

CareTech Holdings PLC

Preliminary Statement



CareTech Holdings PLC
("CareTech" or "the Group" or "the Company")

Preliminary Results for the year ended 30 September 2009

CareTech Holdings PLC (AIM: CTH), a leading UK provider of specialist social care services, is pleased to announce its preliminary results for the year ended 30 September 2009.

Highlights

- Revenue increased by 23% to £83.4m (2008: £67.7m)
- EBITDA⁽ⁱ⁾ increased 32% to £22.8m (2008: £17.3m)
- Profit before tax⁽ⁱⁱ⁾ increased by 45% to £15.3m (2008: £10.5m)
- Diluted earnings per share⁽ⁱⁱ⁾ increased by 26% to 27.15p (2008: 21.58p).
- Cash inflows from operating activities increased by 38% to £19.8m (2008: £14.4m)
- Overall resident capacity increased by 122 to 1,430 including 97 organic beds
- Acquisition of 25 community mental health beds from Lyndhurst Psychiatric Care
- Final dividend of 3.100p (2008: 2.725p) per share, resulting in full year dividend growth of 25%

(i) EBITDA is operating profit stated before depreciation, share-based payments charge, amortisation of intangible assets and significant items (explained in note 2);

(ii) Profit before tax and diluted earnings per share are stated before amortisation of intangible assets and significant items (explained in note 2).

Commenting on the results, Farouq Sheikh, Executive Chairman said:

"We have made further significant progress during the year and I am pleased to report excellent growth in all key performance measures. We continue to benefit from strong visibility of income through the provision of cost efficient long term quality care solutions for individuals and local authorities.

Our range of services and geographical coverage has continued to expand and we are well placed to deliver further growth in market share. We continue to see significant opportunities to deliver effective solutions for individuals and local authorities in the provision of specialist social care solutions."

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Chairman's Statement

Results

During the year to 30 September 2009 the Group continued to deliver strong growth and made significant progress in developing complementary services and enhanced capabilities. Revenue grew by 23% to £83.4m (2008: £67.7m). Our performance was further strengthened by effective management of costs and the benefits of operational gearing, helping to deliver EBITDA of £22.8m (2008: £17.3m) representing growth of 32%.

Profit before tax rose by 45% to £15.3m (2008: £10.5m) and, following an increase in the number of shares in issue after the July 2008 placing, diluted earnings per share grew by 26% to 27.15p (2008: 21.58p). Since flotation in 2005 we have delivered outstanding growth with a compound increase in earnings per share of 60% per annum.

The Group delivered another year of good cash performance, with cash inflows from operating activities before tax of £19.8m (2008: £14.4m), demonstrating the quality of our income stream. We also have a robust balance sheet with a substantial freehold property portfolio recently valued at £206m. Net debt at 30 September 2009 was £93.4m (2008: £85.3m) following further investment in organic developments and acquisitions.

Dividend

Our policy is to increase future dividends broadly in line with earnings growth. The Board has proposed a final dividend of 3.100p (2008: 2.725p) per share bringing the total dividend for the year to 4.700p (2008: 3.750p), being growth of 25%. The final dividend will be paid on 1 April 2010 to shareholders on the Register of Members on 12 March 2010.

Further growth delivered

The robust and visible nature of CareTech's business model has continued to deliver growth in the year to 30 September 2009 during a period of turbulence in economic and financial markets. Whilst local authority spending is under pressure the non discretionary, long term and cost effective nature of our services positions CareTech to gain market share as a supplier of choice for care commissioners.

We have successfully integrated Beacon and Valeo, our two major acquisitions in the previous financial year, into an effective regional structure. Capacity has been increased by a further 122 beds during the year, adding 97 beds through organic growth across our range of specialist services and 25 through the acquisition of Lyndhurst. Across the Group we now have a capacity of 1,430 beds and occupancy in established services continues to run at 93%, providing longevity and visibility of our cash-backed income stream.

The acquisition of Lyndhurst in the first half of our financial year has enhanced the Group's 'step-down' community based mental health capabilities.

Our people

I would like to thank all of our employees for their hard work during the year and to welcome those who have recently joined. On a personal note I am particularly encouraged to see growth in the depth and range of our management teams and frontline staff. The Board recognises the significant contribution made by all of our people in delivering outstanding services every day.

Outlook and prospects

We operate in a large and highly fragmented market which continues to grow significantly due to demographic and social changes. Budget constraints are fuelling demand for cost effective quality services, as local authorities balance their duty of care with the requirement to control national debt. Meanwhile, society demands innovative and appropriate specialist social care services. Approximately 20% of residential care for people with learning difficulties is still provided by the state and this presents an opportunity for further outsourcing to the private sector.

