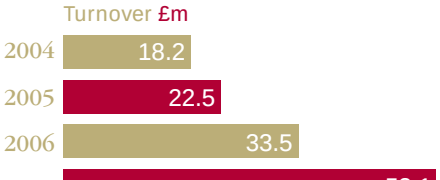
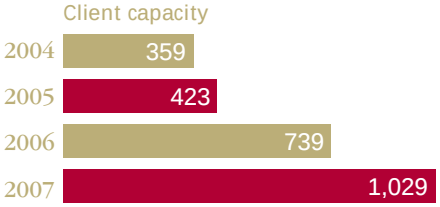
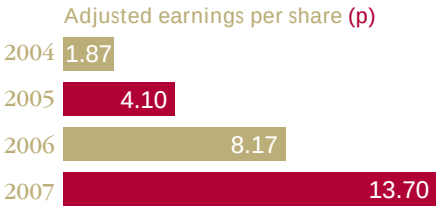
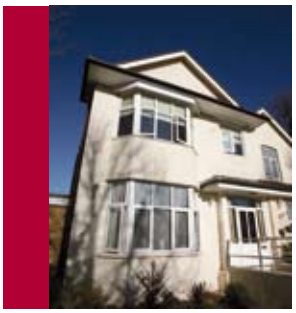
Financial Highlights

- Turnover increased 59% to £53.1m (2006: £33.5m)
- EBITDA (being the operating profit before interest, taxation, depreciation, goodwill amortisation, exceptional items and share-based payments) increased 98% to £10.9m (2006: £5.5m)
- Operating profit increased by 106% to £9.1m (2006: £4.4m)
- Profit before tax, amortisation of goodwill, exceptional items and profit on sale of fixed assets increased by 66% to £6.2m (2006: £3.7m)
- Profit before tax increased by 63% to £5.4m (2006: £3.3m)
- Adjusted earnings per share (being before goodwill amortisation and exceptional items) 13.70p (2006: 8.17p), basic earnings per share 14.06p (2006: 7.07p)
- Two acquisitions completed during the year representing 184 beds
- Overall resident capacity increased by 290 to 1,029
- Occupancy levels at the year end of 90%









We have properties that provide high standards of care for people with learning difficulties.

We are a company that provides high standards of care for people with learning difficulties.

We support people with learning disabilities by helping improve the quality of their lives.

Market Opportunity

The market for people with learning disabilities is growing but remains fragmented. The demographic profile drives demand for high quality care and support. CareTech is well placed to play a leading role in consolidation of the market.

A large and growing market

- 1.4m people have a learning disability
- 62,000 residential PLD care places available in the UK
- Estimated shortfall of 25,000 residential care places
- 48% increase in adults over 50 with PLD by 2021
- UK learning disability market worth £4.68bn

Predictable revenues from local authorities and NHS

- Annuity style income underpinned by normal life expectancy of residents – 62% of CareTech residents are aged 50 or under
- Occupancy rates of c.95% achieved in mature homes
- Low client turnover rates evidence long length of stay

Government policy and regulation

- Outsource to private sector to provide a better quality of life rather than old public sector institutionalised care
- Increase in care led decision making – 'Best Value'
- With the Care Standards Act, smaller operators increasingly unable to comply with tighter regulatory regime

1,029
Providing support services to 1,029 adults

141
Providing quality housing in 141 homes

229
Providing five day centres for 229 people

Chairman's Statement

CareTech leads the way in providing creative 'person centred' services.

Introduction
It gives me great pleasure to present our full year results for 2007. In line with previous years I can report another year of substantial progress for the Group, with strong growth in revenues and underlying earnings since our flotation in October 2005.

CareTech leads the way in providing creative 'person centred' services. With this in mind we have increased the range of services we offer within our specialist field of learning disability. This development, coupled with the completion of our regional management project puts us in a stronger position to continue our strategic goals. Market fundamentals and demographics remain favourable to our strategic position.

Results
The results to 30 September 2007 demonstrate further significant growth with revenues up 59% to £53.1m and EBITDA (being the operating profit before interest, taxation depreciation, amortisation, exceptional items and share-based payment costs) up 98% to £10.9m.

Profit before tax, amortisation and exceptional items increased by 66% to £6.2m, with adjusted basic earnings per share (i.e. on the same basis) increasing by 68% to 13.7p.

Over the period from 2005–2007 profit before tax, goodwill, amortisation and exceptional items has risen from £1.6m to £6.2m representing a compound growth rate of 96%. Similarly, basic earnings per share, adjusted as above, has increased from 4.1p to 13.7p representing a compound growth rate of 83%.

