Making People *Smile*

IN PICTURES

MEARS GROUP PLC
Annual report and accounts 2007

MEARS

Mears is the leading social housing repairs and maintenance provider in the UK and a growing presence in the domiciliary care market.

Our business is focused on the social housing and community sector where we bring the highest standards of care to people, their homes and their communities.

In partnership with our clients, our 6,000 employees maintain, repair and upgrade people's homes and support the wider community – much-needed work that improves quality of life for hundreds of thousands of people in the UK. We carry out repairs each day to hundreds of thousands of homes nationwide and we work in communities as diverse as inner city estates and remote rural villages.

Our philosophy is simple:

to make people smile.

01 Our values
02 Our business
04 Our vision
05 About us
06 Social Housing
08 Care
10 Mechanical and Electrical
12 Corporate social responsibility

Our values

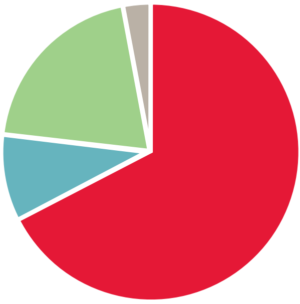
We value,
our customers and communities, putting the needs of our clients and tenants at the heart of everything we do.

We value teamwork,
supporting each other, sharing ideas and never excluding others.

We value personal responsibility,
setting and achieving consistently high standards in our work and our conduct and never adopting a negative attitude.

We value innovation,
being inventive in our approach and never allowing conventional thinking or bureaucracy to get in the way of delivering to our clients and tenants.

Our business



TURNOVER £M

- Social Housing (£205.6m)
- Care (£28.7m)
- Mechanical and Electrical (£61.2m)
- Other (£9.2m)

OUR GROUP COMPANIES

Social Housing

Care

Mechanical and Electrical

Mears' success has been built on the ability and commitment of our people and their desire to serve customers to the best of their abilities.

Bob Holt, Chairman

- Full, directly employed repairs and maintenance service.
- Gas servicing and installation.
- Extensive planned capital maintenance experience, including Decent Homes.
- Community and environmental improvement work.

Hourly care

- Flexible hourly care service providing daily visits from a minimum of half an hour, up to four or five visits a day, 365 days of the year.

Live-in care

- Fully trained and carefully selected live-in carer as a flexible choice for people who need round-the-clock care, or support, but who do not want to go into a nursing or residential home.

- Full in-house design and design and build service.
- Experts in major Residential, Educational and Health developments.
- Complex Logistical solutions.
- Response and planned preventative maintenance post installation service.
- Fault finding service.

Our vision: is to make a positive difference to the communities we serve by improving homes, neighbourhoods and lives.

We do this by constantly striving to achieve the highest levels of customer satisfaction, efficiency and effectiveness. Our approach is based on the development of outstanding partnerships with employees, clients, tenants and the wider community. Success enables us to create great opportunities for our employees and sustainable value for our shareholders.

About us: *some things you may not know about Mears

* We employ over 6,000 people.
* We work for over 70 Local Authorities and social landlords.
* We maintain over 500,000 Social Homes.
* We employ over 2,000 professional carers.
* Over 70% of tenants rate our service as excellent.
* Over 50% of Mears employees volunteer to help out in the community.
* We hold the Tenant Participation Advisory Service (TPAS) quality mark for resident involvement.
* 90% of our staff are recruited from the communities in which we work.
* We have been an ‘Investor in People’ for over ten years.
* We are an Age Positive employer.
* We are becoming a carbon neutral company.
* We recycle over 50% of our waste.
* We hold the RoSPA Gold Award for health and safety.

Social Housing

WHY CHOOSE MEARS SOCIAL HOUSING?

- Outstanding customer service levels putting tenants at the heart of the service.
- Added value community improvement work.
- Leading repairs and maintenance provider.
- Focused on partnering with clients and the supply chain.
- In-house IT expertise from hand helds to asset management.

From **Decent Homes** to decent communities

- Track record of operational innovation to improve efficiency and service.
- Call centre expertise.
- Directly employed and trained workforce.
- Sustainable solutions.
- Extensive TUPE experience.

Care

WHY CHOOSE CAREFORCE?

- Quality service delivery.
- Investment in partnering.
- Highly trained staff.
- Commitment to local communities.
- Excellent supervision and management capability.

Putting **people** first

Mechanical and Electrical

WHY CHOOSE HAYDON?

- Haydon has a track record in delivery of major residential, commercial, education and healthcare projects.
- Full in-house design and design and installation service.
- High levels of innovation and engineering expertise in the niche residential market.
- Experienced in partnership working.
- Expertise in delivering sustainable solutions to the highest environmental standards.
- Excellent aftercare service.

Combining **technical expertise** with customer service

Corporate social responsibility: our four goals

OUR FOUR GOALS ARE:

To improve the lives of vulnerable people.

To help build community cohesion and integration.

To provide career opportunities to those needing them the most.

To be a positive contributor to the environment.

In 2007 our staff delivered over 13,000 hours of community work with 50% of staff actively volunteering. We supported over 220 different projects:

- 45 schools have received direct support from us.
- 2,200 people in 55 community centres, homeless centres and hospices have had their facilities improved.
- 183 youngsters have been given work experience and/or taken part in one of our apprenticeship schemes.
- 1,000 children have received information on safety at home through our Mr Menda campaign.
- 100 children have had their reading skills improved through our reading buddies scheme.
- £100,000 of fund raising has helped various charities.

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Mears' commitment to environmental issues is reflected in this annual report. It has been printed on Revive 100 Offset which is 100% recycled from post consumer waste.

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Making People *Smile*

IN WORDS

MEARS GROUP PLC
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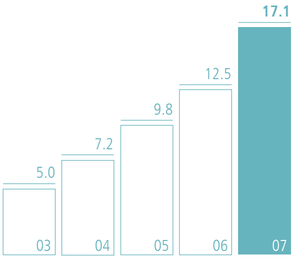
Highlights

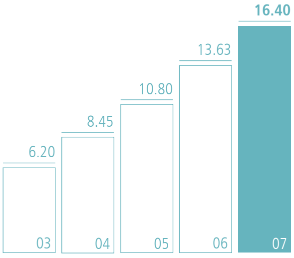
OPERATING PROFIT PRE AMORTISATION (£M)

+36.5%



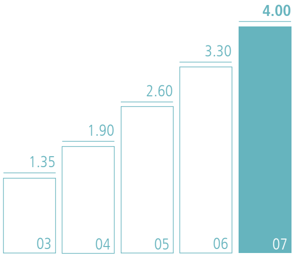
DILUTED EARNINGS PER SHARE (P)

+20.3%



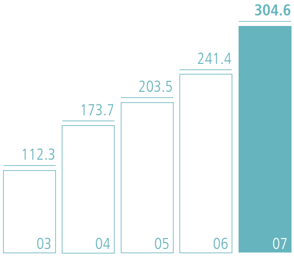
DIVIDENDS PER SHARE (P)

+21.2%



GROUP TURNOVER (£M)

+26.2%



OPERATING PROFIT TO CASH CONVERSION

92.9%

(2006: 99.4%)

OPERATING MARGINS

INCREASED

ACROSS ALL BUSINESS SEGMENTS

ACQUISITION OF CAREFORCE GROUP PLC AND A FURTHER 10 CARE ACQUISITIONS

10+

CARE ACQUISITIONS

RECORD FORWARD ORDER BOOK CURRENTLY AT £1.4 BILLION WITH ROBUST BID PIPELINE

£1.4 BILLION

ORDER BOOK

Our business

ABOUT US

Mears is the leading social housing repairs and maintenance provider in the UK and a growing presence in the domiciliary care market. Mears also has a mechanical and electrical division. We're an ambitious company with a powerful vision, operating in a growing market, with an excellent financial base, strong management, great people and excellent clients.

Timeline 2007

APRIL 2007
Acquisition of Careforce Group plc

JUL 2007
Three additional bolt-on Care acquisitions, 4,000 hours of care per week

AUG 2007
Welwyn contract awarded worth £168m over 15 years

SEPT 2007
Acquisition of Social Housing contracts from Makers UK Limited

More than 6,000 people work here and together with our clients, we maintain, repair and upgrade people's homes and support the wider community – much needed work that improves quality of life for hundreds of thousands of people in the UK. We carry out more than 3,000 repairs each day to 500,000 houses nationwide and we work in communities as diverse as inner city estates and remote rural villages.

Our customer service philosophy is simple: we want to make people smile.

Our results in 2007 underline the financial and operational strengths of this Group.

SOCIAL HOUSING

- Full, directly employed repairs and maintenance service.
- Gas servicing and installation.
- Extensive planned capital maintenance experience including Decent Homes.
- Community and environmental improvement work.

£205.6M
TURNOVER

CARE

- Flexible hourly-care service providing daily visits from a minimum of half an hour, up to four or five visits a day, 365 days of the year.
- Live-in care.
- Fully trained and carefully selected live-in carer as a flexible choice for people who need round-the-clock care, or support, but who do not want to go into a nursing or residential home.

£28.7M
TURNOVER

MECHANICAL AND ELECTRICAL

- Full in-house design and design and build service.
- Experts in major Residential, Educational and Health developments.
- Complex Logistical solutions.
- Response and planned preventative maintenance post installation service.
- Fault finding service.

£61.2M
TURNOVER

OCT 2007
Three additional bolt-on Care acquisitions, 10,000 hours of care per week

NOV 2007
Midland Heart HA contract award for £50m over ten years

NOV 2007
Sedgefield BC partnership for £89m over five years

DEC 2007
Hertfordshire and Rotherham Care contract awards for £34m over seven years

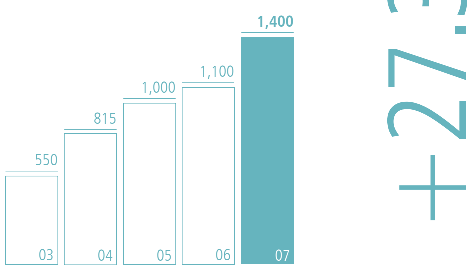
DEC 2007
Two additional bolt-on Care acquisitions, 10,500 hours of care per week

DEC 2007
Birmingham City Council contract award for £65m over five years

Chairman's statement

Summary of Chairman's statement

- THERE REMAIN EXCELLENT PROSPECTS IN SOCIAL HOUSING. WE HAVE DEMONSTRATED IN 2007 THAT THERE IS REAL DEMAND FOR LARGER, LONGER TERM CONTRACTS, WHICH PLAY TO OUR STRENGTHS AS A LEADER IN THAT MARKET.
- OVER £500M OF NEW BUSINESS BEING SECURED ACROSS THE GROUP, WHILE RETAINING OUR STRATEGY OF FOCUSING ON QUALITY CONTRACTS WITH PARTNERSHIP PRINCIPLES AT THEIR HEART.
- GOVERNMENT POLICY, WHICH BOTH EMBRACES INVESTMENT IN COMMUNITIES AND ONGOING PUBLIC PRIVATE SECTOR PARTNERSHIP, CONTINUES TO GENERATE NEW OPPORTUNITIES.
- OUR INVESTMENT IN PEOPLE, IT AND OPERATIONAL BEST PRACTICE ENSURES THAT WE HAVE THE CAPABILITY TO MAKE THE MOST OF THE GROWTH OPPORTUNITIES.



I am delighted to announce another record year in both turnover and profitability. All business segments achieved record results and are well placed to continue building on our success in 2008. Since joining the Alternative Investment Market this is our twelfth consecutive year of profitable growth and we have delivered compound growth in profit before tax pre amortisation of 40% over that period.

In the year ended 31 December 2007, turnover was up 26.2% to £304.6m (2006: £241.4m). Operating profit before amortisation was up 36.5% to £17.1m (2006: £12.5m). Diluted normalised earnings per share was up 20.3% to 16.40p (2006: 13.63p). We now employ 6,000 people, which is more than double a year ago.

I am particularly pleased by the performance of our Development Team, with over £500m of new business being secured across the Group, while retaining our strategy of focusing on quality contracts with partnership principles at their heart. We have an order book of £1.4 billion and have already secured 97% of consensus forecast turnover for 2008 and 77% for 2009.

The strategic acquisition of Careforce in April 2007 allowed the Group to gain a foothold in the domiciliary care market and has been followed by eight smaller acquisitions*, giving us the foundation for achieving market leadership**. The post acquisition integration has gone well and the Careforce team are working closely with their Mears colleagues. One of our first actions has been to bring Mears experience of tendering and bid management to improve the Careforce tender submissions. In addition we have invested significant resource into both the IT and accounting systems and the Careforce workforce development and training programmes. It is the quality of our care workers by which our service will be judged.

* In 2007 and a further two acquisitions in 2008.
** The latest acquisition has seen an extension of our care to cover those with learning difficulties which gives us scope for developing a national offering.

2007 has been a very good year for Mears and I am grateful to all Mears employees for their tremendous work. **2008 and beyond looks even brighter for our customers, our staff, our partners and our investors.** I have personally never been more excited about, nor committed to, the future of this Group.

We see the social services domiciliary care market being in a similar position to where the social housing market was some seven years ago. I believe that a Mears-style care provision will be a competitive and efficient force in a rapidly evolving market and I am determined that Careforce will be the quality offering and the partner of choice. We have already established our first partnership serving both the domiciliary care and housing repair needs of a single community in Wigan.

DEVELOPMENT SUCCESS BUILT ON PARTNERING

A return to bidding on a highly selective basis has yielded immediate returns for Mears. Particularly pleasing have been new major wins in Birmingham, Sedgefield and Midlands-based Midland Heart, as well as securing a 15 year partnership with Welwyn Hatfield District Council. We have been working in Welwyn and Hatfield for the last six years and this new contract, worth over £168m, reflects the success of our partnership approach. In total over £400m of new Social Housing business was won in 2007. Our Care business has also seen significant new wins including Wigan and Hertfordshire. Moreover, we have seen our Mechanical and Electrical division secure record new contracts, establishing itself as one of the most successful contractors of its type.

I would like to take this opportunity to thank all our partners for their support in 2007. We apply the principles of partnering across our supply chain which has been significantly rationalised in 2007 down to a small group of partners with whom we share similar aspirations.

PEOPLE

Mears success has been built on the ability and commitment of its people and their desire to serve customers to the best of their abilities. We have again increased our customer satisfaction levels in 2007, with 98% of tenants regarding our service as satisfactory whilst over 70% of those regard our service as excellent. Both measures substantially exceed reported average satisfaction levels for the market as a whole. Our people continue to make a real difference to the communities in which they work. Once again we recognise the outstanding contribution of our employees highlighted by the achievements of four people each representing their colleagues across the Group; they are Paul Martin, Chris Senior and Luke Brownbridge, all from our new Scunthorpe branch, each awarded the Mears Customer Service Champion of the Year Award and Jayne Cornell from Careforce who won our Carer of the Year Award.

Development of our people remains a top priority for Mears. I am pleased to welcome both David Miles and Andrew Smith to the PLC Board. David joined Mears in 1996 and has led our Social Housing division for many years. Andrew has eight years' experience with Mears and is a further example of Mears developing its own talent for the future. Andrew takes over from David Robertson who is stepping down from the role of Group Finance Director. We signalled this change in August of last year. David has been an integral part of Mears success and I do not believe that we would have been so successful in our early years without his skills and commitment. David will be missed by myself and all his colleagues. I wish him and Linda a long and healthy retirement.

In the year we have welcomed into the Group in excess of 3,000 employees from the domiciliary care sector. We are committed to building a leading position in this sector. Mike Rogers, the founder of Careforce, joined the PLC Board in April 2007.

I also welcome Peter Dicks and David Hosein to the PLC Board as Non-Executive Directors. Their experience will be invaluable through the next stage of our development.

IMPROVING COMMUNITIES IS PART OF OUR DNA

Those who have read previous commentary from me will know the importance I place on corporate social responsibility. Our community work is second to none with over 50% of our staff volunteering their time to help schools, community centres, homeless facilities, training and work experience provision and environmental improvement projects. Our work here is aligned to our Group strategy. By building strong community links, we build relationships and understanding with these communities.

We see the social services domiciliary care market being in a similar position to where the social housing market was some seven years ago. **I believe that a Mears-style care provision will be a competitive and efficient force in a rapidly evolving market and I am determined that Careforce will be the quality offering and the partner of choice.** Demographic trends, as well as the political and social, for people to stay in their own homes when they get older will continue to drive growth in this sector.

IMPROVING COMMUNITIES IS PART OF OUR DNA CONTINUED

By encouraging our staff to make a personal commitment we see people taking on new challenges, increasing job satisfaction and indeed making a difference to the communities in which they often live. It was hard to choose the best overall community project that Mears supported in 2007, given that there were over 220, but congratulations go to our Wycombe branch for their work with the homeless.

A STRONG POSITION IN GROWTH MARKETS

The outlook I outlined a year ago remains unchanged. There remain excellent prospects in Social Housing. We have demonstrated in 2007 that there is real demand for larger, longer term contracts, which play to our strengths as a leader in that market. The political and economic climate is not one that will undermine the social housing sector and indeed the 2007 Comprehensive Spending Review outlined significant increased investment to address underlying demand issues and moreover set an agenda for efficiency which is good for us. Given our scale, our focus on customers and their communities and the quality of people we employ, we are well placed to benefit from these opportunities.

The UK care market is also one with significant growth potential. Demographic trends, as well as the political and social, for people to stay in their own homes when they get older will continue to drive growth in this sector. I also expect to see changes in procurement practices that will increase service quality and will provide opportunities for organisations like Mears, which have the reputation and the right skills to deliver the services required efficiently, effectively, with empathy.

OUTLOOK

2007 has been a very good year for Mears and I am grateful to all Mears employees for their tremendous work. 2008 and beyond looks even brighter for our customers, our staff, our partners and our investors. I have personally never been more excited about, or committed to, the future of this Group.

Our order book is at record levels with a very healthy new business pipeline. Government policy, which both embraces investment in communities and ongoing public private sector partnership, continues to generate new opportunities. Our investment in people, IT and operational best practice ensures that we have the capability to make the most of the growth opportunities.

BOB HOLT
Chairman
10 March 2008

Case study: Social Housing – Cross Keys Homes, Peterborough

CONTRACT SCOPE

Mears originally won a Decent Homes Contract in 2004.

Additional contracts have since been won for external and internal decoration and carpentry repairs, environmental improvement works and also for gas servicing and maintenance. The contract covers 10,000 properties.

ACHIEVEMENTS

- Contract delivery running 15 months ahead of target.
- Efficiency savings of £1.2m for the client.
- Through involving tenants in decision making, savings of £350,000 have been made.
- Success has led to additional work being won.
- Defect rate of 0%.
- Customer satisfaction of 97%.
- Kitchen, bathroom and central heating installation completed in twelve days.

Mick Leggett, Chief Executive of Cross Keys Homes said:

"When Cross Keys Homes began we set out very clearly that we were more than just about delivering decent homes. When we choose any of our partners we want them to share in our aspiration of motivating people, giving hope and improving lives. Mears whole culture is one of going beyond that of just being a normal contractor to one that works within and for the community. I know that with Mears as part of our 'team' we are working toward Cross Keys Homes driving forces of ambition, challenge and spirit."

