

**STRATEGIC REPORT, REPORT OF THE DIRECTORS AND
FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 SEPTEMBER 2016
FOR
EQL SOLUTIONS LIMITED**

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FOR THE YEAR ENDED 30 SEPTEMBER 2016**

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EQL SOLUTIONS LIMITED
COMPANY INFORMATION
FOR THE YEAR ENDED 30 SEPTEMBER 2016

DIRECTORS:

M G Hill
F R Sheikh

REGISTERED OFFICE:

Unit 2, Cinnabar Court
Daresbury Park
Daresbury
Warrington
WA4 4GE

REGISTERED NUMBER:

08758477 (England and Wales)

ACCOUNTANTS:

Grant Thornton UK LLP
202 Silbury Boulevard
Central Milton Keynes
MK9 1LW

**STRATEGIC REPORT
FOR THE YEAR ENDED 30 SEPTEMBER 2016**

Introduction and business review

EQL Solutions Limited is a national provider specialising in employment and training services to young people and adults.

The results of the company are set out on page 6, and show a considerable improvement on 2015.

The directors present their strategic report for the year ended 30 September 2016.

OUR MARKET

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

The development of EQL Solutions Limited as an established apprenticeship providers has allowed the company to embrace the opportunity and capitalise on this change and to work closely with government agencies to improve the quality and skill base of our national workforce. We have chosen to call our apprenticeship scheme a Learning Service to reflect the aspiration of the young people we work with.

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

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

There are 17,300 organisations providing Adult Social Care in England and the majority of these are operating at far too low a scale to deliver their own training or apprenticeship programmes. EQL Solutions has a significant market presence in social care and are well positioned to support both smaller companies as well as corporate providers.

The Government aims to increase the number of apprenticeship starts for younger people and has committed to providing an additional £40m for 20,000 new higher apprenticeship starts in the current (2016/17) academic year.

PRINCIPAL RISKS AND UNCERTAINTIES

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

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

In 2017 the Apprenticeship Levy is being introduced and we are confident that EQL is well placed to take full advantage of the new market structure.

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

The market for the provision of training continues to be dynamic, presenting both risks and opportunities. The overall number of people needing training will increase.

Training offer and customer needs

We have to create and staff a training offering which matches the needs of the customer and can be communicated to them so it is carefully recorded locally at every facility.

Quality and safety

A health and safety breach would impact its reputation, brand and damage the reputation of our clients. This could impact on the demand for our business as well as incur costs to rectify. We have to provide and deliver relevant training of a high quality and the company has rigorous administration procedures which monitor this important aspect of training.

**STRATEGIC REPORT
FOR THE YEAR ENDED 30 SEPTEMBER 2016**

Service value

The training offer has to be provided to meet the needs of our clients at a fair price and this is coming under increased scrutiny as clients regularly review value for money so the company communicates frequently with its customers.

Reputation

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

Growth funding

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

Manage debt

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

A strategy to drive future growth

The Company's business model is to operate throughout mainland Britain in England, Wales and Scotland to provide training to people of any age. The Company's strategy is to provide pre-employment, development and apprenticeships in partnership with a range of national employers.

Key Performance Indicators

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

The main KPI is the measurement of the number of students currently in training contracts. At 30 September 2016 the number of apprentices/students on recognised training courses was 4,231.

ON BEHALF OF THE BOARD:



M G Hill - Director

Date: 1/6/17

**REPORT OF THE DIRECTORS
FOR THE YEAR ENDED 30 SEPTEMBER 2016**

The directors present their report with the financial statements of the company for the year ended 30 September 2016.

PRINCIPAL ACTIVITY

The principal activity of the company in the period under review was that of a range of training services.

FUTURE PROSPECTS

The directors are satisfied with the turnaround in the year and are confident in the future prospects of the company.

KEY PERFORMANCE INDICATORS

To the longer term, the company's revenues are generated from the overall training capacity of the company. The Company's key performance indicators are shown on page 3.

DISABLED PERSONS

It is the company's policy to ensure that disabled persons are treated fairly and consistently in terms of recruitment, training, career development and promotion and that their employment opportunities should be based on a realistic assessment of their aptitudes and abilities. Wherever possible, the company will continue the employment of persons who become disabled during the course of their employment with the company through retraining, acquisition of special aids and equipment or the provision of suitable alternative employment.