As a leading provider of high quality specialist social care services providing care pathway solutions across a range of expertise including residential, children's and adult learning difficulty services, mental health, family assessment and community support we are able to deliver effective solutions for individuals and local authorities. Also, with strong financial backing, CareTech is well placed to consolidate the market for both learning difficulties and mental health provision.

Our growing capabilities, wider geographic coverage, high quality standards and strong financial position give us confidence that the Group will continue to be a leading consolidator of specialist social care services. I look forward, with significant visibility, to further progress in 2010.

Farouq Sheikh
Chairman
9 December 2009

Chief Executive's Statement

Operating review

CareTech is a leading provider of residential care and community support to people with complex social care needs. Virtually all of our income is funded by local authority social services departments and over the past 19 years we have established a progressive and reputable care quality standard with leading edge service delivery models.

During the year to 30 September 2009 we have made considerable developments to the range of services provided across the Group. We now have bed capacity of 1,430 covering a care pathway of services including adult residential learning difficulties, children's services, supported living, mental health, family assessment and community support. Capacity increased by 122 beds during the year including 97 beds through organic growth with demand for children's residential services and supported living being particularly strong. A number of properties have also been refurbished and reconfigured during the past 12 months in order to meet the changing needs of service users and develop our range of solutions.

We have also continued to meet the regional needs of local authority commissioners and social workers, as well as facilitating further growth, by developing our internal operating structure. During 2009 we have established a divisional structure of 7 business units reporting through 2 regions – North and South. The business units are functioning well, having key personnel developing local contacts and managing matters including operations, quality, finance, human resources, training, recruitment and estates management.

Our next stage of development will see the geographical expansion of some of our services. For example, children's residential services are currently focused on the Midlands area and mental health in North London; we intend to share this developing expertise across our 7 business units.

With around 140 local authority relationships we see many opportunities to deliver the benefits of our care pathway solution across existing business units, in addition to geographical expansion.

Acquisitions

In the second half of our 2008 financial year we increased the Group's capacity by 18% through the acquisition of Beacon and Valeo. I am delighted to report that both businesses have been successfully integrated into our regional structure and are now delivering organic growth.

Across the Beacon homes we have invested resources to drive quality standards and the enlarged presence which it has provided in the South has brought valuable business opportunities.

Valeo has proven to be an excellent platform from which to build an enlarged presence in Yorkshire. A strong operational team was already in place at acquisition and further developments have delivered organic growth including supported living services in Sheffield, Rotherham and Huddersfield.

In early 2009 we responded to an increase in demand for community mental health provision by the purchase of 25 beds from Lyndhurst. Established in 1985, Lyndhurst also provides a complementary pathway into our One Step supported living business. We plan to build upon the expertise which Lyndhurst brings to the Group in order to further expand mental health and related services across our regions.

Quality and risk management

CareTech has policies and processes in place to identify, mitigate and manage operational risks.

We have a strong focus on the quality of services that we provide with a reporting and monitoring structure in place from homes level staff, through area managers and Business Unit management. In addition, we have a comprehensive internal quality audit function where a team of 5 experienced compliance executives work under the leadership of our Quality and Performance Director.

Attracting, developing and retaining staff is an important aspect of our business. We now have almost 3,000 employees across the Group with our quality of service and care cost performance both being influenced by the continuity of well trained staff. During 2009 we have strengthened our internal recruitment and learning and development teams which has resulted in improved staff retention, quality ratings and care cost management.

Occupancy is a key driver of financial performance. With an average age of around 42 years across our occupancy and life expectancies measured in decades, we have a secure and highly visible level of core occupancy levels. However, we do lose a small number of our service users during the year and it is always important that the resulting vacancies are filled with individuals who are compatible with the particular service. We have invested considerable attention to our service development teams who work in partnership with social workers and commissioners to identify and secure successful placements.

Strategic objectives

We remain committed to provide first class specialist social care services to people with learning difficulties (PLD) and mental health needs. Our success in this respect is measured by the fact that 81% of our registered services are rated by the Care Quality Commission and OFSTED as good or excellent. At the end of our year we had no poor-rated services.

Across a tailored range of services we have a strategy to develop our person-centred approach in conjunction with the evolving commissioning strategies for specialist social care services. Our success in this respect is measured by the 93% occupancy level achieved in our established services and our range of services which currently includes:

- (i) residential care for adult PLD;
- (ii) supported living schemes;
- (iii) day centre activities;
- (iv) residential care for children;
- (v) low secure and step down community care; and
- (vi) family assessment centres.