Mick Leggett

	Pre Mears	Expected for Mears	**Actual 2007**
Customer satisfaction	93.0%	97.0%	**98.7%**
% jobs completed on time	93.0%	95.0%	**99.1%**

Operating and financial review

EVERYDAY WE CARRY OUT

3,000

REPAIRS

NUMBER OF EMPLOYEES

6,000

TODAY

Summary of operating and financial review

- TURNOVER UP 26.2% TO £304.6M.
- OPERATING PROFIT PRE AMORTISATION UP 36.5% TO £17.1M.
- NORMALISED DILUTED EPS UP 20.3% TO 16.40P.
- ORDER BOOK NOW STANDS AT £1.4 BILLION.
- THE GROUP CONVERTED INTO CASH 92.9% OF OPERATING PROFIT BEFORE AMORTISATION INTO OPERATING CASH FLOW.
- WITH OVER 50% OF OUR STAFF PARTICIPATING IN COMMUNITY IMPROVEMENT PROJECTS, MEARS HAS ONE OF THE HIGHEST LEVELS OF VOLUNTEERING OF ANY COMPANY OF ITS SIZE IN THE UK. OVER 13,000 HOURS OF COMMUNITY WORK WAS UNDERTAKEN, WITH OVER 220 INDIVIDUAL PROJECTS.

In the year to 31 December 2007 we grew turnover to £304.6m (2006: £241.4m), an increase of 26.2%. The Domiciliary Care division contributed £28.7m of this growth which was predominantly generated through acquisition.

OPERATING RESULT

We achieved an operating result before amortisation of £17.1m (2006: £12.5m), a 36.5% increase. All business segments reported increased operating margins. The Group increased operating margin before amortisation from 5.2% in 2006 to 5.6% in 2007. Even after excluding the margin enhancing Care acquisition, the margin shows an increase in 2007 to 5.5% on a like-for-like basis. We are now benefiting from the significant investment made in our in-house information technology platform which has helped to further enhance financial control throughout the business. We continue to invest in our infrastructure ahead of the projected organic growth.

Case study: Careforce – Rotherham

Careforce has an excellent reputation as a high quality service provider in Rotherham. The branch currently provides over 2,000 hours of care a week to over 250 citizens of Rotherham living in their own homes.

Our contract with Rotherham Metropolitan Borough Council expires on 31 March 2008 and as a result we have had to tender for the new contracts at the end of 2007. The Borough adopted a commissioning strategy which had a defined outcome to reduce the number of domiciliary care providers from around 14 to a maximum of seven.

There were seven contracts awarded to only four providers. Careforce secured three of these contracts. As defined in the Borough's commissioning strategy, this was the maximum number of contracts which could be awarded to any one provider.

This award has secured our position as the largest care provider in Rotherham for the next three to five years. The volume of business will increase by approximately 15% in April 2008 with anticipated organic growth of a further 10% in year one of the contract.

One of the key factors which led to our success in this Borough is the consistently high quality of the service delivery. The quotes below have been extracted from the most recent Quality Audit undertaken by the branch:

"The service given to my brother is very good – thank you."

"No complaints whatsoever, very helpful indeed."

"I am extremely happy with my carer, she is excellent, a breath of fresh air."

CAREFORCE – ANTI-FALL SLIPPERS CAMPAIGN
Careforce has been actively promoting the importance of safety within the service users' homes. Recently, in Rotherham we provided all of our service users with specially designed slippers. This is in response to the Government's drive to reduce the number of falls within the home. Ill-fitting slippers were identified as a cause of a significant percentage of falls. This initiative was welcomed and greatly supported by our client.

Kathryn Turner Hague, age 53, suffers from severe arthritis and is cared for by our Rotherham branch.

We are now benefiting from the significant investment made in our in-house information technology platform which has helped to further enhance financial control throughout the business. **We continue to invest in our infrastructure ahead of the projected organic growth.**

AMORTISATION OF ACQUISITION INTANGIBLES

The Group carried out ten acquisitions during the course of 2007 which created intangibles amounting to £12.9m which will be amortised over their useful economic life. This resulted in a charge of £1.5m in 2007 (2006: £0.3m). The excess of purchase price over the fair value of net assets is capitalised as goodwill and under IFRS is not amortised, however, it will be subject to an annual impairment review.

SHARE-BASED PAYMENTS

The share-based payment charge in 2007 was £0.6m (2006: £0.5m).

FINANCE COSTS

The Group again maintained its broadly neutral cash position throughout the twelve months to 31 December 2007 and suffered a net interest charge of £0.12m (2006: income £0.01m). The Group's focus on tight working capital control remains a cornerstone of our offering given the tremendous scale of growth encountered during the later part of 2007 and continuing into 2008.

TAX EXPENSE

£4.7m has been provided as a tax charge, an effective rate of 30.4% (2006: 17.3%). This is marginally higher than the standard rate of 30% as a result of adjustment for amortisation of acquisition intangibles, depreciation and share-based payments. The effective rate is higher than in 2006 as the comparative period benefited from an exceptional level of employee share option exercises in a single period.

EARNINGS PER SHARE (EPS)

The normalised diluted EPS pre intangible amortisation and incorporating a full corporation tax charge of 30% shows an increase of 20.3%, rising to 16.40p from 13.63p.

DIVIDEND

The dividend increase is in line with our earnings growth. A final dividend of 2.9p per share is proposed which, combined with the 1.1p interim dividend, gives a total dividend in the year of 4.0p per share (2006: 3.3p). The final dividend has not been recognised within the preliminary announcement as it did not represent an obligation at the balance sheet date.

The dividend is payable on 2 July 2008 to shareholders on the register on 13 June 2008.

BORROWINGS, CASH FLOW AND TREASURY

Group net cash position at 31 December 2007 was £15.3m, up from £11.9m at the start of the year.

The cash flow position continues to underline our strength as a business. The Group converted into cash 92.9% of operating profit before amortisation into operating cash flow (2006: 99.4%).

The Group used £28.4m to fund the acquisition of Careforce Group PLC (Careforce) together with further bolt-on acquisitions. The Group financed this by raising £24.2m by way of placing 7.5m shares, with the balance of £4.2m being financed through working capital. A sum of £3.5m was invested in new technology and operational bases. The Group benefited from the exercise of options in 2007 by some £1.4m.

Case study: Social Housing – Welwyn Hatfield

PUTTING TENANTS AT THE HEART OF THE BUSINESS

Mears was appointed as the sole preferred partner of Welwyn Hatfield Borough Council in 2007. The new contract, which, encompasses the Council's full scope of works including, Responsive Repairs and Void and Decent Homes Refurbishments, is worth a minimum of £11.2m per annum for a 15 year period.

The contract was won on the back of the completion of a successful five year partnership between Mears and the Council and a bid that placed tenants at the heart of the partnership. The 15 year term offers an opportunity to develop unprecedented levels of innovation and added value to the service provision, and to make a considerable long term investment in tenants, the housing stock, and the communities of Welwyn Hatfield.

As a part of this new contract, Mears have taken partnering to a new level through investment in a co-located building at Hydeway in Welwyn. Hydeway was a derelict building that has been empty for many years. Vandalised continuously, this old factory and warehouse site was an eyesore located in the heart of Welwyn Garden City.

The newly refurbished facility includes:

- Offices for the Tenant Panel, Council staff and Mears.
- A state of the art call centre including out of hours.
- A training suite.
- A kitchen manufacturing factory.
- Warehouse facilities for our stores partner Wolseley.
- Storage and offices for our supply chain partners.
- Kitchen and bathroom showrooms.
- A joinery shop.
- A Mears Foundation training centre.
- A furniture recycling charity.

This facility will be the platform for Mears to deliver first rate service to the residents of Welwyn and Hatfield.

This acquisition gave the Group a significant foothold within the domiciliary care market from where it has continued to grow both organically and through acquisition.

ACQUISITION

During the year, the Group expanded into domiciliary care, initially, through the acquisition of Careforce for a total consideration of £23.8m. This consideration comprised of £12.2m of cash with the balance settled by the issue of 3.3m Mears shares in exchange for existing Careforce shares. A further £5.6m was used to settle the debt facility held by Careforce. This acquisition gave the Group a significant foothold within the domiciliary care market from where it has continued to grow both organically and through acquisition.

The Group carried out a further eight domiciliary care acquisitions strengthening our national coverage of this market. The entire share capital of each business was purchased for a combined cash consideration of £10.6m (including costs). All acquisitions were structured on a similar basis, typically on a multiple of between four or five times EBITDA. Further consideration of £3.0m is deferred subject to meeting future performance targets.

The domiciliary care business is performing in line with our expectations and ended the year with a run rate in excess of 75,000 hours per week, an increase of some 50% on the original Careforce business.

The Group also acquired the Social Housing contracts from Makers UK Limited for a nominal consideration. An additional payment of £1.3m was made to acquire the work in progress at book value.

ORDER BOOK

The visibility of our earnings continues to improve with in excess of £500m of new work being secured in 2007. Our order book now stands at £1.4 billion (2006: £1.1 billion). The element of market forecast turnover secured for 2008 is 97% and 77% for 2009. We continue to place great emphasis on winning good quality contracts that can provide clear and sustainable margins.

BALANCE SHEET

Total shareholders' equity value rose by £44.7m to £82.7m at 31 December 2007. The increase in net assets is due to retained profits and the shares issued in the year. Significant movements in the balance sheet are:

- the Group recognised £33.0m of goodwill and £13.1m of intangible assets predominantly relating to the acquisition of Careforce and additional eight bolt-on domiciliary care acquisitions;
- trade and other receivables at 31 December 2007 were £51.6m, an increase of £11.3m of which £6.1m was due to the inclusion of the acquisitions; and
- trade and other payables at 31 December 2007 were £52.4m, an increase of £10.2m of which £6.2m was due to inclusion of the acquisitions and £2.8m of deferred consideration that has now fallen payable in less than one year.

We have achieved a number of major successes, winning contracts valued at in excess of £500m in total over the last 12 months.

MAJOR CONTRACT WINS AND MOBILISATIONS

We have achieved a number of major successes, winning contracts valued at in excess of £500m in total over the last twelve months.

SOCIAL HOUSING CONTRACT WINS

We won a ten year contract, worth £50m, to carry out response and repairs work for Midland Heart Housing Association. Midland Heart is one of the top ten housing and regeneration groups in the country and the largest based in the Midlands. The contract mobilised in December 2007.

We were awarded the 15 year sole partner contract with Welwyn Hatfield District Council to deliver their entire housing maintenance and improvement programme. This is worth a minimum of £168m over 15 years but further negotiated works could see that rise. We have been working in Welwyn and Hatfield since 2001. This award demonstrates the value of choosing customers with a strong partnership ethos and represents the biggest sole partner contract award in Mears history.

We were successful in winning a major new £89m partnership contract in Sedgefield in the North East of England. The contract term is five years with a possible two year extension. This strategic partnership covers all aspects of housing repairs, maintenance and Decent Homes across the 8,500 properties in Sedgefield Borough Council with 170 existing Sedgefield employees having transferred to Mears. The contract mobilised in February 2008.

We were successful in obtaining a flagship contract worth £65m with Birmingham City Council to provide responsive repairs and voids refurbishment in the Northern area of the City. The work will encompass the transfer of over 300 staff and it will last for an initial period of four and a half years with an option to extend to a full term of seven years. This win follows an extensive tender process, lasting over six months, through which Mears was able to demonstrate service and efficiency benefits for both the Council and the residents of North Birmingham. The contract went live on 1 April 2008.

We were awarded a £10m, five year contract with Mole Valley Housing Association. The work is for planned maintenance and voids and can be extended for a further five years. Mole Valley Housing Association, based in Surrey, was created in 2007 following a transfer from Mole Valley District Council and has over 3,800 homes. It is part of the Circle Anglia Group which has a housing stock of over 27,000 properties and is one of the largest housing associations in the UK. The contract commenced on 1 April 2008.

We received a five year contract extension on the response and voids maintenance contract with Wycombe District Council. This is worth £20m over five years and is awarded on the back of providing the tenants a high quality service. The most efficient way to win new business is to renew existing contracts. We have renewed the majority of contracts as they come up for renewal. In the last ten years, we have failed to renew only one material contract.

Mears has one of the highest levels of volunteering of any company of its size in the UK.

DOMICILIARY CARE CONTRACT WINS

The Group won a number of domiciliary care contracts including a contract with Wigan Metropolitan Borough Council for the provision of domiciliary care services for an initial period of three years plus a further potential two year extension. The initial contract value will be around £1m per annum. The Group was also successful in obtaining contracts for Homecare in Trafford, North Tyneside and for Extra Care Sheltered Housing in Nottinghamshire. These three contracts have combined annual revenues of approximately £1.5m.

Careforce has also been successful in securing future revenues, in two areas where existing contracts having come to the end of their natural term were being retendered. In both cases, Careforce has been successful in winning higher volumes of the outsourced work at similar or increased billing rates. In Rotherham, Careforce has won the maximum possible allocation of three blocks and in Hertfordshire we won contracts which will lead to significantly increased volumes that will run to at least 2015 with possible extensions to 2018. The anticipated aggregate forward sales value of the new contracts in Rotherham and Hertfordshire is in the region of £34m during the basic contract terms or around £52m if the options to extend both contracts are taken up.

TRAINING AND DEVELOPMENT

We are an established 'Investor in People' and we are meeting the challenge of the skills shortage in our sector through a comprehensive national programme of employee development, together with structured work experience and training programmes for prospective employees.

We are particularly proud of our safety record which has been further enhanced by our new safety course for staff that we have developed together with the British Safety Council. All our operatives have received this additional training in 2007.

In addition to our existing Training Foundation in Hackney, we have supported the launch of the Ealing Diploma and Enterprise Centre (EDEC) which aims to give young people aged 14–19 years broader options alongside other qualifications such as GCSEs and A-Levels. Students who attend are given the opportunity to learn skills that they would not learn in mainstream education and achieve the Diploma in Construction and the Built Environment. We plan to invest in further training centres in 2008 in Birmingham and Sedgefield.

CUSTOMER AND COMMUNITY CARE

With over 50% of our staff participating in community improvement projects, Mears has one of the highest levels of volunteering of any company of its size in the UK. Over 13,000 hours of community work was undertaken, with over 220 individual projects.

We are committed to reducing our carbon emissions per employee by 5% per annum.

Over the last three years, we have been a particular supporter of the Bobby Moore Bowel Cancer Fund with some £250,000 having been collected by our staff through a huge variety of events, from coffee mornings, to supporting projects in Brazil, India and South Africa.

One of the biggest issues for vulnerable people can be the risk of falling. Mears has invested in providing special anti-fall slippers to tenants to reduce this risk.

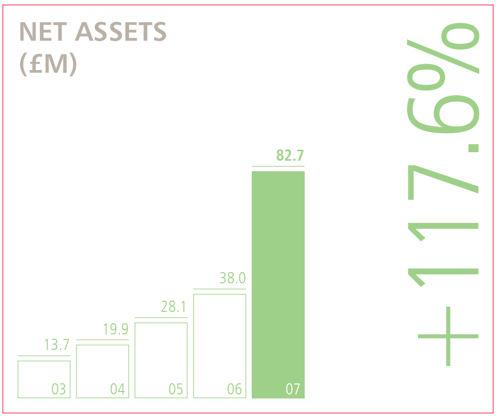
ENVIRONMENT

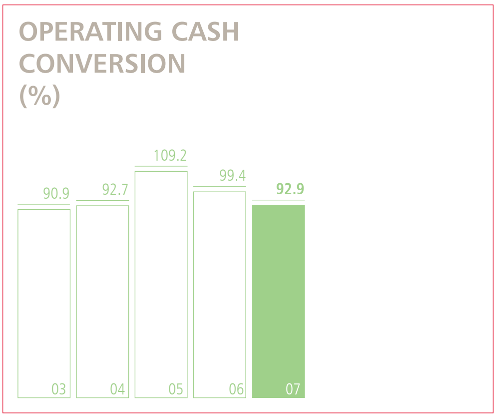
We are committed to reducing our carbon emissions per employee by 5% per annum as well as to recycling over 50% of our waste. We have had a dynamic recycling policy throughout our history and it is pleasing to see our continuing commitment. Through our Thought Leader Conference in London in November we worked with clients, suppliers and key stakeholders to put greater focus on the need to tackle carbon reduction within the existing social housing stock, rather than to just focus on new build, where most of the Government focus has been so far. Our activity is now broad, from working with our suppliers to identify sustainable materials, through to working with the Tenants Participation Advisory Service to help tenants take action to reduce both energy usage and waste.

More detail on all our corporate social responsibility work can be found on pages 16 to 19 of this report.

BOB HOLT
Chief Executive

DAVID ROBERTSON
Finance Director
10 March 2008





Corporate social responsibility

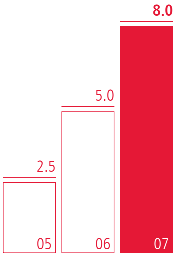
Goals

MEARS REGULARLY REVIEWS ITS CORPORATE SOCIAL RESPONSIBILITY GOALS AND ENSURES THAT THEY ARE FULLY ALIGNED TO BUSINESS STRATEGY.

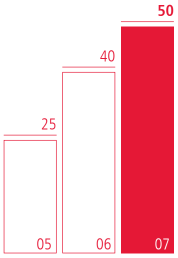
OUR FOUR GOALS ARE:

- TO IMPROVE THE LIVES OF VULNERABLE PEOPLE;
- TO HELP BUILD COMMUNITY COHESION AND INTEGRATION;
- TO PROVIDE CAREER OPPORTUNITIES TO THOSE NEEDING THEM THE MOST; AND
- TO BE A POSITIVE CONTRIBUTOR TO THE ENVIRONMENT.

COMMUNITY HOURS PER EMPLOYEE



% OF EMPLOYEES THAT DO COMMUNITY WORK



OUR COMMUNITIES

We work throughout the UK and have branches in every kind of community. In areas as diverse as rural villages, bustling market towns, historic boroughs, garden cities, busy metropolitan cities and industrial heartlands you will find Mears working to improve people's lives. We do work in some of the most socially deprived areas of the country so we feel a strong sense of responsibility towards the wider community.

Helping a local community to thrive increases the quality of life for tenants and makes our job that little bit easier. 90% of our employees live-in the communities they support.

In 2007 our staff delivered over 13,000 hours of community work with 50% of staff actively volunteering. We supported over 220 different projects:

- 45 schools have received direct support from us;
- 2,200 people in 55 community centres, homeless centres and hospices have had their facilities improved;
- 183 youngsters have been given work experience and/or taken part in one of our apprenticeship schemes;
- 1,000 children have received information on safety at home through our Mr Menda campaign;
- 100 children have had their reading skills improved through our reading buddies scheme; and
- £100,000 of fund raising has helped various charities.

At our annual conference this year awards were given to our top five nominated community projects:

THE BIG BREAKFAST IN HIGH WYCOMBE

Employees have supported their local homeless charity in a very practical way over recent years by helping out every month in the preparation and serving of breakfast to the clients. Over the years every member of staff from the branch has taken part in this project demonstrating a long term commitment to community involvement.

We do work in some of the most socially deprived areas of the country, so we feel a strong sense of responsibility towards the wider community.

OUR COMMUNITIES CONTINUED

GROWING TOGETHER IN BROADSTAIRS

Working with local school children and the elderly residents of a sheltered housing complex we helped them to plan, design and create a community garden that has enhanced the environment and brought young and old together in a very sustainable way.