EMPLOYEE INFORMATION PROGRAMME

The directors recognise the benefits which arise from keeping employees informed of the company's progress and plans and through their participation in the company's performance. The company is, therefore, committed to providing its employees with information on a regular basis, to consulting with them on a regular basis so that their views may be taken into account when taking decisions which may affect their interests and to encouraging their participation in schemes through which they will benefit from the company's progress and profitability.

DIVIDENDS

No dividends were paid in the year and are not proposed (2015: £nil).

DIRECTORS

The directors shown below have held office during the whole of the period from 1 October 2015 to the date of this report.

M G Hill
F R Sheikh

STATEMENT OF DIRECTORS' RESPONSIBILITIES

The directors are responsible for preparing the Strategic Report, the Report of the Directors and the financial statements in accordance with applicable law and regulations.

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

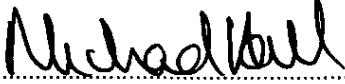
- select suitable accounting policies and then apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

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

**REPORT OF THE DIRECTORS
FOR THE YEAR ENDED 30 SEPTEMBER 2016**

Legislation in the UK governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

ON BEHALF OF THE BOARD:



M G Hill - Director

Date:

1/6/17

EQL SOLUTIONS LIMITED (REGISTERED NUMBER: 08758477)

**STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED 30 SEPTEMBER 2016**

	Notes	30.9.16 £'000	30.9.15 £'000
Continuing operations			
Revenue		9,430	9,703
Cost of sales		<u>(7,176)</u>	<u>(7,510)</u>
Gross profit		2,254	2,193
Administrative expenses		<u>(1,123)</u>	<u>(1,819)</u>
Operating profit		1,131	374
Finance costs	3	<u>(10)</u>	<u>(17)</u>
Profit before income tax	4	1,121	357
Income tax	5	<u>(202)</u>	<u>(53)</u>
Profit for the year		<u>919</u>	<u>304</u>

The notes form part of these financial statements

STATEMENT OF FINANCIAL POSITION
30 SEPTEMBER 2016

	Notes	30.9.16 £'000	30.9.15 £'000
Assets			
Non-current assets			
Goodwill	6	2,341	2,341
Property, plant and equipment	7	<u>221</u>	<u>240</u>
		<u>2,562</u>	<u>2,581</u>
Current assets			
Trade and other receivables	8	983	1,167
Cash and cash equivalents	9	<u>815</u>	<u>26</u>
		<u>1,798</u>	<u>1,193</u>
Total assets		<u>4,360</u>	<u>3,774</u>
Equity			
Shareholders' equity			
Called up share capital	10	-	-
Retained earnings	11	<u>(1,839)</u>	<u>(2,758)</u>
Total equity		<u>(1,839)</u>	<u>(2,758)</u>
Liabilities			
Current liabilities			
Trade and other payables	12	5,944	6,479
Tax payable		<u>255</u>	<u>53</u>
		<u>6,199</u>	<u>6,532</u>
Total liabilities		<u>6,199</u>	<u>6,532</u>
Total equity and liabilities		<u>4,360</u>	<u>3,774</u>

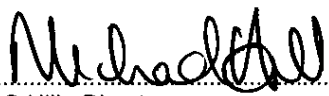
The company is entitled to exemption from audit under Section 479A of the Companies Act 2006 relating to subsidiary companies for the year ended 30 September 2016.

The members have not required the company to obtain an audit of its financial statements for the year ended 30 September 2016 in accordance with Section 476 of the Companies Act 2006.

The directors acknowledge their responsibilities for:

- ensuring that the company keeps accounting records which comply with Sections 386 and 387 of the Companies Act 2006 and
- preparing financial statements which give a true and fair view of the state of affairs of the company as at the end of each financial year and of its profit or loss for each financial year in accordance with the requirements of Sections 394 and 395 and which otherwise comply with the requirements of the Companies Act 2006 relating to financial statements, so far as applicable to the company.