By continuing to provide and further develop high quality services which deliver a range of person-centred solutions, we are confident that we can continue to deliver growth both organically and through selective acquisitions in order to consolidate the highly fragmented specialist markets in which we operate. During the 2009 financial year we delivered growth in EBITDA of 32% and yet, as a market leader, have less than a 2% share of the UK PLD market.

Growth and market opportunity

The UK independent sector for mental health and PLD is estimated to be worth £6.7 billion. Approximately 1.4m people in the UK have a learning difficulty and 60% of these are currently cared for by families and friends. Of these people 185,000 individuals are said to be so severely disabled that they are unable to live independently.

In terms of residential PLD care beds, there is a provision of 85,775 across the UK of which around 20% are still provided for by the public sector.

The UK PLD market is estimated to grow by up to 5.5% per annum until 2026 and MIND estimates that up to 40% of people with learning difficulties have an additional mental health issue.

Provision of services by the independent sector remains highly fragmented with the majority of places being satisfied by small operators with 3 or fewer homes.

At CareTech, we see the opportunity to be a strategic partner and important consolidator of this highly fragmented and growing market. We are developing a care pathway model of services to satisfy demand and deliver person-centred solutions. In addition, we are identifying opportunities to further expand our geographical coverage of the UK market.

Outlook

The pressures on public spending are well documented and will inevitably result in local authorities seeking cost-effective solutions to satisfy their duty of social care. We are confident that CareTech is well placed to meet the needs of service users and form strategic partnerships with local authorities to deliver high quality care pathway solutions. We look forward with confidence that the Group can deliver further growth from the opportunities that arise.

Haroon Sheikh
Chief Executive Officer
9 December 2009

Finance Review

Financial performance

CareTech's strong performance during the year to 30 September 2009 is reflected in our financial results. Considerable year on year growth in revenues with significantly enhanced profit margins has continued to generate accretive returns to shareholders and robust cash flows.

The income statement, before amortisation and significant items, for the year is summarised below:

	2009	2008	Growth
	£'m	£'m	
Revenue	83.4	67.7	23.2%
Gross profit	33.6	26.2	
Administrative expenses	(10.8)	(8.9)	
EBITDA	22.8	17.3	32.0%
EBITDA margin	27.3%	25.5%	
Depreciation	(2.2)	(1.4)	
Share-based payments charge	(0.2)	(0.1)	
Operating profit	20.4	15.8	29.0%
Net finance costs	(5.1)	(5.3)	
Profit before tax	15.3	10.5	45.1%
Taxation	(3.1)	(2.1)	
Effective tax rate	20.3%	20.1%	
Profit for the year	12.2	8.4	44.9%
Weighted average number of diluted shares	44.9	39.0	(15.1)%
Diluted earnings per share	27.15p	21.58p	25.8%
Full year dividend per share	4.70p	3.75p	25.3%

Revenue

Revenue for the 2009 financial year of £83.4m (2008: £67.7m) was 23.2% higher than in 2008. Excluding the revenue generated in both years from our acquisition of Beacon, Valeo and Lyndhurst strong growth in core revenues of 7.9% was delivered.

During the year we continued to experience high occupancy levels with established services reporting 93% occupancy at 30 September 2009. When new services and those under development are considered, the overall blended level of occupancy at the year end was 88% which, together with the average age of our service users being only 42 years, supports a robust and visible income stream.

No single local authority represents more than 10% of Group revenue. Annual fee reviews from local authorities in April 2009 provided an increase of around 2%. In addition to the annual fee review, the fees received by our services also change due to the needs of individuals and when vacant beds are filled.

EBITDA

The gross profit has benefited from our focus on providing well managed quality services. 81% of our registered care homes are rated as good or excellent and we continue to focus on the effective and efficient management of care costs including the control of agency staffing costs and utilities.

Administrative expenses (before depreciation and share-based payments charge) of £10.8m during 2009 were £1.9m higher than the previous year and represent 13.0% (2008: 13.3%) of Group revenue. In the first few months of our 2009 financial year we established an efficient organisational structure with 2 effective regional teams being responsible for fully operational business units meeting the local needs of our clients. Alongside the acquisition of Lyndhurst we have also identified an opportunity to extend our mental health capabilities. We are confident that both of these initiatives will position us well for delivering further growth across our range of services and geographical coverage.