THE TRIANGLE COMMUNITY CENTRE IN NORTHAMPTON

Following an approach from members of a local community association after their centre had been vandalised, our whole branch turned out over a weekend to help restore and refurbish the centre. Since then the centre has thrived and vandalism hugely reduced as the centre gets greater use and is open for the community.

YOUNG OFFENDERS PROJECT IN PETERBOROUGH

We have provided mentoring and vocational skills training to a number of former young offenders enabling them to gain new skills and confidence and helping them back into community engagement and work opportunities.

DIY TRAINING FOR RESIDENTS IN CHRISTCHURCH

Residents from two local housing associations were given training in DIY skills. Using a community hall which we kitted out as a training centre, our employees took residents through practical painting and decorating examples, enabling them to feel confident to carry out improvements to their own homes.

SUPPORTING GOOD CAUSES

Our commitment to the community is recognised in Mears attaining the Business in the Community 'Percent Standard'. This benchmark measures the contributions made by companies through cash donations, staff time, gifts in kind and management time, calculated as a percentage of pre-tax profit. The Percent Club recognises those companies who put the equivalent of at least 1% of their pre-tax profit into community work.

We have also expanded the support provided by the Mears 'Future Champions' project. This provides both financial and practical support to ten young talented athletes from communities in which we work. We hope to see these inspirational youngsters participating in a number of national and international events culminating in the London Olympics 2012.

We have developed a very strong relationship with the Bobby Moore Bowel Cancer Fund, helping raise some £250,000 for this important charity over the last three years.

OUR WORKPLACE

We want to become a recognised 'Employer of Choice' within our sector with a workforce that fully reflects the communities we serve. To help us achieve this, we have three key aims:

- to develop a culture of good communication and trust within the business, so every employee shares the same values and works towards the same business objectives;
- to manage change in a fast-growing, high-performance organisation by anticipating the people and resources we will need well before they are needed; and
- to encourage our employees to work together effectively in all situations.

TRAINING AND DEVELOPMENT

We are now an established 'Investor in People', retaining the award in 2007 and we are meeting the challenge of the skills shortage in our sector through a comprehensive national programme of employee development, together with structured work experience and training programmes for prospective employees.

We have invested heavily in employee development including:

- taking all our trades professionals through a trade-based NVQ programme;
- the development of a unique Mears Professional Development Customer and Community Care NVQ to help raise our customer service standards even higher;
- supporting new training centres including the Western Skills Centre in Wigan, the Ealing Diploma and Enterprise Centre and the Foundation Training Centre in Hackney; and
- launching a national apprentice recruitment campaign.

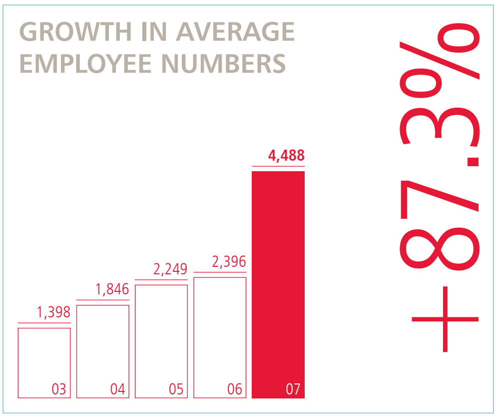
CULTURE AND DIVERSITY
In Mears, diversity is about having a group of employees who reflect the community they serve. It is about having the right blend of age, sex, race and cultural background required to understand the needs of the people we support. We operate in a sector that has been very male-orientated for many years, but we are addressing that imbalance. We will continue to address the issues involved and support the Women in Construction programme. We also achieved the Age Positive award in 2007, demonstrating our fair approach across all age groups.

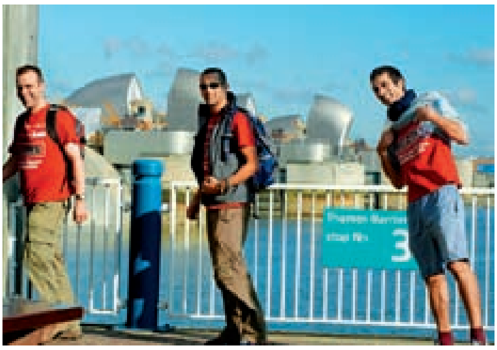
SUPPORT FOR EMPLOYEES
We continue to provide a free 24 hour, 365 days per year confidential helpline called Mears Assist. This provides employees with advice on a wide range of personal and work-related matters and is available to their immediate families. We see Mears as a community in its own right and initiatives such as this are intended to help people get the most from their life while working here.

OUR MARKET
We are leaders in the Social Housing sector and we believe we have a responsibility to help improve knowledge, understanding and the overall performance of our market. In particular, we set out:

- to find and work with partners who share our values;
- to help clients and other organisations meet and learn from one another; and
- to look for innovative ways to improve efficiency and effectiveness – for the benefit of clients, tenants, local communities and tax payers.

THOUGHT LEADERSHIP
We have run and published our fourth Thought Leader report on the subject of improving the carbon footprint of the UK's social housing stock. We run this with support from the Chartered Institute of Housing, the Tenant Participation Advisory Service and others. Professionals from the housing industry debated how to deliver real community improvements effectively. The report is available from our website www.thoughtleader.org.uk.





We are proud to continue to hold the **RoSPA Gold Health and Safety Award.**

PROCUREMENT POLICIES

Mears Group PLC is determined to use true partnering and open book principles in the supply chain to ensure best value for all parties, in particular, our clients. Our nationally agreed supply chain partnering arrangements balance financial, service and sustainability requirements to ensure that we are delivering genuine all round best value to our clients.

OUR ENVIRONMENT

We take our environmental performance very seriously and work continuously to improve our practices. Our aims are:

- to achieve recycling levels of in excess of 50%;
- to reduce carbon emissions by 5% per annum per employee for the next five years;
- to offset the majority or all of our carbon footprint;
- to improve the energy efficiency of 50,000 homes per annum; and
- to raise the percentage of wood sourced from certified sources to 90% by 2010.

We have now achieved the ISO 14001 standard in many of our branches and are rolling this out across the remaining locations. As a part of this we are significantly improving the level of waste we recycle. In 2007, 50% of our waste was recycled and we expect this to grow to 70% in 2008.

At Mears we are always working tirelessly to ensure that we do everything in our power to reduce our carbon footprint. In order to do this we are currently seeking to implement a number of key initiatives, which we believe will make us totally carbon neutral in the very near future.

These initiatives include:

- commissioning an external verification of our existing carbon footprint together with the production of a vigorous carbon reduction strategy;
- planting 32,000 saplings in 2008;
- introducing fuel efficient vehicles;
- providing special Energy Saving Packs for tenants; and
- improving procurement of sustainable products.

As well as these important projects, Mears also encourages many of our staff to qualify for City and Guilds Energy Advisory Certificates. These qualifications enable our staff to provide tenants with practical advice on the best way to achieve energy efficiency within their homes.

We believe this is an important area for our business in the future. Most of the focus on housing environmental improvement has been on new build so far and we see more of the focus shifting to refurbishment strategies if the UK is to achieve its carbon reduction targets.

HEALTH AND SAFETY

Mears substantially increased its health and safety training in 2007. In partnership with the British Safety Council, Mears has developed a company specific accredited Safety, Health and Environment course, which was rolled out in 2007 to all our employees. This was the first time the British Safety Council has worked with a company to produce such a course.

We are proud to continue to hold the RoSPA Gold Health and Safety Award. In 2007 we reduced our accident incident rate again as we have done year-on-year.

Board of Directors








ROBERT HOLT (53)
CHAIRMAN AND CHIEF EXECUTIVE
Bob had a controlling interest in Mears at the time of flotation in October 1996. He has a background in developing support service businesses. He has operated in the service sector since 1981 initially in a financial capacity then moving into general management.

ANDREW C M SMITH (35)
FINANCE DIRECTOR
Andrew joined Mears in December 1999 and prior to his appointment to the Board was Finance Director covering all the Mears Group's subsidiaries. Andrew qualified as a Chartered Accountant in 1994 and prior to joining Mears he worked as an auditor with Grant Thornton.

DAVID J MILES (42)
MANAGING DIRECTOR OF MEARS SOCIAL HOUSING
David joined Mears in May 1996 and prior to his appointment to the Board in January 2007 was Managing Director of Mears Southern Social Housing division. Prior to joining Mears, David held a senior position with MITIE Maintenance (South East) Limited. His background is electrical engineering.

MICHAEL G ROGERS (66)
EXECUTIVE DIRECTOR OF MEARS CARE DIVISION
Michael founded Careforce in 1999 and has over 30 years' experience in healthcare services and care provision. In 1976 he joined Nestor Medical Group Limited as Managing Director and went on to become Chief Executive of Nestor Healthcare Group plc from 1986 to 1996. From 1996 to 1999 he worked as a consultant to a number of healthcare related organisations.

MICHAEL A MACARIO (70)
SENIOR INDEPENDENT NON-EXECUTIVE DIRECTOR
Michael is a Chartered Accountant and a Director of a number of companies. He joined Mears in 1996 upon flotation and is Chairman of the Group's Audit Committee.

REGINALD B POMPHRETT (64)
NON-EXECUTIVE DIRECTOR AND COMPANY SECRETARY
Reg has been involved in corporate finance for over 30 years and is Director of a number of companies. He is a Chartered Secretary and a member of the Securities Institute. He joined Mears in 1996 and is Chairman of the Group's Remuneration Committee.

PETER F DICKS (65)
NON-EXECUTIVE DIRECTOR
Peter has been active in the venture capital and investments fields for a number of years. He is currently a Director of a number of companies. He joined Mears in 2008 and is Chairman of the Nomination Committee.

DAVID L HOSEIN (44)
NON-EXECUTIVE DIRECTOR
David has over 17 years' consulting experience, the last five of which have been at OC&C Strategy Consultants. David has worked extensively in the support services sector for corporate and private equity clients. Previously, he was a partner in Arthur Andersen. He joined Mears in 2008.

Shareholder and corporate information

INTERNET
The Group operates a website which can be found at www.mearsgroup.co.uk. This site is regularly updated to provide information about the Group. In particular all of the Group's press releases and announcements can be found on the site.

REGISTRAR
Any enquiries concerning your shareholding should be addressed to the Company's Registrar. The Registrar should be notified promptly of any change in a shareholder's address or other details.

INVESTOR RELATIONS
Requests for further copies of the annual report and accounts or other investor relations enquiries, should be addressed to the registered office.

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Financial Calendar

Annual General Meeting	4 June 2008
Record date for final dividend	13 June 2008
Dividend warrants posted to shareholders	2 July 2008
Interim results announced	19 August 2008

Report of the Directors

The Directors present their report together with the consolidated financial statements for the year ended 31 December 2007.

PRINCIPAL ACTIVITIES

The principal activities of the Group are the provision of a range of outsourced services to the public and private sectors. The principal activity of the Company is to act as a holding company.

BUSINESS REVIEW

An overall review of the business is given in the Chairman's Statement and Operating and Financial Review.

The results of the Group can be found within the Consolidated Income Statement on page 10 of the "In figures" Report.

DIVIDEND

The final dividend in respect of 2006 of 2.4p per share was paid in July 2007. An interim dividend in respect of 2007 of 1.1p was paid to shareholders in November 2007. The Directors recommend a final dividend of 2.9p per share. This has not been included within the Group financial statements as no obligation existed at 31 December 2007.

KEY PERFORMANCE INDICATORS (KPIS)

We operate a balanced scorecard approach. This ensures that the Group targets its resources around its customers, community, employees, operations and finance. This enables the business to be operated on a balanced basis with due regard for all stakeholders.

The primary KPIs used by the Group are:

	2007	2006
Social Housing sales growth	11.7%	27.7%
Social Housing operating margin*	5.9%	5.6%
Operating profit cash conversion	92.9%	99.4%
Normalised diluted earnings per share	16.40p	13.63p
Community hours per employee	8	5
% of employees that do community work	50%	40%

* Pre amortisation of acquisition intangibles.

The Group has continued to develop its contract management system and a number of other secondary KPIs are monitored on a real time basis through what is known internally as the Digital Key Performance Indicator Dashboard.

DIRECTORS

The present membership of the Board is set out on page 24. R Holt and M A Macario retire by rotation and, being eligible, offer themselves for re-election. P F Dicks and D L Hosein retire having been appointed since the last Annual General Meeting and offer themselves for re-election.

Report of the Directors

DIRECTORS CONTINUED

The beneficial interests of the Directors in the shares of the Company at 31 December 2007 and 31 December 2006 are detailed below. The Directors' emoluments are detailed on page 29.

	Ordinary shares	
	31 December 2007 Number	31 December 2006 Number
R Holt	**500,000**	500,000
D J Robertson (resigned on 11 March 2008)	**—**	—
D J Miles (appointed 30 January 2007)	**100,000**	100,000
A C M Smith (appointed 9 March 2007)	**50,000**	50,000
M A Macario	**100,000**	100,000
R B Pomphrett	**175,000**	150,000
M G Rogers (appointed 4 April 2007)	**102,420**	—
D L Hosein (appointed 10 January 2008)	**—**	—
P F Dicks (appointed 10 January 2008)	**—**	—

S J Black was a Director during the year and resigned on 28 January 2007. D J Robertson resigned as a director on 11 March 2008.

No Director had, during or at the end of the year, a material interest in any contract which was significant in relation to the Group's business.

The Company has granted options to Directors. Details of these options are given in note 5 to the Group financial statements.

DIRECTORS' RESPONSIBILITIES FOR THE FINANCIAL STATEMENTS

The Directors are responsible for preparing the annual report and the financial statements in accordance with applicable law and IFRS as adopted by the European Union in respect of the Group and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice) for the Company.

Company law requires the Directors to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the Group and the Company and of the profit or loss of the Group for that period. In preparing these financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements; and
- 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 proper accounting records that disclose with reasonable accuracy at any time the financial position of the Group and the Company and enable them to ensure that the financial statements comply with the Companies Act 1985. 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.

DIRECTORS' RESPONSIBILITIES FOR THE FINANCIAL STATEMENTS CONTINUED

In so far as the Directors are aware:

- there is no relevant audit information of which the Company's auditors are unaware; and
- the Directors have taken all steps that they ought to have taken to make themselves aware of any relevant audit information and to establish that the auditors are aware of that information.

The Directors are responsible for the maintenance and integrity of the corporate and financial information included on the Company's website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

FINANCIAL RISK MANAGEMENT

Risk is an accepted part of doing business. The Group's financial risk management is based upon sound economic objectives and good corporate practice. The Board has overall responsibility for risk management and internal control within the context of achieving the Group's objectives. Our process for identifying and managing risks is set out in more detail on page 28 within the Corporate Governance Statement. The key risks and mitigating factors are set out below.

The Group seeks to manage financial risk, to ensure sufficient liquidity is available to meet the identifiable needs of the Group and to invest cash assets safely and profitably. Short term flexibility is achieved through the use of the bank overdraft facilities.

The Group does not undertake any trading activity in financial instruments. All activities are transacted in Sterling. The Group does not engage in any hedging activities.

The Group reviews the credit quality of customers and limits credit exposures accordingly. All trade receivables are subject to credit risk exposure. However there is no specific concentration of credit risk as the amounts recognised represent a large number of receivables from various customers. The credit risk on trade receivables within the Mechanical and Electrical division is insured. The credit risk on trade receivables in other divisions is not insured due to the secure nature of the customer base.

PAYMENT POLICY

The Company acts purely as a holding company and as such is non-trading. Accordingly no payment policy has been defined. However, the policy for Group trading companies is to set the terms of payment with suppliers when entering into a transaction and to ensure suppliers are aware of these terms. Group trade creditors during the year amounted to 46 days (2006: 44 days) of average supplies for the year.

SUBSTANTIAL SHAREHOLDINGS

On 8 April 2008 the Company has been notified of, or is aware of, the following shareholders holding 3% or more of the issued share capital of the Company:

	Number of ordinary shares Millions	Percentage of issued ordinary shares %
AEGON	6.7	9.19
Standard Life Investment Management	4.3	5.88
HBOS (incl. Insight)	3.9	5.32
Majedie Asset Management	3.7	4.99
INVESCO	3.0	4.14
Wellington Management (US)	2.9	3.97
Liontrust Asset Management	2.5	3.44
Prudential (M&G)	2.5	3.40
Old Mutual AM	2.4	3.34
Rathbone	2.4	3.32

The Group actively encourages wider share ownership by its employees and the Group's Save As You Earn (SAYE) share schemes have been well received.

Report of the Directors

CHARITABLE DONATIONS

During the year the Group made charitable donations of £0.08m (2006: £0.05m). Further details relating to the Group's commitment to the community and good causes are detailed in the Corporate Social Responsibility Report.

DISABLED EMPLOYEES

Applications for employment by disabled persons are always fully considered, bearing in mind the aptitudes of the applicant concerned. In the event of members of staff becoming disabled, every effort is made to ensure that their employment with the Group continues and that appropriate training is arranged. It is the policy of the Group that the training, career development and promotion of disabled persons should, as far as possible, be identical to that of other employees.

EMPLOYEE INFORMATION AND CONSULTATION

The Group has received recognition under the 'Investors in People' Award. The Group continues to involve its staff in the future development of the business. Information is provided to employees through a quarterly newsletter, the Group website and the intranet to ensure that employees are kept well informed of the performance and objectives of the Group.

The Group operates a stakeholder pension plan available to all employees. The Group operates a personal pension plan and contributes to the pension schemes of certain Directors and senior employees. The Group also contributes to defined benefit schemes on behalf of a number of employees. The Group operates a SAYE scheme, an Executive Share Option Scheme and an Enterprise Management Incentive Scheme.

CREST

CREST is the computerised system for the settlement of share dealings on the London Stock Exchange. CREST reduces the amount of documentation required and also makes the trading of shares faster and more secure. CREST enables shares to be held in an electronic form instead of the traditional share certificates. CREST is voluntary and shareholders can keep their share certificates if they wish. This may be preferable for shareholders who do not trade in shares on a frequent basis.

AUDITORS

Grant Thornton UK LLP, who have been the Group's auditors since 1994, offer themselves for re-appointment as auditors in accordance with Section 385 of the Companies Act 1985.

On behalf of the Board

R B POMPHRETT
Director and Secretary
30 April 2008

Corporate governance statement

INTRODUCTION

The Board is committed to achieving good standards of corporate governance, integrity and business ethics for all activities.

BOARD OF DIRECTORS

The Board of Directors comprises four Executive Directors and four Non-Executive Directors. The Non-Executive Directors are considered by the Board to be independent of management and free from any relationship which might materially interfere with the exercise of independent judgement. The Board does not consider the Non-Executive Directors' shareholdings to impinge on their independence. The Non-Executive Directors provide a strong independent element to the Board and bring experience at a senior level of business operations and strategy.

M A Macario is the Senior Independent Non-Executive Director.

All Directors have access to the Company Secretary who is responsible for ensuring that Board procedures and applicable rules and regulations are observed. Any Director, on appointment and throughout their service, is entitled to receive any training they consider necessary to fulfil their responsibilities effectively.