The financial statements were approved by the Board of Directors on 1 June 2017 and were signed on its behalf by:


M G Hill - Director

EQL SOLUTIONS LIMITED (REGISTERED NUMBER: 08758477)

**STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 30 SEPTEMBER 2016**

	Retained earnings £'000	Total equity £'000
Balance at 1 October 2014	(3,062)	(3,062)
Changes in equity		
Total comprehensive income	<u>304</u>	<u>304</u>
Balance at 30 September 2015	<u>(2,758)</u>	<u>(2,758)</u>
Changes in equity		
Total comprehensive income	<u>919</u>	<u>919</u>
Balance at 30 September 2016	<u>(1,839)</u>	<u>(1,839)</u>

The notes form part of these financial statements

STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 30 SEPTEMBER 2016

		30.9.16 £'000	30.9.15 £'000
Cash flows from operating activities			
Cash generated from operations	1	805	222
Interest paid		<u>(10)</u>	<u>(17)</u>
Net cash from operating activities		<u>795</u>	<u>205</u>
Cash flows from investing activities			
Purchase of property plant and equipment		<u>(6)</u>	<u>(196)</u>
Net cash from investing activities		<u>(6)</u>	<u>(196)</u>
Increase in cash and cash equivalents			
Cash and cash equivalents at beginning of year	2	26	17
Cash and cash equivalents at end of year	2	<u>815</u>	<u>26</u>

The notes form part of these financial statements

NOTES TO THE STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 30 SEPTEMBER 2016

1. RECONCILIATION OF PROFIT BEFORE INCOME TAX TO CASH GENERATED FROM OPERATIONS

	30.9.16	30.9.15
	£'000	£'000
Profit before income tax	1,121	357
Depreciation charges	25	6
Change in intercompany balance	(639)	446
Finance costs	<u>10</u>	<u>17</u>
	517	826
Decrease/(increase) in trade and other receivables	184	(49)
Increase/(decrease) in trade and other payables	<u>104</u>	<u>(555)</u>
Cash generated from operations	<u>805</u>	<u>222</u>

2. CASH AND CASH EQUIVALENTS

The amounts disclosed on the Statement of Cash Flows in respect of cash and cash equivalents are in respect of these Statement of Financial Position amounts:

Year ended 30 September 2016

	30/9/16	1/10/15
	£'000	£'000
Cash and cash equivalents	<u>815</u>	<u>26</u>

Year ended 30 September 2015

	30/9/15	1/10/14
	£'000	£'000
Cash and cash equivalents	<u>26</u>	<u>17</u>

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 SEPTEMBER 2016**

1. ACCOUNTING POLICIES

Basis of preparation

The Company is registered and domiciled in the UK.

Applicable accounting standards

The company is exempt by virtue of s400 of the Companies Act 2006 from the requirement to prepare group financial statements on the grounds that it is a wholly owned subsidiary of CareTech Holdings PLC, for which consolidated financial statements are prepared and are publicly available from Metropolitan House, 3 Darkes Lane, Potters Bar, Hertfordshire EN6 1AG.

The company 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 financial statements.

New and revised accounting standards applied for the first time in the current year

The company has adopted the following new standards, or net provisions of amended standards:

- Annual Improvements to IFRSs 2010-2012 Cycle
- Annual Improvements to IFRSs 2011-2013 Cycle

There has been no material impact on either amounts reported or disclosure in the financial statements arising from first time adoption.

Measurement convention

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

NOTES TO THE FINANCIAL STATEMENTS - continued
FOR THE YEAR ENDED 30 SEPTEMBER 2016

1. ACCOUNTING POLICIES - continued

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 company, and its cost can be measured reliably. The carrying amount of the replaced component is derecognised. The costs of the day-to-day servicing of property, plant and equipment are recognised in the profit or loss as incurred.

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

Leases in which the company 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 to residual value;
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
Motor vehicles	- 25% reducing balance

Intangible assets and goodwill

All business combinations are accounted for by applying the acquisition 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 statement of comprehensive income.

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

Amortisation is charged to the statement of comprehensive income 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	- 1 - 20 years; and
Software and licences	- 5 years.

NOTES TO THE FINANCIAL STATEMENTS - continued
FOR THE YEAR ENDED 30 SEPTEMBER 2016

1. ACCOUNTING POLICIES - continued

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.

Cash and cash equivalents

Cash and cash equivalents comprise cash balances and call deposits.

