MEARS

Mears Group PLC
Annual Report and Accounts 2008

CARING AND REPAIRING

Corporate Statement

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, over 8,000 Mears employees maintain, repair and upgrade people's homes and provide support for people in 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.

MEARS

GROUP PLC

Social Housing

Care

- Community engagement
- Customer satisfaction
- Employment opportunity
- Client value
- Sustainable development

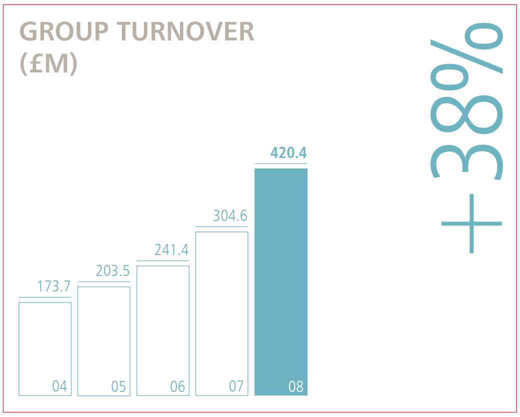
Highlights

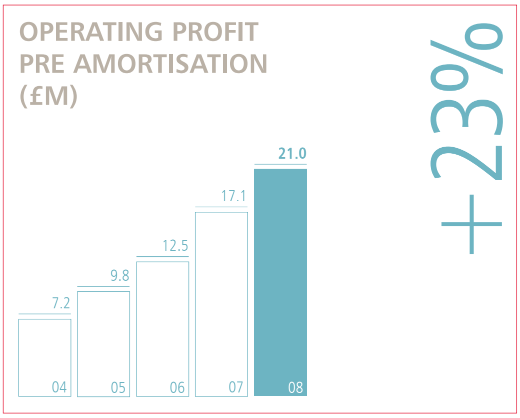
TURNOVER
up 38%

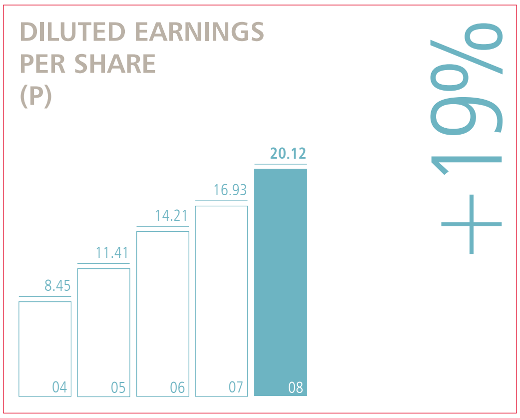
EARNINGS PER SHARE
up 19%

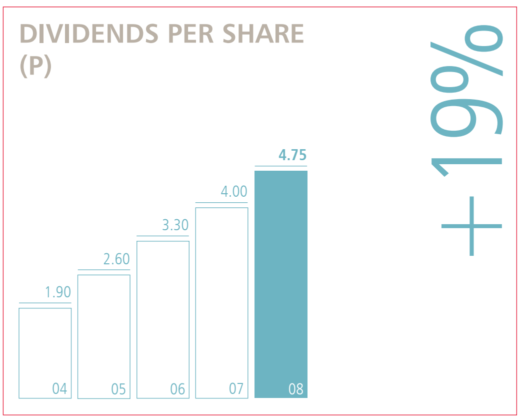
OPERATING PROFIT PRE AMORTISATION
up 23%

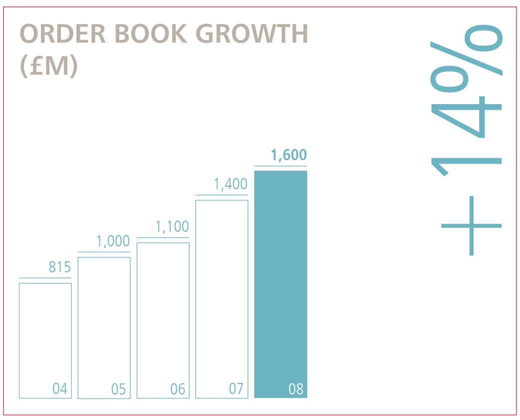
RECORD FORWARD ORDER BOOK
£1.6 billon











At a Glance

Mears Group PLC is a unique organisation. We are able to maintain and improve homes as well as care for the people who live in them. As a leading social housing repairs and maintenance provider in the UK, Mears provides rapid response and planned maintenance services to local authorities and registered social landlords. We deliver in excess of 3,000 repairs every day and to a portfolio of over 500,000 houses nationwide.

As the UK's fastest growing national domiciliary care provider, Careforce delivers over 4,500,000 hours of care per annum from a network of branches working with 50 local authorities and Primary Care Trusts.

Our philosophy is simply:

Making People *Smile*

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.

£282.0m
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.

£54.6m
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.

£78.0m
TURNOVER

A small selection of the clients we work for are listed below:
Birmingham City Council, Cross Keys Homes, Ealing Homes, Essex County Council, Family Mosaic, Hertfordshire County Council, Lancashire County Council, London Borough of Greenwich, Northamptonshire County Council, Neath Port Talbot County Borough Council, Richmond Housing Partnership, Sedgefield Borough Homes, Wakefield District Housing and Your Homes Newcastle.

Grass Roots Development

Our commitment to the communities in which we work extends beyond repairing and maintaining people's homes or caring for those that live in them; we also build strong foundations for young people to maximise their potential. From reading buddy schemes and breakfast clubs in local schools to preparing for a first job we are involved at many levels.

We are proud that 90% of our employees are drawn from the local community that we serve. We are equally proud of the support we give to young people within those communities. Our reading buddy schemes and support for educational centres, particularly for those in inner city areas and with special needs, help to improve attendance at schools and colleges and provide welcome assistance for teaching staff.

Safety talks to pupils, supported by our mascot Mr. Menda, develop engagement and interest in key safety issues. A new Eco Menda character, dedicated to raising awareness of sustainability and environmental issues, is planned for 2009.

Students invited to attend work placement programmes are able to experience real working environments within an operational branch, a process that provides insight into the realities of working life. We offer the chance to attend mock interviews to give advice and prepare school leavers for that all important first job, whilst our apprentices become role models, encouraged to return to their schools to demonstrate how to make the most of opportunities that exist.

Apprenticeships provide an important route into work for many school leavers, learning practical skills and developing a sense of focus and responsibility along the way. A Mears apprentice often has the opportunity to apply newly learnt skills on community development programmes within their own neighbourhoods, reinforcing a positive message of community engagement and development.

1 Mears regularly provides work placement opportunities for local school children.
2 Mears mascot 'Mr. Menda' at a school in Newcastle to deliver safety talks.
3 Apprentices are encouraged to return to their schools to make students aware of the opportunities which exist within Mears.

DEVELOPING

Mears helps children prepare for life after school with mock interviews.

Chairman's Statement

Summary of Chairman's Statement

- These results represent, I believe, the most successful year in our history, achieved in a period of economic instability and with the country facing uncertain times.
- The Group's two core divisions are in defensive sectors where spend is largely non discretionary. We have not experienced any work delays from our public sector customers.
- Our order book stands at £1.6 billion and the demand for our services continues to be strong. We enter the current year with 89% of consensus forecast revenue already secured.
- In the year we completed in excess of 400 community based programmes, embracing those very communities in which we work and where our employees reside.

Our two growth markets Social Housing and Domiciliary Care, which account for over 80% of Group revenues, are in defensive sectors where spend is largely non discretionary and afford us substantial immunity from bad debts. We have not experienced any work delays from our public sector customers.

It gives me great pleasure to announce our 13th consecutive year of double digit growth in revenue and record profits in this first year since moving up to the Main Market from the Alternative Investment Market of the London Stock Exchange.

In the year ended 31 December 2008 revenue increased by 38.0% to £420.4m (2007: £304.6m) and operating profit before amortisation was up 26.1% to £22.2m (2007: £17.6m). Diluted normalised earnings per share were up 18.8% to 20.12p (2007: 16.93p). The number of employees in the Group exceeded 8,000 for the first time.

These results represent, I believe, the most successful year in our history, achieved in a period of economic instability and with the country facing uncertain times. It has always, and continues to be, our strategy to plan for and manage future growth.

Our order book stands at £1.6 billion and the demand for our services continues to be strong. Importantly our two growth markets Social Housing and Domiciliary Care, which account for over 80% of Group revenues, largely reflect quality partnership relationships with first class public sector customers. These are in defensive sectors where spend is largely non discretionary and afford us substantial immunity from bad debts. Of further importance, we have not experienced any work delays from our public sector customers, all of whom have largely avoided the banking crisis. We enter the current year with 89% of consensus forecast revenue already secured. In addition, we have secured 54% of consensus forecast revenue for 2010.

I commend our workforce at all levels for their commitment and endeavour. We are better placed than ever to take advantage of opportunities that the current market brings us.

We continue to place great emphasis on winning good quality contracts that can provide clear and sustainable margins. The sales pipeline remains buoyant. There are a number of significant opportunities which are at an advanced stage of the bidding process and there are also tremendous opportunities with existing customers to unlock significant additional revenue.

The Mears Social Housing division has long been recognised as a market leader in terms of operational performance and tenant satisfaction. I am delighted to be able to confirm that our customer care performance KPIs hit new heights during the last year. It is a testament to our excellent operational team, headed by David Miles, that we were able to start a number of significant contracts and still maintain operational excellence. Again the team is to be congratulated.

I am pleased that our Domiciliary Care division had a very successful year in what is seen as a difficult trading environment. Despite tightening public sector budgetary constraints the business still grew in excess of 10% organically as a result of our professional approach to long-term partnership contract bidding. The increasing trend of local authorities to procure services from fewer and larger care providers is entirely in line with our philosophy to work in partnership with our clients with the longer-term aim towards improved outcome-based solutions for our clients. During the year, we grew the division organically by more than any of our competitors in the same segment, taking market share. Alan Long, the Divisional Chief Executive Officer, has strengthened the management team significantly in the year. I look forward to bringing you news of exciting developments in the future.

Haydon, our Mechanical and Engineering (M&E) division, had an excellent year but enters what should be regarded as a difficult period. This is a sound and well-managed business and the division reduced overheads in the final quarter of 2008 in anticipation of a trading downturn in the current year.

We have a stated intention to have the best-trained and equipped workforce in the sector and I will not rest until we are able to provide enhanced career opportunities for all our staff.

In the year we excelled at all the things which are the heart of Mears. We completed in excess of 400 community based programmes, embracing those very communities in which we work and where our employees reside.

Your Board is mindful that they must provide the best possible opportunities for all our existing employees to prosper, whilst continuing to attract the best possible talent available into our workforce.

OUTLOOK

The demand for our services continues to be strong. Our two growth markets, Social Housing and Domiciliary Care, are defensive sectors where spend is largely non discretionary. We continue to place great emphasis on winning good quality contracts that can provide clear and sustainable margins. The sales pipeline remains buoyant. There are a number of significant opportunities which are at an advanced stage of the bidding process and there are also tremendous opportunities with existing customers to unlock significant additional revenue.

The year ahead will bring its challenges and I look forward to bringing you news of our successes in the future.

BOB HOLT
bob.holt@mearsgroup.co.uk
Chairman and Chief Executive
3 April 2009

Teaching and Skills Development

At Mears, training and development opportunities are not just limited to our employees. Across the business a growing number of academies and skills centres provide development opportunities for people of all ages in the communities where we work.

Our academies and skills centres offer facilities for tenants, schools and youth groups to train and develop skills that will help them become more independent and in many cases better equipped to find work. Mears employees assist with basic DIY taster sessions and community classes held within the centres. Classes cover topics from painting and tiling, computers and the internet, self defence and health and safety amongst many others designed to improve literacy and numeracy, IT awareness and self confidence.

Such teaching and development opportunities, supported by Mears employees, not only help people to develop their skills but also help us to work with clients to reduce worklessness in the community. In many cases we work closely with clients, tenant groups, regional colleges and job centres to provide the broadest range of options possible with attendees often gaining a nationally recognised standard at the end of the programme.

