment £000	Total £000
Cost				
At 1 October 2009	154,967	3,427	8,713	167,107
Acquisitions through business combinations	20,285	99	833	21,217
Other acquisitions	1,924	866	2,410	5,200
Disposals	(57)	–	(71)	(128)
At 30 September 2010	177,119	4,392	11,885	193,396
At 1 October 2010	177,119	4,392	11,885	193,396
Acquisitions through business combinations	1,751	56	163	1,970
Transfers (note 13)	(1,356)	–	–	(1,356)
Other acquisitions	4,602	1,057	3,092	8,751
Disposals	(1,103)	(865)	(12)	(1,980)
At 30 September 2011	**181,013**	**4,640**	**15,128**	**200,781**
Depreciation and impairment				
At 1 October 2009	1,860	1,239	3,678	6,777
Depreciation charge for the year	604	541	1,351	2,496
Disposals	(5)	–	(11)	(16)
At 30 September 2010	2,459	1,780	5,018	9,257
At 1 October 2010	2,459	1,780	5,018	9,257
Depreciation charge for the year	439	624	1,617	2,680
Disposals	(21)	(636)	(3)	(660)
At 30 September 2011	2,877	1,768	6,632	11,277
Net book value				
At 1 October 2009	153,107	2,188	5,035	160,330
At 30 September 2010	174,660	2,612	6,867	184,139
At 30 September 2011	**178,136**	**2,872**	**8,496**	**189,504**

Included in the result for the year is a profit of £144,000 (2010: £350,000 profit) on the disposal of freehold property and a charge of £219,000 (2010: £60,000) relating to items of plant and equipment written off in the year.

Land and buildings

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

	2011 £000	2010 £000 as restated
Freehold	**171,443**	167,814
Long leasehold improvements	**4,644**	4,750
Short leasehold improvements	**2,049**	2,096
	178,136	174,660

Security

All of the Group's freehold properties are pledged as security for bank borrowings.

13 Intangible assets

	Goodwill £000	Software and licences £000	Customer relationships £000	Total £000
Cost				
At 1 October 2009	15,954	947	2,306	19,207
Acquisitions through business combinations	10,205	–	23,932	34,137
Other acquisitions	–	713	558	1,271
At 30 September 2010	26,159	1,660	26,796	54,615
At 1 October 2010	26,159	1,660	26,796	54,615
Acquisitions through business combinations	3,900	–	11,341	15,241
Transfers	–	–	1,356	1,356
Other acquisitions	–	342	93	435
At 30 September 2011	**30,059**	**2,002**	**39,586**	**71,647**
Amortisation and impairment				
At 1 October 2009	–	402	232	634
Amortisation for the year	–	190	697	887
At 30 September 2010	–	592	929	1,521
At 1 October 2010	–	592	929	1,521
Amortisation for the year	–	498	3,086	3,584
At 30 September 2011	**–**	**1,090**	**4,015**	**5,105**
Net book value				
At 1 October 2009	15,954	545	2,074	18,573
At 30 September 2010	26,159	1,068	25,867	53,094
At 30 September 2011	**30,059**	**912**	**35,571**	**66,542**

Amortisation

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

	2011 £000	2010 £000
Administrative expenses	**3,584**	887

Impairment testing for cash-generating units containing goodwill 2011

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

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

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

	2011
Period over which management approved forecasts are based	**1 year**
Growth rate applied beyond approved forecast period	**0%**
Pre-tax discount rate	
Adult Learning Difficulties division	**8%**
Foster Care and Family Services division	**12%**
Young People Residential Services division	**8%**
Mental Health division	**10%**

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

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

13 Intangible assets (continued)

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

	2011 £000
Adult Learning Difficulties division	17,857
Foster Care and Family Services division	6,983
Young Peoples Residential Services division	4,079
Mental Health division	1,140
	30,059

During the year the Group elected to sell the freehold title to a number of properties used in the provision of care. As part of the arrangements for service users' continuing care, the Group retained the contracts for the provision of care services. As such the Group has accounted for the disposal of freehold land and buildings and a transfer of the fair value of the customer relationship associated with these contracts to intangible assets. There is no effect on comparative profit, cash flows, basic and diluted earnings per share or previous balance sheets.

Impairment testing for cash-generating units containing goodwill 2010

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 collections of care homes. Cash-generating units include those collections of care homes acquired in separate transactions on which goodwill has arisen. This is the lowest level at which goodwill has arisen and is the lowest level at which goodwill is monitored for impairment by management. There are no intangible assets with indefinite useful lives.

For the purpose of impairment testing, the recoverable amount of each cash-generating unit has been calculated with reference to value in use. The key assumptions for the period over which management approved forecasts are based and, beyond this, for the value in use calculations overall, are those regarding discount rates, growth and occupancy rates, achievement of future revenues 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 indirect tax rates. The assumptions have been reviewed in light of the current economic and public spending environment. The key features of these calculations are shown below:

	2010
Period over which management approved forecasts are based	1 year
Growth rate applied beyond approved forecast period	0%
Pre-tax discount rate	8%

In preparing value in use calculations for cash-generating units cash flow periods of between 10 and 20 years have been used in order to match the period of goodwill with the average period of time service users are expected to remain in their relevant home. Aside from this the risk profiles of each of the cash-generating units are considered to be the same since the operations are all similar. As such, the key features set out above are applied to each of the cash-generating units below.