Further success with growth strategy
The Group continues to deliver against its ambition to become a consolidator in the highly fragmented market in which it operates. In the two years since flotation we have grown from 423 beds and 55 day centre places to the current 1,029 beds and 229 day places.

Through regionalisation of the operational management structure, we have positioned the group to be able to meet its strategic targets with an organisation 'fit for purpose'.

During 2007 significant growth has again been made with residential bed capacity increasing by 290 to 1,029 beds. Once again this has been achieved through a combination of acquisitions, representing 184 beds, together with organic growth of existing services of 106 beds.

Organic growth underpins the business and the management team has delivered solid performance in this growth area as well as through acquisition. This in part stems from the build up of our regional identity and the consequent strengthening of local relationships with local authority purchasers.

Service development
The Group remains committed to the core activity of providing residential services to adults with learning disabilities, but recognises the opportunities that arise from being able to offer a wider menu of service options to Social Services care purchasers.

In 2006 we acquired the children's services operated by Delam Care and during 2007 we have launched a further three services for children and school leavers in the Midlands area.

Our continuing dialogue with service purchasers has recognised a significant demand for supported living services to individuals who are more independent than those living under the residential care model. Our acquisition of One-Step in July 2007 has given further momentum to our existing supported living services and is an exciting innovation that we will begin to roll-out across our operating regions in the current year.

Dividend
In July 2007, we announced an interim dividend to shareholders of 1p per share. The Board is proposing a final dividend of 2p per share subject to approval by shareholders at the forthcoming Annual General Meeting.

Outlook
The performance of the underlying business is strong. The 2006 acquisitions of Delam Care and Lonsdale Midlands both performed ahead of expectations in 2007 and the initial results from both Counticare and One-step are very positive. Having organised the Group's management into a regional structure, we remain ideally placed for further progress in all service areas.

Moreover the market remains favourable. Within the highly fragmented social care market smaller operators are struggling to meet an increased regulatory burden while demographic change leads toward greater demand, especially among the most disabled potential users. We look forward to the coming year with confidence as the Board continues to selectively evaluate growth opportunities.

Conclusion
Our continuing success is underpinned by the hard work and dedication of all staff. I would again express my thanks to colleagues for their considerable effort in what has been an energising and fulfilling year.

I look forward to the year ahead with enthusiasm. I am confident that our teams will deliver the very best and innovative services to those we support and in so doing will enable all stakeholders to share in our success going forward.

Farouq Sheikh
Chairman

...Quality homes

'Our homes are integrated within the wider community. Local authorities recognise the importance of this when making placement decisions.'

Demand outstrips supply for specialist residential care and support for people with learning disabilities. Through the upgrade of existing properties and new acquisitions, CareTech continues to be a leader in the market.

Chief Executive's Review

Our market position has strengthened and we continue our strategic approach to consolidation, adding a further 290 beds to our portfolio through selective acquisition and organic growth.

Introduction

2007 has been another productive year and our annual financial statements to 30 September reflect the solid platform that we continue to build.

We have maintained exceptional standards within our core activity and retain our focus on high quality individually focused service delivery. Through our initiatives and innovations we continue as a favoured provider with a broad range of services that anticipate and meet demand for a spectrum of needs within the learning disability field.

Our market position has strengthened and we continue our strategic approach to consolidation, adding a further 290 beds to our portfolio through selective acquisition and organic growth. We have also increased our day centre capacity to 229 places.

The market in which we operate yields significant growth opportunity with an increase of demand year-on-year, consolidation opportunities and demand for service diversity.

CareTech is a social care provider and in the past year we have worked with more than 140 separate Social Services departments. We understand their evolving commissioning strategies and the value between the traditional residential care model of service provision and the emerging requirement for the provision of supported living services. This approach is delivering positive growth for CareTech and our long-term relationship with these commissioners offers a good deal of confidence about future opportunity.

Market review

The market for learning disability is large and expected to grow significantly in the foreseeable future. Department of Health statistics indicate:

- there are 1.4m people in the UK with a learning disability; and
- 185,000 of these people are severely disabled and unable to live independently.

Research by Lancaster University confirms that there is currently a shortfall in the provision of appropriate places of 25,000, mainly residential beds.

The market continues to be highly fragmented with the majority of places being provided by small independent operators with three or less homes. Laing and Buisson, in their 2007 annual review of the mental health and learning disability market confirm that 'there remains considerable scope for consolidation'.