MEARS ACADEMY, PETERBOROUGH

The Mears Peterborough Academy, developed in partnership with Peterborough Regional College and Connexions, is a prime example of how promoting community spirit can truly make a difference.

The Academy provides a range of services including skills testing, diagnostic training for repair centre staff and training for supply chain partners. The scheme has already had placements from Bushfield School and Stanground Community College.

WESTERN SKILLS CENTRE, WIGAN

The Western Skills Centre is another example of how providing development opportunities can make a difference in the community. Health and safety training at the Centre has lead to higher pass rates for CSCS (Construction Skills Certification Scheme) Cards than the national adult average.

Such results demonstrate the importance of the Centre and the eagerness of young adults in the area wanting to develop trades and gain recognition for the standard of work they achieve. The Centre plays an important role in the community with up to 120 pupils per week receiving specialist training including joinery, brickwork and painting and decorating from Mears employees who volunteer their time and support.

1 Health and safety is a key part of learning at the Western Skills Centre, Wigan.

2 A student learns real skills from a Western Skills Centre teacher and Mears apprentice.

3 On the job training is provided by the Western Skills Centre.

TEACHING

At our training centres, school children are taught all aspects of a trade.

Operating and Financial Review

Summary of Operating and Financial Review

- Revenue grew to £420.4m (2007: £304.6m), an increase of 38.0%.
- Our diluted normalised EPS was up 18.8% to 20.12p on the comparative 2007 figure of 16.93p.
- A final dividend of 3.40p per share is proposed, which gives a total dividend in the year of 4.75p (2007: 4.00p), an 18.8% increase.
- The Group entered into a new bank facility for £40m with a term of five years. Barclays Bank PLC continues its long relationship with the Group. The Group has taken this opportunity to include HSBC Bank plc within this new arrangement. This new facility is available to fund further acquisitions and to provide additional working capital to fund future organic growth.
- We have achieved a number of major successes, winning contracts valued at in excess of £460m in total over the last twelve months.

The Social Housing division maintained its operating margin above 6.0% which continues to be at the higher end for this sector. At a time of high growth, one would expect to see an initial dilution in operating margin, so it is particularly encouraging to see robust margins and high levels of operational performance on the newly mobilised contracts. This is a credit to our operational teams working within those new locations.

REVENUE

In the year to 31 December 2008 we grew revenue to £420.4m (2007: £304.6m), an increase of 38.0%. The Social Housing division contributed revenue of £282.0m (2007: £205.6m), growth of 37.2% including organic growth of 33.6%. The order book of £1.6 billion coupled with our robust bid pipeline reflects our confidence in the demand drivers for repair and maintenance spending of our public sector partners.

The Domiciliary Care division contributed revenue of £54.6m compared to £28.7m in 2007. This increase is predominantly due to the full year impact of the twelve Care acquisitions completed during 2007, together with a further three bolt-on acquisitions during the first half of 2008. The Domiciliary Care division has been successful in winning seven new contracts during 2008, five of which mobilised during the period and have contributed to the organic growth in 2008 in excess of 10.0%.

The M&E division produced a 27.5% increase in revenue to £78.0m compared to last year (2007: £61.2m).

OPERATING RESULT

We achieved an operating result before amortisation and share option costs of £22.2m (2007: £17.6m), an increase of 26.1%.

The Social Housing division maintained its operating margin above 6.0% which continues to be at the higher end for this sector. This is a tremendous achievement at a time when it has mobilised a number of large and complex multi-service contract awards. Typically the Group anticipates a low margin from a new contract during its mobilisation phase at a time where customer service is the only focus and ensuring that robust processes are put in place. At a time of high growth, one would expect to see an initial dilution in operating margin, so it is particularly encouraging to see robust margins and high levels of operational performance on the newly mobilised contracts. This is a credit to our operational teams working within those new locations.

The Domiciliary Care division maintained its operating margin at 5.6%, which is in line with the margin reported in our half-year Interim Report. Our aim is to maintain

The efficiency with which the Group manages working capital remains a cornerstone of our business. The Group has consistently set high standards of tight working capital and high levels of conversion of operating profit into cash. **The Group has experienced no delay in settlement of debts within its Social Housing or Domiciliary Care divisions where the customers are local authorities and housing associations.**

these margin levels as we expand this division and win new contracts. The division has incurred costs of further investment in IT integration and branding into a single Care operating unit, including a management restructure in the later part of 2008. We have successfully integrated the acquisitions we have made and, whilst there may be the expected short-term challenges of high staff turnover and recruitment within a minimum wage environment, there are equally opportunities to generate margin improvements through system improvements, operating efficiency, synergies and economies of scale. Our focus remains on improving contract profitability at the same time as gaining scale in our Care offering.

The M&E operating margin of 2.7% (2007: 4.5%) is pleasing in a business that has managed impressive growth through particularly difficult trading conditions. Given the economic uncertainties, the M&E division completed a restructure during the fourth quarter to ensure that a streamlined business was in place to move into an uncertain 2009.

SHARE OPTION COSTS

The share option costs were £1.2m (2007: £0.6m). This increase was due to the full year impact of the SIP award approved by shareholders in November 2007. There is no cash impact from this expense.

AMORTISATION OF ACQUISITION INTANGIBLES

A charge of £3.6m (2007: £1.5m) arose in the period. This represents the amortisation of the identified intangible assets acquired predominantly in relation to the acquisition of the Domiciliary Care division in 2007 and a further three bolt-on acquisitions in 2008. The excess of purchase price over the fair value of identified net assets is capitalised as goodwill and is not amortised but is subject to an annual impairment review.

TAX EXPENSE

£3.8m has been provided for a tax charge (2007: £4.5m). The effective rate in 2008 is 22.9% (2007: 29.2%). The Group benefited from a reduction in the rate of Corporation Tax in March 2008 from 30% to 28%. The Group also benefited from a Corporation Tax deduction in respect of the exercise of 0.8m share options and a deferred tax credit of £1.0m in respect of the amortisation of acquisition intangibles.

EARNINGS PER SHARE (EPS)

Basic normalised EPS increased by 18.4% to 20.76p (2007: 17.54p). Our diluted normalised EPS, which allows for the potential diluting impact of outstanding share options, was up 18.8% to 20.12p on the comparative 2007 figure of 16.93p. Normalised earnings exclude amortisation of acquisition intangibles and the share option costs together with an adjustment to reflect a full tax charge of 28%. We believe that this normalised measure better allows the assessment of operational performance, the analysis of trends over time, the comparison of different businesses and the projection of future performance.

DIVIDEND

These excellent results allow the Group to continue the progressive dividend policy adopted over recent years. A final dividend of 3.40p per share is proposed which, combined with the interim dividend, gives a total dividend in the year of 4.75p (2007: 4.00p), an 18.8% increase. The dividend is payable on 1 July 2009 to shareholders on the register on 12 June 2009.

Operating and Financial Review Continued

The sales pipeline remains buoyant and there are a number of significant opportunities that are at an advanced stage of the bidding process. There are also tremendous opportunities with existing customers to unlock significant additional revenue.

FINANCING

The efficiency with which the Group manages working capital remains a cornerstone of our business. The Group has consistently set high standards of tight working capital and high levels of conversion of operating profit into cash. In a year where the Group has organically increased revenue by £100m, it is not unexpected to suffer a short-term spike in cash consumption. Our operations remain cash generative. This has been exaggerated further given that the organic growth has predominantly come from large-scale TUPE transfers and, as such, these new works have typically been entirely self-delivered. This model for delivery normally results in a longer working capital cycle. As a result of the increased mobilisations and associated working capital consumption, the Group's conversion of operating profit pre amortisation to cash was 43% (2007: 93%). Our net cash position at 31 December 2008 was £6.6m, reduced from £15.3m at the start of the year. Whilst it was anticipated that there would be an increased working capital requirement in 2008, strong operational cash flows are expected to reduce average debt levels in 2009.

The Group has experienced no delay in settlement of debts within its Social Housing or Domiciliary Care divisions where the customers are local authorities and housing associations. The Group is, however, experiencing some delays in settlement of debts within its M&E division where customers are typically blue chip construction companies. Whilst this delay has a short-term impact on the Group's net funds, the credit risk is insured.

In April 2008, the Group entered into an agreement to replace the previous banking facility of £21m with a new facility arrangement for £40m with a term of five years. Barclays Bank PLC has supported the Group's financing requirements since flotation in 1996. The Group has taken this opportunity to include HSBC Bank plc within this new arrangement. This new facility is available to fund further acquisitions and to provide additional working capital to fund future organic growth. As anticipated, net interest costs increased to £0.8m (2007: £0.1m).

Since the year end, the Group has taken advantage of the continued reduction in the Bank of England base rate by entering into a hedging arrangement to fix rates on £15m at 2.95% for a four year term.

ACQUISITION

The Group has settled deferred consideration of £4.6m in respect of a number of historic acquisitions most notably £2.8m in respect of the acquisition of Laidlaw Scott Limited which was acquired in June 2006. This Scottish operation has performed well since acquisition and this sum represented the maximum consideration payable.

The Group has completed three further small Care acquisitions for a combined initial sum of £3.6m, with up to £0.3m deferred subject to future profitability. The latest acquisitions include an extension of our care activities to cover those with learning difficulties, which we are confident gives us scope for developing a national offering.

DISPOSAL

During July 2008, the Group disposed of its non-core Vehicle Distribution division. The consideration of £2.8m was settled in cash. This represented the Group's first ever disposal. The activities of our Vehicle Distribution division were considered non-core and the offer represented excellent value for the Group.

EVENTS AFTER BALANCE SHEET DATE

On 22 January 2009, the Group announced the acquisition of 3C Asset Management Limited (3C). The initial consideration for 3C is £1.0m for goodwill together with a pound-for-pound payment for 3C's net assets. The valuation of net assets is subject to a post completion review and is anticipated to be around £5.0m. An additional deferred consideration is payable up to a maximum of £6.5m, subject to the achievement of performance criteria linked to contract retention and profitability over the 24 month period to 31 December 2010. The consideration is being satisfied out of the Company's existing debt facilities.

Careforce continues to build a presence across a growing geographical area and is well placed to take a leading position in the consolidation of the Domiciliary Care market. Investment in infrastructure and people continues as we grow the business.

ORDER BOOK AND SALES PIPELINE

The visibility of our earnings continues to improve; £460m of new work was secured in the period. Our order book stands at £1.6 billion (comparative: £1.4 billion). The proportion of market forecast consensus revenue secured for 2009 is 89% with some 54% of the 2010 projection (comparative 2008: 86%, 2009: 58%). In addition, the sales pipeline remains buoyant and there are a number of significant opportunities that are at an advanced stage of the bidding process. There are also tremendous opportunities with existing customers to unlock significant additional revenue.

MAJOR CONTRACT WINS AND MOBILISATIONS

We have achieved a number of major successes, winning contracts valued at in excess of £460m in total over the last twelve months.

SOCIAL HOUSING ORGANIC GROWTH

Mears has been awarded new social housing contract awards amounting to £420m inclusive of the following:

- Metropolitan Housing Trust – a ten-year sole partner contract with Metropolitan Housing Trust (MHT) based in London and the Midlands to provide responsive repairs, planned maintenance, cyclical decorating and voids services. MHT owns over 30,000 properties, making them one of the largest housing associations in the country. The total contract is valued at £157m.

- Cross Keys Homes – a ten-year partnership with Cross Keys Homes to provide responsive repairs and voids services. The contract is valued at £41m for the ten-year period. This award widens the range of services we provide to Cross Keys Homes, adding to the partnering arrangements we hold with them for Decent Homes, gas servicing and cyclical decorations.

- Octavia Housing and Care – a ten-year partnership with Octavia Housing and Care based in Central London to provide repairs and void services. The contract is valued at £36m for the ten-year period.

- Watford Community Housing Trust – one of two partners for a five-year Decent Homes partnership. The contract is worth approximately £33m over the five-year period for each partner. The services provided include the replacement of kitchens, bathrooms and external upgrade works.