EBITDA for the 2009 financial year, before amortisation and significant items, of £22.8m (2008: £17.3m) was 32% higher than in 2008. Excluding the EBITDA generated in both years from the acquisition of Beacon, Valeo and Lyndhurst our core EBITDA grew strongly by 11.4%.

The 2009 Group EBITDA margin of 27.3% (2008: 25.5%) has benefited from an enhanced gross margin explained above. Also, the EBITDA growth has been delivered from a scaleable overhead base. Administrative expenses and rental costs of £10.8m (2008: £8.9m) continued to run at 13% of revenue whilst supporting significant expansion in our care pathway range of services across our regions. Supported living beds now constitute almost 20% of the Group's occupancy and the number of properties rented by CareTech has increased in response to this demand.

Operating profit and profit before tax

We have continued to invest capital in order to provide quality services and deliver further growth with this being reflected by an increase in our depreciation charge for 2009. However, Group operating profit of £20.4m (2008: £15.8m) was 29% higher than 2008.

Net finance costs (before significant items) during 2009 of £5.1m (2008: £5.3m) benefited from lower interest rates incurred on net debt compared to the previous year and is 4.5 times covered by EBITDA which is comfortably ahead of our bank covenant of 2.25 times.

The profit before tax, before amortisation and significant items, increase of 45.1% to £15.3m (2008: £10.5m) includes strong organic growth from both existing operations and recent acquisitions together with the full year benefit of businesses acquired during 2008.

Taxation and diluted earnings per share

The 2009 charge for taxation of £3.1m represents an effective tax rate of 20.3% (2008: 20.1%). A number of opportunities have been identified, particularly with regard to capital allowances, which may have a favourable impact on the future effective tax rate.

We are pleased to report that diluted earnings per share, before amortisation and significant items, in 2009 of 27.15p (2008: 21.58p) has grown by 25.8%. The accretive return to shareholders is particularly impressive considering a 15.1% increase in the number of shares in issue following the placing of 7.1m ordinary shares in July 2008.

Dividends

The Board has proposed a final dividend of 3.100p (2008: 2.725p) per share which, together with an interim dividend of 1.600p, brings the dividend for the 2009 year to 4.700p (2008: 3.750p) representing growth of 25.3%. Dividend cover for 2009 based upon diluted earnings per share, before amortisation and significant items, was 5.8 times (2008: 5.8 times).

Amortisation and significant items

In order to provide a clearer understanding of CareTech's performance the amortisation of intangible assets and significant items are disclosed separately on the face of our income statement and are fully explained in note 2 to the financial statements.

A consistent approach has been adopted in the income statement for significant items during the 2008 and 2009 financial years. However, a restatement of prior year figures has been applied in order to account for minimum future lease payment uplifts on a straight-line basis in accordance with IAS 17, a practice which has been adopted by our industry peer group.

Cash flow and net debt

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

	2009	2008
	£'m	£'m
EBITDA before amortisation and significant items	22.8	17.3
Amortisation and significant items	-	(0.7)
Increase in working capital	(3.0)	(2.2)
	<hr/>	<hr/>
Cash inflows from operating activities	19.8	14.4
Tax paid	(2.2)	(0.7)
Interest paid	(5.7)	(5.3)
Dividends paid	(1.9)	(1.1)
Proceeds from the issue of shares	0.3	29.0
Acquisitions	(8.7)	(31.8)
Capital expenditure	(9.7)	(19.5)
	<hr/>	<hr/>
Opening net debt	(8.1)	(15.0)
	<hr/>	<hr/>
Closing net debt	(93.4)	(85.3)
	<hr/> <hr/>	<hr/> <hr/>

Net debt has increased by £8.1m to £93.4m (2008: £85.3m) during the 2009 financial year mainly due to an investment of £18.4m in acquisitions and capital expenditure which is all expansionary other than approximately £3m of capital to maintain the core portfolio of assets. Excluding expansionary investment the Group generated net surplus funds of £7.3m.

Working capital continues to increase as the scale of our operations expands. The £3.0m (2008: £2.2m) working capital increase is also a reflection of the trend for local authorities to pay on credit terms, particularly in respect of supported living services.

Tax paid of £2.2m (2008: £0.7m) is lower than the current charge in the income statement mainly due to the availability of capital allowances in excess of our depreciation charge, a feature which will continue as we invest in further growth.

Interest paid differs to net finance costs in the income statement due to rollover periods crossing September year ends together with the non-cash revaluation of interest rate hedging instruments classified as significant items.

Dividends paid of £1.9m include the final payment declared for our 2008 year end and the 2009 interim payment. We received proceeds of £0.3m for the issue of shares to satisfy employee exercises under share option schemes.