Financial instruments

Recognition, initial measurement and derecognition

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

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

Classification and subsequent measurement of financial assets

For the purpose of subsequent measurement, financial assets other than those designated and effective as hedging instruments are classified into the following categories upon initial recognition:

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

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

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

Loans and receivables

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

Financial assets at FVTPL

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

NOTES TO THE FINANCIAL STATEMENTS - continued
FOR THE YEAR ENDED 30 SEPTEMBER 2016

1. ACCOUNTING POLICIES - continued

Classification and subsequent measurement of financial liabilities

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

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

Where a non-substantial modification to the terms of a financial liability arises this is accounted for as an adjustment to the existing liability. The carrying value of the existing liabilities is adjusted for fees paid or costs incurred. The effective interest rate method is amended such that the adjusted carrying amount and the revised estimate of future cash flows are discounted over the revised, estimated life of the liability. No gain or loss is recorded on modification.

Derivative financial instruments and hedging

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

Derivatives are initially recognised at fair value at the date a derivative is entered into and are subsequently remeasured to their fair value at each balance sheet date. A derivative with a positive fair value is recognised as a financial asset whereas a derivative with a negative fair value is recognised as a financial liability. The resulting gain or loss is recognised in statement of comprehensive income immediately.

A derivative is presented as a non-current asset or non-current liability if the company has an unconditional right to defer payment beyond twelve months. Otherwise derivatives are presented as current assets or liabilities.

Impairment (excluding deferred tax assets)

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

For goodwill and assets that have an indefinite useful life 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 statement of comprehensive income.

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

Calculation of recoverable amount

The recoverable amount of the company'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.

**NOTES TO THE FINANCIAL STATEMENTS - continued
FOR THE YEAR ENDED 30 SEPTEMBER 2016**

1. ACCOUNTING POLICIES - continued

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 and 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.

Interest-bearing borrowings

Interest-bearing borrowings are recognised initially at fair value less 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 redemption value being recognised in the statement of comprehensive income over the period of the borrowings on an effective interest basis.

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

Interest associated with qualifying properties under development is capitalised in accordance with IAS 23 borrowing costs.

Employee benefits

Defined contribution plans

Obligations for contributions to defined contribution pension plans are recognised as an expense in the 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 company has a present legal or constructive obligation to pay this amount as a result of past service provided by the employees and the obligation can be estimated reliably.

Provisions

A provision, other than provisions for deferred taxation, is recognised in the balance sheet when the company 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.

Revenue

Revenue in respect of the provision of care services is measured as the fair value of fee income received or receivable in respect of the services provided and is recognised in respect of the care that has been provided in the relevant period. Any additional services provided by the Group are recognised on provision of the service. Fostering revenue is recognised on the basis of the daily placements made with a full day's revenue recognised for every night a placement is with a foster carer.

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

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

**NOTES TO THE FINANCIAL STATEMENTS - continued
FOR THE YEAR ENDED 30 SEPTEMBER 2016**

1. ACCOUNTING POLICIES - continued

Expenses

Finance lease payments

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

Financing costs

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

Interest income and interest payable is recognised in the statement of comprehensive income 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 statement of comprehensive income.

Financing costs that are directly attributable to the acquisition or construction of a qualifying asset are capitalised as part of the cost of that asset.

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

Operating leases

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

Taxation

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

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years.

The company is part of a larger group of companies and as a result will be able to take advantage of group relief before paying any corporation tax. The tax benefits arising from group relief are recognised in the statement of comprehensive income of the surrendering and recipient companies.

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 where the parent company controls the reversals: 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.

Segmental analysis

A business segment is a group of assets and operations engaged in providing products or services that are subject to risks and returns that are different from those of other business segments.

Based on an analysis of risks and returns, the directors consider that the company has one identifiable business segment; being the provision of care services. The company likewise operates entirely in the UK and the directors consider the risks and returns do not differ between geographical locations. As such, no additional segmental disclosure is necessary.

NOTES TO THE FINANCIAL STATEMENTS - continued
FOR THE YEAR ENDED 30 SEPTEMBER 2016

2. EMPLOYEES AND DIRECTORS

	30.9.16	30.9.15
	£'000	£'000
Wages and salaries	1,922	2,976
Social security costs	206	306
Other pension costs	<u>55</u>	<u>88</u>
	<u><u>2,183</u></u>	<u><u>3,370</u></u>

The average monthly number of employees during the year was as follows:

	30.9.16	30.9.15
Training staff	62	83
Management and administration	<u>21</u>	<u>40</u>
	<u><u>83</u></u>	<u><u>123</u></u>

None of the directors received any emoluments for their services to the company during the period. (2015: None).