- Old Ford Housing Association – a ten-year partnership with Old Ford to provide responsive repairs and voidsservices. The contract is valued at £21m for the ten-year period. Old Ford is one of seven Group partners within the Circle Anglia Group, which has a housing stock of over 27,000 properties. Since the start of 2008, Mears has entered into partnership arrangements with four of the seven Circle Anglia Group partners.

DOMICILIARY CARE ORGANIC GROWTH

Careforce continues to build a presence across a growing geographical area and is well placed to take a leading position in the consolidation of the Domiciliary Care market. Investment in infrastructure and people continues as we grow the business. Notable successes in the year have included the following seven contract wins within our `Domiciliary Care division amounting to in excess of 11,000 hours per week or over £7m of annualised revenues over the previous twelve months.

- Blackburn with Darwen – a preferred supplier status for one of three localities within Blackburn with Darwen Borough Council. The contract to supply homecare commenced in July 2008 and runs until March 2011, with a possible extension for a further two years. The expected volume under this contract will be 1,000 hours per week. It is understood that the number of providers in the area has been reduced from 13 to 9 as a result of this retender process.

- Manchester City Council – a contract to supply homecare to Manchester City Council commenced in June 2008 for an initial term ending in March 2011, with a possible extension for a further two years thereafter. The expected volume under this contract will grow to 2,250 hours per week.

Operating and Financial Review Continued

We are particularly proud of our commitment to work placements for 14–19 year olds and our apprentice and graduate programmes. In 2008 we launched our Training Awards which are aimed at recognising and rewarding excellence amongst our apprentices and trainees within the Mears Group.

MAJOR CONTRACT WINS AND MOBILISATIONS CONTINUED

DOMICILIARY CARE ORGANIC GROWTH CONTINUED

- Southend-on-Sea – a contract to supply homecare to Southend Borough Council will run for an initial period of three years with a possible extension for a further two years. It is expected that the hours supplied under this contract will grow in stages up to 2,000 hours per week. As a result of this contracting exercise we understand that the number of contracted providers has been reduced from 19 to 6.

- Surrey – a contract to supply both homecare and live-in care to Surrey County Council commenced in April 2008 and will run for an initial period of two years with a possible extension for a further two years. The award of the live-in contract consolidates our existing supply of live-in care to Surrey. We now also have the opportunity to supply homecare in Surrey following this contract award and we expect the initial volume of work to build up to 650 hours per week.

- Neath Port Talbot – a block contract to supply a minimum of 750 hours per week of homecare to Neath Port Talbot County Borough Council for an initial one-year period with a possible extension for a further two years. This award represents the Care division's first contract win in Wales and will provide a valuable springboard to pursue other opportunities in the region.

- Norfolk – a block contract to supply homecare to Norfolk County Council; initially for a period of five years from January 2009, with a possible extension for a further two years thereafter. The expected volume under this contract is 3,700 hours per week. This represents the single largest new contract award achieved by Careforce since it was acquired by Mears and extends the Careforce coverage into a new geographical location. Following the award of this contract, the number of providers has been reduced from eleven to five with Careforce being awarded a third of the works.

- Windsor and Maidenhead – a contract to supply homecare to the Royal Borough of Windsor and Maidenhead Council commenced in February 2009 and will run for a period of two years with a possible extension for a further two years thereafter. It is expected that the hours supplied under this contract will be 1,100 hours per week. This is in addition to the work we do with the Council already.

In addition, Careforce has been successful in winning a contract for the provision of domiciliary care across Nottinghamshire County Council. Previous contracts were held for specific areas of Nottinghamshire by two companies that Careforce acquired in 2008. The new contract enables Careforce to extend its service across the whole of Nottinghamshire and we are currently preparing our plans to do this.

The integration and rebranding of Careforce's eleven bolt-on acquisitions is nearing completion. We have continued to invest significantly in IT, accounting systems and in our workforce's development and training programmes.

The Government remains committed to prioritising the agenda of housing in an ageing society to ensure that as people grow older they stay comfortable and secure in their own homes. We continue to see a convergence between our Social Housing and Care divisions; there are increasing opportunities to combine our Care and Repair offerings and thereby add further value to our customers. A very successful pilot of joint working has been delivered in Wakefield, resulting in improved service and lower cost. Under the scheme, Careforce provides carer support to vulnerable people while Decent Homes improvement work is being undertaken. We expect to roll this out to other contacts this year.

Through our community projects we encourage team working between managers, operatives, office staff and the wider community.

ENVIRONMENTAL

Mears has a dynamic approach to the environment to create less waste and recycle more. The figures in 2008 have shown this in practice, as we are now recycling over 70% of our waste generated and have set a 75% standard for 2009. Branches within Mears have introduced green champions to look at ways of using less energy, recycling more and minimising waste. Some great initiatives have come out in 2008, including re-using waste wood as an additive to fertilizers, compacting waste to reduce transport, and greener vehicles. For the first time, in 2008 we introduced the Green Awards to further motivate and communicate our "Getting Greener Campaign". In 2009 we will continue to improve our environmental impact, setting higher standards, introducing more green initiatives and continuing to put the environment at the top of our agenda.

HEALTH AND SAFETY

In 2008 Mears has seen a 15% reduction in all accident rates compared to 2007. This is the third year we have seen a reduction and without a doubt this is down to the branches and Group management continuously looking to improve standards through training, communication and monitoring. All branches, as well as the SHE team have been set specific objectives for 2009, these include closer monitoring of high risk areas, focusing on the main accident causes and developing new ideas to reduce accidents. Through quality systems and procedures these will be analysed and new initiatives will be developed to further improve our current safety performance. Branch managers have also had a great involvement in our success including the Scunthorpe branch introducing a gloves only policy trial. We achieved 4,274 training days in 2008. These training days include the British Safety Council (BSC) courses, management and supervisor safety courses. In 2009 we will be following the success of the BSC and introducing a BSC supervisors and management course specifically aimed at the working environment within Mears.

TRAINING AND DEVELOPMENT

We have made a commitment to Skills Pledge at a National level and actively encourage and support our employees to gain the skills and qualifications that will support their future employability and meet the needs of our business. It is our ambition to have every employee qualified to Level 2 in an area that is relevant to our business and to improve our organisations performance through investing in economically valuable training and development.

Our Customer Services Level 3 training programme has proved very successful within our Customer Services team, with 30 staff achieving the required standard in 2008.

We are established in the Investors in People accreditation and ensure that equality and diversity is high on our agenda and reflective throughout all our policies, procedures, training and development.

We are particularly proud of our commitment to work placements for 14-19 year olds and our apprentice and graduate programmes. In 2008 we launched our Training Awards which are aimed at recognising and rewarding excellence amongst our apprentices and trainees within the Mears Group.

We are continuing to support young people within our local training centres and are also providing invaluable skills to local residents; the training provided includes basic DIY, numeracy and literacy skills.

Through our community projects we encourage team working between managers, operatives, office staff and the wider community. The projects also provide training to staff in areas that they would not normally venture and promote community spirit.

BOB HOLT
bob.holt@mearsgroup.co.uk
Chairman and Chief Executive

ANDREW SMITH
andrew.smith@mearsgroup.co.uk
Finance Director
3 April 2009

Training at Work – Apprenticeships and Courses

It is essential that we are able to develop skills and knowledge to ensure that we remain in line with industry requirements and to deliver the best possible quality of service to our clients, tenants and service users. It is also important to ensure that there are sufficient, competent personnel to deliver the often long-term partnerships that we operate; as such it is vital that training of young people and employees forms a cornerstone to our business.

Whilst our involvement in the community provides a 'route to employment' for local people, our apprenticeship training for 16–18 year olds and new entrants to the industry has proved very successful. Our apprenticeship and craft trainee programme has over 120 young people currently training throughout the Group. As part of our apprenticeship scheme trainees can expect to be placed in a variety of departments and a suitable plan of work designed to develop their skills. In addition a mentor is assigned to assist them with the transition from school or worklessness through skills training to full time employment.

In many cases training at work to maintain certification and ensure safety is mandatory, however there are also training and development requirements that reflect the needs of our customers. Both mandatory and needs-based training are important parts of the Mears Group training and development programmes.

ONGOING TRAINING AND SUPPORT

A variety of tools are available for the training and development of our employees and sub-contractors, ensuring that their skills are continuously refreshed, updated and improved. These tools also serve to introduce and reinforce our 'quality' culture and to emphasise that the success of our business is based upon high quality work being produced 'right first time'.

Induction training and appraisal procedures identify current and future training requirements and all of our employees must achieve the Mears Induction Certificate or Careforce Care Certificate before they can proceed to work, either on a client's site or in a service user's home.

Regular team toolbox talks and health and safety training courses form part of our ongoing training to update skills and spread best practice. To support this process, secondment or shadowing programmes are used to transfer skills so that our employees are trained to support each other. We also provide multi-skill training for tradesmen to enhance opportunities for the individual, the Company and the customer.

Mears is dedicated to delivering a first-rate customer service on all of our contracts and to support this we offer NVQ training to customer care staff, operatives, care workers and supervisors, all of whom have the support of HR teams and training managers across the business.

Keen to reflect the needs of the communities we serve, equality and diversity training is an integral part of our management development training and induction programmes, ensuring we treat all residents with dignity and respect and that we are respectful of people's homes and cultures. The quality of our training programmes is increasingly being acknowledged and recognised as a standard in the wider business sector.

1 & 2 Careforce's NVQ team provides training and qualifications for its carers.

3 Apprentices from Peterborough Training Academy put into practice skills learnt on a community project.

4 Paul Jones, who won Mears Apprentice of the Year.

TRAINING

Real life Mears apprentice and training centre teacher talk to current trainees.

Corporate Social Responsibility

Goals

- Improve the lives of people living in our communities.
- Help build community cohesion and integration.
- Provide career and skills development opportunities to those who need them most.
- Be a positive contributor to the environment.

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

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 residents and makes our job that little bit easier.

OUR GOALS

Mears regularly reviews its Corporate Social Responsibility (CSR) goals and ensures that they are fully aligned to business strategy.

Our four goals are to:

- improve the lives of people living in our communities;
- help build community cohesion and integration;
- provide career and skills development opportunities to those who need them most; and
- be a positive contributor to the environment.

PROVIDING LEADERSHIP AND SUPPORT

Awareness of our goals, together with examples of how they have been made real through practical projects and schemes of engagement in our communities, is communicated to our employees through well illustrated monthly Group-wide emails and reports, through the widely distributed Mears Matters quarterly newsletter and via regular updates on dedicated pages on our intranet and the internet.

To support and encourage employees, residents and our clients to become involved with and initiate new CSR projects, we have developed a dynamic team structure providing each branch with a regional CSR Manager helps create and shape branch community plans, as well as promoting national initiatives such as the Getting Greener, Skills Pledge and Gifts4Giving campaigns.

Strategic direction is provided by the quarterly CSR Committee on which sit representatives from all our companies, whilst day-to-day implementation falls to the monthly meeting of the CSR Activists' Group. During 2008, to further strengthen communication, harness good ideas and acknowledge creativity we formed a quarterly meeting of the Employees' CSR Focus Group and already ideas from this group have been taken forward for implementation across the businesses. Importantly we ensure best practice and innovation demonstrated by our employees is recognised and rewarded through case studies and annual awards. In April 2008 we learned we had achieved a Gold award in Business in the Communities' Companies that Care – CSR Index 2007.

TAKING POSITIVE ACTION

In 2008 our employees delivered over 20,000 hours of community work with over 1,500 staff actively volunteering. Their dedication and enthusiasm saw us supporting over 400 different projects. At our annual conference this year awards were given to our top five nominated community projects from 2008:

WIGAN – WORSLEY HALL CAFÉ

A group of tenants had been trying to transform a group of derelict shops on their estate for four years when Mears heard of the project. Their idea was to create a community café and training centre as a hub for local people. Mears supported the creation of the community café throughout 2008 by providing staff volunteers and materials for the works. In addition, students from the Western Skills Centre have been involved in the works to give them more experience in a real environment. The community café is now open and provides employment for four local people and work experience for young people in the area. In 2009 works will begin on the Community Training Centre.