Strategic review

On flotation in October 2005 we set out our strategic objective to grow substantially and become a leading provider through consolidation in the market. I am pleased to report considerable progress in our drive to meet strategic targets with our current portfolio representing 1,029 beds and 229 day care places.

Our strategy for growth continues unchanged and is characterised by a commitment to provide first class services to people with a learning disability. We are mindful of evolving commissioning strategies and are introducing new services that offer a wider range of options for person-centred planning, including:

1) Supported living schemes – focused on our recent acquisition of One-Step; a pioneer in this field;
2) Care of disabled children – focused on the specialist services acquired with Delam Care.

Through these developments we remain a provider of specialist services, but are able to provide local authorities with a wider range of solutions to their placement needs.

Capacity growth

During the year we have added a further 290 beds, increasing our capacity to 1,029, compared with 423 at flotation. This has been achieved from both organic development of existing services and from selective acquisitions.

2006 Acquisitions

I can report strong performance from the two acquisitions undertaken in 2006. Delam Care continues as a quality provider of services for children, attaining frequent 'excellent' ratings from OFSTED (the children services regulator). The development of children services is gaining momentum and a further three services representing 28 beds were commissioned in 2007.

Lonsdale Midlands has similarly performed well and during the year has been awarded significantly improved quality ratings from CSCI (the adult services regulator). In addition, our success with Lonsdale has led to 24 new clients being transferred to us through the tender route as well as a 12 client contract extension being awarded.

...Quality Carers

'CareTech has a successful platform for engagement with families, service users and their care managers. We also have a long-standing partnership with independent quality audit assessors who monitor and report on performance.'

Where service trends evolve, we work with care managers to remain at the leading edge of service delivery, modifying and improving the services in line with their expectations.

Chief Executive's Review continued

We are already seeing the benefits of this from the number of initiatives and business development opportunities that these are generating.

2007 Acquisitions
During the year we announced two further important acquisitions.

Counticare was purchased in November 2006 as an established provider of residential services in Kent. This has added a further 101 clients to our existing 18 homes in that region, a substantial day centre and the accommodation for our regional management team.

Counticare has integrated well and performed ahead of expectations.

One-Step was purchased in July 2007 and represents an exciting development of our supported living services. The business provides services to approximately 75 fairly independent people, together with a pioneering family assessment centre for up to six families.

The post-acquisition performance of One-Step has been very exciting and our strategy is to thoughtfully introduce its business model across our network, complementing the existing residential services. The founders of One-Step are part of the ongoing team, having taken a significant part of their net consideration in CareTech shares and driving the roll-out programme.

Organic development
Organic growth underpins our development strategy and continues to be an important aspect of our growth. One consideration when reviewing acquisitions is the opportunity for organic growth that stems from the proposal. During the year, 106 organic beds were added with each of our regions able to bolt on additional capacity.

Operational review
(i) Management restructuring
We have completed our organisational restructuring into three geographical regions, which equips us for further growth in association with key local authority commissioners.

Each region is seen as a business unit with a regional director and financial accountant leading the management teams. We have devolved business development, human resources and training teams to a local level. The regions are supported from the centre and key performance indicators monitored on a weekly basis.

(ii) Quality
The focus on quality has been further strengthened in the year. We have appointed a Quality and Performance Director who is already increasing the quality benchmarks through a team devolved to the regions. Each region has a quality auditor driving improvement.

(iii) Infrastructure
We recognise that the success of our growth programme requires additional infrastructure and have invested significantly in modern information technology utilising industry standard financial and management applications. We provide better and smarter information for the regional teams through high capacity lease lines.

Trading performance
The Group has again demonstrated a significant increase in financial performance. Revenues are 59% up at £53.1m, EBITDA is 98% up at £10.9m and profit before tax up 63% at £5.4m.

Basic earnings per share have increased from 7.07p to 14.06p and we have introduced an interim dividend during the year of 1p per share. Performance continues to be underpinned by the increasing bed capacity and the benefit of the operational gearing within the business. The current year has started well with progress continuing to be made in each of the regions.

Outlook
In the UK overall and specifically in England there remains a significant shortfall of capacity for people with learning disability. The positive demographics mean that this is certain to continue for the foreseeable future. The regionalisation process means that we now have better and closer working relationships with local purchasers. We are already seeing the benefits of this from the number of initiatives and business development opportunities that these are generating. This, together with the wider range of services that we now have on offer puts us in a strong position as we continue growing the business.