The Board meets regularly throughout the year as well as on an ad hoc basis, as required by time critical business needs. They also meet on a regular basis with Directors of the subsidiary companies. This forum provides the principal format for directing the business of the Group.

BOARD COMMITTEES

The Board has delegated authority to three Committees. The Chairman of each Committee provides a report of any meeting of that Committee at the next Board meeting. The Chairmen of each Committee are present at the Annual General Meeting to answer questions from shareholders. Brief details are set out below:

AUDIT COMMITTEE

The Audit Committee comprises R B Pomphrett, P F Dicks and M A Macario, its Chairman. The purpose of the Committee is to ensure the preservation of good financial practices throughout the Group; to monitor that controls are in force to ensure integrity of financial information; to review the interim and annual financial statements; and to ensure compliance with accounting standards and generally accepted accounting principles.

In addition, the fees and objectivity of the Group's auditors are considered by the Committee. Detailed presentations to the Committee are made by the Group's auditors. The presence of other senior Executives from the Group may be requested.

REMUNERATION COMMITTEE

The Remuneration Committee comprises M A Macario, P F Dicks and R B Pomphrett, its Chairman. The Committee is responsible for the Executive Directors' remuneration and other benefits and terms of employment, including performance related bonuses and share options.

NOMINATION COMMITTEE

The Nomination Committee comprises R Holt, R B Pomphrett, M A Macario and P F Dicks, its Chairman. The Committee meets twice a year and is responsible for succession planning within the Group and for the recommendation of appointments to the Board for Executive and Non-Executive Directors.

Corporate governance statement

MEETING ATTENDANCE

All Directors are encouraged to attend all Board meetings and meetings of Committees of which they are members.

Directors' attendance at Board meetings and Committee meetings during 2007 is shown in the following table:

	Board		Audit Committee		Nomination Committee		Remuneration Committee	
Number of meetings	Potential	Actual	Potential	Actual	Potential	Actual	Potential	Actual
R Holt	5	5	—	—	2	2	—	—
D J Robertson	5	5	—	—	—	—	—	—
D J Miles	5	5	—	—	—	—	—	—
A C M Smith	4	4	—	—	—	—	—	—
M G Rogers	4	4	—	—	—	—	—	—
M A Macario	5	5	2	2	2	2	1	1
R B Pomphrett	5	5	2	2	2	2	1	1

THE COMPANY AND ITS SHAREHOLDERS

The Board remains committed to ongoing dialogue with its shareholders. This commitment was recognised by the AIM Best Communications Award in 2001 and 2004 and AIM Company of the Year Award in 2003. The Group has continued to increase its awareness to the investing public at large and is represented at a series of Investor Relations exhibitions, where shareholders have welcomed the opportunity to both meet the management team and improve their understanding of the Group.

The Group holds individual meeting with institutional shareholders. The principal methods of communication with private investors remain the annual report and accounts, the interim statement, the Annual General Meeting, the quarterly newsletters and the Group's website (www.mearsgroup.co.uk).

INTERNAL CONTROL AND RISK MANAGEMENT

The Board is ultimately responsible for the Group's system of internal control and for reviewing its effectiveness. Such systems are designed to manage rather than eliminate risks and can only provide reasonable and not absolute assurance against misstatement or loss.

The Group has established procedures for all business units to operate appropriate and effective risk management. They place clear responsibility for risk management and the Group endeavours to ensure that the appropriate controls, systems and training are in place.

The Group has also established procedures to routinely test internal control systems. The Board has reviewed these procedures and considers them appropriate given the nature of the Group's operations.

A comprehensive budgetary process is completed on a quarterly basis and is reviewed and approved by the Board. The Group's results as compared to both the budget and prior year are reported to the Board on a monthly basis, with remedial action taken when appropriate.

The Board routinely reviews the effectiveness of the system of internal control and risk management to ensure controls react to changes in the Group's overall risk profile.

The Group maintains appropriate insurance cover and reviews the adequacy of the cover regularly.

There are clearly defined procedures for reviewing and approving all bids, acquisitions and capital expenditure within the Group.

REMUNERATION POLICY

The remuneration policy is set by the Remuneration Committee and is designed to deliver the Group's objectives of creating real increases in shareholder value by attracting and retaining the most capable and committed people. Individual remuneration packages are determined by the Board within the framework of the following policy.

The Directors' remuneration packages comprise the following components:

- annual salary and fees – the actual salary for each of the Executive Directors is determined by the Remuneration Committee; these salaries reflect experience and sustained performance of the individuals to whom they apply, also taking into account market competitiveness;
- annual incentive payments – the Executive Directors are entitled to bonuses related to the real increase in earnings per share together with the achievement of other internal targets. In addition the grant of share options is supervised by the Remuneration Committee and include performance targets which apply to the grant and/or exercise of options;
- benefits in kind – such as car and health benefits; and
- defined contribution pension schemes.

The Directors' emoluments in 2007 are detailed below:

	Annual salary and fees		Annual incentive payments		Benefits in kind and other emoluments		Total	
	2007 £'000	2006 £'000	2007 £'000	2006 £'000	2007 £'000	2006 £'000	2007 £'000	2006 £'000
R Holt	250	250	—	—	91	107	341	357
D J Robertson	175	175	—	—	43	43	218	218
D J Miles (since appointment on 30 January 2007)	160	—	—	—	30	—	190	—
A C M Smith (since appointment on 9 March 2007)	83	—	—	—	15	—	98	—
M G Rogers (since appointment on 4 April 2007)	64	—	—	—	6	—	70	—
S J Black (until resignation on 28 January 2007)	12	200	—	—	136	33	148	233
M A Macario	35	35	—	—	—	—	35	35
R B Pomphrett	35	35	—	—	1	1	36	36
	814	695	—	—	322	184	1,136	879

Details of share options issued to Directors are included within note 5 to the Group financial statements.

The Managing Directors of the operating subsidiaries are rewarded by basic salaries and bonuses determined by the achievement of exceeding performance targets for their individual business units. The value of overdue work in progress and debtors is taken into account in arriving at profit for bonus purposes.

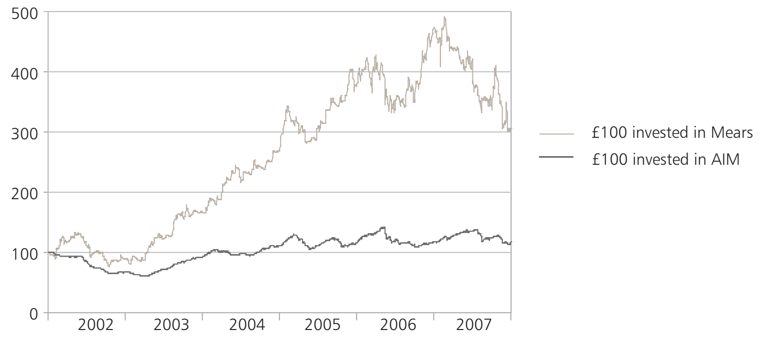
All employees are eligible to participate in one or more of the share incentive arrangements operated by the Group.

Corporate governance statement

HISTORICAL TOTAL SHAREHOLDER RETURN PERFORMANCE

Growth in value of a hypothetical £100 holding in Mears Group PLC shares over five years plotted against the AIM Index.

Mears vs AIM index



Notice of meeting

Notice is hereby given that the Annual General Meeting of Mears Group PLC will be held at the offices of Arbuthnot, Arbuthnot House, 20 Ropemaker Street, London EC2Y 9AR at 12 noon on 4 June 2008 when the following ordinary business will be considered:

1. To receive and adopt the accounts for the year ended 31 December 2007, together with the Reports of the Directors and Auditors thereon.

2. To approve the Directors' Remuneration policy contained on page 29 of the annual report and accounts for the year ended 31 December 2007.

3. To declare a final dividend of 2.9p per share on the ordinary share capital of the Company.

4. To re-appoint Grant Thornton UK LLP as auditors and authorise the Directors to determine their remuneration.

5. To re-appoint R Holt as a Director who, in accordance with the Articles of Association, retires by rotation.

6. To re-appoint M A Macario as a Director who, in accordance with the Articles of Association, retires by rotation.

7. To appoint P F Dicks who, having been appointed since the last AGM, offers himself for re-election.

8. To appoint D L Hosein who, having been appointed since the last AGM, offers himself for re-election.

And the following special business:

ORDINARY RESOLUTION

9. THAT in substitution for the authority to allot relevant securities conferred on the Directors by the ordinary resolution passed on 6 June 2007, the Directors be and are hereby generally and unconditionally authorised for the purposes of Section 80 of the Companies Act 1985 to exercise all the powers of the Company to allot relevant securities (within the meaning of Section 80(2) of the Companies Act 1985) of the Company with an aggregate nominal amount of up to £403,243 provided that the authority hereby conferred shall expire five years from the date of this resolution unless previously renewed, varied or revoked by the Company in General Meeting and so that the Company may at any time before such expiry make an offer or agreement which would or might require relevant securities of the Company to be allotted after such expiry and the Directors may allot relevant securities in pursuance of such agreements as if the authority hereby conferred had not expired. In relation to the grant of any rights to subscribe for, or to convert any security into, shares in the Company, the reference in this paragraph to the maximum amount of relevant securities that may be allotted is to the maximum amount of shares which may be allotted pursuant to such rights.

SPECIAL RESOLUTION

10. THAT:

(a) the Directors be authorised to allot securities of the Company (pursuant to the authority conferred on the Directors by resolution 9 above) at any time up to the conclusion of the Company's next Annual General Meeting following the date of the passing of this resolution or, if earlier, the expiry of 15 months from the date of the passing of this resolution as if Section 89(1) of the Companies Act 1985 did not apply to any such allotment, provided that such power shall be limited to the allotment of equity securities:

(i) in connection with any rights issue; and

(ii) otherwise than under sub-paragraph (a) (i) of this resolution, with an aggregate nominal amount of up to £36,800; and

(b) such power shall permit and enable the Company to make an offer or agreement before the expiry of such power which would or might require equity securities to be allotted after such expiry and shall permit the Directors to allot such securities pursuant to any such offer or agreement as if such power had not expired; and

Notice of meeting

SPECIAL RESOLUTION CONTINUED

(c) in this resolution:

(i) "rights issue" means an offer of equity securities open for acceptance for a period fixed by the Directors to holders of ordinary shares on the register on a fixed record date in proportion to their respective holdings of such shares or in accordance with the rights attached thereto (but subject to such exclusion or other arrangements as the Directors may deem necessary or expedient in relation to fractional entitlements or legal or practical problems under the laws of, or the requirements of any regulatory body or any stock exchange in any territory);

(ii) the nominal amount of any securities should be taken to be, in the case of a right to subscribe for or convert any securities into shares of the Company, the nominal amount of the shares which may be allotted pursuant to such right; and

(iii) words and expressions defined in or for the purposes of Sections 89 to 96 inclusive of the Companies Act 1985 shall bear the same meanings.

By order of the Board

R B POMPHRETT
Secretary
8 May 2008

1390 Montpellier Court
Gloucester Business Park
Brockworth
Gloucester GL3 4AH

NOTES

1. A member entitled to attend and vote at the Meeting may appoint a proxy to attend and, on a poll, to vote instead of him. A proxy need not also be a member of the Company.

2. A form of proxy is enclosed. Completion of the proxy does not preclude a shareholder from attending the Meeting and voting in person. Proxies must be received by the Company at Neville Registrars Limited, Neville House, 18 Laurel Lane, Halesowen, West Midlands B63 3DA not less than 48 hours before the time fixed for the Meeting.

3. In accordance with Regulation 41 of the Uncertificated Securities Regulations 2001, only those members entered on the register of members of the Company on 2 June 2008 shall be entitled to attend or vote at the Meeting in respect of the numbers of shares registered in their name on that date.

4. There will be available for inspection at the Company's registered office during normal business hours from the date of this notice to the date of the Annual General Meeting and for 15 minutes prior to and during the Meeting the following:

   (a) the Register of members;

   (b) the Register of Directors' interests in the share capital of the Company;

   (c) the memorandum and articles of association;

   (d) details of proxies received; and

   (e) copies of the Directors' Contracts of Service with the Company or its subsidiaries and the terms and conditions of appointment of Non-Executive Directors.

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Mears' commitment to environmental issues is reflected in this annual report. It has been printed on Revive 100 Offset which is 100% recycled from post consumer waste.

This document was printed by Beacon Press using *pure*print®, their environmental print technology which minimises the impact of printing on the environment. All energy used comes from renewable sources, vegetable based inks have been used and 94% of all dry waste associated with this production has been recycled. The printer is a carbon neutral company.

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Making People *Smile*

IN FIGURES

MEARS GROUP PLC
Annual report and accounts 2007

MEARS

Mears is the leading social housing repairs and maintenance provider in the UK and a growing presence in the domiciliary care market.

Our business is focused on the social housing and community sector where we bring the highest standards of care to people, their homes and their communities.

In partnership with our clients, our 6,000 employees maintain, repair and upgrade people's homes and support the wider community – much-needed work that improves quality of life for hundreds of thousands of people in the UK. We carry out repairs each day to hundreds of thousands of homes nationwide and we work in communities as diverse as inner city estates and remote rural villages.

Our philosophy is simple:

to make people smile.

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Group accounts

Report of the independent auditor – Group

We have audited the Group financial statements of Mears Group PLC for the year ended 31 December 2007 which comprise the principal accounting policies, the consolidated income statement, the consolidated balance sheet, the consolidated statement of recognised income and expense, the consolidated cash flow statement and notes 1 to 27. These Group financial statements have been prepared under the accounting policies set out therein.

We have reported separately on the Parent Company financial statements of Mears Group PLC for the year ended 31 December 2007.

This report is made solely to the Company's members, as a body, in accordance with Section 235 of the Companies Act 1985. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditors' report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITOR

The Directors' responsibilities for preparing the Annual Report and the Group financial statements in accordance with United Kingdom law and International Financial Reporting Standards (IFRS) as adopted by the European Union, and for preparing the Parent Company financial statements in accordance with United Kingdom law and Accounting Standards (United Kingdom Generally Accepted Accounting Practice) are set out in the Statement of Directors' Responsibilities.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

We report to you our opinion as to whether the financial statements give a true and fair view and whether the financial statements have been properly prepared in accordance with the Companies Act 1985. We also report to you whether in our opinion the information given in the Directors' Report is consistent with the financial statements.

In addition we report to you if, in our opinion, the Company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding Directors' remuneration and other transactions is not disclosed.

We read other information contained in the Annual Report and consider whether it is consistent with the audited financial statements. The other information comprises only the Highlights, Our Business, Chairman's Statement, the Operating and Financial Review, the Corporate Social Responsibility Report and the Corporate Governance Statement. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. Our responsibilities do not extend to any other information.

BASIS OF AUDIT OPINION

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgments made by the Directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Group's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

OPINION

In our opinion:

- the Group financial statements give a true and fair view, in accordance with IFRS as adopted by the European Union, of the state of the Group's affairs at 31 December 2007 and of its result for the year then ended;
- the Group financial statements have been properly prepared in accordance with the Companies Act 1985; and
- the information given in the Report of the Directors is consistent with the financial statements.

As explained in the Principal Accounting Policies the Group, in addition to complying with its legal obligation to comply with IFRS as adopted by the European Union, has also complied with the IFRS as issued by the International Accounting Standards Board.

In our opinion the Group financial statements give a true and fair view, in accordance with IFRS, of the state of the Group's affairs as at 31 December 2007 and of its result for the year then ended.

GRANT THORNTON UK LLP
Registered Auditors
Chartered Accountants
Bristol
30 April 2008

Principal accounting policies – Group

BASIS OF PREPARATION

The consolidated financial statements of the Group have been prepared in accordance with IFRS as adopted by the European Union and also in accordance with IFRS as issued by the International Accounting Standards Board. The financial statements are prepared under the historical cost convention.

The accounting policies remain unchanged from the previous year with the exception of the implementation of a new Standard, IFRS 7 'Financial Instruments: Disclosures' which became mandatory for reporting periods beginning on 1 January 2007 or later. This Standard, which replaces rules previously set out in IAS 32 'Financial Instruments: Presentation and Disclosures', has been applied by the Group in its 2007 consolidated financial statements. All disclosures relating to financial instruments including all comparative information have been updated to reflect the new requirements. The first-time application of IFRS 7 has not resulted in any prior-period adjustments of cash flows, net income or balance sheet line items.

BASIS OF CONSOLIDATION

The consolidated balance sheet includes the assets and liabilities of the Company and its subsidiaries and is made up to 31 December 2007. Entities over which the Group has the ability to exercise control over financial and operating policies are accounted for as subsidiaries. Control is obtained and exercised through voting rights so as to obtain benefits from its activities. Interests acquired in entities are consolidated from the effective date of acquisition and interests sold are consolidated up to the date of disposal.

Business combinations are accounted for using the purchase method. The purchase method involves the recognition at fair value of all identifiable assets and liabilities, including contingent liabilities of the subsidiary, at the acquisition date, regardless of whether or not they were recorded in the financial statements of the subsidiary prior to acquisition. On initial recognition, the assets and liabilities of the subsidiary are included in the consolidated balance sheet at their fair values, which are also used as the bases for subsequent measurement in accordance with the Group accounting policies. Goodwill is stated after separating out identifiable intangible assets. Goodwill represents the excess of acquisition cost over the fair value of the Group's share of the identifiable net assets of the acquired subsidiary at the date of acquisition.

The Company is entitled to the merger relief offered by Section 131 of the Companies Act 1985 in respect of the consideration received in excess of the nominal value of the equity shares issued in connection with the acquisition of Careforce Group PLC.

Balances between Group companies are eliminated; no profit is taken on sales between Group companies.

USE OF ASSUMPTIONS AND ESTIMATES

The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of income and expenditure during the reported period. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making judgements about carrying values of assets and liabilities that are not readily apparent from other sources.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

In the preparation of these consolidated financial statements, estimates and assumptions have been made by management concerning the selection of useful lives of property, plant and equipment, provisions necessary for certain liabilities, when to recognise revenue on long term contracts, actuarial assumptions, discount rates used within impairment reviews, the underlying share price volatility for valuing equity-based payments and other similar evaluations. Actual amounts could differ from those estimates.

Management has made the following estimates that have the most significant effect on the amounts recognised in the financial statements.

Revenue recognition – revenue is recognised for construction contracts in the mechanical and electrical sector based on the stage of completion of the contract activity. This is measured by the proportion of costs incurred to estimated contract costs except where this would not be representative of the stage of completion. Further details are given in the "Revenue" section of these accounting policies.

Impairment of goodwill – determining whether goodwill is impaired requires an estimate of the value in use of the cash-generating units (CGUs) to which goodwill has been allocated. The value in use calculation involves an estimate of the future cash flows of the CGUs and also the selection of appropriate discount rates to calculate present values. The carrying value of goodwill is £46.8m at 31 December 2007.

Intangible assets – intangible assets are amortised over their useful economic lives. Useful lives are based on management's estimates of the period that the assets will generate revenue, which are periodically reviewed for appropriateness. Changes in the estimates could result in significant variations in the carrying value.