3. NET FINANCE COSTS

	30.9.16	30.9.15
	£'000	£'000
Finance costs:		
Bank interest	<u>10</u>	<u>17</u>

4. PROFIT BEFORE INCOME TAX

The profit before income tax is stated after charging:

	30.9.16	30.9.15
	£'000	£'000
Depreciation - owned assets	<u>25</u>	<u>6</u>

5. INCOME TAX**Analysis of tax expense**

	30.9.16	30.9.15
	£'000	£'000
Current tax:		
Tax	<u>202</u>	<u>53</u>
Total tax expense in statement of comprehensive income	<u><u>202</u></u>	<u><u>53</u></u>

Factors affecting the tax expense

The tax assessed for the year is lower than the standard rate of corporation tax in the UK. The difference is explained below:

	30.9.16	30.9.15
	£'000	£'000
Profit on ordinary activities before income tax	<u>1,121</u>	<u>357</u>
Profit on ordinary activities multiplied by the standard rate of corporation tax in the UK of 20% (2015 - 20.500%)	224	73
Effects of:		
Group relief	(2)	(20)
Prior year adjustment	<u>(20)</u>	<u>-</u>
Tax expense	<u><u>202</u></u>	<u><u>53</u></u>

NOTES TO THE FINANCIAL STATEMENTS - continued
FOR THE YEAR ENDED 30 SEPTEMBER 2016

6. GOODWILL

	£'000
COST	
At 1 October 2015	
and 30 September 2016	<u>2,341</u>
NET BOOK VALUE	
At 30 September 2016	<u>2,341</u>
	£'000
COST	
At 1 October 2014	
and 30 September 2015	<u>2,341</u>
NET BOOK VALUE	
At 30 September 2015	<u>2,341</u>

Impairment testing for cash generating units containing goodwill

The company 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 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, 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 key assumptions have been reviewed in light of the current economic and public spending environment. The key features of these calculations are shown below:

	30.9.16	30.9.15
Period on which management approved forecasts are based	1 year	1 year
Growth rate applied beyond approved forecasts are based	0%	0%
Pre-tax discount rate	<u>8%</u>	<u>8%</u>

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 company'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

	30.9.16 £'000	30.9.15 £'000
Acquisition of trading business	<u>2,341</u>	<u>2,341</u>

NOTES TO THE FINANCIAL STATEMENTS - continued
FOR THE YEAR ENDED 30 SEPTEMBER 2016

7. PROPERTY, PLANT AND EQUIPMENT

	Leasehold property £'000	Fixtures and fittings £'000	Totals £'000
COST			
At 1 October 2015	8	243	251
Additions	-	6	6
At 30 September 2016	8	249	257
DEPRECIATION			
At 1 October 2015	-	11	11
Charge for year	-	25	25
At 30 September 2016	-	36	36
NET BOOK VALUE			
At 30 September 2016	8	213	221

	Leasehold property £'000	Fixtures and fittings £'000	Totals £'000
COST			
At 1 October 2014	8	47	55
Additions	-	196	196
At 30 September 2015	8	243	251
DEPRECIATION			
At 1 October 2014	-	5	5
Charge for year	-	6	6
At 30 September 2015	-	11	11
NET BOOK VALUE			
At 30 September 2015	8	232	240

Land and buildings

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

	£'000
Short leasehold	8

8. TRADE AND OTHER RECEIVABLES

	30.9.16 £'000	30.9.15 £'000
Current:		
Trade receivables	150	126
Other receivables	770	926
Prepayments and accrued income	63	115
	983	1,167

NOTES TO THE FINANCIAL STATEMENTS - continued
FOR THE YEAR ENDED 30 SEPTEMBER 2016

9. CASH AND CASH EQUIVALENTS

	30.9.16	30.9.15
	£'000	£'000
Cash at bank	<u>815</u>	<u>26</u>

10. CALLED UP SHARE CAPITAL

Allotted, issued and fully paid:			30.9.16	30.9.15
Number:	Class:	Nominal value:	£	£
100	Ordinary	£1	<u>100</u>	<u>100</u>

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 the meetings of the company.