In addition, there is considerable opportunity for further consolidation of the highly fragmented provider sector. As we look forward, CareTech can continue leading the consolidation process; the market place is large and there are numerous opportunities for us to consider. We have developed a strong reputation as a preferred partner and consolidator and look forward with confidence to the future as we continue to execute the strategy set out at the time of flotation.

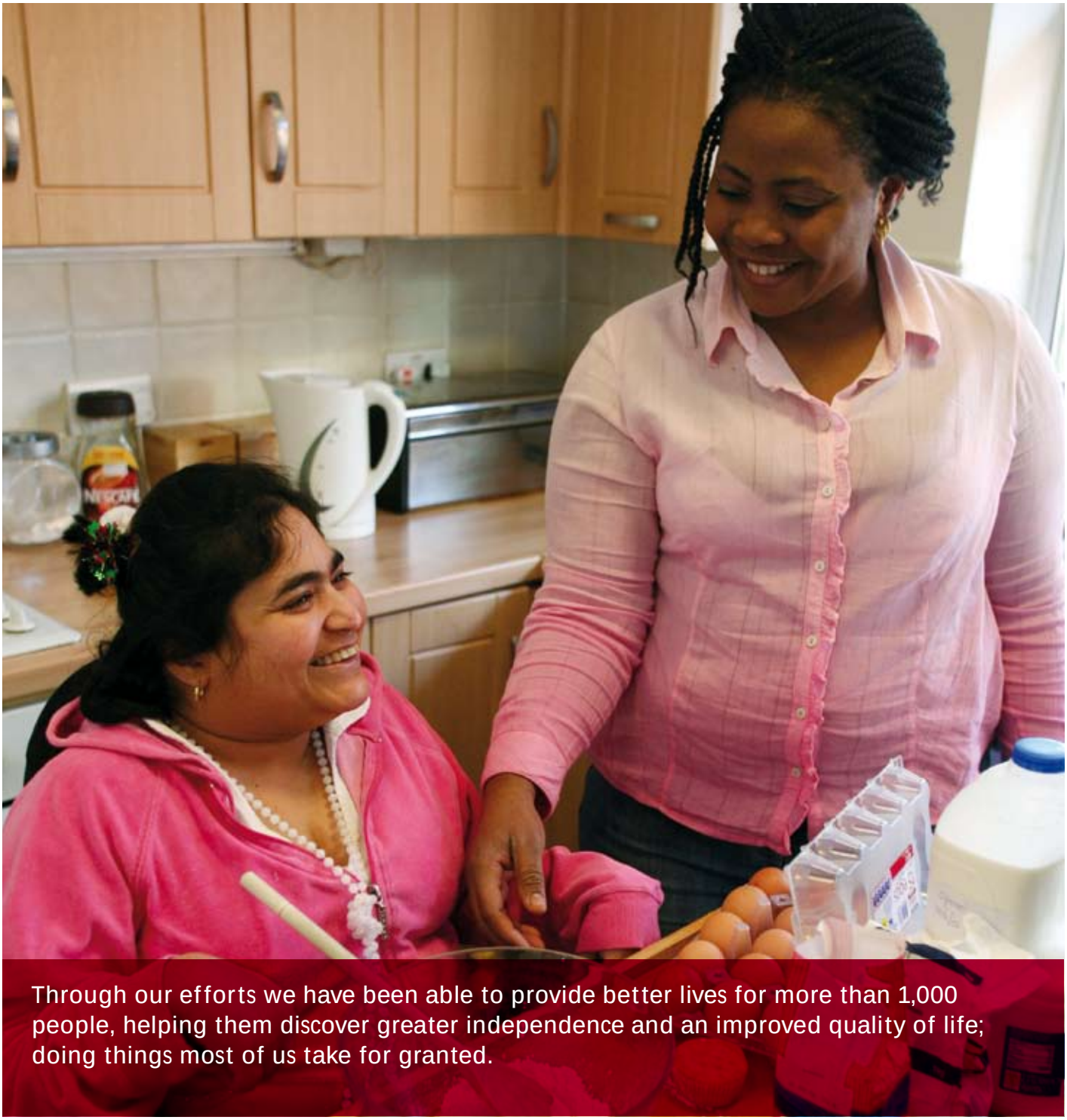
Conclusion
It has been another very successful year for CareTech. I would like to take the opportunity of thanking our committed management teams and staff for their energy and enthusiasm during this year. I also welcome our new colleagues and wish them well in their careers with CareTech.

Through our efforts we have been able to provide better lives for more than 1,000 people, helping them discover greater independence and an improved quality of life; doing things most of us take for granted.