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:

	2010 £000
Acquisition of the original CareTech Group	3,660
Delam acquisition 2006	732
Lonsdale acquisition 2006	3,052
Counticare acquisition 2007	1,074
One Step acquisition 2007	3,961
Beacon Care acquisition 2008	578
Valeo acquisition 2008	2,897
Uplands acquisition 2010	342
Prestwood acquisition 2010	433
Fostering acquisitions 2010	2,728
Family Assessment acquisition 2010	2,177
St Michael's acquisition 2010	801
Roborough House acquisition 2010	432
Greenfields acquisition 2010	2,035
Franklin acquisition 2010	335
Branas Isaf acquisition 2010	922
	26,159

14 Group undertakings

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

	Country of incorporation	Class of shares held	Ownership 2011 %	Ownership 2010 %
CareTech Community Services Limited	England and Wales	Ordinary	**100**	100
CareTech Community Services (No. 2) Limited	England and Wales	Ordinary	**100**[a]	100[a]
Care Support Services Limited	England and Wales	Ordinary	**100**[a]	100[a]
Delam Care Limited	England and Wales	Ordinary	**100**[a]	100[a]
Sunnyside Care Homes Limited	England and Wales	Ordinary	**100**[a]	100[a]
Lonsdale Midlands Limited	England and Wales	Ordinary	**100**[a]	100[a]
Daisybrook Limited	England and Wales	Ordinary	**100**[a]	100[a]
CareTech Estates Limited	England and Wales	Ordinary	**100**	100
Community Support Project Limited	England and Wales	Ordinary	**100**	100
One Step (Support) Limited	England and Wales	Ordinary	**100**[b]	100[b]
Counticare Limited	England and Wales	Ordinary	**100**[a]	100[a]
H20 Limited	Gibraltar	Ordinary	**100**[a]	100[a]
Hazeldene Limited[1]	Gibraltar	Ordinary	**100**[e]	100[e]
One Six One Limited	England and Wales	Ordinary	**100**[a]	100[a]
Barleycare Limited	England and Wales	Ordinary	**100**[a]	100[a]
Valeo Limited	England and Wales	Ordinary	**100**	100
CareTech Estates (No. 2) Limited	England and Wales	Ordinary	**100**	100
CareTech Estates (No. 3) Limited	England and Wales	Ordinary	**100**	100
CareTech Estates (No. 4) Limited	England and Wales	Ordinary	**100**	100
CareTech Estates (No. 5) Limited	England and Wales	Ordinary	**100**	100
Beacon Care Holdings Limited	England and Wales	Ordinary	**100**	100
Beacon Care Investments Limited	England and Wales	Ordinary	**100**	100
Ashcroft House Limited	England and Wales	Ordinary	**100**[c]	100[c]
Ashring House Limited	England and Wales	Ordinary	**100**[c]	100[c]
Ashview House Limited	England and Wales	Ordinary	**100**[c]	100[c]
Beacon Care Limited	England and Wales	Ordinary	**100**[c]	100[c]
Beech Care Limited	England and Wales	Ordinary	**100**[c]	100[c]
Bright Care Limited	England and Wales	Ordinary	**100**[c]	100[c]
Emeraldpoint Limited	England and Wales	Ordinary	**100**[c]	100[c]
Glenroyd House Limited	England and Wales	Ordinary	**100**[c]	100[c]
Kirkstall Lodge Limited	England and Wales	Ordinary	**100**[c]	100[c]
Leigham Lodge Limited	England and Wales	Ordinary	**100**[c]	100[c]
Palm Care Limited	England and Wales	Ordinary	**100**[c]	100[c]
Vosse Court Limited	England and Wales	Ordinary	**100**[c]	100[c]
Wyatt House Limited	England and Wales	Ordinary	**100**[c]	100[c]
Addington House Limited	England and Wales	Ordinary	**100**[d]	100[d]
Magnolia Court Limited	England and Wales	Ordinary	**100**[d]	100[d]
Victoria Lodge Limited	England and Wales	Ordinary	**100**[d]	100[d]
Hereson House Limited	England and Wales	Ordinary	**100**[a]	100[a]
Huntsmans Lodge Limited	England and Wales	Ordinary	**100**[a]	100[a]
White Cliffs Lodge Limited	England and Wales	Ordinary	**100**[a]	100[a]
Rosedale Children's Services Limited	England and Wales	Ordinary	**100**[a]	100[a]
Roborough House Limited	England and Wales	Ordinary	**100**[a]	100[a]
Franklin Homes Limited	England and Wales	Ordinary	**100**[a]	100[a]
Family Assessment Services (Birmingham) Limited	England and Wales	Ordinary	**100**	100
Greenfields Care Group Limited	England and Wales	Ordinary	**100**[a]	100[a]
Greenfields Adolescent Development Limited	England and Wales	Ordinary	**100**[f]	100[f]
St Michael's Support & Care Limited	England and Wales	Ordinary	**100**[a]	100[a]
St Michael's Support & Care Properties Limited	England and Wales	Ordinary	**100**[a]	100[a]
Outlook Fostering Services Limited	England and Wales	Ordinary	**100**[a]	100[a]
Prestwood Residential Homes Limited	England and Wales	Ordinary	**100**[a]	100[a]
Park Foster Care Limited	England and Wales	Ordinary	**100**[a]	100[a]
Branas Isaf (Holdings) Limited	England and Wales	Ordinary	**100**[a]	100[a]
Branas Isaf Personal Development Centre Limited	England and Wales	Ordinary	**100**[h]	100[h]
Branas Isaf (Bythnod & Hendre Llywd) Limited	England and Wales	Ordinary	**100**[h]	100[h]
Branas Isaf (Dewis Cyferod & Cysgod Cyfarfod) Limited	England and Wales	Ordinary	**100**[h]	100[h]
Branas Isaf (Llyn Coed) Limited	England and Wales	Ordinary	**100**[h]	100[h]
Branas Isaf (Ashfield House) Limited	England and Wales	Ordinary	**100**[h]	100[h]
Branas Isaf (Education Centre) Limited	England and Wales	Ordinary	**100**[g]	100[g]
Mason Property Development Company Limited	England and Wales	Ordinary	**100**[g]	100[g]

14 Group undertakings (continued)

	Country of incorporation	Class of shares held	Ownership 2011 %	Ownership 2010 %
Coveberry Limited	England and Wales	Ordinary	**100[a]**	100[a]
Uplands (Fareham) Limited	England and Wales	Ordinary	**100[i]**	100[i]
CareTech Foster Care Limited	England and Wales	Ordinary	**100[j]**	–
Fostering Support Group Limited	England and Wales	Ordinary	**100[k]**	–
Phoenix Therapy and Care Limited	England and Wales	Ordinary	**100[a]**	–
Cameron Care Limited	Scotland	Ordinary	**100[a]**	–
Selwyn Care Limited	England and Wales	Ordinary	**100[a]**	–
Professional Integrated Care Services Limited	England and Wales	Ordinary	**100[a]**	–
TLC (Wales) Limited	England and Wales	Ordinary	**100[l]**	–
Complete Care and Enablement Service Limited	England and Wales	Ordinary	**100[a]**	–

1 Has a UK designated trading branch, Hazeldene UK Limited.
a A subsidiary of CareTech Community Service Limited.
b A subsidiary of Community Support Project Limited.
c A subsidiary of Beacon Care Holdings Limited.
d A subsidiary of Beacon Care Investments Limited.
e A subsidiary of H20 Limited.
f A subsidiary of Greenfields Care Group Limited.
g A subsidiary of Branas Isaf (Holdings) Limited.
h A subsidiary of Branas Isaf Personal Development Centre Limited.
i A subsidiary of Coveberry Limited.
j A subsidiary of Outlook Fostering Services Limited.
k A subsidiary of CareTech Foster Care Limited.
l A subsidiary of Professional Integrated Care Services Limited.