£8.7m was invested in acquisitions during the year, including £2.8m to satisfy deferred consideration payable from the Beacon and Valeo acquisitions of 2008. Lyndhurst was acquired in January 2009 for cash consideration of £5.9m including professional fees, this being an important strategic development into the provision of low security, community based, step-down mental health services. All of these acquisitions have been successfully integrated into the Group and are generating accretive returns at least in line with our expectations.

Bed capacity has been increased by organic additions of 97 during the 2009 financial year, which is again ahead of market expectations. Approximately £7.2m has been invested during the year to deliver increased bed capacity together with around £2.5m to maintain our core portfolio of assets.

Financial position

We continue to enjoy the flexibility of development and financial strength that our substantial freehold property portfolio provides. As such the key features of our balance sheet are our property, plant and equipment assets, at net book value, of £160.3m and net debt of £93.4m.

Our freehold property portfolio, held in the balance sheet at a net book value of £146.5m, was recently independently valued at £206m on an existing use market value basis. Net debt of £93.4m represents a loan to value ratio of 45% at 30 September 2009 which is comfortably within our bank covenant requirement of 70%.

The increase in net debt to £93.4m has been explained earlier and leaves £17.9m of headroom against our financing facilities of £111.3m at 30 September 2009. Net debt is 4.1 times our reported EBITDA of £22.8m during the year and is significantly within our bank covenant of 5.5 times.

Since the year end we have issued 900,000 ordinary shares to satisfy £3.5m of deferred consideration relating to our acquisition of Beacon in 2008. In addition, £3.4m of remaining consideration is expected to be settled during our 2010 financial year.

Outlook

CareTech's strong asset-backed and modestly geared balance sheet, together with a highly predictable income stream and cash flow, provides the opportunity to fund further organic growth and strategic acquisitions. With a clear focus on the provision of high quality services from an efficient operating structure we are well placed as a leading consolidator of our highly fragmented markets.

David Pugh

Finance Director
9 December 2009

Consolidated Income Statement for the year ended 30 September 2009

	Note	2009			2008 Restated ⁽ⁱ⁾		
		Before amortisation & significant items	Amortisation & significant items ⁽ⁱ⁾	Total	Before amortisation & significant items	Amortisation & significant items ⁽ⁱ⁾	Total
		£000	£000	£000	£000	£000	£000
Revenue		83,421	-	83,421	67,713	-	67,713
Cost of sales		(49,824)	-	(49,824)	(41,480)	-	(41,480)
Gross profit		33,597	-	33,597	26,233	-	26,233
Administrative expenses		(13,227)	(1,994)	(15,221)	(10,448)	(2,715)	(13,163)
Operating profit		20,370	(1,994)	18,376	15,785	(2,715)	13,070
EBITDA ⁽ⁱⁱ⁾		22,779	-	22,779	17,254	-	17,254
Depreciation		(2,200)	-	(2,200)	(1,356)	-	(1,356)
Amortisation of intangible assets		-	(340)	(340)	-	(218)	(218)
Share-based payments charge		(209)	-	(209)	(113)	-	(113)
Significant items	2	-	(1,654)	(1,654)	-	(2,497)	(2,497)
Operating profit		20,370	(1,994)	18,376	15,785	(2,715)	13,070
Financial income		15	-	15	71	-	71
Financial expenses	2,3	(5,091)	(6,491)	(11,582)	(5,318)	(1,915)	(7,233)
Profit before tax		15,294	(8,485)	6,809	10,538	(4,630)	5,908
Taxation	2,4	(3,103)	1,087	(2,016)	(2,122)	228	(1,894)
Profit for the year attributable to equity shareholders of the parent		12,191	(7,398)	4,793	8,416	(4,402)	4,014
Earnings per share							
Basic	5,6	27.28p		10.73p	21.82p		10.41p
Diluted	5,6	27.15p		10.67p	21.58p		10.29p

(i) See note 2.

(ii) EBITDA is operating profit stated before depreciation, share-based payments charge, amortisation of intangible assets and significant items (explained in note 2).