Haroon Sheikh
Chief Executive Officer
4 December 2007

...Quality services

'Our approach is delivering positive growth for CareTech and our long-term relationship with these commissioners offers a good deal of confidence about future opportunity.'



Through our efforts we have been able to provide better lives for more than 1,000 people, helping them discover greater independence and an improved quality of life; doing things most of us take for granted.

Finance Director's Review

The Group continues to demonstrate strong trading cashflows which will fund the organic development of further bed capacity.

Overview
The Group has performed well in the year, with solid results from underlying core activities and stronger than forecast contributions from the acquisitions made since flotation in October 2005.

Turnover and operating profit
Turnover increased by 59% to £53.1m, including £6.6m from the Counticare and One-Step acquisitions.

Operating profit increased by 106% to £9.1m including a contribution from the acquisitions of £1.6m. The Group's operational gearing means a continuing increase in operating margins, arising from adding additional revenue to a substantially complete cost base; EBITDA margins (being earnings before interest, tax, depreciation and amortisation) increased from 16.4% to 20.5%.

Administrative expenses, including goodwill amortisation of £0.5m (2006: £0.4m) increased to £5.1m (2006: £2.6m), reflecting the establishment of the regional structure which has been a significant achievement in the year and which provides an excellent platform for future growth. At September 2007 the regional teams are largely complete and focused to deliver additional growth in 2008.

Exceptional operating items
The financial statements reflect the cost of certain non-recurrent costs attributable to the integration of the Counticare and One-Step acquisitions, together with one-off costs attributable to the introduction of the regional management structure. Total exceptional costs are £308,000, comprising acquisition integration costs of £227,000 and management restructuring costs of £81,000. The tax effect of these costs amounts to £92,000.

Taxation
The Group's effective tax rate in the year (after adjusting for the exceptional tax credit) was 20.9% (2006: 23.7%), which continues to be lower than the standard rate due to the benefit of capital allowances and the utilisation of prior year losses in recent acquisitions

During the year the Group has made significant progress in agreeing prior year and acquisition related tax matters. As a result an exceptional tax profit and loss credit of £800,000 has been recognised.

Earnings per share
Basic earnings per share have increased from 7.07p in 2006 to 14.06p in 2007. Basic earnings per share before exceptional items and amortisation have increased from 8.17p to 13.70p and from 8.13p to 13.54p on a fully diluted basis.

Dividend
During the year the Group introduced an interim dividend payment to shareholders of 1p per share (2006: nil). The directors are proposing the payment of a final dividend of 2p per share (2006: nil), subject to approval by shareholders at the Annual General Meeting.

Cashflow and net debt
The operating cashflows of the Group remain strong with net operating inflows at £8.9m. Capital expenditure, development and acquisitions amounted to £39.6m, partly funded by operating cashflow, together with further utilisation of debt facilities of £34.7m. Financing and tax costs were £4.0m. At 30 September 2007, net debt was £70.4m.

The Group continues to demonstrate strong trading cashflows which will fund the organic development of further bed capacity. In October however, the Group reached agreement in principle with its bankers Royal Bank of Scotland to increase its facilities by a further £25m to £100m.

Key performance indicators
The Group uses the following financial and non-financial key performance indicators to measure the operational and strategic performance of the business.

Earnings Before Interest, Tax, Depreciation and Amortisation (EBITDA)
The Group monitors the progress of each home through the measurement of its operating contribution against its targets. This combines with the cost of central operational management to reflect EBITDA. During 2007, the EBITDA margin increased from 16.4% to 20.5%, reflecting the increasing economies of scale within the Group.

Earnings Per Share (EPS)
The primary performance indicator is the Group's earnings per share. Our strategic objective is to increase earnings per share each year through organic growth of the core business and through acquisitions. The 2007 results show improved basic and diluted earnings per share.

Occupation levels
All homes are closely monitored to achieve the appropriate balance between full occupation and client compatibility (which is required for long-term occupation). During the year we maintained occupation levels in mature services (being homes open for more than 12 months) at 95% with an overall blend across all services at the year end of 90%.

International Financial Reporting Standards ('IFRS')
The Group's first required reporting under IFRS will be its half year report as at 31 March 2008. Preliminary work has been carried out in 2007 to familiarise the Board with the implications of implementing IFRS for CareTech. It is intended to publish an IFRS transition statement as part of the half year report which will restate the results for the year ended 30 September 2007 from UK GAAP to IFRS.

David Spink
Finance Director
4 December 2007