15 Trade and other receivables

	2011 £000	2010 £000
Trade receivables (note 24)	**5,696**	6,929
Other debtors and prepayments	**4,370**	4,353
	10,066	11,282

16 Cash and cash equivalents

	2011 £000	2010 £000
Cash and cash equivalents per balance sheet	**13,414**	10,008
Cash and cash equivalents per cash flow statement	**13,414**	10,008

17 Other interest-bearing loans and borrowings

This note provides information about the contractual terms of the Group's interest-bearing loans and borrowings. For more information about the Group's exposure to interest rate risk, see note 24.

	2011 £000	2010 £000
Non-current liabilities		
Secured bank loans	**131,850**	115,934
Finance lease liabilities	**1,421**	1,455
	133,271	117,389
Current liabilities		
Current portion of secured bank loans	**6,500**	5,000
Current portion of finance lease liabilities	**960**	866
	7,460	5,866

Terms and debt repayment schedule

	Currency	Nominal interest rate	Year of maturity	Book value 2011 £000	Book value 2010 £000
Term loan	£	1.75 (2010:1.75)[1]	2013	**79,776**	84,611
Revolving credit facility term loan	£	2.25 (2010:2.25)[1]	2013	**58,574**	36,323
				138,350	120,934

1 Margin over LIBOR.

17 Other interest-bearing loans and borrowings (continued)

At 30 September 2011 the Group has available bank facilities totalling £160m, sufficient, with cash flow from profits, to fund present commitments. Term facilities are used to fund capital expenditure and short-term flexibility is achieved by the utilisation of cash resources.

The term loans are secured by way of a charge over certain assets of the Group.

Finance lease liabilities

Finance lease liabilities are payable as follows:

	Minimum lease payments 2011 £000	Interest 2011 £000	Principal 2011 £000	Minimum lease payments 2010 £000	Interest 2010 £000	Principal 2010 £000
Less than 1 year	**1,109**	**149**	**960**	1,035	169	866
Between 1 and 5 years	**1,588**	**167**	**1,421**	1,685	230	1,455
	2,697	**316**	**2,381**	2,720	399	2,321

18 Trade and other payables

	2011 £000	2010 £000 as restated
Trade payables	**2,386**	3,271
Accrued expenses	**9,305**	10,413
	11,691	13,684

19 Deferred tax assets and liabilities

Recognised deferred tax assets and liabilities

Deferred tax assets and liabilities are attributable to the following:

	2011		2010	
	Assets £000	Liabilities £000	Assets £000	Liabilities £000
Property, plant and equipment	**–**	**5,014**	–	4,692
Intangible assets	**–**	**15,455**	–	13,712
Derivative financial instruments	**(1,005)**	**–**	(1,878)	–
Share-based payments	**(415)**	**–**	(381)	–
Rolled-over gains on property, plant and equipment	**–**	**4,584**	–	4,760
Tax (assets)/liabilities	**(1,420)**	**25,053**	(2,259)	23,164
Net of tax liabilities/(assets)		**(1,420)**		(2,259)
Net deferred tax liabilities		**23,633**		20,905

Movement in deferred tax during the year

	1 October 2010 £000	Recognised in income £000	Acquired in business combination £000	30 September 2011 £000
Property, plant and equipment	4,692	322	–	**5,014**
Intangible assets	13,712	(1,496)	3,239	**15,455**
Rolled-over gains	4,760	(176)	–	**4,584**
Derivative financial instruments	(1,878)	873	–	**(1,005)**
Share-based payments	(381)	(34)	–	**(415)**
	20,905	(511)	3,239	**23,633**

Movement in deferred tax during the previous year

	1 October 2009 £000	Recognised in income £000	Acquired in business combination £000	30 September 2010 £000
Property, plant and equipment	3,669	991	32	4,692
Intangible assets	6,234	(1,085)	8,563	13,712
Rolled-over gains	4,936	(176)	–	4,760
Derivative financial instruments	(1,728)	(150)	–	(1,878)
Employee benefits	(84)	84	–	–
Share-based payments	(317)	(64)	–	(381)
	12,710	(400)	8,595	20,905

20 Employee benefits

Defined contribution plans

The Group operates a number of defined contribution pension plans.

The total expense relating to these plans in the current year was £113,000 (2010: £114,000) of which £nil (2010: £nil) was outstanding at the year end.

Share-based payments

The Company operates 3 share option schemes: The CareTech Holdings 2005 Approved Share Option Scheme ("The Approved Scheme"); the CareTech Holdings 2005 Unapproved Share Option Scheme ("The Unapproved Scheme") and the CareTech Holdings 2005 Share-Save Scheme ("the SAYE Scheme").