WAKEFIELD – ST. LUKE'S MEDIA CENTRE

Mears was asked to support a local church which had bought a derelict school building in order to create a community centre with multimedia facilities. Mears provided and installed two kitchens and two bathrooms and undertook extensive plastering and joinery works in order to get the centre open on time. The centre is now used by the local community for bingo, coffee mornings, dance lessons, a youth club and music lessons. This is an ongoing project that we have supported from 2006 and we continue to undertake maintenance works for the centre.

BRIGHTON – WOODINGDEAN COMMUNITY SWIMMING POOL

The swimming pool at Woodingdean was built 34 years ago to provide a leisure facility for local people and it is run over the summer months by volunteers. In 2008, the roof over the changing rooms developed a leak so the volunteers appealed for help from the local community. Mears responded and visited the pool to assess the works that were needed. As well as repairing the roof we fitted a new kitchen, redecorated the changing rooms and installed an outdoor shower and the pool opened on schedule. The outdoor shower and the upgraded facilities have allowed the pool to continue to be used by local schools for swimming lessons.

RICHMOND – ST. EDMUND'S WILDLIFE GARDEN

Mears was approached by the Richmond Environment Network (REN) who wanted to run a wildlife competition in primary schools across the borough. REN ran workshops in every school that applied at which the children learnt about animals and their habitats so that they could then go on to design their own wildlife garden. Mears, REN and Richmond Housing Partnership judged their designs and we then created the garden at St. Edmund's School, complete with a vegetable plot, log piles, butterfly flowers, compost heaps and water butts.

HAYDON DOCKLANDS – MUDCHUTE CITY FARM

Haydon has supported Mudchute City Farm since 2007 and the main focus of the works has been the conversion of a disused barn into a classroom. Staff from Haydon installed all the electrics and heating needed in the classroom which provides a learning environment for local children and people with physical and learning disabilities. The City Farm was established 25 years ago and gives local people living in an inner city access to green space and farm animals.

Corporate Social Responsibility Continued

Our Future Champions programme has been strengthened, with twelve young athletes now supported across the country. We hope to see these inspirational youngsters participating in a number of national and international events culminating in the London Olympics 2012.

SUPPORTING GOOD CAUSES

Our Future Champions programme has been strengthened, with twelve young athletes now supported across the country. We hope to see these inspirational youngsters participating in a number of national and international events culminating in the London Olympics 2012.

Six employees took part in international projects, organised by the Bobby Moore Bowel Cancer Fund, in Brazil and South Africa during 2008, the fourth year we have supported this excellent charity. 200 employees joined Bob Holt on fundraising walks along Hadrian's Wall and the Thames Path, raising significant funds for the fund and other charities.

Our Careforce branches supported the Action on Elder Abuse campaign, issued safety slippers to residents to prevent slips and falls, issued heating monitors and advice to help keep residents warm during winter and, during the seasonal period, organised the Careforce Christmas selection of activities to bring residents, clients and staff together.

750 high-visibility jackets were donated to schools to promote child safety and the National Walk on Wednesday's campaign. These further supported links to schools in our communities and complemented our support for wildlife gardens, allotments and the School Food Matters campaign.

Our own first self-organised international project took place during May, where 14 employees spent nine days carrying out major renovations to Lallian Khurd Elementary School in Jalandar, Punjab, India. The team completed the construction of a new school dining building, which is used for both educational and important social functions in the community.

In 2008 we updated our Christmas coffee mornings with a new Gifts4Giving theme. This proved a real hit as 28 branches took part, with 400 employees and 600 residents attending events and raising £2,613 for local charities. These community events took many forms including: cooking and serving Christmas lunches; Father Christmas visiting local school children and residents in sheltered housing schemes; employees supporting local charities with fundraising initiatives; donations to Support our Soldiers; and Christmas card competitions for local children.

Our commitment to the training and development of employees was taken forward by the Skills Pledge initiative which Mears signed up to. Several new training centres have been created in our branches around the country and we have supported further apprentice and trainee placements. Work experience and mentoring opportunities for youngsters have been broadened and very successful resident and service user training sessions, providing DIY and skills development opportunities, held across the country. We also awarded our first Apprentice of the Year and Trainee of the Year in 2008.

OUR ENVIRONMENT

To promote sustainability and raise awareness of everyone's role in taking action on climate change and carbon reduction, the Getting Greener Campaign was launched in Spring 2008. We have encouraged branches to think about and take action to reduce their environmental impacts. Branch Eco Champions have been nominated and they encourage colleagues to review their activities and act in more sustainable ways whenever and wherever they can at work, at home and in our communities.

Ideas to reduce waste and carbon production and increase recycling have been trialled in our branches and offices by the Eco Champions. A simple idea that caught on saw many branches setting up desk-top wormeries, which help to reduce the amount of food waste and shredded paper going to waste. They are also a talking point to raise interest in environmental matters.

The Getting Greener Intranet pages were launched in the Autumn and they offer Eco Champions and all other staff a huge range of information and resources relevant to the campaign. The success of the campaign's first year was evidenced by the actions taken by employees and branches. Peterborough was voted our Branch of the Year and our Eco Champion of the Year was also based at Peterborough. Four other special commendations were given to pro-active eco branches and teams.

A Cycle to Work Scheme was suggested by an employee and subsequently launched, enabling employees to make savings when purchasing cycling equipment to use on their commute to work. We also developed an Eco Talk, for delivery by our health and safety cartoon character Mr Menda, which has been used to teach primary school children about basic steps that they can take to reduce energy consumption in their homes.

We undertook a Carbon Footprint exercise in 2008, to help us determine areas where we can further reduce our emissions across the Group. The Carbon Footprint took account of all companies in the Group and is helping us set targets for reducing emissions in 2009 and beyond.

Reducing carbon emissions from existing housing stock is a key issue facing our clients, as is tackling fuel poverty for our residents. Our first eco project which addressed this issue took place in 2008. We renovated a typical 1930s property in South London for Hyde Housing Association, making modifications to reduce the carbon emissions by a target of 80%. The works were completed in October and the house is now occupied and being monitored for two years.

We also worked with the Building Research Establishment, The Energy Savings Trust and Travis Perkins to produce a guidance report on works to existing 1960's flats to reduce carbon emissions from the properties.

We have trained a number of staff as Domestic Energy Advisors and they are now able to undertake Energy Performance Certificates for our clients. This service will be extended to all branches wherever our clients require it.

Working in the Community

Community based projects have and always will be an integral part of Mears' success. The concept of 'community' is at the heart of Mears. Not only because of the service we provide as a business, but in terms of our active role in contributing sustainable improvement and support to the communities in which we work, achieved through practical initiatives such as youth projects, local apprenticeship training, refurbishments and local mentoring schemes.

Community-based projects have become an integral part of our every day activity. We seek to make a positive impact on people's lives. Our employees across the country are actively encouraged to give their time and expertise as well as materials, funded by the Company, to undertake projects to improve the community in which the recipients live. The positive effect this has for everyone concerned is immense – time and time again.

Working so intimately with the community on a daily basis helps us to identify opportunities for our employees to really make a difference. The knock-on effect of our community activity is remarkable with the impetus to make a difference and, indeed make people smile, the Company is united in this common goal which makes it incredibly strong.

As a Company we believe in empowering people and community projects do just that. Employee retention and indeed attracting the right calibre of personnel, comes from the very fact that we support and undertake community work.

Working with the vulnerable, the elderly, the young – supporting and building community cohesion and integration is essential on so many levels and the satisfaction of creating and having a positive impact in these areas is extremely gratifying. As is the environment and providing career opportunities to those needing them most – 90% of our workforce is recruited locally.

Mears is the only company in our market to approach work in the community in this way, we don't just donate money we actually give time, labour and materials; the Company is at the heart of the communities within which we operate. Seeking new ways to provide answers to a more holistic way of supporting, nurturing and improving lives.

1 Careforce carers help keep customers active and independent.
2 Haydon M&E adopt Mudchute Farm in Docklands, East London.
3 Mears work on an estate-based project.
4 Mears staff provide DIY courses for residents of the local community.

IMPROVING

Careforce carers deliver flexible hourly care or live-in care as appropriate.

Board of Directors








ROBERT HOLT (54)
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 (36)
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 worked in professional practice prior to joining Mears.

DAVID J MILES (43)
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 in electrical engineering.

MICHAEL G ROGERS (67)
NON-EXECUTIVE DIRECTOR
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 (71)
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 (65)
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 (66)
NON-EXECUTIVE DEPUTY CHAIRMAN
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 (45)
NON-EXECUTIVE DIRECTOR
David has over 17 years' consulting experience, the last five of which have been at OC&C Strategy Consultants Limited where David is a Director and Managing Partner. 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.

Report of the Directors

The Directors present their report together with the consolidated financial statements for the year ended 31 December 2008.

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

The Company is required to set out a fair review of the business of the Group during the reporting period. The information that fulfils this requirement can be found in the Highlights, the Chairman's Statement and the Operating and Financial Review.

The results of the Group can be found within the Consolidated Income Statement.

DIVIDEND

The final dividend in respect of 2007 of 2.90p per share was paid in July 2008. An interim dividend in respect of 2008 of 1.35p was paid to shareholders in November 2008. The Directors recommend a final dividend of 3.40p per share. This has not been included within the Group financial statements as no obligation existed at 31 December 2008.

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:

	2008	2007
Social Housing sales growth	**37.2%**	11.7%
Social Housing operating margin	**6.1%**	6.1%
Profit cash conversion	**43%**	102%
Normalised diluted earnings per share	**20.12p**	16.93p
Community hours per employee	**13**	8

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 25. R B Pomphrett and D J Miles retire by rotation and, being eligible, offer themselves for re-election. M A Macario is required to seek re-election each year having served more than nine years as a Director.

The beneficial interests of the Directors in the shares of the Company at 31 December 2008 and 31 December 2007 are detailed below. The Directors' emoluments are detailed within the Remuneration Report.

	Ordinary shares	
	31 December 2008 Number	31 December 2007 Number
R Holt	**500,000**	500,000
A C M Smith	**50,000**	50,000
D J Miles	**100,000**	100,000
M A Macario	—	100,000
R B Pomphrett	**25,000**	175,000
M G Rogers	**102,420**	102,420
D L Hosein (appointed 10 January 2008)	—	—
P F Dicks (appointed 10 January 2008)	**23,298**	23,298

D J Robertson was a Director during the year and resigned 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 the Remuneration Report.

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.

In so far as each of the Directors is aware:

- there is no relevant audit information of which the Company's auditors are unaware;
- 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 financial statements, prepared in accordance with the applicable set of accounting standards, give a true and fair view of the assets, liabilities, financial position and profit or loss of the Company and the undertakings included in the consolidation taken as a whole; and
- the management report includes a fair review of the development and performance of the business and the position of the Company and the undertakings included in the consolidation taken as a whole, together with a description of the principal risks and uncertainties that they face.

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.

GOING CONCERN

The Directors consider that as at the date of approving the financial statements, there is a reasonable expectation that the Group and Company have adequate resources to continue in operational existence for the foreseeable future. For this reason, the Directors continue to adopt the going concern basis in preparing the financial statements.

ANNUAL GENERAL MEETING

The Annual General Meeting (AGM) will be held at the offices of Investec Investment Banking, 2 Gresham Street, London EC2V 7QP on Wednesday 3 June 2009 at 12 noon and a formal Notice of Meeting and Form of Proxy is enclosed. The ordinary business to be conducted will include the re-appointment of Directors who retire by rotation in addition to the re-appointment of M A Macario who, having served as a Director for more than nine years, is required to be re-appointed each year.