Principal accounting policies – Group

INTANGIBLE ASSETS

In accordance with IFRS 3 'Business Combinations', an intangible asset acquired in a business combination is deemed to have a cost to the Group of its fair value at the acquisition date. The fair value of the intangible asset reflects market expectations about the probability that the future economic benefits embodied in the asset will flow to the Group. Where an intangible asset might be separable, but only together with a related tangible or intangible asset, the Group of assets is recognised as a single asset separately from goodwill where the individual fair values of the assets in the Group are not reliably measurable. Where the individual fair value of the complementary assets are reliably measurable, the Group recognises them as a single asset provided the individual assets have similar useful lives. Intangible assets are amortised over the useful economic life of those assets.

Development costs incurred on software development is capitalised when all the following conditions are satisfied:

- completion of the intangible asset is technically feasible so that it will be available for use;
- the Group intends to complete the intangible asset and use it;
- the intangible asset will be used in generating probable future economic benefits;
- there are adequate technical, financial and other resources to complete the development and to use the intangible asset; and
- the expenditure attributable to the intangible asset during its development can be measured reliably.

Development costs not meeting the criteria for capitalisation are expensed as incurred. Careful judgement by management is applied when deciding whether the recognition requirements for development costs have been met. This is necessary as the economic success of any development is uncertain and may be subject to future technical problems at the time of recognition. Judgements are based on the information available at each balance sheet date. In addition, all internal activities related to the research and development of new software is continuously monitored by management.

The cost of an internally generated intangible asset comprises all directly attributable costs necessary to create, produce, and prepare the asset to be capable of operating in the manner intended by management. Directly attributable costs include employee costs (other than Directors) incurred on software development.

Amortisation commences upon completion of the asset and is shown within other administrative expenses. Until completion of the development project, the assets are subject to impairment testing only. Development expenditure is amortised over the period expected to benefit.

The identifiable intangible assets and associated periods of amortisation are as follows:

Order book	–	over the period of the order book, typically three years
Client relationships	–	over the period expected to benefit, typically five years
Development expenditure	–	25% per annum, straight-line

GOODWILL

Goodwill arises on the acquisition of subsidiaries and represents any excess of the cost of the acquired entity over the Group's interest in the fair value of the entity's identifiable assets and liabilities acquired and is capitalised as a separate item. Goodwill is recognised as an intangible asset.

Under the business combinations exemption of IFRS 1, goodwill previously written off direct to reserves under UK GAAP is not recycled to the income statement on calculating a gain or loss on disposal.

IMPAIRMENT

For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (CGUs). As a result, some assets are tested individually for impairment and some are tested at CGU level. Goodwill is allocated to those CGUs that are expected to benefit from synergies of the related business combination and represent the lowest level within the Group at which management monitors the related cash flows.

Goodwill, other individual assets or CGUs that include goodwill, other intangible assets with an indefinite useful life, and those intangible assets not yet available for use are tested for impairment at least annually. All other individual assets or CGUs are tested for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable.

An impairment loss is recognised in the income statement for the amount by which the asset or CGU's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of fair value, reflecting market conditions less costs to sell, and value in use based on an internal discounted cash flow evaluation. Impairment losses recognised for CGUs, to which goodwill has been allocated, are credited initially to the carrying amount of goodwill. Any remaining impairment loss is charged pro rata to the other assets in the CGU. With the exception of goodwill, all assets are subsequently reassessed for indications that an impairment loss previously recognised may no longer exist.

PROPERTY, PLANT AND EQUIPMENT

Items of property, plant and equipment are included at cost, net of depreciation. Depreciation is calculated to write down the cost less estimated residual value of all property, plant and equipment, other than freehold land, over their estimated useful economic lives. Residual values are reviewed and updated annually. The rates generally applicable are:

Freehold buildings	–	2% per annum, straight-line
Leasehold improvements	–	over the period of the lease, straight-line
Plant and machinery	–	25% per annum, reducing balance
Fixtures, fittings and equipment	–	25% per annum, reducing balance
Motor vehicles	–	25% per annum, reducing balance

The carrying value of property, plant and equipment is reviewed for impairment in the period if events or changes in circumstances indicate the carrying value may not be recoverable.

INVENTORIES

Inventories are stated at the lower of cost and net realisable value. Cost is the purchase price of materials.

WORK IN PROGRESS

Work in progress is stated at the lower of cost and net realisable value. Cost is materials, direct labour and any subcontracted work.

CASH AND CASH EQUIVALENTS

Cash and cash equivalents include cash at bank and in hand and bank deposits available at less than 24 hours' notice. Bank overdrafts are presented as current liabilities to the extent that there is no right of offset with cash balances.

ACCOUNTING FOR TAXES

Current tax assets and/or liabilities comprise those obligations to, or claims from, fiscal authorities relating to the current or prior reporting period, that are unpaid at the balance sheet date. They are calculated according to the tax rates and tax laws applicable to the fiscal periods to which they relate, based on the taxable profit for the year.

Where an item of income or expense is recognised in the income statement, any related tax generated is recognised as a component of tax expense in the income statement. Where an item is recognised directly to equity and presented within the consolidated statement of recognised income and expense, any related tax generated is treated similarly.

Principal accounting policies – Group

DEFERRED TAXATION

Deferred taxation is the tax expected to be repayable or recoverable on differences between the carrying amounts of assets and liabilities in the financial statements and corresponding tax bases used in the computation of taxable profit and is accounted for using the balance sheet liability method.

Deferred taxation liabilities are generally recognised on all taxable temporary differences in full with no discounting. Deferred taxation assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. However, deferred tax is not provided on the initial recognition of goodwill, nor on the initial recognition of an asset or liability unless the related transaction is a business combination or affects tax or accounting profit.

Deferred taxation is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realised, provided they are enacted or substantively enacted at the balance sheet date. The carrying value of deferred taxation assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available against which taxable temporary differences can be utilised. Deferred tax is charged or credited to the income statement, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity.

REVENUE

Social housing – when the outcome of a job or contract can be estimated reliably, revenue associated with the transaction is recognised by reference to the stage of completion of work at the balance sheet date. The stage of completion of the job or contract at the balance sheet date is assessed by comparing the value of work completed to date with the total value of work to be completed. The outcome of the transaction is deemed to be able to be estimated reliably when all the following conditions are satisfied:

- the amount of revenue can be measured reliably;
- it is probable that the economic benefits associated with the transaction will flow to the entity;
- the stage of completion of the transaction at the balance sheet date can be measured reliably; and
- the costs incurred for the transaction and the costs to complete the transaction can be measured reliably.

Where a contract for work involves delivery of several different elements and is not fully delivered or performed by the year end, revenue is recognised based on the proportion of the fair value of the elements delivered to the fair value of the overall contract.

Domiciliary care – revenue is recognised when the actual care has been delivered. Revenue relating to care delivered and not invoiced is accrued and disclosed under trade and other receivables as accrued income. Revenue attributable to any unused capacity under block contracts, where the Group is able to invoice for contracted services, not provided, is recognised when the recovery of income is considered virtually certain.

Vehicle distribution services – revenue is recognised when the actual vehicle has been delivered. Revenue relating to vehicles delivered and not invoiced is accrued and disclosed under trade and other receivables as accrued income.

Construction contracts – revenue from the mechanical and electrical sector reflects the contract activity during the year and is measured at the fair value of consideration received or receivable. When the outcome can be assessed reliably, contract revenue and associated costs are recognised as revenue and expenses respectively by reference to the stage of completion of the contract activity at the balance sheet date. The stage of completion of the contract at the balance sheet date is assessed by comparing the value of work certified to date with the total value of the contract. Where the outcome of a construction contract cannot be estimated reliably revenue is recognised only to the extent of contract costs incurred that it is probable will be recoverable and contract costs are recognised as an expense in the period in which they are incurred.

REVENUE CONTINUED

In the case of a fixed price contract, the outcome of a construction contract is deemed to be estimated reliably when all the following conditions are satisfied:

- it is probable that economic benefits associated with the contract will flow to the Group;
- both the contract costs to complete the contract and the stage of completion at the balance sheet date can be measured reliably; and
- the contract costs attributable to the contract can be clearly identified and measured reliably so that actual contract costs incurred can be compared with prior estimates.

The gross amount due from customers for contract work is presented as an asset for all contracts in progress for which costs incurred plus recognised profits (less recognised losses) exceed progress billings. The gross amount due to customers for contract work is presented as a liability for all contracts in progress for which progress billings exceed costs incurred plus recognised profits (less losses).

Full provision is made for losses on all contracts in the year in which the loss is first foreseen.

EMPLOYEE BENEFITS

Pensions to employees are provided through a defined benefit plan as well as several defined contribution plans.

A defined contribution plan is a pension plan under which the Group pays fixed contributions into an independent entity. The Group has no legal obligations to pay further contributions after payment of the fixed contribution.

The contributions recognised in respect of defined contribution plans are expensed as they fall due. Liabilities and assets may be recognised if underpayment or prepayment has occurred and are included in current liabilities or current assets as they are normally of a short term nature.

A defined benefit plan is a pension plan that defines an amount of pension benefit that an employee will receive on retirement, usually dependent on one or more factors such as age, years of service and salary. The legal obligations for any benefits from this kind of pension plan remain with the Group.

Scheme assets are measured at fair values. Scheme liabilities are measured on an actuarial basis using the projected unit method and are discounted at appropriate high quality corporate bond rates that have terms to maturity approximating to the terms of the related liability. Appropriate adjustments are made for past service costs. Past service cost is recognised as an expense on a straight-line basis over the average period until the benefits become vested. To the extent that benefits are already vested the Group recognises past service cost immediately.

Actuarial gains and losses are recognised immediately through the statement of recognised income and expense. The net surplus or deficit is presented with other net assets on the balance sheet. Any related deferred tax is shown with other deferred tax balances. A surplus is recognised only to the extent that it is recoverable by the Group.

SHARE-BASED EMPLOYEE REMUNERATION

All share-based payment arrangements that were granted after 7 November 2002 are recognised in the consolidated financial statements.

The Group operates equity-settled share-based remuneration plans for its employees. All employee services received in exchange for the grant of any share-based remuneration are measured at their fair values. These are indirectly determined by reference to the fair value of the share options awarded. Their value is determined at the date of grant and is not subsequently remeasured unless the conditions on which the award was granted are modified. The fair value at the date of the grant is calculated using the Binomial and Monte Carlo option pricing models and the cost is recognised on a straight-line basis over the vesting period. Adjustments are made to reflect expected and actual forfeitures during the vesting period to satisfy service conditions.

All share-based remuneration is ultimately recognised as an expense in the income statement with a corresponding credit to share-based payment reserve.

Upon exercise of share options, the proceeds received net of any directly attributable transaction costs up to the nominal value of the shares issued are allocated to share capital with any excess being recorded as share premium.

Principal accounting policies – Group

LEASES

In accordance with IAS 17, the economic ownership of a leased asset is transferred to the lessee if they bear substantially all the risks and rewards related to the ownership of the leased asset. The related asset is recognised at the time of inception of the lease at the fair value of the leased asset or, if lower, the present value of the lease payments plus incidental payments, if any, to be borne by the lessee. A corresponding amount is recognised as a finance leasing liability, irrespective of whether some of these lease payments are payable up-front at the date of inception of the lease.

Subsequent accounting for assets held under finance lease agreements, i.e. depreciation methods and useful lives, correspond to those applied to comparable acquired assets. The corresponding finance leasing liability is reduced by lease payments less finance charges, which are expensed to finance costs. Finance charges represent a constant periodic rate of interest on the outstanding balance of the finance lease liability.

All other leases are treated as operating leases. Payment on operating lease agreements is recognised as an expense on a straight-line basis over the lease term. Associated costs, such as maintenance and insurance, are expensed as incurred. The Group does not act as a lessor.

FINANCIAL LIABILITIES/ASSETS

The Group's financial liabilities are overdrafts, trade and other payables and finance leasing liabilities. They are included in the balance sheet line items 'Short term borrowings and overdrafts', 'Non-current financial liabilities' and 'Trade and other payables'.

Financial liabilities are recognised when the Group becomes party to the contractual agreements of the instrument. All interest related charges are recognised as an expense in 'finance cost' in the income statement.

Finance lease liabilities are measured at initial value less the capital element of lease repayments.

Trade receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They arise when the Group provides money, goods or services directly to a debtor with no intention of trading the receivables. Trade receivables are initially recorded at invoiced value and subsequently re-measured at invoiced value, less provision for impairment. Any change in their value through impairment or reversal of impairment is recognised in the income statement.

Provision against trade receivables is made when objective evidence is received that the Group will not be able to collect all amounts due to it in accordance with the original terms of those receivables. The amount of the write down is determined as the difference between the asset's carrying amount and the present value of estimated future cash flows. Individually significant balances are reviewed separately for impairment based on the credit terms agreed with the customer. Other balances are grouped into credit risk categories and reviewed in aggregate.

EQUITY INSTRUMENTS

Share capital is determined using the nominal value of shares that have been issued. Equity-settled shared-based employee remuneration is credited to the share-based payment reserve until the related share options are exercised.

Dividend distributions payable to equity shareholders are included in 'Current financial liabilities' when the dividends are approved in general meeting prior to the balance sheet date.

NEW STANDARDS AND INTERPRETATIONS NOT YET APPLIED

A number of new European Union adopted standards, amendments to standards and interpretations are not yet effective for the year ended 31 December 2007 and have not been applied in preparing these financial statements:

IAS 1 'Presentation of Financial Statements (Revised)' requires the Group to make new disclosures to enable users of the financial statements to evaluate the Group's objectives, policies and processes for managing capital. IAS 1 will become mandatory for the Group's 2009 financial statements. It will give rise to additional disclosures.

IAS 23 'Borrowing Costs' generally requires the immediate expensing of borrowing costs. IAS 23 (Revised) will become mandatory for the Group's 2008 financial statements. It is not expected to have any impact of the Group's financial statements.

IAS 27 (Revised) 'Consolidated and Separate Financial Statements' amends the accounting treatment for non-controlling interests and the loss of control of a subsidiary. IAS 27 (Revised) will become mandatory for the Group's 2010 financial statements. It is not expected to have any impact of the Group's financial statements.

IFRS 8 'Operating Segments' introduces the 'management approach' to segment reporting. IFRS 8, which becomes mandatory for the Group's 2009 financial statements, will require the disclosure of segment information based on the internal reports regularly reviewed by the Board. Currently the Group presents segment information in respect of business segments (see note 1); these segments are not expected to change under the Group's management approach.

IFRIC 11 – IFRS 2 'Group and Treasury Share Transactions' addresses whether certain transactions should be accounted for as equity-settled or cash-settled and the treatment of share-based payments that involve two or more entities within the same Group. IFRIC 11 will become mandatory for the Group's 2008 financial statements with retrospective application required. It is not expected to have an impact of the Group's financial statements.

IFRIC 12 'Service Concession Arrangements' gives guidance on the accounting by operators for public to private service concession arrangements. IFRIC 12 will become mandatory for the Group's 2008 financial statements. It is not expected to have an impact of the Group's financial statements.

IFRIC 13 'Customer Loyalty Programmes' addresses accounting by an entity that grants award credits to its customers. IFRIC 13 will become mandatory for the Group's 2009 financial statements. It is not expected to have an impact of the Group's financial statements.

IFRIC 14 – IAS 19 'The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction' addresses accounting by an entity for assets relating to any post-employment defined benefit and other long term employee defined benefit schemes. IFRIC 14 will become mandatory for the Group's 2008 financial statements. It is not expected to have a material impact on the Group's financial statements.

Consolidated income statement

for the year ended 31 December 2007

	Note	2007 £'000	2007 £'000	2006 £'000	2006 £'000
SALES REVENUE	1		304,620		241,414
Cost of sales			(224,808)		(174,399)
GROSS PROFIT			79,812		67,015
Other administrative expenses		(62,186)		(53,970)	
Operating result before share-based payments and amortisation of acquisition intangibles		17,626		13,045	
Amortisation of acquisition intangibles	10	(1,500)		(255)	
Share-based payments	5	(550)		(535)	
TOTAL ADMINISTRATIVE COSTS			(64,236)		(54,760)
OPERATING RESULT	1		15,576		12,255
Finance income	3		222		130
Finance costs	3		(345)		(118)
RESULT FOR THE YEAR BEFORE TAX	2		15,453		12,267
Tax expense	6		(4,519)		(2,068)
NET RESULT FOR THE YEAR			10,934		10,199
EARNINGS PER SHARE					
Basic	8		15.65p		17.05p
Diluted	8		15.11p		15.99p

All activities are continuing.

The accompanying accounting policies and notes form an integral part of these financial statements.

Consolidated balance sheet
as at 31 December 2007

	Note	2007 £'000	2006 £'000
ASSETS			
NON-CURRENT			
Goodwill	9	46,781	13,811
Intangible assets	10	12,608	1,029
Property, plant and equipment	11	8,199	5,716
Deferred tax asset	18	1,116	3,000
Trade and other receivables	15	1,710	786
		70,414	24,342
CURRENT			
Inventories	13	9,277	9,104
Trade and other receivables	15	49,929	39,548
Cash at bank and in hand		15,250	12,127
		74,456	60,779
TOTAL ASSETS		144,870	85,121
EQUITY			
EQUITY ATTRIBUTABLE TO THE SHAREHOLDERS OF MEARS GROUP PLC			
Called up share capital	19	732	615
Share premium account	20	31,007	5,547
Share-based payment reserve	20	2,035	1,485
Merger reserve	20	11,548	—
Retained earnings	20	37,373	30,363
TOTAL EQUITY		82,695	38,010
LIABILITIES			
NON-CURRENT			
Deferred tax liabilities	18	3,721	—
Other liabilities	17	3,191	2,876
		6,912	2,876
CURRENT			
Short term borrowings and overdrafts		—	228
Trade and other payables	16	52,410	42,186
Current tax liabilities		2,798	1,438
Pension and other employee benefits	25	55	383
CURRENT LIABILITIES		55,263	44,235
TOTAL LIABILITIES		62,175	47,111
TOTAL EQUITY AND LIABILITIES		144,870	85,121

The financial statements were approved by the Board of Directors on 30 April 2008.

R HOLT
Director

A C M SMITH
Director

The accompanying accounting policies and notes form an integral part of these financial statements.

Consolidated statement of recognised income and expense
for the year ended 31 December 2007

	Note	2007 £'000	2006 £'000
Actuarial gain/(loss) on defined benefit pension scheme	25	295	(77)
Decrease in deferred tax asset	18	(1,675)	(550)
Net expense recognised directly to equity		(1,380)	(627)
Profit for the financial period		10,934	10,199
Total recognised income and expense for the period		9,554	9,572

The accompanying accounting policies and notes form an integral part of these financial statements.