Options granted under the above schemes, together with those remaining at 30 September 2011 are as follows:

Date of grant	Scheme	Options granted	Options lapsed to 30 Sept 2011	Options exercised to 30 Sept 2011	Options remaining 30 Sept 2011	Option price (pence)
13 October 2005[1]	Approved Scheme	627,375	(299,836)	(221,707)	**105,832**	169
7 November 2005[1]	SAYE Scheme	186,033	(43,519)	(142,514)	**–**	136
2 August 2006[1]	Approved Scheme	52,427	(43,764)	(3,424)	**5,239**	292
2 August 2006[1]	Unapproved Scheme	8,220	(8,220)	–	**–**	292
17 January 2007[1]	Approved Scheme	162,885	(103,358)	(23,236)	**36,291**	345
17 January 2007[1]	Unapproved Scheme	18,263	(8,686)	(5,785)	**3,792**	345
21 March 2007[1]	Approved Scheme	6,077	–	–	**6,077**	452
1 February 2008[1]	SAYE Scheme	101,397	(77,576)	–	**23,821**	440
2 May 2008[1]	Approved Scheme	114,070	(63,479)	(138)	**50,453**	410
2 May 2008[1]	Unapproved Scheme	23,843	(14,970)	–	**8,873**	410
14 April 2009[2]	Unapproved Scheme	92,308	(46,154)	–	**46,154**	0.5
4 August 2009	Approved Scheme	191,121	(60,070)	–	**131,051**	332.5
4 August 2009	Unapproved Scheme	165,050	(67,983)	–	**97,067**	332.5
12 August 2009	SAYE Scheme	202,069	(99,461)	(1,183)	**101,425**	254
3 August 2010	Approved Scheme	283,754	(48,248)	–	**235,506**	305
3 August 2010	Unapproved Scheme	210,653	(82,349)	–	**128,304**	305
3 August 2010[2]	Unapproved Scheme	92,308	(46,154)	–	**46,154**	0.5
15 November 2010	Approved Scheme	8,108	–	–	**8,108**	370
15 November 2010	Unapproved Scheme	18,243	–	–	**18,243**	370

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

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

Approved and Unapproved scheme options are exercisable at any time from the 3rd anniversary of the date of grant to the 10th anniversary, other than nominal cost options which may become exercisable at the earliest after a period of 30 dealing days following the 3rd anniversary of being granted. SAYE scheme options are normally exercisable within 6 months following the 3rd anniversary of the date of grant.

The CareTech Holdings 2005 Approved Share Option Scheme

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

	2011		2010	
	Number of share options	Weighted average exercise price £	Number of share options	Weighted average exercise price £
Outstanding at the beginning of year	**671,028**	**2.99**	513,606	2.93
Granted during year	**8,108**	**3.70**	283,754	3.05
Lapsed during year	**(100,329)**	**(2.98)**	(60,237)	(3.53)
Exercised during year	**(250)**	**(1.69)**	(66,095)	(2.31)
Outstanding at end of year	**578,557**	**3.00**	671,028	2.99
Outstanding and exercisable at end of year	**203,892**	**2.72**	172,491	2.21

The options outstanding at 30 September 2011 were exercisable at prices between 169p and 452p. The weighted average remaining contractual life of those options yet to vest is 1.5 years.

20 Employee benefits (continued)

During the year ended 30 September 2011, options were granted on 15 November 2010. The aggregate of the estimated fair values of the options granted on this date is £6,649.

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

	2011	2010
Weighted average share price	£2.10	£3.84
Weighted average exercise price	£3.00	£2.99
Expected volatility	30%	30%
Expected life in years	3	3
Risk free rate range	3%–5%	3%–5%
Dividend yield	1.1%	1.1%

Expected volatility was determined by calculating the historical volatility of the Group's share price over the previous 2 years. The expected life used in the model has been adjusted, based on management's best estimate for the effects of non-transferability exercise restrictions and behavioural considerations.

The CareTech Holdings 2005 Unapproved Share Option Scheme

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

	2011		2010	
	Number of share options	Weighted average exercise price £	Number of share options	Weighted average exercise price £
Outstanding at the beginning of year	552,639	2.13	290,612	2.32
Granted during year	18,243	3.70	302,961	2.12
Lapsed during year	(222,295)	(1.85)	(35,149)	(3.50)
Exercised during year	–	–	(5,785)	(3.45)
Outstanding at end of year	348,587	2.19	552,639	2.13
Outstanding and exercisable at end of year	12,665	2.39	4,904	3.45

The options outstanding at 30 September 2011 were exercisable at prices between 0.5p and 410p. The weighted average remaining contractual life of those options yet to vest is 1.4 years.

During the year ended 30 September 2011, options were granted on 15 November 2010. The aggregate of the estimated fair values of the options granted is £14,959.

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

	2011	2010
Weighted average share price	£2.10	£3.84
Weighted average exercise price	£2.39	£2.13
Expected volatility	30%	30%
Expected life in years	3	3
Risk free rate range	3%–5%	3%–5%
Dividend yield	1.1%	1.1%

Expected volatility was determined by calculating the historical volatility of the Group's share price over the previous 2 years. The expected life used in the model has been adjusted, based on management's best estimate for the effects of non-transferability exercise restrictions and behavioural considerations.

The estimate of the fair value of the services received in relation to the granting of the nominal cost share options is measured by reference to the Monte Carlo simulation model.

20 Employee benefits (continued)

The CareTech Holdings 2005 Save As You Earn Scheme

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

	2011		2010	
	Number of share options	Weighted average exercise price £	Number of share options	Weighted average exercise price £
Outstanding at the beginning of year	**186,277**	**2.84**	252,429	2.83
Granted during year	**–**	**–**	–	–
Lapsed during year	**(59,848)**	**(2.74)**	(59,277)	(2.95)
Exercised during year	**(1,183)**	**(2.54)**	(6,875)	(1.36)
Outstanding at end of year	**125,246**	**2.89**	186,277	2.84
Outstanding and exercisable at end of year	**23,821**	**4.40**	–	–

The options outstanding at 30 September 2011 were exercisable at prices between 136p and 440p. The weighted average remaining contractual life of those options yet to vest is 0.9 years.

During the year ended 30 September 2011, no options were granted.

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

	2011	2010
Weighted average share price	**£2.10**	£3.84
Weighted average exercise price	**£2.89**	£2.84
Expected volatility	**30%**	30%
Expected life in years	**3**	3
Risk free rate	**3%–5%**	3%–5%
Dividend yield	**1.1%**	1.1%

Expected volatility was determined by calculating the historical volatility of the Group's share price over the previous 2 years. The expected life used in the model has been adjusted, based on management's best estimate for the effects of non-transferability exercise restrictions and behavioural considerations.