11. RESERVES

	Retained earnings £'000
At 1 October 2015	(2,758)
Profit for the year	<u>919</u>
At 30 September 2016	<u>(1,839)</u>

12. TRADE AND OTHER PAYABLES

	30.9.16	30.9.15
	£'000	£'000
Current:		
Amounts owed to group undertakings	5,120	5,759
Social security and other taxes	110	85
Other payables	121	7
Accrued expenses	<u>593</u>	<u>628</u>
	<u>5,944</u>	<u>6,479</u>

13. LEASING AGREEMENTS

Non-cancellable operating leases

	2016 Land & Buildings £'000	Other £'000	2015 Land & buildings £'000	Other £'000
Within one year	72	8	72	17
Between one and five years	<u>126</u>	<u>14</u>	<u>72</u>	<u>14</u>
	<u>198</u>	<u>22</u>	<u>144</u>	<u>31</u>

NOTES TO THE FINANCIAL STATEMENTS - continued
FOR THE YEAR ENDED 30 SEPTEMBER 2016

14. RELATED PARTY DISCLOSURES

The company had the following transactions in the year with related parties:

	30.9.16	£'000	£'000		30.9.15	£'000	£'000
	Debtor /		Cash		Debtor/		Cash
	(creditor)	advances			(creditor)	balance	advance s
	balance				balance		
CareTech Holdings PLC	<u>(5,120)</u>	<u>(639)</u>			<u>(5,759)</u>	<u>(483)</u>	
	<u><u>(5,120)</u></u>	<u><u>(639)</u></u>			<u><u>(5,759)</u></u>	<u><u>(483)</u></u>	

The movement during the year is due to cash advances made to the company.

15. ULTIMATE PARENT UNDERTAKING

The company's ultimate parent undertaking is CareTech Holdings PLC. The consolidated financial statements of this Group are available to the public and may be obtained from Metropolitan House, 3 Darkes Lane, Potters Bar, Hertfordshire, EN6 1AG.

NOTES TO THE FINANCIAL STATEMENTS - continued
FOR THE YEAR ENDED 30 SEPTEMBER 2016

16. 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, interest and liquidity risks, which arise in the normal course of the company's business.

Credit risk

Financial instruments which potentially expose the company 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 the 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 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 company does not require collateral in respect of financial assets. During the year there was no charge to the income statement for bad or doubtful debts (30 September 2015: £Nil).

At the balance sheet date, there were no significant concentrations of credit risk. The maximum exposure to credit risk is represented by the carrying amount of each financial asset.

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

	30.9.16 £'000	30.9.15 £'000
Not due	150	126
Not more than three months past due	-	-
More than three months but not more than six months past due	-	-
More than six months past due	-	-
	<u>150</u>	<u>126</u>
Trade receivables	<u>150</u>	<u>126</u>

Interest rate risk

The company finances its operations through called up share capital, retained profits, intergroup borrowings and bank borrowings. The company's income is by its nature relatively stable and its growth is, inter alia, impacted by inflation. Company policy is to balance interest rate fixes between the short, medium and long term. The benchmark rate for bank borrowings is LIBOR.

Liquidity Risk

The company prepares annual cash flow forecasts reflecting known commitments and anticipated projects. Borrowing facilities are arranged as necessary to finance requirements. The wider group has available bank and overdraft 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 overdraft facilities in respect of financial liabilities. There were no contractual cash flow maturities at 30 September 2016 (30 September 2015: £Nil).

Capital risk management

The company manages its capital to ensure that activities of the company will be able to continue as going concerns whilst maximising returns for stakeholders through the optimisation of debt and equity. The company does not currently have any external debt and details of the company's equity are disclosed in the Statement of Financial Position.

Foreign currency risk

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

NOTES TO THE FINANCIAL STATEMENTS - continued
FOR THE YEAR ENDED 30 SEPTEMBER 2016

Sensitivity analysis

In managing interest rate risks the company aims to reduce the impact of short-term fluctuations on the company's earnings. Over the longer-term, however, permanent changes in interest rates would have an impact on earnings. However, the wider group's financing arrangements mean that there is not expected to be a significant impact from interest rate changes on the company.

Fair values

Book values are considered to be equivalent to fair values.

17. **ACCOUNTING ESTIMATES AND JUDGEMENTS**

The preparation of the financial statements in conformity with IFRS requires management to make estimates and assumptions which effect 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 company'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:

Customer relationships

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

Property, plant and equipment

It is company 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. 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 company profit through an increase in the depreciation charge.

Judgements

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 practise, applied to aged receivables.

Deferred taxation

The company may recognise 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 profit. 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.