Consolidated cash flow statement
for the year ended 31 December 2007

	Note	2007 £'000	2006 £'000
OPERATING ACTIVITIES			
Result for the year before tax		15,453	12,267
Adjustments	21	3,767	2,312
Change in inventories		(134)	(3,468)
Change in operating receivables		(5,190)	(7,697)
Change in operating payables		1,971	9,023
Cash inflow from operating activities before taxes paid		15,867	12,437
Taxes paid		(3,506)	(2,394)
		12,361	10,043
INVESTING ACTIVITIES			
Additions to property, plant and equipment		(3,314)	(1,371)
Additions to development expenditure		(225)	(222)
Proceeds from disposals of property, plant and equipment		143	146
Acquisition of subsidiary undertaking, net of cash		(28,391)	(3,543)
Interest received		280	136
		(31,507)	(4,854)
FINANCING ACTIVITIES			
Proceeds from share issue		25,544	1,614
Discharge of finance lease liability		(88)	(46)
Interest paid		(415)	(124)
Dividends paid		(2,544)	(1,676)
		22,497	(232)
Cash and cash equivalents, beginning of year		11,899	6,942
Net increase in cash and cash equivalents		3,351	4,957
CASH AND CASH EQUIVALENTS, END OF YEAR		15,250	11,899
Cash and cash equivalents is comprised as follows:			
Cash at bank and in hand		15,250	12,127
Short term borrowings and overdrafts		—	(228)
CASH AND CASH EQUIVALENTS		15,250	11,899

The accompanying accounting policies and notes form an integral part of these financial statements.

Notes to the financial statements – Group

1. SEGMENT REPORTING

The Group operates four (2006: three) business segments: Social Housing, Domiciliary Care, Mechanical and Electrical (M&E) and Vehicle Distribution. All of the Group's activities are carried out within the United Kingdom.

	2007					2006			
Business segments	Social Housing £'000	Domiciliary Care £'000	M&E £'000	Vehicle Distribution £'000	Total £'000	Social Housing £'000	M&E £'000	Vehicle Distribution £'000	Total £'000
REVENUE	205,559	28,718	61,181	9,162	304,620	184,017	49,069	8,328	241,414
OPERATING RESULT PRE-AMORTISATION OF ACQUISITION INTANGIBLES	12,208	1,801	2,587	480	17,076	10,323	1,793	394	12,510
Amortisation of acquisition intangibles	(300)	(1,200)	—	—	(1,500)	(255)	—	—	(255)
OPERATING RESULT	11,908	601	2,587	480	15,576	10,068	1,793	394	12,255
Finance costs, net	391	(532)	(137)	155	(123)	(147)	44	115	12
Tax expense	(3,721)	(38)	(580)	(180)	(4,519)	(1,680)	(288)	(100)	(2,068)
NET RESULT FOR THE YEAR	8,578	31	1,870	455	10,934	8,241	1,549	409	10,199
SEGMENT ASSETS	81,946	32,749	25,651	4,524	144,870	58,627	22,373	4,121	85,121
SEGMENT LIABILITIES	(11,856)	(25,520)	(14,452)	(3,435)	(55,263)	(31,327)	(14,372)	(1,412)	(47,111)
PROPERTY, PLANT AND EQUIPMENT ACQUIRED	3,327	1,078	348	22	4,775	1,710	113	33	1,856
DEPRECIATION	1,258	179	166	63	1,666	1,046	346	121	1,513

2. RESULT FOR THE YEAR BEFORE TAX

Result for the year before tax is stated after:

	2007 £'000	2006 £'000
Auditors' remuneration		
– audit services	40	38
– audit of subsidiary undertakings	110	87
– tax services	50	40
Share-based payments	550	535
Depreciation	1,666	1,513
Amortisation	1,555	255
Hire of plant and machinery	1,359	1,030
Other operating lease rentals	8,862	5,747

Included within tax services are tax compliance fees of £0.03m and tax advice fees of £0.02m.

3. FINANCE INCOME AND FINANCE COSTS

	2007 £'000	2006 £'000
Interest charge on overdrafts	(327)	(108)
Finance charges in respect of finance leases	(9)	(10)
Interest charge on defined benefit obligation	(9)	—
FINANCE COSTS	(345)	(118)
Interest income resulting from short term bank deposits	222	130
NET FINANCE (CHARGE)/INCOME	(123)	12

4. EMPLOYEES

Staff costs during the year were as follows:

	2007 £'000	2006 £'000
Wages and salaries	89,256	62,633
Social security costs	8,208	5,879
Other pension costs	1,000	872
	98,464	69,384

The average number of employees of the Group during the year was:

	2007 Number	2006 Number
Site workers	1,630	1,529
Carers	1,733	—
Office and management	1,125	867
	4,488	2,396

Remuneration in respect of Directors was as follows:

	2007 £'000	2006 £'000
Emoluments	871	754
Gains made on the exercise of share options	—	911
Pension contributions to personal pension schemes	133	125
Compensation for loss of office	132	—
	1,136	1,790

Notes to the financial statements – Group

4. EMPLOYEES CONTINUED

The amounts set out above include remuneration in respect of the highest paid Director as follows:

	2007 £'000	2006 £'000
Emoluments	266	192
Gains made on the exercise of share options	—	911
Pension contributions to personal pension schemes	75	26

During the year contributions were paid to personal pension schemes for six Directors (2006: three).

During the year no Directors (2006: one) exercised share options.

5. SHARE-BASED EMPLOYEE REMUNERATION

As at 31 December 2007 the Group maintained five share-based payment schemes for employee remuneration.

APPROVED SHARE OPTION PLAN

Options are exercisable at a price equal to the average quoted market price of the Company's shares on the three dealing days prior to the date of grant. The vesting period is three years. If the options remain unexercised after a period of ten years from the date of grant, the options expire. Options are forfeited if the employee leaves the Mears Group before the options vest.

Details of the share options outstanding during the year are:

	2007		2006	
	Number '000	Weighted average exercise price p	Number '000	Weighted average exercise price p
Outstanding at 1 January	1,210	229	802	169
Granted	552	232	523	300
Forfeited	(265)	233	(55)	231
Exercised	(207)	164	(60)	50
Outstanding at 31 December	1,290	240	1,210	229

The weighted average share price at the date of exercise for share options exercised during the period was 331p. The options outstanding at 31 December 2007 were exercisable at prices between 50p and 300p and had a weighted average remaining contractual life of 8.5 years.

5. SHARE-BASED EMPLOYEE REMUNERATION CONTINUED

ENTERPRISE MANAGEMENT INCENTIVE PLAN

Options are exercisable at a price equal to the average quoted market price of the Company's shares on the three dealing days prior to the date of grant. The vesting period is three years. If the options remain unexercised after a period of ten years from the date of grant, the options expire. Options are forfeited if the employee leaves the Mears Group before the options vest.

Details of the share options outstanding during the year are:

	2007		2006	
	Number '000	Weighted average exercise price p	Number '000	Weighted average exercise price p
Outstanding at 1 January	578	71	2,051	61
Granted	—	—	—	—
Forfeited	(10)	77	(20)	77
Exercised	(129)	71	(1,453)	57
Outstanding at 31 December	439	71	578	71

The weighted average share price at the date of exercise for share options exercised during the period was 335p. The options outstanding at 31 December 2007 were exercisable at prices between 50p and 77p and had a weighted average remaining contractual life of 4.9 years.

UNAPPROVED SHARE OPTION PLAN

Options are exercisable at a price equal to the average quoted market price of the Company's shares on the three dealing days prior to the date of grant. The vesting period is three years. If the options remain unexercised after a period of ten years from the date of grant, the options expire. Options are forfeited if the employee leaves the Mears Group before the options vest.

Details of the share options outstanding during the year are:

	2007		2006	
	Number '000	Weighted average exercise price p	Number '000	Weighted average exercise price p
Outstanding at 1 January	3,137	148	3,761	113
Granted	1,177	260	385	300
Forfeited	(419)	264	(69)	179
Exercised	(406)	145	(940)	71
Outstanding at 31 December	3,489	191	3,137	148

The weighted average share price at the date of exercise for share options exercised during the period was 288p. The options outstanding at 31 December 2007 were exercisable at prices between 68p and 300p and had a weighted average remaining contractual life of 7.2 years.

Notes to the financial statements – Group

5. SHARE-BASED EMPLOYEE REMUNERATION CONTINUED

SAVE AS YOU EARN (SAYE) SCHEME

Options are available to all employees. Options are granted for a period of either three or five years. Options are exercisable at a price based on the quoted market price of the Company's shares at the time of invitation, discounted by 20%. Options are forfeited if the employee leaves the Mears Group before the options vest.

Details of the share options outstanding during the year are:

	2007		2006	
	Number '000	Weighted average exercise price p	Number '000	Weighted average exercise price p
Outstanding at 1 January	1,072	182	1,050	147
Granted	—	—	341	230
Forfeited	(134)	204	(123)	168
Exercised	(189)	135	(196)	89
Outstanding at 31 December	749	190	1,072	182

The weighted average share price at the date of exercise for share options exercised during the period was 282p. The options outstanding at 31 December 2007 were exercisable at prices between 100p and 230p and had a weighted average remaining contractual life of 1.8 years.

LONG TERM INCENTIVE PLAN (LTIP)

During the year the Chairman was granted a premium priced option linked to long term performance. The principal terms of the LTIP and performance conditions are detailed below:

Principal terms of LTIP

Number of options	7,945,559
Exercise price	320p
Performance conditions	Average real EPS growth attained over three financial years with the base period for calculating EPS being 31 December 2006. EPS will be calculated before amortisation and IFRS 2 costs. The performance will be measured at the end of the three year period. If the EPS condition is not achieved or partially achieved any awards not vested will lapse.
Vesting conditions	Awards will vest at the end of the three year performance period and will be exercisable 60% on the end of year three, 20% at the end of year four and 20% at the end of year five.
Dividend	LTIP includes an entitlement to receive a payment equivalent to the value of the dividend which would have accrued on the shares under option. The payment will be settled by cash and/or shares at the point of exercise of the option.

Performance conditions of LTIP

Performance levels	Level of vesting
5% + RPI p.a.	10%
10% + RPI p.a.	50%
15% + RPI p.a.	100%

All share-based employee remuneration will be settled in equity. The Group has no legal obligation to repurchase or settle the options.

5. SHARE-BASED EMPLOYEE REMUNERATION CONTINUED

LONG TERM INCENTIVE PLAN (LTIP) CONTINUED

The fair values of options granted were determined using the Binomial and Monte Carlo option pricing models. Significant inputs into the calculation include the market price at the date of grant and exercise prices. Furthermore, the calculation takes into account the future dividend yield, the share price volatility rate and the risk-free interest rate.

The underlying expected share price volatility was determined by reference to historical data. The Company expects the volatility of its share price to reduce as it matures. The risk-free interest rate was determined by the implied yield available on a zero-coupon government bond at the date of grant. Adjustments are made to reflect expected and actual forfeitures during the vesting period due to failure to satisfy service conditions.

In total, £0.6m of employee remuneration expense has been included in the consolidated income statement for 2007 (2006: £0.5m), which gave rise to additional paid-in capital. No liabilities were recognised due to share-based payment transactions.

The fair values of options granted during 2006 and 2007, together with the significant inputs into the calculations, are detailed below:

Option scheme	Date of grant	Number granted	Share price at date of grant	Exercise price	Volatility	Risk-free rate	Exit rate	Vesting conditions	Estimate of option fair value
ESOP and unapproved	Apr 2006	908,500	300p	300p	20%	4.50%	20%	3 years' service	37p
SAYE	Oct 2006	215,163	299p	230p	16%	4.75%	30%	3 years' service	47p
SAYE	Oct 2006	119,840	299p	230p	16%	4.75%	30%	5 years' service	34p
Unapproved	Sep 2007	1,176,563	260p	260p	20%	5.50%	20%	3 years' service and EPS performance criteria	31p
ESOP	Dec 2007	551,937	232p	232p	20%	5.50%	20%	3 years' service and EPS performance criteria	19p
LTIP	Nov 2007	7,945,559	240p	320p	20%	5.50%	0%	3 years' service, EPS and share price performance criteria	22p

829,764 options lapsed during the year. The market price at 31 December 2007 was 235p and the range during 2007 was 232p to 377p.

At 31 December 2007 2,754,466 options had vested and were still exercisable at a weighted average exercise price of 85.5p.

The following options have been granted to current Directors:

Director	1 January 2007	Number of options during the year: Granted	Number of options during the year: Exercised	31 December 2007	Exercise price	Exercise dates
R Holt	435,000	—	—	435,000	77p	2006–2013
	50,000	—	—	50,000	154p	2007–2014
	—	7,945,559	—	7,945,559	320p	2010–2012
D J Robertson	200,000	—	—	200,000	77p	2006–2013
	50,000	—	—	50,000	154p	2007–2014
	40,000	—	—	40,000	231p	2008–2015
	35,000	—	—	35,000	300p	2009–2016
D J Miles	50,000	—	—	50,000	154p	2007–2014
	15,000	—	—	15,000	231p	2008–2015
	25,000	—	—	25,000	300p	2009–2016
	—	100,000	—	100,000	260p	2010–2017
A C M Smith	50,000	—	—	50,000	77p	2006–2013
	40,000	—	—	40,000	154p	2007–2014
	4,328	—	—	4,328	216p	2008
	15,000	—	—	15,000	231p	2008–2015
	25,000	—	—	25,000	300p	2009–2016
	—	100,000	—	100,000	260p	2010–2017

Notes to the financial statements – Group

6. TAX EXPENSE

Tax recognised in the income statement

	2007 £'000	2006 £'000
United Kingdom corporation tax effective rate 30.4% (17.3%)	4,703	2,118
Adjustment in respect of previous periods	(203)	—
Total current tax recognised in income statement	4,500	2,118
Deferred taxation charge:		
– on defined benefit pension obligations	10	—
– on share-based payments	200	(50)
– on accelerated capital allowances	300	—
– on amortisation of acquisition intangibles	(491)	—
Total deferred taxation recognised in income statement	19	(50)
Total tax expense recognised in income statement	4,519	2,068

The charge for the year can be reconciled to the income statement as follows:

	2007 £'000	2006 £'000
Result for the year before tax	15,453	12,267
Result for the year multiplied by standard rate of corporation tax in the United Kingdom of 30% (2006: 30%)	4,636	3,680
Effect of:		
Expenses not deductible for tax purposes	279	251
Capital allowances in excess of depreciation	321	(6)
Tax relief on exercise of share options	(386)	(1,765)
Tax rate difference	(30)	—
Utilisation of tax losses	(98)	(92)
Adjustment in respect of prior periods	(203)	—
Actual tax expense, net	4,519	2,068
DEFERRED TAX RECOGNISED DIRECTLY IN EQUITY		
Deferred taxation charge:		
– on defined benefit pension obligations	25	—
– on share-based payments	(1,700)	(550)
Total deferred taxation recognised in equity	(1,675)	(550)
TOTAL TAX		
Total current tax	4,500	2,118
Total deferred tax	(1,656)	(600)

7. DIVIDENDS

The following dividends were paid on ordinary shares in the year:

	2007 £'000	2006 £'000
Final 2006 dividend of 2.40p (2006: final 2005 dividend of 1.90p) per share	1,743	1,125
Interim 2007 dividend of 1.10p (2006: interim 2006 dividend of 0.90p) per share	801	550
	2,544	1,675

The proposed final 2007 dividend of 2.90p per share has not been included within the Group financial statements as no obligation existed at 31 December 2007.

8. EARNINGS PER SHARE

	Basic		Diluted	
	2007 p	2006 p	2007 p	2006 p
Earnings per share	15.65	17.05	15.11	15.99
Effect of amortisation of acquisition intangibles	2.15	0.35	2.07	0.33
Effect of full tax adjustment	(0.81)	(2.87)	(0.78)	(2.69)
Normalised pre-amortisation earnings per share	16.99	14.53	16.40	13.63

A normalised earnings per share is disclosed in order to show performance undistorted by amortisation of intangibles and the tax effect of share options. The profit attributable to shareholders before and after adjustments for both basic and diluted earnings per share is:

	2007 £'000	2006 £'000
Profit attributable to shareholders	10,934	10,199
– amortisation of acquisition intangibles	1,500	255
– tax effect of share options	(567)	(1,765)
Adjusted profit attributable to shareholders	11,867	8,689

The calculation of earnings per share is based on a weighted average of ordinary shares in issue during the year. The diluted earnings per share is based on a weighted average of ordinary shares calculated in accordance with IAS 33 'Earnings per Share', which assumes that all dilutive options will be exercised. The additional normalised basic and diluted EPS use the same weighted average number of shares as the basic and diluted EPS.

	2007 Millions	2006 Millions
Weighted average number of shares in issue	69.85	58.82
– dilutive effect of share options	2.51	4.97
Weighted average number of share for calculating diluted earnings per share	72.36	63.79

Notes to the financial statements – Group

9. GOODWILL

	Goodwill arising on consolidation £'000	Purchased goodwill £'000	Total £'000
GROSS CARRYING AMOUNT			
At 1 January 2006	10,158	489	10,647
Additions	3,827	—	3,827
Revision	(580)	(83)	(663)
At 1 January 2007	13,405	406	13,811
Additions	32,728	—	32,728
Revision	242	—	242
AT 31 DECEMBER 2007	**46,375**	**406**	**46,781**
ACCUMULATED IMPAIRMENT LOSSES			
At 1 January 2006, at 1 January 2007 and at 31 December 2007	—	—	—
CARRYING AMOUNT			
AT 31 DECEMBER 2007	**46,375**	**406**	**46,781**
At 31 December 2006	13,405	406	13,811
At 31 December 2005	10,158	489	10,647

Additions to goodwill arising on consolidation are detailed within note 22. Revisions related to adjustments to consideration on prior year acquisitions.

Goodwill is not amortised but is reviewed for impairment on an annual basis or more frequently if there are any indications that goodwill may be impaired. Goodwill acquired in a business combination is allocated to groups of CGUs according to the level at which management monitor that goodwill. Goodwill is carried at cost less accumulated impairment losses.

The carrying value of goodwill is primarily comprised of the following CGUs:

	Goodwill arising on consolidation £'000	Purchased goodwill £'000	Total £'000
Social Housing	7,980	406	8,386
Domiciliary Care	32,434	—	32,434
M&E	4,331	—	4,331
Vehicle Distribution	1,630	—	1,630
	46,375	406	46,781

An asset is impaired if its carrying value exceeds the unit's recoverable amount which is based upon value in use. At 31 December 2007 impairment reviews were performed by comparing the carrying value of the CGU with the value in use of the CGUs to which goodwill has been allocated. The value in use is calculated based upon the cash flow projections of the latest one year budget forecast extrapolated for four years by a growth rate applicable to each unit and an appropriate terminal value based on a perpetuity calculation assuming no growth beyond year five.

9. GOODWILL CONTINUED

The rates used were as follows:

	Corporation tax	Discount rate	Growth rates (years 2–5)
Social Housing	28%	10.0%	2.5%
Domiciliary Care	28%	11.0%	5.0%
M&E	28%	11.0%	2.5%
Vehicle Distribution	28%	11.0%	2.5%

The estimated growth rates are based on past experience and knowledge of the individual sector's markets.

- The contracts awarded within the social housing area are significant in size and the contract terms are typically three to ten years in duration. The record of Mears in retaining contracts on expiry is typically over 90%. The impairment reviews have always taken a particularly prudent stance and incorporated a minimal growth assumption of 2.5%.

- The contracts awarded within the domiciliary care area are lower in size than those of social housing and the contract terms are typically three to five years in duration. The Care division has a good record in retaining contracts on expiry. The domiciliary care market is becoming increasingly sophisticated and the expectation of management is for significant consolidation within the sector offering an opportunity to achieve significant organic growth. The impairment reviews have taken a prudent stance and incorporated a growth assumption of 5.0%.