21 Share capital

	2011 £000	2010 £000
Allotted, called up and fully paid:		
49,586,905 (2010: 49,585,472) ordinary shares of 0.5p each	**248**	248
53,402 deferred shares of 0.5p each	**–**	–
	248	248

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:

2011	At 1 October 2010	Issued in connection with acquisitions	Issued following share option exercises	Placing	At 30 September 2011
Ordinary shares of 0.5p each	49,585,472	–	1,433	–	**49,586,905**
Deferred shares of 0.5p each	53,402	–	–	–	**53,402**

2010	At 1 October 2009	Issued in connection with acquisitions	Issued following share option exercises	Placing	At 30 September 2010
Ordinary shares of 0.5p each	44,856,717	900,000	78,755	3,750,000	49,585,472
Deferred shares of 0.5p each	53,402	–	–	–	53,402

21 Share capital (continued)

On 8 October 2009, the Company issued 900,000 ordinary shares of 0.5p each to the vendors of Beacon in satisfaction of consideration due under the terms of the 2008 Beacon acquisition agreements.

On 15 March 2010, the Company raised £15m before expenses of £353,000 through the placing of 3,750,000 ordinary shares of 0.5p each at 400p per share.

Reserves

Share premium – During the year £nil (2010: £353,000) of transaction costs associated with the issue of new shares has been charged to the share premium account.

Merger reserve – The merger reserve represents the premium arising on the ordinary shares issued as consideration for the acquisition of shares in another company. The movement in the year ended 30 September 2010 arises in respect of shares issued in the year as final consideration for the acquisition at Beacon Care Holdings Limited and Beacon Care Investments 2008, net of costs of £3,461,125.

22 Dividends

The aggregate amount of dividends comprises:

	2011 £000	2010 £000
Final dividends paid in respect of prior year but not recognised as liabilities in that year	**1,815**	1,416
Interim dividends paid in respect of the current year	**987**	910
Aggregate amount of dividends paid in the financial year	**2,802**	2,326

The aggregate amount of dividends proposed and not recognised as liabilities as at the year end is 4.00p per share, £1,983,476 (2010: 3.66p per share, £1,814,828).

23 Acquisitions

(a) Acquisitions 2011

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

The following provisional fair value table summarises the various acquisitions made during the financial year pending finalisation of completion accounts:

	Book values £000	Fair value Adjustment £000	Fair value £000
Intangible fixed assets (note 13)	–	11,341	11,341
Property, plant and equipment (note 12)	409	1,561	1,970
Trade and other receivables	1,484	(522)	962
Cash	269	–	269
Trade and other payables	(97)	–	(97)
Corporation tax	(369)	–	(369)
Accruals and other creditors	(578)	(350)	(928)
Deferred tax	(8)	(3,231)	(3,239)
			9,909
Satisfied by:			
Cash paid			10,898
Deferred consideration			1,590
Contingent consideration			500
Gain on bargain purchase (note 5)			821
			13,809
Goodwill recognised on acquisition			3,900

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 trade and other receivables represents the gross contractual amounts receivable and the fair value adjustment has been made to reflect the best estimate of the amounts not expected to be collected. The fair value adjustments made to intangible assets, property, plant and equipment, trade and other receivables and trade and other payables are to reflect their value on a going concern market value basis. The fair value adjustment to deferred tax arises due to the requirement to recognise deferred tax and goodwill on the fair value uplifts to intangible assets and property, plant and equipment. These acquisitions contributed revenue of £6,968,000 and underlying EBITDA of £1,368,000 to the Group's result for the year ended 30 September 2011.

Goodwill which is not expected to be tax deductible arises due to the requirement to recognise deferred tax in respect of the fair value adjustments to intangible assets and property, plant and equipment, together with synergies expected to arise from combining operations, workforce in place and other intangible assets which do not qualify for separate recognition.

23 Acquisitions (continued)

The gain on bargain purchase is recognised within administrative expenses in the consolidated statement of comprehensive income. It represents the excess of assets and liabilities acquired (at fair value) compared to the fair value of consideration.

Each of the acquisitions was undertaken to enhance the Group's position in the industry. In each case control was obtained through the acquisition of the entire issued share capital.

The following table summarises the acquisitions in the year:

Name	Date of acquisition	% of equity acquired
CareTech Foster Care Limited together with Fostering Support Group Limited	13 December 2010	100
Phoenix Therapy and Care Limited	13 December 2010	100
Cameron Care Limited	21 February 2011	100
Selwyn Care Limited	4 March 2011	100
Professional Integrated Care Services Limited together with TLC (Wales) Limited	27 May 2011	100
Complete Care and Enablement Service Limited	13 July 2011	100

(b) Acquisitions 2010

Each of the 10 acquisitions in the previous financial year has been accounted for as a business combination under IFRS 3 (revised). In view of the overall volume of acquisitions in the financial year and the similarity of each, in the Directors' judgement it is appropriate to present the acquisitions information in aggregate.

The following fair value table summarises the various acquisitions made during the previous financial year:

	Book values £000	Fair value adjustment £000	Fair value £000
Intangible assets (note 13)	–	23,932	23,932
Property, plant and equipment (note 12)	15,208	6,009	21,217
Trade and other receivables	3,200	(225)	2,975
Cash	4,350	–	4,350
Trade and other payables	(249)	–	(249)
Corporation tax	(1,757)	–	(1,757)
Accruals and other creditors	(3,270)	(944)	(4,214)
Deferred tax	(39)	(8,556)	(8,595)
			37,659
Satisfied by:			
Cash paid			36,904
Deferred consideration			1,134
Contingent consideration			5,998
Gain on bargain purchase (note 5)			3,828
			47,864
Goodwill recognised on acquisition			10,205

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 trade and other receivables represents the gross contractual amounts receivable and the fair value adjustment has been made to reflect the best estimate of the amounts not expected to be collected. The fair value adjustments made to intangible assets, property, plant and equipment, trade and other receivables and trade and other payables are to reflect their value on a going concern market value basis. The fair value adjustment to deferred tax arises due to the requirement to recognise deferred tax and goodwill on the fair value uplifts to intangible assets and property, plant and equipment. These acquisitions contributed revenue of £6,089,000 and underlying EBITDA of £1,869,000 to the Group's result for the year ended 30 September 2010.