Consolidated Statement of Recognised Income and Expense for the year ended 30 September 2009

	2009	Restated ⁽ⁱ⁾
	£000	2008 £000
Effective portion of changes in fair value of cash flow hedges	-	(359)
Net change in fair value of cash flow hedges transferred to profit and loss	-	564
Deferred tax on hedge reserve movement	-	(61)
	<hr/>	<hr/>
Net income recognised directly in equity	-	144
Profit for the year	4,793	4,014
	<hr/>	<hr/>
Total recognised income and expense attributable to equity shareholders of the parent	4,793	4,158
	<hr/> <hr/>	<hr/> <hr/>

(i) See note 2

Consolidated Balance Sheet at 30 September 2009

	2009 £000	Restated ⁽ⁱ⁾ 2008 £000
Non-current assets		
Property, plant and equipment	160,330	148,576
Other intangible assets	2,619	1,149
Goodwill	15,954	15,574
	<u>178,903</u>	<u>165,299</u>
Current assets		
Trade and other receivables	10,397	8,933
Cash and cash equivalents	4,321	2,126
Tax recoverable	464	674
	<u>15,182</u>	<u>11,733</u>
Total assets	<u>194,085</u>	<u>177,032</u>
Current liabilities		
Loans and borrowings	6,125	350
Trade and other payables	18,741	17,512
Deferred and contingent consideration payable	6,868	8,361
Deferred income	4,467	5,335
	<u>36,201</u>	<u>31,558</u>
Non-current liabilities		
Loans and borrowings	91,585	87,089
Deferred tax liabilities	12,710	13,102
Derivative financial instruments	6,175	1,264
	<u>110,470</u>	<u>101,455</u>
Total liabilities	<u>146,671</u>	<u>133,013</u>
Net assets	<u>47,414</u>	<u>44,019</u>
Equity attributable to equity shareholders of the parent		
Share capital	225	223
Share premium	38,852	38,543
Merger reserve	5,037	5,037
Retained earnings	3,300	216
Total equity	<u>47,414</u>	<u>44,019</u>

(i) See note 2

These financial statements were approved by the Board of directors on 9 December 2009 and were signed on its behalf by:

F. Sheikh
Chairman

D. R. Pugh
Finance Director

Consolidated Cash Flow Statement for the year ended 30 September 2009

	<i>Note</i>	2009	2008
		£000	£000
Cash flows from operating activities			
Profit before tax		6,809	5,908
Adjustments for:			
Financial income		(15)	(71)
Financial expenses		11,582	7,233
Adjustments for minimum future lease payment uplifts		1,654	1,746
Depreciation		2,200	1,356
Amortisation		340	218
Share-based payment charge		209	113
Interest received		15	71
		<hr/>	<hr/>
Operating cash flows before movement in working capital		22,794	16,574
Increase in trade and other receivables		(2,332)	(2,160)
Decrease in trade and other payables		(682)	(38)
		<hr/>	<hr/>
Cash inflows from operating activities		19,780	14,376
Tax paid		(2,198)	(670)
		<hr/>	<hr/>
Net cash from operating activities		17,582	13,706
		<hr/>	<hr/>
Cash flows from investing activities			
Acquisition of subsidiaries, net of cash acquired		(8,711)	(30,637)
Acquisition of property, plant and equipment		(6,969)	(18,181)
Acquisition of intangible assets		(1,128)	-
Acquisition of software		(208)	(419)
		<hr/>	<hr/>
Net cash used in investing activities		(17,016)	(49,237)
		<hr/>	<hr/>
Cash flows from financing activities			
Proceeds from the issue of share capital (net of costs)		311	29,012
Proceeds from new loan (net of costs)		10,747	96,454
Interest paid		(5,733)	(5,318)
Repayment of borrowings		(1,200)	(82,024)
Payment of finance lease liabilities		(578)	(445)
Dividends paid	7	(1,918)	(1,115)
		<hr/>	<hr/>
Net cash from financing activities		1,629	36,564
		<hr/>	<hr/>
Net increase in cash and cash equivalents		2,195	1,033
Cash and cash equivalents at start of the year		2,126	1,093
		<hr/>	<hr/>
Cash and cash equivalents at 30 September		4,321	2,126
		<hr/>	<hr/>
Cash at bank and in hand		4,321	2,126
Bank loans		(95,724)	(86,177)
Finance lease and hire purchase contracts		(1,986)	(1,262)
		<hr/>	<hr/>
Net debt at 30 September		(93,389)	(85,313)
		<hr/>	<hr/>

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 2009 comprise the Company and its subsidiaries (together referred to as the 'Group').

These preliminary results have been prepared in accordance with all International Financial Reporting Standards, as adopted by the EU ("adopted IFRSs"), as required to be adopted by AIM listed companies.

The financial information in this announcement does not constitute statutory financial statements for the year ended 30 September 2009 but is derived from those financial statements. The auditors have reported on the consolidated Group financial statements for the year ended 30 September 2009 and their report was unqualified.

The preliminary announcement for the year ended 30 September 2009 was approved by the Board for release on 9 December 2009.