- The contracts awarded within M&E are project based and typically have a duration of six months to two years. The pipeline for future orders is far less visible than social housing however the Company has a track record for generating organic growth. Similarly, the impairment reviews have always taken a particularly prudent stance and incorporated a minimal growth assumption of 2.5% per annum which is viewed as achievable with modest effort.

- The fleet distribution market is the most mature of the three areas. The sector is showing minimal growth however the Company has typically managed to grow revenue year on year within its core activity. The impairment review has incorporated a minimal growth assumption of 2.5% per annum.

Budgeted operating profits during the budget period for Social Housing, M&E, Domiciliary Care and Vehicle Distribution are estimated by reference to the average gross margins achieved in the period immediately before the start of the budget period. There is no inclusion for any anticipated efficiency improvements.

The Directors consider that reasonably possible changes in these key assumptions would not cause a unit's carrying amount to exceed its recoverable amount.

Notes to the financial statements – Group

10. OTHER INTANGIBLE ASSETS

	Acquisition intangibles			Other intangibles	
	Client relationships £'000	Order book £'000	Total acquisition intangibles £'000	Development expenditure £'000	Total intangibles £'000
Gross carrying amount					
At 1 January 2006	—	—	—	—	—
Acquired on acquisition	134	928	1,062	—	1,062
Additions	—	—	—	222	222
At 1 January 2007	928	134	1,062	222	1,284
Acquired on acquisition	7,925	3,935	11,860	—	11,860
Additions	1,049	—	1,049	225	1,274
AT 31 DECEMBER 2007	**9,902**	**4,069**	**13,971**	**447**	**14,418**
ACCUMULATED AMORTISATION					
At 1 January 2006	—	—	—	—	—
Amortisation charge for period	32	223	255	—	255
At 1 January 2007	223	32	255	—	255
Amortisation charge for period	950	550	1,500	55	1,555
AT 31 DECEMBER 2007	**1,173**	**582**	**1,755**	**55**	**1,810**
CARRYING AMOUNT					
AT 31 DECEMBER 2007	**8,729**	**3,487**	**12,216**	**392**	**12,608**
At 31 December 2006	705	102	807	222	1,029

Development expenditure relates to internal computer software development. Additions to intangible assets arising on consolidation are detailed within note 22.

Amortisation of development expenditure is included within other administrative expenses. Amortisation of acquisition intangibles is disclosed individually.

11. PROPERTY, PLANT AND EQUIPMENT

	Freehold land and buildings £'000	Leasehold improvements £'000	Plant and machinery £'000	Fixtures, fittings and equipment £'000	Motor vehicles £'000	Total £'000
GROSS CARRYING AMOUNT						
At 1 January 2006	9	2,166	2,613	6,244	764	11,796
Additions	—	177	27	1,100	65	1,369
Acquired on acquisition	—	44	25	42	376	487
Disposals	—	(43)	(178)	(549)	(106)	(876)
At 1 January 2007	9	2,344	2,487	6,837	1,099	12,776
Additions	—	1,777	68	1,448	21	3,314
Acquired on acquisition	—	10	—	1,374	77	1,461
Disposals	(9)	(258)	(52)	(10)	(82)	(411)
AT 31 DECEMBER 2007	**—**	**3,873**	**2,503**	**9,649**	**1,115**	**17,140**
DEPRECIATION						
At 1 January 2006	7	596	1,625	3,212	529	5,969
Provided in the year	—	258	158	995	102	1,513
Acquired on acquisition	—	8	16	28	236	288
Eliminated on disposals	—	(30)	(62)	(549)	(69)	(710)
At 1 January 2007	7	832	1,737	3,686	798	7,060
Provided in the year	1	294	125	1,156	90	1,666
Acquired on acquisition	—	—	—	592	18	610
Eliminated on disposals	(8)	(254)	(28)	(6)	(99)	(395)
AT 31 DECEMBER 2007	**—**	**872**	**1,834**	**5,428**	**807**	**8,941**
CARRYING AMOUNT						
AT 31 DECEMBER 2007	**—**	**3,001**	**669**	**4,221**	**308**	**8,199**
At 31 December 2006	2	1,512	750	3,151	301	5,716
At 31 December 2005	60	240	953	2,826	371	4,450

The figures stated above include assets held under finance leases as follows:

	Plant and machinery £'000
NET BOOK AMOUNT	
AT 31 DECEMBER 2007	**70**
At 31 December 2006	98
DEPRECIATION PROVIDED IN THE YEAR	**18**

Notes to the financial statements – Group

12. INVESTMENTS

The principal undertakings within the Group are shown below:

	Proportion held	Nature of business
Mears Limited	100%	Provision of maintenance services
United Fleet Distribution Limited	100%	Vehicle collection and delivery
Haydon Mechanical & Electrical Limited	100%	Provision of mechanical and electrical services
Scion Group Limited	100%	Provision of mechanical and electrical services and grounds maintenance
Laidlaw Scott Limited	100%	Provision of maintenance services
Careforce Group PLC	100%	Provision of domiciliary care
Mears Insurance Captive Limited	99.99%	Provision of insurance services

All material subsidiary undertakings prepare accounts to 31 December. All subsidiary undertakings are registered in England and Wales with the exception of Mears Insurance Captive Limited which is registered in Guernsey and Laidlaw Scott Limited which is registered in Scotland.

A full list of subsidiary undertakings is available from the Company Secretary upon request.

13. INVENTORIES

	2007 £'000	2006 £'000
Materials and consumables	802	842
Work in progress	8,475	8,262
	9,277	9,104

The Group consumed inventories totalling £205.8m during the year (2006: £174.4m). No items are being carried at fair value less costs to sell (2006: £nil).

14. CONSTRUCTION CONTRACTS

Revenue of £57.4m (2006: £38.6m) relating to construction contracts has been included in the consolidated income statement.

	2007 £'000	2006 £'000
Contract costs incurred	47,292	31,810
Recognised gross profits	10,157	6,775
Recognised gross losses	—	—
	57,449	38,585
Balances outstanding comprise:		
Retentions	2,418	1,459
Due from customers for construction contract work	6,556	2,629
Due to customers for construction contract work	(2,703)	(1,530)

Retentions will be payable upon acceptance of the work performed by the customer. The amounts due to customers for construction work are included in 'Trade and other payables'.

15. TRADE AND OTHER RECEIVABLES

	2007 £'000	2006 £'000
Current assets:		
Trade receivables	34,221	25,184
Amounts recoverable on construction contracts	6,556	2,629
Amounts recoverable on non-construction contracts	6,917	9,774
Prepayments and accrued income	2,235	1,961
	49,929	39,548
Non-current assets:		
Trade receivables	1,710	786
Total trade and other receivables	51,639	40,334

Trade receivables are normally due within 30 to 60 days and do not bear any effective interest rate. All trade receivables are subject to credit risk exposure. However, there is no specific concentration of credit risk as the amounts recognised represent a large number of receivables from various customers. Included in trade receivables is an amount of £1.7m (2006: £0.8m) which is due after more than one year and represents retention balances.

16. TRADE AND OTHER PAYABLES

	2007 £'000	2006 £'000
Trade payables	27,643	22,803
Accruals and deferred income	8,420	11,046
Social security and other taxes	8,955	6,239
Due to customers for construction contract work	2,703	1,530
Other creditors	4,651	511
Amounts due under finance lease contracts	38	57
	52,410	42,186

The fair value of trade payables has not been disclosed as due to their short duration, management considers the carrying amounts recognised in the balance sheet to be a reasonable approximation of their fair value.

The amounts due under construction contract work will generally be utilised within the next reporting period.

The amounts due under finance lease contracts are secured on the assets to which they relate.

17. LONG TERM FINANCIAL LIABILITIES

	2007 £'000	2006 £'000
Other creditors	3,178	2,820
Amounts due under finance lease contracts	13	56
	3,191	2,876

Included in other creditors is £6.0m (2006: £3.0m), of which £2.8m (2006: £0.2m) is included within trade and other payables and falls due within one year, relating to deferred consideration on acquisitions.

Notes to the financial statements – Group

17. LONG TERM FINANCIAL LIABILITIES CONTINUED

FINANCIAL INSTRUMENTS

The Company uses financial instruments, comprising borrowings, cash and various items such as trade receivables and trade payables that arise directly from its operations. The main purpose of these financial instruments is to finance the Company's operations.

LIQUIDITY RISK

The main financial risks of the Group relate to the availability of funds to meet business needs and the risk of default by counter-parties to financial transactions.

The Group seeks to manage liquidity risk by ensuring sufficient liquidity is available to meet foreseeable needs and to invest cash assets safely and profitably.

CREDIT RISK

Trade receivables are normally due within 30 to 60 days. All trade receivables are subject to credit risk exposure. Social Housing customers are typically local authorities and housing associations. Large Domiciliary Care customers are typically county councils. The credit risk within the Mechanical and Electrical division is insured. Other trade receivables contain no specific concentration of credit risk as the amounts recognised represent a large number of receivables from various customers.

The Group continuously monitors the position of major customers and incorporates this information into its credit risk controls. External credit ratings are obtained where appropriate.

The Company has no interests in the trade of financial instruments, interest rate swaps or forward interest rate agreements.

INTEREST RATE RISK AND SENSITIVITY

The Group finances its operations through a mixture of retained profits and bank borrowings.

The book and fair value of interest rate exposure on financial liabilities of the Group as at 31 December 2007 was:

	Interest rate			
	Fixed £'000	Floating £'000	Zero £'000	Total £'000
FINANCIAL LIABILITIES – 2007	**51**	**—**	**5,998**	**6,049**
Financial liabilities – 2006	113	228	3,000	3,341

The Group's sensitivity to interest rate changes is minimal due to maintaining a broadly neutral cash position throughout the year.

The floating rate borrowings bear interest at rates based on LIBOR. The fixed rate borrowings relate to finance leases.

The bank overdraft facility is secured by a fixed and floating charge over the Group's assets.

CAPITAL MAINTENANCE

The Group's objectives when managing capital are:

- to safeguard the entity's ability to continue as a going concern, so that it can continue to provide returns for shareholders and benefits for other stakeholders; and

- to provide an adequate return to shareholders by pricing products and services commensurately with the level of risk.

The Group sets the amount of capital in proportion to risk. The Group manages the capital structure and makes adjustments to it in the light of changes in economic conditions and the risk characteristics of the underlying assets. In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares, or sell assets to reduce debt.

18. DEFERRED TAXATION

Deferred tax is calculated on temporary differences under the liability method.

DEFERRED TAX ASSET

The Group asset for deferred tax as at 31 December 2007 is £1.1m (2006: £3.0m).

	Pension scheme £'000	Share-based payments £'000	Total £'000
At 1 January 2006	—	3,500	3,500
Credit to income statement	—	50	50
Debit to consolidated statement of recognised income and expense	—	(550)	(550)
At 1 January 2007	—	3,000	3,000
Debit to income statement	(9)	(200)	(209)
Credit/(debit) to consolidated statement of recognised income and expense	25	(1,700)	(1,675)
AT 31 DECEMBER 2007	**16**	**1,100**	**1,116**

In accordance with IFRS 2 'Share-based Payments', the Group has recognised an expense for the consumption of employee services received as consideration for share options granted. A tax deduction will not arise until the options are exercised. The tax deduction in future periods is dependent upon the Company's share price at the date of exercise. The estimated future tax deduction is based on the options' intrinsic value at the balance sheet date.

The cumulative amount credited to the income statement is limited to the tax effect of the associated cumulative share-based payment expense. The excess has been credited directly to equity. This is presented in the consolidated statement of recognised income and expense.

The deferred tax asset that arises on pre 7 November 2002 grants, even though the grants themselves are not accounted for within the income statement, is credited directly to equity.

DEFERRED TAX LIABILITIES

	Acquisition intangibles £'000	Accelerated capital allowances £'000	Total £'000
At 1 January 2007 and at 1 January 2006	—	—	—
On acquisition intangibles acquired	3,912	—	3,912
Released in respect of amortisation	(491)	—	(491)
Provided in respect of accelerated capital allowances	—	300	300
AT 31 DECEMBER 2007	**3,421**	**300**	**3,721**

Intangible assets acquired as part of a business combination are capitalised at fair value at the date of the acquisition and amortised over their useful economic lives. The UK tax regime calculates tax using the individual financial statements of the members of the Group, and not the consolidated accounts. Hence, the tax base of acquisition intangible assets is nil. The estimated tax effect of this nil tax base is accounted for as a deferred tax liability which is released over the period of amortisation of the associated acquisition intangible asset.

Notes to the financial statements – Group

19. SHARE CAPITAL

	2007 £'000	2006 £'000
AUTHORISED		
100,000,000 ordinary shares of 1p each	1,000	1,000
ALLOTTED, CALLED UP AND FULLY PAID		
73,244,078 (2006: 61,476,713) ordinary shares of 1p each	732	615

During the year 11,767,365 ordinary shares of 1p each were issued for as detailed below. The difference between the nominal value of £0.1m and the total consideration of £37.1m has been credited to the share premium account or the merger reserve. The Company is entitled to the merger relief offered by Section 131 of the Companies Act 1985 in respect of the consideration received in excess of the nominal value of the equity shares issued in connection with the acquisition of Careforce Group PLC.

	Number of shares	Fair value of consideration £'000
Share placement	7,532,900	24,193
Share exchange on acquisition	3,304,203	11,581
Share options exercised	930,262	1,351
	11,767,365	37,125

20. RECONCILIATION OF MOVEMENT IN EQUITY

	Share capital £'000	Share premium account £'000	Share-based payment reserve £'000	Merger reserve £'000	Retained earnings £'000	Total equity £'000
At 1 January 2006	588	3,960	1,040	—	22,466	28,054
Net result for the year	—	—	—	—	10,199	10,199
Deferred tax	—	—	—	—	(550)	(550)
Pension obligation	—	—	—	—	(77)	(77)
TOTAL RECOGNISED INCOME AND EXPENSE FOR THE YEAR	—	—	—	—	9,572	9,572
Issue of shares	27	1,587	—	—	—	1,614
Share option charges	—	—	535	—	—	535
Revision to previous year acquisition	—	—	(90)	—	—	(90)
Dividends	—	—	—	—	(1,675)	(1,675)
At 31 December 2006	615	5,547	1,485	—	30,363	38,010
Net result for the year	—	—	—	—	10,934	10,934
Deferred tax	—	—	—	—	(1,675)	(1,675)
Pension obligation	—	—	—	—	295	295
TOTAL RECOGNISED INCOME AND EXPENSE FOR THE YEAR	—	—	—	—	9,554	9,554
Issue of shares	117	25,460	—	11,548	—	37,125
Share option charges	—	—	550	—	—	550
Dividends	—	—	—	—	(2,544)	(2,544)
AT 31 DECEMBER 2007	**732**	**31,007**	**2,035**	**11,548**	**37,373**	**82,695**

21. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT

The following non operating cash flow adjustments have been made to the pre-tax result for the year:

	2007 £'000	2006 £'000
Depreciation	1,666	1,513
(Profit)/loss on disposal of property, plant and equipment	(127)	21
Amortisation	1,555	255
Share-based payments	550	535
Finance income	(222)	(130)
Finance cost	345	118
Total	3,767	2,312

22. ACQUISITIONS

The Group made nine Domiciliary Care acquisitions in 2007 of which only one, the acquisition of Careforce Group PLC is considered material and as such is disclosed separately. The remainder are shown in aggregate due to them being of a similar composition and the structure of the acquisitions being identical. The social housing acquisition relates to the acquisition of the trade and assets of Makers UK Limited. The acquisitions' effect on the Group's assets after making fair value adjustments were as follows:

	Domiciliary Care		Social Housing	
	Careforce Group PLC £'000	Other acquisitions £'000	Other acquisitions £'000	Total £'000
ASSETS				
NON-CURRENT				
Property, plant and equipment	684	167	—	851
CURRENT				
Inventories	—	39	—	39
Trade receivables	2,747	1,247	583	4,577
Other debtors	865	687	—	1,552
Cash at bank and in hand	—	735	—	735
Total assets	4,296	2,875	583	7,754
LIABILITIES				
CURRENT				
Trade payables	585	44	—	629
Other creditors	815	1,095	80	1,990
Short term borrowings and overdrafts	4,771	137	—	4,908
Accruals	2,471	782	300	3,553
Total liabilities	8,642	2,058	380	11,080
Fair value of net assets acquired	(4,346)	817	203	(3,326)
Intangibles capitalised	6,300	5,560	1,049	12,909
Deferred tax liability recognised in respect of intangibles capitalised	(1,764)	(1,557)	(294)	(3,615)
Goodwill capitalised	23,584	8,850	294	32,728
	23,774	13,670	1,252	38,696
Satisfied by:				
Cash	12,193	10,640	1,252	24,085
Deferred consideration	—	3,030	—	3,030
Share capital	11,581	—	—	11,581
	23,774	13,670	1,252	38,696

Notes to the financial statements – Group

22. ACQUISITIONS CONTINUED

In April 2007 the Group acquired the entire issued share capital of Careforce Group PLC (Careforce) for £23.8m (including acquisition costs), satisfied by £12.2m cash and £11.6m satisfied by in exchange for 3.30m Mears Group PLC shares. The purchase has been accounted for by the acquisition method of accounting.

The intangible asset recognised and valued at £6.3m represent the expected value to be derived from the acquired order book and existing customer relationships:

- Careforce holds Block contracts with local authorities whereby there is a contractual commitment to provide a guaranteed number of hours of care provision. The value placed on this order book is based upon the cash flow projections over the contract term. Due to uncertainties with trying to forecast revenues beyond the contract term, the Directors have taken a measure of prudence and value contracts over the contract term only. The cash flows were discounted at the Careforce weighted average cost of capital of 10.1% which the Directors consider is commensurate with the risks associated with capturing returns from the order book. The order book has been valued over the estimated useful life of 6.3 years; and

- Careforce holds Spot contracts with local authorities whereby it has preferred supplier status although there is no guaranteed work. The value placed on these customer relationships are based on the expected cash inflows. The cash flows are discounted at the Careforce weighted average cost of capital of 11.0% which the Directors consider is commensurate with the risks associated with capturing returns from the customer relationships. The cash flow projections assumed a customer attrition rate of 5% having considered three year historic trends on a branch-by-branch basis. The assumptions result in a life, for active customers, of 16.3 years.

The Directors consider that the value assigned to goodwill is significantly higher than that assigned to intangible assets because the value of the acquired business predominantly lies with the following components:

- the strategic importance of the Careforce acquisition in providing expertise in the domiciliary care market;

- the speed to market that the Group achieved through making the Careforce acquisition, against developing its own domiciliary care business;

- further opportunities to enhance the scope of the Care services to local authorities;

- the assembled workforce of Careforce; and

- unique cost and revenue synergies available to the Group following integration of the two businesses.

The other Domiciliary Care acquisitions include eight companies involved in the provision of domiciliary care comprising Claremont Golcar Limited, Simply Care Limited, Capable Care Limited, Care Connect Kirklees Limited, The Sentinel Group, Complete Care Limited, Pooks Care Limited and CCA Quality Homecare Limited. The Group acquired the entire issued share capital of these eight companies for £13.7m (including acquisition costs), satisfied by £10.6m cash and contingent consideration of £3.0m. The contingent consideration is payable during 2009 and is based on the achievement of various post tax profit targets. The contingent consideration represents the Directors' best estimate of contingent consideration payable. The maximum total consideration that could be payable, including acquisition costs is £13.7m. The purchases have been accounted for by the acquisition method of accounting.