Goodwill which is not expected to be tax deductible arises due to the requirement to recognise deferred tax in respect of the fair value adjustments to intangible assets and property, plant and equipment, together with synergies expected to arise from combining operations, workforce in place and other intangible assets which do not qualify for separate recognition.

The gain on bargain purchase is recognised within administrative expenses in the consolidated statement of comprehensive income. It represents the excess of assets and liabilities acquired (at fair value) compared to the fair value of consideration.

Each of the acquisitions was undertaken to enhance the Group's position in the industry. In each case control was obtained through the acquisition of the entire issued share capital.

23 Acquisitions (continued)

The following summarises the acquisitions in the year:

Name	Date of acquisition	% of equity acquired
Roborough House Limited	8 December 2009	100
Franklin Homes Limited	6 April 2010	100
Family Assessment Services (Birmingham) Limited	20 April 2010	100
Greenfields Care Group Limited	28 May 2010	100
St Michael's Support & Care Limited	9 June 2010	100
Outlook Fostering Services Limited	11 June 2010	100
Prestwood Residential Homes Limited	20 July 2010	100
Park Foster Care Limited	12 August 2010	100
Branas Isaf (Holdings) Limited	18 August 2010	100
Coveberry Limited	23 September 2010	100

(c) Reconciliation to Group Cash Flow

	2011 £000	2010 £000
Cash consideration paid on acquisitions in the year	**10,898**	36,904
Cash consideration paid on previous year's acquisitions	**2,996**	–
Net cash acquired	**(269)**	(4,350)
	13,625	32,554

Deferred and contingent consideration payable

	2011 £000	2010 £000 restated
Deferred consideration:		
Due within one year	**4,645**	584
Due in more than one year	**–**	600
Contingent consideration:		
Due within one year	**1,951**	5,998
Due in more than one year	**–**	–
	6,596	7,182

Contingent consideration is payable dependent upon various factors which are to be determined in future financial periods. Post acquisition earnings form the basis for determining the amount of payments. The range of outcomes is estimated to be between £nil and £2,715,000.

(d) Proforma results

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

	2011 £000	2010 £000
Revenue	**115,453**	111,302
Operating profit	**21,433**	20,039

24 Financial instruments

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

Credit risk

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

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

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

The Group provides credit to customers in the normal course of business with a provision for specific doubtful receivables. The balance includes the amounts considered recoverable which also equals their fair value. The Group does not require collateral in respect of financial assets. During the year there was a charge to the income statement for bad or doubtful debts of £150,000 (2010: £nil).

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

24 Financial instruments (continued)

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

	2011 £000	2010 £000
Not due	**4,947**	5,482
Not more than 3 months past due	**749**	1,447
More than 3 months but not more than 6 months past due	**–**	–
More than 6 months past due	**–**	–
Trade receivables (note 15)	**5,696**	6,929

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

	£000
At 1 October 2009	1,700
Arising on acquisitions	200
Utilised in year	(1,033)
At 1 October 2010	867
Arising on acquisitions	200
Utilised in year	(410)
Charged to the consolidated statement of comprehensive income	150
At 30 September 2011	**807**

Interest rate risk

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

- a 4 year floating swap of £35 million with a 2 year counterparty discretionary extendable period and reducing in pre-determined intervals, commencing 19 October 2006, at LIBOR with a cap rate of 5.75% and a floor rate of 4.78%;
- a 5 year floating rate swap of £20 million commencing on 28 September 2007, at LIBOR with a cap rate of 6.40% and a floor rate of 5.30%;
- a 5 year swap of £15 million commencing 31 July 2008 at LIBOR fixed at 5.25% until December 2009 and rising to 5.99% thereafter;
- a 3 year interest rate cap of £22 million effective from 1 July 2010, at LIBOR with a cap rate of 1.8% to 1 April 2011, rising to 2.75% thereafter and including a fixed premium payable quarterly in arrears for the duration of the contract;
- a 3 year interest rate cap of £22 million effective from 1 July 2010, at LIBOR with a cap rate of 1.8% to 1 April 2011, rising to 2.75% thereafter and including a fixed premium payable quarterly in arrears for the duration of the contract; and
- a 3 year interest rate cap of £11 million effective from 1 July 2010, at LIBOR with a cap rate of 1.8% to 1 April 2011, rising to 2.75% thereafter and including a fixed premium payable quarterly in arrears for the duration of the contract.

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.

	2011					
	Effective interest rate %	Carrying amount £000	Contractual cash flows £000	< 1 year £000	1–5 years £000	5 years and over £000
Trade and other payables	**–**	**(11,691)**	**(11,691)**	**(11,691)**	**–**	**–**
Secured bank loans	**5%**	**(138,350)**	**(149,552)**	**(14,087)**	**(135,465)**	**–**
Finance lease liabilities	**11%**	**(2,381)**	**(2,697)**	**(1,109)**	**(1,588)**	**–**
Deferred and contingent consideration	**–**	**(6,596)**	**(6,596)**	**(6,596)**	**–**	**–**
Derivative financial instruments	**–**	**(3,866)**	**(3,866)**	**(2,921)**	**(945)**	**–**
		(162,884)	**(174,402)**	**(36,404)**	**(137,998)**	**–**

	2010					
	Effective interest rate %	Carrying amount £000	Contractual cash flows £000	< 1 year £000	1–5 years £000	5 years and over £000
Trade and other payables	–	(13,684)	(13,684)	(13,684)	–	–
Secured bank loans	5%	(120,934)	(145,816)	(11,632)	(134,184)	–
Finance lease liabilities	11%	(2,321)	(2,720)	(1,035)	(1,685)	–
Deferred and contingent consideration	–	(7,182)	(7,182)	(6,582)	(600)	–
Derivative financial instruments	–	(6,314)	(6,314)	(2,877)	(3,437)	–
		(150,435)	(175,716)	(35,810)	(139,906)	–

24 Financial instruments (continued)

Capital risk management

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

The Group's capital structure is as follows:

	2011 £000	2010 £000
Net debt	**127,317**	113,247
Equity	**73,214**	70,026

Our policy had been to increase the total dividend per year broadly in line with the movement in underlying diluted earnings per share but the Board has taken the view that this policy should be reconsidered for 2011. The final dividend will therefore increase to 4.00p per share demonstrating a confident view of the Group's fundamental strength.