The special business will comprise the following resolutions:

- to increase the authorised share capital from £1,000,000 to £1,500,000 in ordinary shares of 1p each. This is required to satisfy any future issue of shares that may be required for an acquisition, equity fund raising and exercise of options;
- to authorise the Directors to allot shares within defined limits. The Companies Act requires Directors to seek this authority and, following changes to FSA rules and Institutional guidelines, the authority, as in previous years, will be limited to one third of the issued share capital plus the maximum number of shares that may be required to satisfy the exercise of options, a total of £395,116 plus an additional one third of issued share capital (£247,164) that can only be used for a rights issue or similar fundraising;
- to authorise the Directors to issue shares for cash on a non pre-emptive basis. This authority is limited to 5% of the issued share capital (£37,075) and is required to facilitate technical matters such as dealing with fractional entitlements or possibly a small placing; and
- to authorise the convening of General Meetings (other than an AGM) on 14 days' notice. This results from an European Union Directive which becomes effective on 3 August 2009 and will override Section 307 of the Companies Act 2006 where the requirement to give 21 days' notice for certain meetings has been amended.

These are enabling resolutions and authorities and the Directors have no present intentions of issuing any share capital other than to facilitate the exercise of options in the ordinary course of business.

Report of the Directors Continued

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 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. Subsequent to the balance sheet date, the Group has entered into a hedging arrangement to manage its interest rate risks. Further information is provided in note 20.

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 M&E 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 49 days (2007: 46 days) of average supplies for the year.

SUBSTANTIAL SHAREHOLDINGS

On 26 February 2009 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	7.29	10.29
Majedie Asset Management	6.34	8.55
Insight Investment	4.68	6.32
INVESCO	3.92	5.29
Legal & General Investment Management	3.90	5.25
Standard Life Investment Management	3.37	4.55
Wellington Management (US)	2.38	3.22

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.

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.

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 489 of the Companies Act 2006.

On behalf of the Board

R B POMPHRETT
Director and Secretary
3 April 2009

Corporate Governance Statement

INTRODUCTION

The Board is responsible for the Group's system of corporate governance and is ultimately accountable for the Group's activities, strategy and financial performance. The Board is committed to maintaining and achieving good standards of corporate governance, integrity and business ethics for all activities.

The Board recognises the importance of high standards of corporate conduct and is committed to maintaining the Group's operations in accordance with the best principles of corporate governance as contained within Section One of the Combined Code on Corporate Governance issued in June 2006 and has complied with it throughout the year except for the following. Explanations as to the Board's reasons for non compliance are provided below:

- Paragraph A.2.1. The roles of Chairman and Chief Executive are exercised by R Holt; and
- Paragraph A.3.1. Two out of five Non-Executive Directors, M A Macario and R B Pomphrett, have served as Non-Executive Directors for more than nine years.

THE BOARD OF DIRECTORS

The Board of Directors currently comprises eight members consisting of three Executive Directors and five Non-Executive Directors.

The Board's prime objective is to ensure on-going commercial and financial success of the Group. R Holt fulfils the role of both Chairman and Chief Executive and has held this combined position since 2006. The Board considers that the experience and contribution brought to the strategic direction of the Group is invaluable and currently the Group is best served by this joint role. However the Group has put in place balancing controls to mitigate the governance concerns through the appointment of P F Dicks as Deputy Chairman.

Each of the five 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 or the number of years served in the case of M A Macario and R B Pomphrett 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. A summary of the terms and conditions of appointment of the Non-Executive Directors is available on the Group's website or on request from the Company Secretary. M A Macario is the Senior Independent Non-Executive Director.

The biographical details of the Directors are shown on page 25. These indicate the high level and range of business experience which enables the Group to be managed effectively. Their mix of skills and business experience is a major contribution to the proper functioning of the Board and its Committees, ensuring that matters are fully debated.

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. The Board receives detailed financial information and regular presentations from Executives on Mears business performance. In addition, in advance of each Board meeting, the Board receives papers about items that require decision and minutes of Board Committee meetings. This enables the Directors to make informed decisions on corporate and business issues under consideration. When Directors are unable to attend a meeting, they are advised of the matters to be discussed and given an opportunity to make their views known to the Chairman prior to the meeting.

The Board maintains and regularly reviews a full list of matters and decisions which are reserved to, and can only be approved by, the Board. These are reviewed annually and include but are not limited to:

- Group strategy and operating plans;
- corporate governance and risk management;
- compliance with laws, regulations and the Company's code of business conduct;
- business development, including major investments and disposals;
- financing and treasury, including the approval of budgets and major capital acquisitions;
- appointment, termination and remuneration of Directors;
- financial reporting and audit, including interim and full-year results announcements and dividends;
- CSR, ethics and the environment; and
- employee benefits including pensions and share-based payments.

The Board undertakes formal evaluation of its own performance and the Board Committees assess their respective roles, performance and terms of reference and report accordingly to the Board. The Board assesses the reviews of each Committee. The Chairman carried out an evaluation of the Board in the Summer of 2008 by holding individual meetings with each Director to discuss their view and to canvass suggestions.

The performance evaluation process included: a review of the areas of Board responsibility; the structure and composition of the Board and its Committees and the performance of the Committees; the quantity, quality and scope of information provided to the Board; the content of Board meetings and presentations to meetings; and the openness of communications between the Board members and Executive management. The Board members concluded that appropriate actions had been identified to address areas that could be improved and that overall, the Board and its Committees continued to operate effectively.

Corporate Governance Statement Continued

THE BOARD OF DIRECTORS CONTINUED

The performance of the Chairman was reviewed separately in a process led by the Senior Independent Non-Executive Director.

Following the performance evaluation of individual Directors, the Chairman has confirmed that the Non-Executive Directors standing for re-election at this year's AGM continue to perform effectively and demonstrate commitment to their roles. In particular the Board is strongly of the opinion that by their actions and conduct they demonstrate their independence notwithstanding the number of years they have served as Directors of the Company. It is the Board's intention to continue to review annually its performance and that of its Committees and individual Directors. A decision is taken each year on the performance evaluation process to be used.

During the year, six scheduled Board meetings were held.

The Non-Executive Directors meet independently without the Chairman present, and also meet with the Chairman independently of management, on a regular basis.

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.

BOARD COMMITTEES

The Board has established three Committees, each with clearly defined terms of reference, procedures, responsibilities and powers. The terms of reference of the Committees are available from the Company Secretary.

The Chairman of each Committee provides a report of any meeting of that Committee at the next Board meeting. Each Committee includes the Non-Executive Directors, as required by the Combined Code.

The Chairmen of each Committee are present at the AGM to answer questions from shareholders.

Through the Audit Committee, the Directors ensure the integrity of financial information, the effectiveness of the financial controls and the internal control and risk management systems. The Nomination Committee recommends the appointment of Board Directors and has responsibility for evaluating the balance of the Board and for succession planning at Board level. The Remuneration Committee sets the remuneration policy for Executive Directors and determines their individual remuneration arrangements.

Further details are set out below.

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 2008 is shown on the table on page 31.

AUDIT COMMITTEE

The Audit Committee comprises R B Pomphrett, P F Dicks and M A Macario, its Chairman. The presence of other Senior Executives from the Group may be requested.

The Audit Committee is responsible for monitoring and reviewing:

- the integrity of the interim and annual financial statements, including a review of the significant financial reporting judgements contained in them;
- the effectiveness of the Group's internal control and risk management and of control over financial reporting;
- internal audit plans, including the review of significant findings, management action plans and timeliness of resolution;
- the Group's overall approach to ensuring compliance with laws, regulations and Company policies in areas of risk, accounting standards and generally accepted accounting principles;
- the Group's relationship with the external auditor, including their independence and management's response to any major external audit recommendations;
- the effectiveness of the Group's internal audit function; and
- for ensuring the preservation of good financial practices throughout the Group.

In addition, the fees and objectivity of the Group's auditors are considered by the Committee.

During the year, the Audit Committee received detailed presentations from the Group's auditors and reviewed the findings of the external auditor from its audit of the annual financial statements. The Audit Committee assessed the ongoing effectiveness of the external auditor and audit process on the basis of meetings and an internal review with finance, audit staff and other senior management. In reviewing the independence of the external auditor, the Audit Committee considered a number of factors, including: the standing, experience and tenure of the external audit partner; the nature and level of services provided by the external auditor; and confirmation from the external auditor that it has complied with relevant UK independence standards.

BOARD COMMITTEES CONTINUED

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 keeping under review the composition of the Board and succession to it and succession planning for senior management positions within the Group. It makes recommendations to the Board concerning appointments to the Board, whether of Executive or Non-Executive Directors, having regard to the balance and structure of the Board and the required blend of skills and experience. The Committee also makes recommendations to the Board concerning the re-appointment of any Non-Executive Director at the conclusion of his specified term and the re-election of any Director by shareholders under the retirement provisions of the Company's Articles of Association.

REMUNERATION COMMITTEE

The Remuneration Committee comprises M A Macario, P F Dicks and R B Pomphrett, its Chairman.

The Committee meets once a year and is responsible for determining and agreeing with the Board the broad remuneration policy for:

- the Chairman, the Executive Directors and senior management; and
- the Executive Directors' remuneration and other benefits and terms of employment, including performance related bonuses and share options.

No Director is involved in determining his own remuneration.

The Committee also approves the service agreements of each Executive Director, including termination arrangements.

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 2008 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	6	6	—	—	2	2	—	—
A C M Smith	6	6	—	—	—	—	—	—
D J Miles	6	5	—	—	—	—	—	—
M G Rogers	6	6	—	—	—	—	—	—
M A Macario	6	4	2	2	2	2	1	1
R B Pomphrett	6	6	2	2	2	2	1	1
P F Dicks*	6	6	2	2	2	2	1	1
D L Hosein*	6	5	—	—	—	—	—	—
D J Robertson**	2	2	—	—	—	—	—	—

* Appointed 10 January 2008.
** Resigned 11 March 2008.

THE COMPANY AND ITS SHAREHOLDERS

The Group places a great deal of importance on communication with its shareholders. The Board is committed to maintaining an ongoing dialogue with its shareholders through the provision of regular Interim and Annual Reports and regular trading reports. There is regular dialogue with individual institutional shareholders as well as general presentations after the interim and preliminary results. The principal methods of communication with private investors remain the Annual Report and Accounts, the interim statement, the quarterly newsletters and the Group's website (www.mearsgroup.co.uk), where the Group highlights the latest key business developments.

Corporate Governance Statement Continued

INTERNAL CONTROL AND RISK MANAGEMENT

The Combined Code requires that the Directors review the effectiveness of the Group's system of internal control. This extends the Directors' review to cover all material controls, including operational, compliance and financial controls and risk management systems. The Directors are satisfied that procedures are in place to ensure that the Group complies with the Turnbull Committee guidance published by the Institute of Chartered Accountants in England and Wales and that the procedures have been applied during the year.

The Board acknowledges that it is ultimately responsible for the Group's system of internal control and for reviewing its effectiveness. The Board has delegated some of these responsibilities to the Audit Committee who has reviewed the effectiveness of the system of internal control and ensured that any remedial action has or is being taken on any identified weaknesses. The system of internal controls is designed to manage rather than eliminate the risk of failure to achieve business objectives and can only provide reasonable, but not absolute, assurance against material misstatement or loss. It includes all controls including financial, operational and compliance controls and risk management procedures.

The Board confirms that the Group has in place an ongoing process for identifying, evaluating and managing the significant risks faced by the Group. The Group endeavours to ensure that the appropriate controls, systems and training are in place and has established procedures for all business units to operate appropriate and effective risk management.