The intangible asset recognised and valued at £5.6m represent the expected value to be derived from the acquired order book and existing customer relationships:

- the value placed on this order book is based upon the cash flow projections over the contract term. Due to uncertainties with trying to forecast revenues beyond the contract term, the Directors have taken a measure of prudence and value contracts over the contract term only. The cash flows were discounted at a weighted average cost of capital of 12% which the Directors consider is commensurate with the risks associated with capturing returns from the order book. The order book has been valued over the estimated useful life of 3.0 years; and

- the value placed on these customer relationships are based on the expected cash inflows. The cash flows are discounted at the Careforce weighted average cost of capital of 12% which the Directors consider is commensurate with the risks associated with capturing returns from the customer relationships. The cash flow projections assumed a customer attrition rate of 5% having considered three year historic trends on a branch-by-branch basis. The assumptions result in a life for active customers of 5.0 years.

22. ACQUISITIONS CONTINUED

The Directors consider that the value assigned to goodwill represents the workforce acquired and the cost synergies available as a result of these bolt-on acquisition and the resultant critical mass.

The performance of the Care operations post their inclusion in the Group are not separably identifiable as they have been fully integrated into the Care division. In the period to 31 December 2007, the nine Care acquisitions contributed turnover of £28.7m and £1.80m operating profit before amortisation of intangibles.

The other acquisitions also include the acquisition of the social housing business assets of Makers UK Limited, a subsidiary of Keller Group plc, for a nominal consideration. The transaction was completed in September 2007 and the assets comprised social housing maintenance contracts with a number of local authorities. Approximately 100 staff also transferred into the Group as a result of the acquisition. The surplus of £1.0m between cost of acquisition and fair value of net assets has been identified as an intangible asset relating to the customer relationships acquired. In the period to 31 December 2007, this purchase contributed turnover of £2.0m and £0.15m operating profit before amortisation of intangibles.

Analysis of net outflow in respect of the purchase of the subsidiary undertakings:

	2007 £'000
Cash at bank and in hand acquired	735
Short term borrowings and overdrafts	(4,908)
Cash consideration	(24,085)
Cash paid in respect of prior year acquisitions	(133)
	(28,391)

During the year the Group and Company paid £0.13m in respect of contingent consideration relating to acquisitions in prior periods.

23. CAPITAL COMMITMENTS

The Group had no capital commitments at 31 December 2007 or at 31 December 2006.

24. CONTINGENT LIABILITIES

The Group has guaranteed that it will complete the contracts it has commenced with 20 (2006: 18) local authorities. At 31 December 2007 these guarantees amounted to £3.71m (2006: £1.89m).

The Group had no other contingent liabilities at 31 December 2007 or at 31 December 2006.

25. PENSIONS

DEFINED CONTRIBUTION SCHEMES

The Group operates a defined contribution Group personal pension scheme for the benefit of certain employees. The Group contributes to personal pension schemes of certain Directors and senior employees. The Group operates a stakeholder pension plan available to all employees. During the year, the Group contributed £0.82m (2006: £0.79m) to these schemes.

DEFINED BENEFIT SCHEME

The Group contributes to defined benefit schemes on behalf of a number of employees. The Group operates a defined benefit pension scheme for the benefit of certain employees of a subsidiary company, Scion Group Limited and its subsidiary undertakings. The assets of the scheme are administered by trustees in a fund independent from the assets of the Group.

Notes to the financial statements – Group

25. PENSIONS CONTINUED

IAS 19 'EMPLOYEE BENEFITS'

Costs and liabilities of the scheme are based on actuarial valuations. The latest full actuarial valuation was carried out at 31 March 2006 and updated to 31 December 2007 by a qualified independent actuary using the projected unit method.

The principal actuarial assumptions at the balance sheet date are as follows:

	2007	2006	2005
Rate of increase of salaries	3.7%	3.7%	3.3%
Rate of increase for pensions in payment	3.2%	3.2%	2.8%
Discount rate	5.8%	5.2%	4.8%
Inflation	3.2%	3.2%	2.8%
Life expectancy for a 65 year old male	19.8 years	19.8 years	19.7 years

Expected rates of return on investments are:

	2007	2006	2005
Equities	7.6	7.6	7.1
Bonds	5.3	4.9	4.7
Cash	5.7	5.0	4.5

The amounts recognised in the balance sheet and major categories of plan assets as a percentage of total plan assets are:

	2007		2006		2005	
	%	£'000	%	£'000	%	£'000
Equities	86	1,219	86	986	89	836
Bonds	7	92	6	63	3	32
Cash	7	100	8	96	8	71
Group's estimated asset share		1,411		1,145		939
Present value of funded scheme liabilities		(1,466)		(1,528)		(1,182)
Net pension liability		(55)		(383)		(243)
Deferred tax asset		16.5		—		—
Net pension liability		(38.5)		(383)		(243)

25. PENSIONS CONTINUED

IAS 19 'EMPLOYEE BENEFITS' CONTINUED

The amounts recognised in the income statement are as follows:

	2007 £'000	2006 £'000	2005 £'000
Current service cost	158	151	120
Past service cost	—	—	—
Total operating charge	158	151	120
Amount charged to net interest payable:			
Expected return on pension scheme assets	92	68	51
Expected return on pension scheme liabilities	(83)	(60)	(46)
Interest on obligation	9	8	5
Total charged to the result for year	167	159	125

Changes in the present value of the defined benefit obligations are as follows:

	2007 £'000	2006 £'000	2005 £'000
Present value of obligations at 1 January	1,528	1,182	794
Current service cost	158	151	120
Interest on obligations	83	60	46
Plan participants' contributions	44	43	42
Benefits paid	(7)	(12)	(9)
Actuarial (gain)/loss	(340)	104	189
Present value of obligations at 31 December	1,466	1,528	1,182

Changes in the fair value of the plan assets are as follows:

	2007 £'000	2006 £'000	2005 £'000
Fair value of plan assets at 1 January	1,145	939	652
Expected return on plan assets	92	68	51
Employers' contributions	182	80	117
Plan participants' contributions	44	43	42
Benefits paid	(7)	(12)	(9)
Actuarial gain/(loss)	(45)	27	86
Fair value of plan assets at 31 December	1,411	1,145	939

Notes to the financial statements – Group

25. PENSIONS CONTINUED

IAS 19 'EMPLOYEE BENEFITS' CONTINUED

The movements in the net pension liability and the amount recognised in the balance sheet are as follows:

	2007 £'000	2006 £'000	2005 £'000
Deficit at 1 January 2007	(383)	(243)	(142)
Current service cost	(158)	(151)	(120)
Contributions	182	80	115
Other finance income	9	8	5
Actuarial gain/(loss)	295	(77)	(101)
Deficit in scheme at end of year	(55)	(383)	(243)

Cumulative actuarial gains and losses recognised in equity are as follows:

	2007 £'000	2006 £'000	2005 £'000
At 1 January	(320)	(243)	(142)
Net actuarial gain/(loss) recognised in the year	295	(77)	(101)
At 31 December	(25)	(320)	(243)

History of experience gains and losses are as follows:

	2007 £'000	2006 £'000	2005 £'000	2004 £'000	2003 £'000
Fair value of scheme assets	1,411	1,145	939	652	442
Net present value of defined benefit obligations	(1,466)	(1,528)	(1,182)	(794)	(530)
Net deficit	(55)	(383)	(243)	(142)	(88)
Experience adjustments arising on scheme assets					
Amount	(45)	27	86	16	22
Percentage of scheme assets	(3.2%)	2.4%	9.1%	2.5%	5.0%
Experience adjustments arising on scheme liabilities					
Amount	88	49	(75)	(42)	1
Percentage of scheme assets	6.0%	(3.2%)	(6.4%)	(5.3%)	0.2%

The employers' contributions expected to be paid during the financial year ending 31 December 2007 amount to £0.2m.

26. LEASING COMMITMENTS

Non-cancellable operating lease rentals are payable as follows:

	2007		2006	
	Land and buildings £'000	Other £'000	Land and buildings £'000	Other £'000
In one year or less	1,627	3,072	1,280	3,902
Between one and five years	5,294	2,693	3,172	2,542
In five years or more	3,711	1	1,757	—
	10,632	5,766	6,209	6,444

27. RELATED PARTY TRANSACTIONS

During the year the Group purchased financial and employment advice services from Premier Employee Solutions Limited, a company related by common directorship, of £37,000 (2006: £39,000). At 31 December 2006 the Group owed £nil (2006: £3,819) to Premier Employee Solutions Limited.

The Group and Company have identified key management personnel as being the Directors of the Company. Shareholdings are disclosed in the Report of the Directors, compensation is disclosed in the Corporate Governance Statement in the "In Words" Report.

Company accounts

Report of the independent auditor – Company

We have audited the Parent Company financial statements of Mears Group PLC for the year ended 31 December 2007 which comprise the principal accounting policies, the balance sheet and notes 1 to 12. These Parent Company financial statements have been prepared under the accounting policies set out therein.

We have reported separately on the Group financial statements of Mears Group PLC for the year ended 31 December 2007.

This report is made solely to the Company's members, as a body, in accordance with Section 235 of the Companies Act 1985. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditors' report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITOR

The Directors' responsibilities for preparing the Parent Company financial statements in accordance with United Kingdom law and Accounting Standards (United Kingdom Generally Accepted Accounting Practice) are set out in the statement of Directors' responsibilities on pages 24 and 25 of the "In Words" Report.

Our responsibility is to audit the Parent Company financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

We report to you our opinion as to whether the Parent Company financial statements give a true and fair view and whether the Parent Company financial statements have been properly prepared in accordance with the Companies Act 1985. We also report to you whether in our opinion the Directors' Report is consistent with the Parent Company financial statements.

In addition we report to you if, in our opinion, the Company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding Directors' remuneration and other transactions is not disclosed.

We read other information contained in the Annual Report and consider whether it is consistent with the audited Parent Company financial statements. The other information comprises only the Highlights, Our Business, Chairman's Statement, the Operating and Financial Review, the Corporate Social Responsibility Report and Corporate Governance Statement. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the Parent Company financial statements. Our responsibilities do not extend to any other information.

BASIS OF AUDIT OPINION

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the Parent Company financial statements. It also includes an assessment of the significant estimates and judgements made by the Directors in the preparation of the Parent Company financial statements, and of whether the accounting policies are appropriate to the Company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the Parent Company financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the Parent Company financial statements.

OPINION

In our opinion:

- the Parent Company financial statements give a true and fair view, in accordance with United Kingdom Generally Accepted Accounting Practice, of the state of the Company's affairs at 31 December 2007;
- the Parent Company financial statements have been properly prepared in accordance with the Companies Act 1985; and
- the information given in the Directors' Report is consistent with the financial statements.

GRANT THORNTON UK LLP
Registered Auditors
Chartered Accountants
Bristol
30 April 2008

Principal accounting policies – Company

BASIS OF PREPARATION
The financial statements have been prepared in accordance with applicable United Kingdom accounting standards and under the historical cost convention.

The principal accounting policies of the Company are set out below. The following accounting policies have remained unchanged from the previous year.

INVESTMENTS
Investments are included at cost net of any provision for impairment.

The Company is entitled to the merger relief offered by Section 131 of the Companies Act 1985 in respect of the consideration received in excess of the nominal value of the equity shares issued in connection with the acquisition of Careforce Group PLC.

SHARE-BASED EMPLOYEE REMUNERATION
All share-based payment arrangements that were granted after 7 November 2002 are recognised in the financial statements.

The Group operates equity-settled share-based remuneration plans for its employees. All employee services received in exchange for the grant of any share-based remuneration are measured at their fair values. These are indirectly determined by reference to the fair value of the share options awarded. Their value is determined at the date of grant and is not subsequently remeasured unless the conditions on which the award was granted are modified. The fair value at the date of the grant is calculated using the Binomial and Monte Carlo option pricing models and the cost is recognised on a straight-line basis over the vesting period. Adjustments are made to reflect expected and actual forfeitures during the vesting period.

All share-based remuneration is ultimately recognised as an expense in the income statement with a corresponding credit to share-based payment reserve.

Upon exercise of share options, the proceeds received net of any directly attributable transaction costs up to the nominal value of the shares issued are allocated to share capital with any excess being recorded as share premium.

DEFERRED TAXATION
Deferred tax is recognised on all timing differences where the transactions or events that give the Company an obligation to pay more tax in the future, or a right to pay less tax in the future, have occurred by the balance sheet date. Deferred tax assets are recognised where it is more likely than not that they will be recovered. Deferred tax is measured using rates of tax that have been enacted or substantively enacted by the balance sheet date.

RETIREMENT BENEFITS
DEFINED CONTRIBUTION PENSION SCHEME
The pension costs charged against profits are the contributions payable to individual policies in respect of the accounting period.

FINANCIAL INSTRUMENTS
Financial assets and financial liabilities are recognised on the Company's balance sheet when the Company becomes a party to the contractual provisions of the instrument.

Income and expenditure arising on financial instruments is recognised on an accruals basis and credited or charged to the profit and loss account in the financial period to which it relates.

Parent Company balance sheet
as at 31 December 2007

	Note	2007 £'000	2006 £'000
FIXED ASSETS			
Investments	4	29,144	16,918
CURRENT ASSETS			
Debtors: amounts due in more than one year	5	18,287	—
Debtors: amounts due in less than one year	5	20,159	10,255
Cash at bank and in hand		—	1,596
		38,446	11,851
CREDITORS: amounts falling due within one year	6	(18,918)	(5,238)
NET CURRENT ASSETS		19,528	6,613
TOTAL ASSETS LESS CURRENT LIABILITIES		48,672	23,531
CREDITORS: amounts falling due after more than one year	7	—	(2,820)
		48,672	20,711
CAPITAL AND RESERVES			
Called up share capital	8	732	615
Share premium account	9	31,007	5,547
Shares to be issued	9	2,035	1,485
Profit and loss account	9	14,898	13,064
EQUITY SHAREHOLDERS' FUNDS		48,672	20,711

The financial statements were approved by the Board of Directors on 30 April 2008.

R HOLT
Director

A C M SMITH
Director

The accompanying accounting policies and notes form an integral part of these financial statements.

Notes to the financial statements – Company
as at 31 December 2007

1. PROFIT FOR THE FINANCIAL YEAR
The Parent Company has taken advantage of Section 230 of the Companies Act 1985 and has not included its own profit and loss account in these financial statements. The Group profit for the year includes a profit of £4.4m (2006: £4.7m) which is dealt with in the financial statements of the Company. This result is stated after charging auditors' remuneration of £40,000 relating to audit services and £20,000 relating to taxation services.

2. DIRECTORS AND EMPLOYEES
EMPLOYEE BENEFITS EXPENSE
All staff costs relate to Directors. Staff costs during the year were as follows:

	2007 £'000	2006 £'000
Wages and salaries	640	947
Social security costs	63	121
Other pension costs	103	143
	806	1,211

The average number of employees of the Company during the year was:

	2007 Number	2006 Number
Office and management	4	4

Details relating to the remuneration in respect of the highest paid Director are detailed in note 4 of the notes to the consolidated financial statements.

3. SHARE-BASED EMPLOYEE REMUNERATION
As at 31 December 2007 the Group maintained four share-based payment schemes for employee remuneration. The details of each scheme are included within note 5 to the consolidated financial statements.

All share-based employee remuneration will be settled in equity. The Group has no legal obligation to repurchase or settle the options.

In total, £0.1m of employee remuneration expense has been included in the Company's profit and loss account for 2007 (2006: £0.1m), which gave rise to additional paid-in capital. No liabilities were recognised due to share-based payment transactions.

4. FIXED ASSET INVESTMENTS

Investment in subsidiary undertakings	£'000
COST	
At 1 January 2007	16,918
Additions	12,226
AT 31 DECEMBER 2007	29,144

Additions relate to the purchase of the entire issued share capital of Careforce Group PLC as shown in note 22 to the consolidated financial statements. The Company has taken advantage of the merger relief offered by Section 131 of the Companies Act 1985 in respect of the acquisition of Careforce Group PLC.

Details of the principal undertakings of the Company are shown in note 12 to the consolidated financial statements.

5. DEBTORS

	2007 £'000	2006 £'000
Amounts owed by Group undertakings	38,446	10,255

Included in 'Amounts owed by Group undertakings' is £18.3m (2006: £nil) which is due in more than one year.

6. CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR

	2007 £'000	2006 £'000
Bank overdrafts	11,432	—
Social security and other taxes	45	36
Amounts owed to Group undertakings	4,531	5,025
Other creditors	2,872	—
Accruals	38	177
	18,918	5,238

7. LONG TERM FINANCIAL LIABILITIES

	2007 £'000	2006 £'000
Other creditors	—	2,820

Included in 'Other creditors' is deferred consideration of £2.82m (2006: £2.82m), of which £2.82m (2006: £nil) falls due within one year, relating to deferred consideration on the acquisition of Laidlaw Scott Limited. This is payable by a single instalment in April 2008.

INTEREST RATE RISK

The Company finances its operations through a mixture of retained profits and bank borrowings.

The interest rate exposure of the financial liabilities of the Company as at 31 December 2007 was:

	Interest rate			
	Fixed £'000	Floating £'000	Zero £'000	Total £'000
FINANCIAL LIABILITIES – 2007	—	11,432	2,820	14,252
Financial liabilities – 2006	—	—	2,820	2,820

The bank overdraft facility is secured by a fixed and floating charge over the Group's assets.

Notes to the financial statements – Company
as at 31 December 2007

8. SHARE CAPITAL

	2007 £'000	2006 £'000
AUTHORISED		
100,000,000 ordinary shares of 1p each	1,000	1,000
ALLOTTED, CALLED UP AND FULLY PAID		
73,244,078 (2006: 61,476,713) ordinary shares of 1p each	732	615

During the year 11,767,365 ordinary shares of 1p each were issued for as detailed below. The difference between the nominal value of £0.1m and the total consideration of £37.1m, net of £11.5m in respect of merger relief, has been credited to the share premium account. The Company is entitled to the merger relief offered by Section 131 of the Companies Act 1985 in respect of the consideration received in excess of the nominal value of the equity shares issued in connection with the acquisition of Careforce Group PLC.

	Number of shares	Fair value of consideration £'000
Share placement	7,532,900	24,193
Share exchange on acquisition	3,304,203	11,581
Share options exercised	930,262	1,351
	11,767,365	37,125

9. SHARE PREMIUM ACCOUNT AND RESERVES

	Share capital £'000	Share premium account £'000	Share-based payment reserve £'000	Profit and loss account £'000
At 1 January 2007	615	5,547	1,485	13,064
Issue of shares	117	25,460	—	—
Share option charges	—	—	550	—
Retained profit for the year	—	—	—	1,834
AT 31 DECEMBER 2007	**732**	**31,007**	**2,035**	**14,898**

10. CAPITAL COMMITMENTS
The Company had no capital commitments at 31 December 2007 or at 31 December 2006.

11. CONTINGENT LIABILITIES
The Company had no contingent liabilities at 31 December 2007 or at 31 December 2006.

12. PENSIONS
DEFINED CONTRIBUTION SCHEMES
The Company contributes to personal pension schemes of the Directors.

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