Foreign currency risk

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

Sensitivity analysis

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

At 30 September 2011, it is estimated that a general increase of 1% in interest rates would impact finance expense and decrease the Group's profit before tax by approximately £484,000 (2010: £309,000). Hedging instruments have been included in this calculation.

Fair values

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

	Carrying amount 2011 £000	Fair value 2011 £000	Carrying amount 2010 £000	Fair value 2010 £000
Loans and receivables:				
Cash at bank and in hand (note 16)	**13,414**	**13,414**	10,008	10,008
Trade receivables (note 15)	**5,696**	**5,696**	6,929	6,929
Amortised cost:				
Trade payables (note 18)	**(2,386)**	**(2,386)**	(3,271)	(3,271)
Secured bank loans (note 17)	**(138,350)**	**(138,350)**	(120,934)	(120,934)
Finance lease liabilities (note 17)	**(2,381)**	**(2,381)**	(2,321)	(2,321)
Held at fair value:				
Derivative financial instruments	**(3,866)**	**(3,866)**	(6,314)	(6,314)

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 1 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 rates the carrying value is deemed to reflect the fair value as it represents the price of the instruments in the market place; and
- for finance lease liabilities, all amounts are due within 5 years and are on terms similar to those estimated to be achievable in the market.

Fair value hierarchy

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

- Level 1 – unadjusted quoted prices in active markets for identical assets or liabilities: £3,866,000 (2010: £6,314,000).
- Level 2 – inputs other than quoted prices included within level 1 that are observable for the asset or liability either as a direct price or indirectly derived from prices: £Nil (2010:Nil).
- Level 3 – inputs for the asset or liabilities that are not based on observable market data: £Nil (2010:Nil).

25 Operating leases

Non-cancellable operating lease rentals are payable as follows:

	2011		2010	
	Land and buildings £000	Other £000	Land and buildings £000	Other £000
Less than 1 year	**6,882**	**184**	5,982	146
Between 1 and 5 years	**22,813**	**149**	19,920	244
More than 5 years	**159,460**	**1**	157,053	–
	189,155	**334**	182,955	390

In August 2004, the Group guaranteed the rental payments arising on certain 35 year property leases following the sale and leaseback of 26 freehold properties by CareTech Community Services Limited.

In February 2002, CareTech Community Services Limited guaranteed the rental payments arising on certain 35 year property leases following the sale and leaseback of 4 freehold properties by that company.

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

	2011		2010	
	Land and buildings £000	Other £000	Land and buildings £000	Other £000
Charge for amounts currently payable	**6,806**	**192**	5,289	99
Adjustment for minimum future lease payment uplifts (note 5)	**1,463**	**–**	1,560	–
Onerous lease provision (note 5)	**646**	**–**	–	–
Total recognised in the consolidated statement of comprehensive income	**8,915**	**192**	6,849	99

Analysis of movement in onerous lease provision:

	£000
At 1 October 2010	–
Recognised in the consolidated statement of comprehensive income (note 5)	646
At 30 September 2011	**646**

26 Related parties

During the year, CareTech Community Services Limited paid rent totalling £106,991 (2010: £72,348) in respect of properties in which F. Sheikh and H. Sheikh have an interest. At the year end rent of £nil was outstanding.

As part of his appointment as a Director of the Group, Michael Hill disposed of his 100% interest in a Company in which there was a pre-existing franchise agreement with the Group.

Transactions with key management personnel

	2011 £000	2010 £000
Salary	**1,883**	1,136
Benefits	**191**	186
Bonus	**279**	204
Total short-term remuneration	**2,353**	1,526
Post employment benefits	**40**	41
Share based payments	**16**	56
Fees	**315**	152
	2,724	1,775

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

Directors' emoluments are set out on page 23.

27 Accounting estimates and judgements

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

Estimates

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

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

Goodwill

The Directors use their judgement to determine the extent to which goodwill has a value which will benefit the performance of the Group over future periods. To assist in making this judgement, the Directors undertake an assessment, at least annually, of the carrying value of the Group's capitalised goodwill, using discounted cash flow forecasts to derive the "value in use" to the Group of the capitalised goodwill. In the assessment undertaken in 2011 value in use was derived from discounted 10 to 20 year cash flow projections using a year-on-year growth rate of 0% and discount rates relevant to the cost of capital adjusted for risks associated with the cash-generating unit. The projection period is, in the opinion of the Directors, an appropriate period over which to view the future results of the Group's businesses for this purpose. Changes to the assumptions of discount rates, growth rates, expected changes to costs and selling prices used in making these forecasts could significantly alter the Directors' assessment of the carrying value of goodwill.

Customer relationships

The assessment of the future economic benefits generated from acquired customer relationships, and the determination of the related amortisation profile, involves a significant degree of judgement based on management estimation of future potential revenue and profit and the useful lives of the assets. Annual reviews are performed to ensure the recoverability of this intangible asset.

Property, plant and equipment

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

Current asset provisions

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

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

Deferred taxation

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

Contingent consideration

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

Company Statement of Changes in Equity

as at 30 September 2011

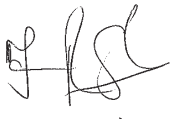
	Share capital £000	Share premium £000	Merger reserve £000	Retained earnings £000	Total equity £000
At 1 October 2009	225	38,852	5,037	5,560	49,674
Total comprehensive income	–	–	–	2,086	2,086
Dividends	–	–	–	(2,326)	(2,326)
Equity settled share-based payments charge	–	–	–	270	270
Share issue proceeds	23	14,663	3,461	–	18,147
At 30 September 2010	248	53,515	8,498	5,590	67,851
At 1 October 2010	248	53,515	8,498	5,590	67,851
Total comprehensive income				3,211	3,211
Dividends	–	–	–	(2,802)	(2,802)
Equity settled share-based payments charge	–	–	–	173	173
At 30 September 2011	**248**	**53,515**	**8,498**	**6,172**	**68,433**