The processes used to assess the effectiveness of the internal control systems are ongoing, allowing a cumulative assessment to be made, and include the following:

- delegation of day-to-day management to operational management within clearly defined systems of control, including:
  - the identification of levels of authority within clearly identified organisational reporting structures;
  - the identification and appraisal of financial risks both formally, within the annual process of preparing business plans and budgets and informally, through close monitoring of operations;
  - a comprehensive financial reporting system within which actual results are compared with approved budgets, quarterly re-forecasts and previous years' figures on a monthly basis and reviewed at both local and Group level; and
  - an investment evaluation procedure to ensure an appropriate level of approval for all capital and revenue expenditure;
- discussion and approval by the Board of the Group's strategic directions, plans and objectives and the risks to achieving them, combined with regular reviews by management of the risks to achieving objectives and actions being taken to mitigate them;
- review and approval by the Board of annual budgets, combined with regular operational and financial reviews of performance against budget, prior year results and regular forecasts by management and the Board;
- the review and approval of all bids, acquisitions and capital expenditure within the Group;
- regular reviews by the Board and Audit Committee of identified fraudulent activity and actions being taken to remedy any control weaknesses;
- regular reviews by management and the Audit Committee of the scope and results of internal and external audit work across the Group and the implementation of recommendations; and
- consideration by the Board and by the Audit Committee of the major risks facing the Group and of the procedures in place to manage them and to ensure controls react to changes in the Group's overall risk profile. These include health and safety, legal compliance, quality assurance, insurance and security and reputational, social, ethical and environmental risks.

The Board has reviewed these procedures and considers them appropriate given the nature of the Group's operations. The system of internal control and risk management is embedded into the operations of the Group and the actions taken to mitigate any weaknesses are carefully monitored.

Remuneration Report

UNAUDITED INFORMATION

This report of the Remuneration Committee has been prepared in accordance with the requirements of the Listing Rules of the UK Listing Authority, the Directors' Remuneration Report Regulations 2002 and the provisions of the 2006 Combined Code and has been approved by the Board.

Information relating to the remuneration policy and historical total shareholder performance has not been audited.

Information relating to individual Directors' remuneration and Directors' rights to subscribe for shares has been audited.

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:

STRATEGY

To provide a remuneration package that:

- helps to attract, retain and motivate;
- is aligned to shareholders' interests;
- is competitive against the appropriate market;
- encourages and supports a high performance culture;
- is fair and transparent; and
- can be applied consistently throughout the Group.

POLICY

- set base salary at competitive level;
- balance between:
  - short and long-term reward;
  - fixed and variable reward; and
  - with balance becoming more long term and more highly geared with seniority;
- competitive package of benefits; and
- salaries reflect experience and sustained performance of the individuals.

PACKAGE

- base salary;
- annual bonus related to the real increase in earnings per share together with the achievement of other internal targets;
- long-term incentive plans and other share-based incentive schemes;
- benefits in kind – such as car and health benefits; and
- defined contribution pension provision.

The grant of share options is supervised by the Remuneration Committee and includes performance targets which apply to the grant and/or exercise of options.

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.

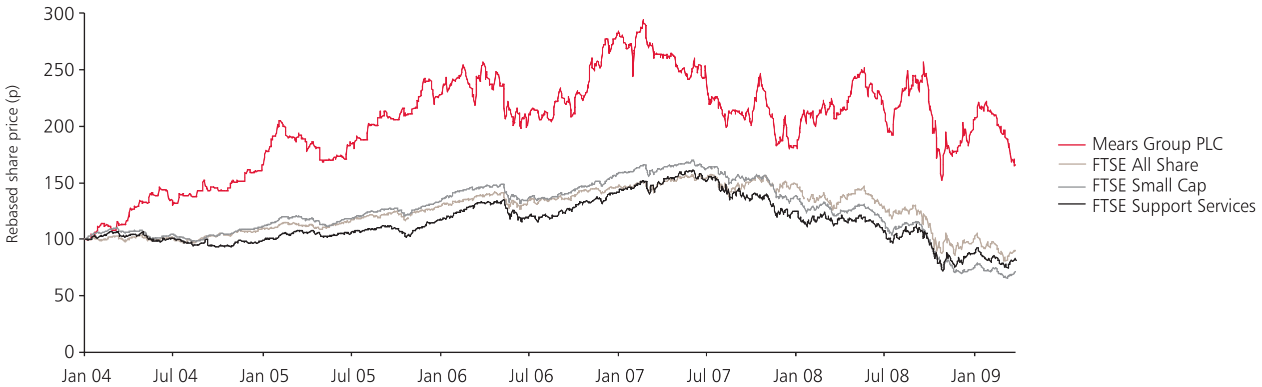
Remuneration Report Continued

UNAUDITED INFORMATION CONTINUED

HISTORICAL TOTAL SHAREHOLDER RETURN PERFORMANCE

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

MEARS VS FTSE ALL SHARE INDEX



AUDITED INFORMATION

DIRECTORS' REMUNERATION

The Directors' emoluments in 2008 are detailed below:

	Annual salary and fees		Annual incentive payments		Benefits in kind and other emoluments		Total	
	2008 £'000	2007 £'000	**2008 £'000**	2007 £'000	**2008 £'000**	2007 £'000	**2008 £'000**	2007 £'000
R Holt	**400**	250	**75**	—	**135**	91	**610**	341
A C M Smith[1]	**130**	83	**24**	—	**22**	15	**176**	98
D J Miles[2]	**190**	160	**36**	—	**36**	30	**262**	190
M G Rogers[3]	**40**	64	**—**	—	**4**	6	**44**	70
D L Hosein[4]	**40**	—	**—**	—	**—**	—	**40**	—
P F Dicks[4]	**40**	—	**—**	—	**—**	—	**40**	—
M A Macario	**40**	35	**—**	—	**—**	—	**40**	35
R B Pomphrett	**40**	35	**—**	—	**—**	1	**40**	36
D J Robertson[5]	**30**	175	**—**	—	**7**	43	**37**	218
S J Black[6]	**—**	12	**—**	—	**—**	136	**—**	148
	950	814	**135**	—	**204**	322	**1,289**	1,136

1 Appointed 9 March 2007.
2 Appointed 30 January 2007.
3 Appointed 4 April 2007.
4 Appointed 10 January 2008.
5 Resigned 11 March 2008.
6 Resigned 28 January 2007.

AUDITED INFORMATION CONTINUED

DIRECTORS' RIGHTS TO SUBSCRIBE FOR SHARES

The following rights to subscribe for shares in Mears Group PLC have been granted to current Directors:

Director	1 January 2008	Number of options during the year: Granted	Exercised	Replaced	Lapsed	**31 December 2008**	Exercise price	Exercise dates
R Holt	435,000	—	—	(305,130)	—	**129,870**	77p	2006–2013
	—	—	—	240,642	—	**240,642**	1p	2006–2013
	50,000	—	—	(50,000)	—	**—**	154p	2007–2014
	—	—	—	30,453	—	**30,453**	1p	2007–2014
	7,945,559	—	—	—	—	**7,945,559**	320p	2010–2012
D J Miles	50,000	—	—	(50,000)	—	**—**	154p	2007–2014
	—	—	—	30,453	—	**30,453**	1p	2007–2014
	15,000	—	—	(15,000)	—	**—**	231p	2008–2015
	—	—	—	7,220	—	**7,220**	1p	2008–2015
	25,000	—	—	(15,000)	—	**10,000**	300p	2009–2016
	—	—	—	6,087	—	**6,087**	1p	2009–2016
	100,000	—	—	(100,000)	—	**—**	260p	2010–2017
	—	—	—	50,045	—	**50,045**	1p	2010–2017
	—	300,000	—	(300,000)	—	**—**	266p	2011–2018
	—	—	—	151,149	—	**151,149**	1p	2011–2018
	—	100,000	—	—	—	**100,000**	1p	2011–2018
A C M Smith	50,000	—	—	—	—	**50,000**	77p	2006–2013
	40,000	—	—	(40,000)	—	**—**	154p	2007–2014
	—	—	—	24,363	—	**24,363**	1p	2007–2014
	4,328	—	—	—	(4,328)	**—**	216p	2008
	15,000	—	—	(15,000)	—	**—**	231p	2008–2015
	—	—	—	7,220	—	**7,220**	1p	2008–2015
	25,000	—	—	(15,000)	—	**10,000**	300p	2009–2016
	—	—	—	6,087	—	**6,087**	1p	2009–2016
	100,000	—	—	(100,000)	—	**—**	260p	2010–2017
	—	—	—	50,045	—	**50,045**	1p	2010–2017
	—	200,000	—	(200,000)	—	**—**	266p	2011–2018
	—	—	—	100,766	—	**100,766**	1p	2011–2018
	—	100,000	—	—	—	**100,000**	1p	2011–2018

Options are exercisable at the prices indicated which are 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 Director leaves the Mears Group before the options vest.

In October 2008, shareholders approved a proposal to cancel outstanding unapproved market-priced options (subject to approval by option holders) and replace them with a lower number of nil-cost options with the same expected value and terms and conditions. The nil-cost options will only be able to be exercised if the share price is greater than the original exercise price of the market-priced options.

This report was approved by the Board and has been signed on its behalf by:

R B POMPHRETT
Chairman Remuneration Committee
3 April 2009

Report of the Independent Auditor

to the members of Mears Group PLC

We have audited the Group and Parent Company financial statements (the 'financial statements') of Mears Group PLC for the year ended 31 December 2008 which comprise the Group Principal Accounting Policies, the Consolidated Income Statement, the Consolidated Balance Sheet, the Consolidated Statement of Recognised Income and Expense, the Consolidated Cash Flow Statement, the Group notes numbered 1 to 31, the Company Accounting Policies, the Company Balance Sheet and the Company notes numbered 1 to 11. These financial statements have been prepared under the accounting policies set out therein. We have also audited the information in the Directors' Remuneration Report that is described as having been audited.

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 auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITOR

The Directors' responsibilities for preparing the Annual Report, the Directors' Remuneration Report and the financial statements in accordance with applicable law and International Financial Reporting Standards (IFRS) as adopted by the European Union are set out in the Statement of Directors' Responsibilities.

Our responsibility is to audit the financial statements and the part of the Directors' Remuneration Report to be audited 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 and the part of the Directors' Remuneration Report to be audited have been properly prepared in accordance with the Companies Act 1985 and, as regards the Group financial statements, Article 4 of the IAS Regulation. We also report to you whether in our opinion the information given in the Directors' Report is consistent with the financial statements. The information given in the Directors' Report includes that specific information presented in the Chairman's Statement/Operating and Financial Review that is cross-referred from the Business Review section of the Directors' Report.

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 review whether the Corporate Governance Statement reflects the Company's compliance with the nine provisions of the 2006 Combined Code specified for our review by the Listing Rules of the Financial Services Authority, and we report if it does not. We are not required to consider whether the Board's statements on internal control cover all risks and controls, or form an opinion on the effectiveness of the Group's corporate governance procedures or its risk and control procedures.

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 Chairman's Statement, the Operating and Financial Review, the Directors' Report, the Corporate Governance Statement and the unaudited part of the Directors' Remuneration Report. 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 and the part of the Directors' Remuneration Report to be audited. 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 and 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 financial statements and the part of the Directors' Remuneration Report to be audited 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 and the part of the Directors' Remuneration Report to be audited.

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 as at 31 December 2008 and of its profit for the year then ended;
- the Parent Company financial statements give a true and fair view, in accordance with IFRS as adopted by the European Union as applied in accordance with the provisions of the Companies Act 1985, of the state of the Parent Company's affairs as at 31 December 2008;
- the financial statements and the part of the Directors' Remuneration Report to be audited have been properly prepared in accordance with the Companies Act 1985 and, as regards the Group financial statements, Article 4 of the IAS Regulation; and
- the information given in the Directors' Report is consistent with the financial statements.

As explained in the Group 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 2008 and of its profit for the year then ended.

GRANT THORNTON UK LLP
Registered Auditors
Chartered Accountants
Bristol
3 April 2009

Group Accounts

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 except for the adoption of IFRIC 14 as discussed in the Employee Benefits section below.

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 2008. 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.

All significant intercompany transactions and balances between Group enterprises including unrealised profits arising from intra-group transactions, are eliminated on consolidation; no profit is taken on sales between Group companies.

PROPERTY, PLANT AND EQUIPMENT

Items of property, plant and equipment are stated at historical cost, net of depreciation. Historical cost includes expenditure that is directly attributable to the acquisition of the items. Subsequent costs are included in the assets carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow into the Group and the cost of the item can be measured reliably. All other repairs and maintenance are charged to the income statement during the financial period in which they are incurred.