2 Significant items

Significant 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 trading performance achieved by the Group. Significant items comprise the following:

	Note	2009 £000	2008 £000
Acquisition integration costs	(i)	-	456
Business restructuring costs	(ii)	-	295
Adjustments for minimum future lease payment uplifts	(iii)	1,654	1,746
Included in administrative expenses		1,654	2,497
Loan finance costs written off on refinancing	(iv)	-	650
Charges relating to derivative financial instruments	(v)	6,491	1,265
Included in financial expenses		6,491	1,915
Significant items tax effect (note 2):			
Current tax	(vi)	(463)	(891)
Deferred tax	(vii)	(624)	663
Included in taxation		(1,087)	(228)

- (i) Following the acquisitions of the Beacon and Valeo businesses during the year ended 30 September 2008 the Group incurred a number of costs relating to reorganisation as these businesses were integrated into the Group.
- (ii) During the year ended 30 September 2008 the Group incurred costs as it restructured its business with respect to agency staff costs. To address this, non-recurring costs were incurred to establish a wider pool of Group employees.
- (iii) Adjustments relate to non-cash additional charges for future minimum lease payment uplifts explained further in (viii) below.
- (iv) In April 2008, the Group completed a new banking facility agreement. The unamortised element of loan fee costs on the replaced debt was therefore fully written off.
- (v) Charges relating to derivative financial instruments represent the movements during the year in the fair value of the Group's interest rate swaps which do not qualify for hedge accounting.

2 Significant items (continued)

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

(vii) A deferred tax credit of £1,375,000 (30 September 2008: £354,000) arises in respect of the charge relating to derivative financial instruments in (v) above. In addition, a charge arises from the effects of full provision for deferred tax under IAS 12 amounting to £751,000 (2008: £1,017,000).

(viii) During the year the directors reviewed the accounting policies and practice in respect of International Financial Reporting Standards and the accounting for operating leases in accordance with IAS17, specifically considering the different practice adopted by its industry peer group. In the current financial year and in light of the adoption of IFRSs in each of the subsidiaries, the Group has corrected for an error in the transition to IFRS on 1 October 2006 and adopted what it considers to be a more appropriate basis of accounting for operating leases under IAS17 which incorporates recognising the effect of minimum future lease payment uplifts on a straight-line basis. Inconsistencies in the way that certain subsidiaries classified items within cost of sales and administrative expenses, accruals, prepayments, accrued and deferred income have also been adjusted and reclassified. There is no direct cash effect of these changes. However, the adjustments will result in accelerated corporation tax relief.

The impact of prior year adjustments made, in order to adopt and correct the financial statements for these adjustments, is as follows:

Income Statement for the year ended 30 September 2008:

	Previously stated			Adjustments	Restated		
	Before amortisation and significant items £000	Amortisation and significant items £000	Total £000		Before Amortisation and significant items £000	Amortisation and significant items £000	Total £000
Cost of sales	(47,196)	-	(47,196)	5,716	(41,480)	-	(41,480)
Administrative expenses	(4,732)	(969)	(5,701)	(7,462)	(10,448)	(2,715)	(13,163)
Profit before tax	10,538	(2,884)	7,654	(1,746)	10,538	(4,630)	5,908
Taxation	(2,122)	(261)	(2,383)	489	(2,122)	228	(1,894)
Profit after tax	8,416	(3,145)	5,271	(1,257)	8,416	(4,402)	4,014
EPS - basic	21.82p		13.67p		21.82p		10.41p
- diluted	21.58p		13.52p		21.58p		10.29p

Balance sheets:

	Balance sheet 30 September 2008			Balance sheet 30 September 2007		
	Previously stated £000	Adjustment £000	Restated £000	Previously stated £000	Adjustment £000	Restated £000
Current assets:						
Trade and other receivables	11,433	(2,500)	8,933	8,394	(2,500)	5,894
Tax receivable	-	674	674	-	1,229	1,229
Current liabilities:						
Tax payable	(3,208)	3,208	-	(2,051)	2,051	-
Trade and other payables	(3,981)	(13,531)	(17,512)	(3,244)	(12,154)	(15,398)
Deferred income	(7,792)	2,457	(5,335)	(7,213)	2,939	(4,274)
Net assets	53,711	(9,692)	44,019	17,245	(8,435)	8,810