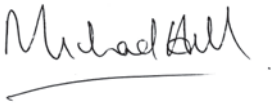
Company Balance Sheet

at 30 September 2011

	Note	2011 £000	2010 £000
Non-current assets			
Investments	30	**35,119**	34,946
Current assets			
Trade and other receivables	31	**34,753**	34,410
Cash and cash equivalents		**105**	477
		34,858	34,887
Total assets		**69,977**	69,833
Current liabilities			
Trade and other payables	32	**261**	332
Deferred consideration		**1,283**	1,650
Total liabilities		**1,544**	1,982
Net assets		**68,433**	67,851
Equity			
Share capital	33	**248**	248
Share premium		**53,515**	53,515
Merger reserve		**8,498**	8,498
Retained earnings		**6,172**	5,590
Total equity attributable to equity shareholders of the parent		**68,433**	67,851

These financial statements were approved by the Board of Directors on 11 January 2012 and were signed on its behalf by:





F. Sheikh
Chairman

M. G. Hill
Finance Director

Company number: 4457287

Company Cash Flow Statement

for the year ended 30 September 2011

	2011 £000	2010 £000
Cash flows from operating activities, being operating cash flows before movement in working capital	**3,211**	2,086
Movement in creditors	**(71)**	126
Movement in intercompany balance	**(343)**	(13,350)
Net cash from operating activities	**2,797**	(11,138)
Cash flows from investing activities		
Acquisition of subsidiaries, net of cash acquired	**(367)**	(893)
Cash flows from financing activities		
Dividends paid	**(2,802)**	(2,326)
Proceeds from the issue of new shares (net of costs)	**–**	14,647
Net cash used in financing activities	**(2,802)**	12,321
Net (decrease)/increase in cash and cash equivalents	**(372)**	290
Cash and cash equivalents at start of year	**477**	187
Cash and cash equivalents at 30 September	**105**	477

Company Notes

28 Accounting policies

(a) Basis of preparation

The financial statements of the Company have been prepared in accordance with Adopted IFRS standards, under the historical cost accounting rules.

Under section 408 of the Companies Act 2006 the Company is exempt from the requirement to present its own comprehensive statement of income.

(b) Taxation

Tax on the profit or loss for the year comprises current and deferred tax. Tax is recognised in the 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 enacted or substantively enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years.

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

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be utilised.

(c) Revenue

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

(d) 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.

For cash settled share-based payment transactions, the fair value of the amount payable to the employee is recognised as an expense with a corresponding increase in liabilities. The fair value is initially measured at grant date and spread over the period during which the employees become unconditionally entitled to payment. The fair value is measured based on an option pricing model taking in to account the terms and conditions upon which the instruments were granted. The liability is revalued at each balance sheet date and settlement date with any changes to fair value being recognised in the income statement.

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.

(e) 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.

(f) Cash and liquid resources

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

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

(g) Investments

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

29 Dividends

The aggregate amount of dividends comprises:

	2011 £000	2010 £000
Final dividends paid in respect of prior year but not recognised as liabilities in that year	**1,815**	1,416
Interim dividends paid in respect of the current year	**987**	910
Aggregate amount of dividends paid in the financial year	**2,802**	2,326

The aggregate amount of dividends proposed and not recognised as liabilities as at the year end is 4.00p per share, £1,983,476 (2010: 3.66p per share, £1,814,828).

30 Investments

	Shares in group undertakings £000
Cost and net book value	
At beginning of year	**34,946**
Share-based payments charge in respect of subsidiary undertakings	**173**
At end of year	**35,119**

31 Trade and other receivables

	2011 £000	2010 £000
Amounts owed by Group undertakings	**34,753**	34,410
	34,753	34,410

32 Trade and other payables

	2011 £000	2010 £000
Other creditors	**261**	332
	261	332

33 Called up share capital

	2011 £000	2010 £000
Allotted, called up and fully paid:		
49,586,905 (2010: 49,585,472) ordinary shares of 0.5p each	**248**	248
53,402 deferred shares of 0.5p each	**–**	–
	248	248

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

Details in respect of the reserves are given in note 21 to the Group financial statements.

34 Employee benefits

Defined contribution plans

The Company operates a number of defined contribution pension plans.

The total Company expense relating to these plans in the current year was £nil (2010: £nil).

Share-based payments

There was no expense for share-based payments relating to the Company in the year (2010: £nil).

The grants and related accounting treatment adopted by the Company is identical to that operated by the Group under IFRS 2 "share-based payments" (see note 20).

Company Notes
continued

35 Directors' remuneration
The analysis of Directors' emoluments and share options is included within the Remuneration Report on pages 22 and 23. This analysis forms part of these financial statements.

36 Staff numbers and costs
The Company has no employees (2010: none) other than the Directors. Directors' emoluments are paid by a subsidiary undertaking.

37 Related parties
During the year the Company received dividends of £3,850,000 (2010: £2,000,000) and fees of £70,000 (2010: £70,000) from its subsidiary undertakings. The amount due to the Company from its subsidiary undertakings amounted to £34,753,000 (2010: £34,410,000).

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

Credit risk
Financial instruments which potentially expose the Group to credit risk consist primarily of trade receivables.

Management has a credit policy in place and exposure to credit risk is monitored on an ongoing basis.

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

The Company provides credit to subsidiaries in the normal course of business. The balance includes the amounts considered recoverable which also equals to their fair value. The Company has collateral in respect of the investments it holds in its subsidiary undertakings. During the year there was no charge to the income statement for bad or doubtful debts (2010: £nil).

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

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

	2011 £000	2010 £000
Not due	**34,753**	34,410
Not more than 3 months past due	**–**	–
More than 3 months but not more than 6 months past due	**–**	–
More than 6 months past due	**–**	–
Trade receivables (note 31)	**34,753**	34,410

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

Directors and Advisers

Company Number
4457287

Registered Office
Metropolitan House
3 Darkes Lane
Potters Bar
Herts EN6 1AG

Directors

Farouq Sheikh	(Executive Chairman)
Haroon Sheikh	(Chief Executive Officer)
Michael Hill	(Group Finance Director)
Stewart Wallace	(Strategic Director)
Karl Monaghan	(Non-Executive Director)
Christa Echtle	(Non-Executive Director)
Mike Adams	(Non-Executive Director)

Company Secretary
Michael Hill

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London EC2V 7HN

Santander UK PLC
Santander Corporate Banking
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100 Ludgate Hill
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Designed and produced by Carnegie Orr +44 (0)20 7610 6140.
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