Freehold land is not depreciated. Depreciation on other assets is calculated to write down the cost less estimated residual value over their estimated useful economic lives. 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
Assets under construction	– nil

Residual values are reviewed and updated, if appropriate, annually. The carrying value is reviewed for impairment in the period if events or changes in circumstances indicate the carrying value may not be recoverable. An asset's carrying value is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

Gains and losses on disposals are determined by comparing the proceeds with the carrying amount and are recognised within administrative expenses in the income statement.

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 are capitalised when all the following conditions are satisfied:

- completion of the software module is technically feasible so that it will be available for use;
- the Group intends to complete the development of the module and use it;
- the software 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 software; and
- the expenditure attributable to the software during its development can be measured reliably.

INTANGIBLE ASSETS CONTINUED

Costs incurred making intellectual property available for use are capitalised when all of the following conditions are satisfied:

- completion of the data set is technically feasible so that it will be available for use;
- the Group intends to complete the preparation of the data and use it;
- the data will be used in generating probable future economic benefits;
- there are adequate technical, financial and other resources to complete the data set and to use it; and
- the expenditure attributable to the intellectual property 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 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
Intellectual property	– over the period of usefulness of the intellectual property, typically five years

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.

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 comprises materials, direct labour and any subcontracted work which have been incurred in bringing the inventories and WIP to their present location and condition.

Principal Accounting Policies – Group Continued

ACCOUNTING FOR TAXES

Income tax comprises current and deferred taxation.

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.

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

Revenue is measured in accordance with IAS 18 'Revenue' at the fair value of the consideration received or receivable, for goods and services provided in the normal course of business, net of rebates and discounts and after eliminating sales within the Group.

Revenue is recognised as follows:

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.

MAINTENANCE CONTRACTS – the Group has a number of contracts for planned maintenance and reactive maintenance. Planned maintenance revenue is recognised when the work is carried out; reactive maintenance revenue is recognised over the contract term period.

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.

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

RETIREMENT BENEFIT OBLIGATIONS

The Group operates both defined benefit and defined contribution pension schemes as follows:

I) DEFINED CONTRIBUTION PENSIONS

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.

The assets of the schemes are held separately from those of the Group in an independently administered fund.

II) DEFINED BENEFIT PENSIONS

The Group contributes to six principal defined benefit schemes which require contributions to be made to separately administered funds.

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.

The Group's contributions to the scheme are paid in accordance with the rules of the schemes and the recommendations of the actuary.

The Group has elected to adopt IFRIC 14 IAS 19 'The Limit on a Defined Benefit Asset, Minimum Requirements and their Interaction', which is compulsory for the year ended 31 December 2009, this year. Under IAS 19, the asset that can be recognised is restricted to the amount by which the IAS 19 service cost is expected, over the lifetime of the scheme, to exceed funding contributions payable in respect of accruing benefits.

SHARE-BASED EMPLOYEE REMUNERATION

All share-based payment arrangements that were granted after 7 November 2002 and had not vested before 1 January 2005 are recognised in the consolidated financial statements in accordance with IFRS 2 'Share-based Payments'.

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.

LEASES

In accordance with IAS 17 'Leases', 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 INSTRUMENTS

Financial assets and liabilities are recognised in the Balance Sheet when the Group becomes party to the contractual provisions of the instrument. The principal financial assets and liabilities of the Group are as follows:

FINANCIAL ASSETS

When financial assets are recognised initially under IAS 39 'Financial Instruments: Recognition and Measurement', they are measured at fair value.

The Group's financial assets are included in the Balance Sheet as current assets, except for maturities greater than twelve months after the balance sheet date, whereupon they are classified as non-current assets. The Group's financial assets comprise 'Trade and other receivables' and 'Cash at bank and in hand' in the Balance Sheet.

Principal Accounting Policies – Group Continued

FINANCIAL INSTRUMENTS CONTINUED
FINANCIAL ASSETS CONTINUED
LOANS AND RECEIVABLES
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 remeasured 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.

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.

Following initial recognition, financial assets are subsequently re-measured at amortised cost using the effective interest rate method.

FINANCIAL LIABILITIES
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'.

All interest related charges are recognised as an expense in 'Finance cost' in the income statement.

Bank and other borrowings are initially recognised at fair value. Gains and losses arising on the repurchase, settlement or otherwise cancellation of liabilities are recognised respectively in finance revenue and finance costs. Borrowing costs are recognised as an expense in the period in which they are incurred. Finance lease liabilities are measured at initial value less the capital element of lease repayments.

Trade payables on normal terms are not interest bearing and are stated at their fair value.

Following initial recognition, financial liabilities are subsequently re-measured at amortised cost using the effective interest rate method.

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.

USE OF JUDGEMENTS AND ESTIMATES
The preparation of financial statements requires management to make estimates and judgements 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 judgements 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 judgements 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 judgements 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 judgements, 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. Future cash flows are estimated using the current one year budget forecast, extrapolated for a future growth rate. The estimated growth rates are based on past experience and knowledge of the individual sector's markets. Changes in the estimated growth rate could result in variations to the carrying value of goodwill.

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.

USE OF JUDGEMENTS AND ESTIMATES CONTINUED

SHARE-BASED EMPLOYEE REMUNERATION – the fair values of options granted have been determined using the Binomial and Monte Carlo option pricing models. Significant estimates involved in the calculation include share price volatility and the risk-free interest rate. Details of these judgements are included in the share-based employee remuneration note.

DEFINED BENEFIT LIABILITIES – a number of key judgements have been made, which are given below, which are largely dependent on factors outside the control of the Group:

- expected return on plan assets;
- inflation rates;
- mortality;
- discount rate; and
- salary and pension increases.

Details of the judgements used are included in the pensions note.

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 2008 and have not been applied in preparing these financial statements.

IAS 1 (Revised) 'Presentation of Financial Statements' (effective from 1 January 2009). The revised standard will prohibit the presentation of items of income and expenses (that is 'non-owner changes in equity') in the statement of changes in equity, requiring 'non-owner changes in equity' to be presented separately from owner changes in equity. All non-owner changes in equity will be required to be shown in a performance statement, but entities can choose whether to present one performance statement (the statement of comprehensive income) or two statements (the income statement and statement of comprehensive income). Where entities restate or reclassify comparative information, they will be required to present a restated balance sheet as at the beginning comparative period in addition to the current requirement to present balance sheets at the end of the current period and comparative period. The Group will apply IAS 1 (Revised) from 1 January 2009. It is likely that both the income statement and statement of comprehensive income will be presented as performance statements.

Additionally IAS 1 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 (Amendment) 'Borrowing Costs' (effective from 1 January 2009). The amendment requires an entity to capitalise borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset (one that takes a substantial period of time to get ready for use or sale) as part of the cost of that asset. The option of immediately expensing those borrowing costs will be removed. The Group will apply IAS 23 (Amendment) retrospectively from 1 January 2009 but is currently not applicable to the Group as there are no qualifying assets.

IFRS 2 (Amendment) 'Share-based Payment' (effective from 1 January 2009). The amended standard deals with vesting conditions and cancellations. It clarifies that vesting conditions are service conditions and performance conditions only. Other features of a share-based payment are not vesting conditions. These features would need to be included in the grant date fair value for transactions with employees and others providing similar services; they would not impact the number of awards expected to vest or valuation thereof subsequent to grant date. The Group will apply IFRS 2 (Amendment) from 1 January 2009. Whilst this will have an impact of the Group's financial statements, it is not expected to be significant.

IAS 27 (Revised) 'Consolidated and Separate Financial Statements' (effective from 1 July 2009). The revised standard requires the effects of all transactions with non-controlling interests to be recorded in equity if there is no change in control and these transactions will no longer result in goodwill or gains and losses. The standard also specifies the accounting when control is lost. Any remaining interest in the entity is remeasured to fair value and a gain or loss is recognised in profit or loss. The Group will apply IAS 27 (Revised) prospectively to transactions with non-controlling interests from 1 January 2010.

IFRS 3 (Revised) 'Business Combinations' (effective from 1 July 2009). The revised standard continues to apply the acquisition method to business combinations, with some significant changes. For example, all payments to purchase a business are to be recorded at fair value at the acquisition date, with contingent payments classified as debt subsequently remeasured through the income statement. There is a choice on an acquisition-by-acquisition basis to measure the non-controlling interest in the acquiree either at fair value or at the non-controlling interest's proportionate share of the acquiree's net assets. All acquisition-related costs should be expensed. The Group will apply IFRS 3 (Revised) prospectively to all business combinations from 1 January 2010.

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 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 on the Group's financial statements.

The Directors do not anticipate that the adoption of the remaining standards and interpretations will have a material impact on the Group's financial statements in the period of initial application.

Consolidated Income Statement

for the year ended 31 December 2008

		2008		2007	
	Note	**£'000**	**£'000**	£'000	£'000
SALES REVENUE	1		**420,376**		304,620
Cost of sales			**(309,721)**		(224,808)
GROSS PROFIT			**110,655**		79,812
Other administrative expenses		**(88,426)**		(62,186)	
Operating result before share-based payments and amortisation of acquisition intangibles		**22,229**		17,626	
Amortisation of acquisition intangibles	12	**(3,600)**		(1,500)	
Share-based payments	6	**(1,200)**		(550)	
TOTAL ADMINISTRATIVE COSTS			**(93,226)**		(64,236)
OPERATING RESULT	1		**17,429**		15,576
Finance income	4		**263**		222
Finance costs	4		**(1,110)**		(345)
RESULT FOR THE YEAR BEFORE TAX	2		**16,582**		15,453
Tax expense	8		**(3,800)**		(4,519)
NET RESULT FOR THE YEAR			**12,782**		10,934
EARNINGS PER SHARE					
Basic	10		**17.36p**		15.65p
Diluted	10		**16.82p**		15.11p

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

Consolidated Balance Sheet
as at 31 December 2008

	Note	**2008 £'000**	2007 £'000
ASSETS			
NON-CURRENT			
Goodwill	11	**50,258**	46,781
Intangible assets	12	**11,214**	12,608
Property, plant and equipment	13	**9,517**	8,199
Deferred tax asset	21	**3,485**	1,116
Trade and other receivables	17	**2,031**	1,710
		76,505	70,414
CURRENT			
Inventories	15	**8,392**	9,277
Trade and other receivables	17	**85,654**	49,929
Cash at bank and in hand		**16,094**	15,250
		110,140	74,456
TOTAL ASSETS		**186,645**	144,870
EQUITY			
EQUITY ATTRIBUTABLE TO THE SHAREHOLDERS OF MEARS GROUP PLC			
Called up share capital	22	**740**	732
Share premium account	23	**31,940**	31,007
Share-based payment reserve	23	**3,235**	2,035
Merger reserve	23	**11,548**	11,548
Retained earnings	23	**48,241**	37,373
TOTAL EQUITY		**95,704**	82,695
LIABILITIES			
NON-CURRENT			
Pension and other employee benefits	27	**488**	55
Deferred tax liabilities	21	**3,159**	3,721
Other liabilities	19	**—**	3,191
		3,647	6,967
CURRENT			
Short-term borrowings and overdrafts		**9,500**	—
Trade and other payables	18	**74,903**	52,410
Current tax liabilities		**2,891**	2,798
CURRENT LIABILITIES		**87,294**	55,208
TOTAL LIABILITIES		**90,941**	62,175
TOTAL EQUITY AND LIABILITIES		**186,645**	144,870

The financial statements were approved and authorised for issue by the Board of Directors and were signed on its behalf on 3 April 2009.