3 Financial expenses

	2009	2008
	£000	£000
Interest expense on financial liabilities at amortised cost:		
On bank loans and overdrafts	4,813	5,198
Finance charges in respect of finance leases	278	120
	<hr/>	<hr/>
Financial expenses before significant items	5,091	5,318
Derivative financial instruments (note 2)	6,491	1,265
Loan finance costs written off on refinancing during the year (note 2)	-	650
	<hr/>	<hr/>
	11,582	7,233
	<hr/> <hr/>	<hr/> <hr/>

4 Taxation

(a) Recognised in the income statement

	2009			2008		
	Before significant items	Significant Items	Total	Before significant items	Significant items	Total
	£000	£000	£000	£000	£000	£000
Current tax expense						
Current year before significant items	3,095	-	3,095	2,047	-	2,047
Current tax adjustment for significant items (note 2)	-	(463)	(463)	-	(891)	(891)
Adjustment for prior years	(224)	-	(224)	-	-	-
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
Total current tax	2,871	(463)	2,408	2,047	(891)	1,156
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
Deferred tax expense						
Current year before significant items	232	751	983	75	1,017	1,092
Deferred tax adjustment for significant items (note 2)	-	(1,375)	(1,375)	-	(354)	(354)
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
Total deferred tax	232	(624)	(392)	75	663	738
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
Total tax in income statement	3,103	(1,087)	2,016	2,122	(228)	1,894
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>

4 Taxation (continued)

(b) Reconciliation of effective tax rate

	2009 £000	2008 £000
Profit before tax for the period	6,809	5,908
Tax using the UK corporation tax rate of 28% (2008:29%)	1,907	1,713
Non-deductible expenses	420	163
Over provided in prior years	(224)	-
Effect of changes in tax rate	-	18
Utilisation of tax losses	(87)	-
Total tax in income statement	2,016	1,894

The calculation of the Group's deferred tax charge is significantly impacted because of the fact that IAS 12 does not permit discounting of deferred tax liabilities. This has been included in note 2 in order to present earnings measures on a comparable basis, 2009: £751,000 (2008: £1,017,000).

5 Earnings per share

	2009 £000	2008 £000
Profit attributable to ordinary shareholders	4,793	4,014
Weighted number of shares in issue for basic earnings per share	44,685,480	38,566,397
Weighted number of shares for diluted earnings per share	44,908,970	38,991,559

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	10.73p	10.41p
Diluted	10.67p	10.29p

6 Adjusted earnings per share

A measure of adjusted earnings and adjusted earnings per share has been presented in order to assist in an understanding of the trading performance achieved by the Group, before amortisation and significant items (explained in note 2).

	Note	2009 £000	2008 £000
Profit attributable to ordinary shareholders		4,793	4,014
Amortisation	(i)	340	218
Significant items (note 2)		7,058	4,184
Adjusted profit attributable to ordinary shareholders		12,191	8,416
Adjusted earnings per share (pence per share)			
Basic		27.28p	21.82p
Diluted		27.15p	21.58p

- (i) Amortisation is charged on intangible software and customer relationship assets established in accordance with IFRS 3 Business Combinations. As a non-cash charge it is added back to adjusted earnings.

7 Dividends

The aggregate amount of dividends comprises:

	2009	2008
	£000	£000
Final dividends paid in respect of prior year but not recognised as liabilities in that year	1,204	732
Interim dividends paid in respect of the current year	714	383
	<hr/>	<hr/>
Aggregate amount of dividends paid in the financial year	1,918	1,115
	<hr/> <hr/>	<hr/> <hr/>

The aggregate amount of dividends proposed and not recognised as liabilities as at the year end is 3.100p per share, £1,390,558 (2008: 2.725p per share, £1,213,685).

8 Business combinations

Acquisition of Lyndhurst

On 16 January 2009 the trade and certain assets of a step-down mental health business known as Lyndhurst were acquired and give rise to the following provisional fair value table:

	Plant and equipment £000	Properties acquired £000	Fair value adjustment £000	Fair value £000
Property, plant and equipment	40	4,371	1,458	5,869
				<hr/>
				5,869
				<hr/>
Consideration:				
Cash consideration				5,417
Costs of acquisition				452
				<hr/>
				5,869
				<hr/> <hr/>

The provisional fair values of properties reflect their value on a going concern basis, these and the other items above have been determined provisionally as the warranty period has not yet expired.

Following acquisition, Lyndhurst contributed EBITDA of £545,000 to the Group's result for the year ended 30 September 2009.

9 Copies of the Annual Report and Accounts

Copies of the Annual Report and Accounts will be sent to shareholders in due course and will be available to members of the public from the Company's registered office located at Leighton House, 33-37 Darkes Lane, Potters Bar, Herts, EN6 1BB and on the Company's website: www.caretech-uk.com.