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 2008

	Note	**2008 £'000**	2007 £'000
Actuarial (loss)/gain on defined benefit pension scheme	27	**(967)**	295
Increase/(decrease) in deferred tax asset	21	**2,185**	(1,675)
Net income/(expense) recognised directly to equity		**1,218**	(1,380)
Profit for the financial period		**12,782**	10,934
Total recognised income and expense for the period		**14,000**	9,554

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

Consolidated Cash Flow Statement
for the year ended 31 December 2008

	Note	2008 £'000	2007 £'000
OPERATING ACTIVITIES			
Result for the year before tax		**16,582**	15,453
Adjustments	24	**7,459**	3,767
Change in inventories		**598**	(134)
Change in operating receivables		**(35,884)**	(5,190)
Change in operating payables		**20,194**	1,971
Cash generated from continuing operations		**8,949**	15,867
Taxes paid		**(4,980)**	(3,506)
Net cash inflow from operating activities		**3,969**	12,361
INVESTING ACTIVITIES			
Additions to property, plant and equipment		**(3,705)**	(3,314)
Additions to other intangible assets		**(725)**	(225)
Proceeds from disposals of property, plant and equipment		**8**	143
Acquisition of subsidiary undertaking, net of cash		**(7,778)**	(28,391)
Disposal of business activities		**2,454**	—
Interest received		**263**	280
Net cash outflow from investing activities		**(9,483)**	(31,507)
FINANCING ACTIVITIES			
Proceeds from share issue		**941**	25,544
Discharge of finance lease liability		**(23)**	(88)
Interest paid		**(928)**	(415)
Dividends paid		**(3,132)**	(2,544)
Net cash (outflow)/inflow from financing activities		**(3,142)**	22,497
Cash and cash equivalents, beginning of year		**15,250**	11,899
Net (decrease)/increase in cash and cash equivalents		**(8,656)**	3,351
CASH AND CASH EQUIVALENTS, END OF YEAR		**6,594**	15,250
Cash and cash equivalents is comprised as follows:			
Cash at bank and in hand		**16,094**	15,250
Short-term borrowings and overdrafts		**(9,500)**	—
CASH AND CASH EQUIVALENTS		**6,594**	15,250

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 operated four business segments: Social Housing, Domiciliary Care, Mechanical and Electrical (M&E) and Vehicle Distribution. During the year the Group disposed of the Vehicle Distribution segment as detailed in note 26.

All of the Group's activities are carried out within the United Kingdom.

Business segments	2008 Social Housing £'000	2008 Domiciliary Care £'000	2008 M&E £'000	2008 Vehicle Distribution £'000	2008 Total £'000	2007 Social Housing £'000	2007 Domiciliary Care £'000	2007 M&E £'000	2007 Vehicle Distribution £'000	2007 Total £'000
REVENUE	**282,046**	**54,611**	**78,008**	**5,711**	**420,376**	205,559	28,718	61,181	9,162	304,620
OPERATING RESULT										
PRE AMORTISATION OF ACQUISITION INTANGIBLES	**17,091**	**3,065**	**2,071**	**2**	**22,229**	12,563	1,826	2,737	500	17,626
Share-based payment	**(1,000)**	**(50)**	**(150)**	**—**	**(1,200)**	(355)	(25)	(150)	(20)	(550)
Amortisation of acquisition intangibles	**(589)**	**(3,011)**	**—**	**—**	**(3,600)**	(300)	(1,200)	—	—	(1,500)
OPERATING RESULT	**15,502**	**4**	**1,921**	**2**	**17,429**	11,908	601	2,587	480	15,576
Finance costs, net	**(813)**	**1**	**(33)**	**(2)**	**(847)**	391	(532)	(137)	155	(123)
Tax expense	**(3,243)**	**(43)**	**(514)**	**—**	**(3,800)**	(3,721)	(38)	(580)	(180)	(4,519)
NET RESULT FOR THE YEAR	**11,446**	**(38)**	**1,374**	**—**	**12,782**	8,578	31	1,870	455	10,934
SEGMENT ASSETS	**119,188**	**40,265**	**27,192**	**—**	**186,645**	81,946	32,749	25,651	4,524	144,870
SEGMENT LIABILITIES	**(41,271)**	**(30,036)**	**(19,634)**	**—**	**(90,941)**	(18,768)	(25,520)	(14,452)	(3,435)	(62,175)
PROPERTY, PLANT AND EQUIPMENT ACQUIRED	**1,761**	**1,645**	**73**	**75**	**3,554**	3,327	1,078	348	22	4,775
DEPRECIATION	**1,585**	**224**	**134**	**46**	**1,989**	1,258	179	166	63	1,666

2. RESULT FOR THE YEAR BEFORE TAX

Result for the year before tax is stated after:

	2008 £'000	2007 £'000
Share-based payments	**1,200**	550
Depreciation	**1,989**	1,666
Amortisation	**3,712**	1,555
Hire of plant and machinery	**3,118**	1,359
Other operating lease rentals	**11,963**	8,862

3. AUDITORS' REMUNERATION

	2008 £'000	2007 £'000
Fees payable to the auditors for the audit of the Group's financial statements	**45**	40
Other fees payable to the auditors in respect of:		
– auditing of accounts of subsidiary undertakings pursuant to legislation	**110**	110
– reporting accountant	**60**	—
– taxation compliance fees	**26**	30
– taxation advice fees	**19**	20
Total auditors' remuneration	**260**	200

4. FINANCE INCOME AND FINANCE COSTS

	2008 £'000	2007 £'000
Interest charge on overdrafts and short-term loans	**(1,104)**	(327)
Finance charges in respect of finance leases	**(6)**	(9)
Interest charge on defined benefit obligation	**—**	(9)
FINANCE COSTS	**(1,110)**	(345)
Interest income resulting from short-term bank deposits	**251**	222
Interest income resulting from defined benefit obligation	**12**	—
NET FINANCE CHARGE	**(847)**	(123)

5. EMPLOYEES

Staff costs during the year were as follows:

	2008 £'000	2007 £'000
Wages and salaries	**129,780**	89,256
Social security costs	**10,999**	8,208
Other pension costs	**3,522**	1,000
	144,301	98,464

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

	2008 Number	2007 Number
Site workers	**1,905**	1,630
Carers	**3,300**	1,733
Office and management	**1,408**	1,125
Total	**6,613**	4,488

Remuneration in respect of Directors was as follows:

	2008 £'000	2007 £'000
Emoluments	**1,127**	871
Gains made on the exercise of share options	**—**	—
Pension contributions to personal pension schemes	**162**	133
Compensation for loss of office	**—**	132
	1,289	1,136

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

	2008 £'000	2007 £'000
Emoluments	**490**	266
Gains made on the exercise of share options	**—**	—
Pension contributions to personal pension schemes	**120**	75

During the year contributions were paid to personal pension schemes for three Directors (2007: six).

During the year no Directors (2007: none) exercised share options.

Notes to the Financial Statements – Group Continued

6. SHARE-BASED EMPLOYEE REMUNERATION

As at 31 December 2008 the Group maintained six share-based payment schemes for employee remuneration.

THE MEARS GROUP PLC LONG TERM INCENTIVE PLAN 2008 (LTIP)

The LTIP was introduced in October 2008 following shareholder approval. The award of options is offered to a small number of key senior management. The principal terms of the LTIP are detailed below:

Principal terms of LTIP

Number of options	Maximum award limit under the plan will be 200% of salary per annum.
Exercise price	Nil
Performance period	3 years
Performance conditions	There are two performance targets attaching to the LTIP award.
	50% of LTIP award will relate to an EPS Growth target. The other 50% of the LTIP award relates to the Company's Total Shareholder Return (TSR) against the return of the FTSE All Share Support Services Sector.
Expiry conditions	Options are forfeited if the employee leaves the Group before the options have vested.

Performance conditions of LTIP

EPS Growth Target		TSR target	
Performance levels	Level of vesting	Performance levels	Level of vesting
10%	10%	Below index return	0%
12.5%	30%	Equal to index	30%
17.5%	100%	10% outperformance of the index per annum	100%

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.

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.

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. With the introduction of the LTIP in 2008, the Remuneration Committee has decided that no further awards will be made under the unapproved share option plan.

In October 2008, shareholders approved a proposal to cancel outstanding unapproved market-priced options (subject to approval by option holders) and replace them with a lower number of nil-cost options with the same expected value and terms and conditions. The nil-cost options will only be able to be exercised if the share price is greater than the original exercise price of the market-priced options. This significantly reduced the current levels of dilution and ensures that the Group will be able to manage the overall levels of dilution within the accepted limits endorsed by the Association of British Insurers and which are recognised by institutional investors as best practice.

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 up to 20%. Options are forfeited if the employee leaves the Mears Group before the options vest.

6. SHARE-BASED EMPLOYEE REMUNERATION CONTINUED

SPECIAL INCENTIVE PLAN 2007 (SIP)

The SIP was introduced in 2007 to reward the Chief Executive with premium priced options linked to long-term performance. The principal terms of the SIP and performance conditions are detailed below:

Principal terms of SIP	
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	SIP 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 SIP	
Performance levels	Level of vesting
5% + RPI per annum	10%
10% + RPI per annum	50%
15% + RPI per annum	100%

Details of the share options outstanding (excluding those issued under the SIP) are as follows:

	2008		2007	
	Number ‘000	**Weighted average exercise price p**	Number ‘000	Weighted average exercise price p
Outstanding at 1 January	**5,966**	**181**	1,072	182
Granted	**3,679**	**181**	—	—
Forfeited	**(395)**	**247**	(134)	204
Exercised	**(758)**	**125**	(189)	135
Surrendered on replacement	**(3,673)**	**224**	—	—
Reissued on replacement	**2,031**	**—**	—	—
Outstanding at 31 December	**6,850**	**131**	749	190

The weighted average share price at the date of exercise for share options exercised during the period was 274p. The options outstanding at 31 December 2008, excluding the SIP award, were exercisable at prices between 50p and 300p and had a weighted average remaining contractual life of four years and three months.

Notes to the Financial Statements – Group Continued

6. SHARE-BASED EMPLOYEE REMUNERATION 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. The inputs into the option pricing model are as follows:

	2008	2007
Share price (p)	**195–266**	232–260
Exercise price (p)	**1–266**	232–260
Expected volatility (%)	**20**	20
Expected life (years)	**3–5**	3–5
Risk-free rate (%)	**3.00–4.50**	5.50

395,000 options lapsed during the year. The market price at 31 December 2008 was 264p and the range during 2008 was 195p to 330p.

At 31 December 2008 2.0m options had vested and were still exercisable at a weighted average exercise price of 64p.

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

The Group recognises the following expenses related to share-based payments:

	2008 £'000	2007 £'000
LTIP	**60**	—
Approved share option plan	**60**	100
Enterprise management incentive plan	**—**	—
Unapproved share option plan	**100**	254
SAYE	**40**	120
SIP	**940**	76
	1,200	550

In total, £1.2m of employee remuneration expense has been included in the Consolidated Income Statement for 2008 (2007: £0.6m), which gave rise to additional paid-in capital. No liabilities were recognised due to share-based payment transactions.

7. DISCONTINUED OPERATIONS

On 11 July 2008 the Group disposed of 100% of the share capital of United Fleet Distribution Limited whose principal activity was to carry out vehicle collection and delivery.

The results of the Vehicle Distribution segment for the period from 1 January 2008 to 11 July 2008, which have been included in the consolidated financial statements, are as follows:

	2008 £'000	2007 £'000
REVENUE	**5,711**	9,162
Operating costs	**(5,709)**	(8,682)
OPERATING RESULT	**2**	480
Finance (costs)/income, net	**(2)**	155
PROFIT BEFORE TAX	—	635
Tax expense	—	(180)
NET RESULT FOR THE YEAR	—	455

The carrying amounts of the assets and liabilities of United Fleet Distribution Limited at the date of disposal are disclosed in note 26.

A profit of £0.4m arose on the disposal of United Fleet Distribution Limited, being the proceeds of disposal less the carrying amount of the subsidiary's net assets and attributable goodwill (see note 26). No tax charge or credit arose from the transaction.

8. TAX EXPENSE

Tax recognised in the income statement:

	2008 £'000	2007 £'000
United Kingdom Corporation Tax effective rate 26.3% (2007: 27.7%)	**5,304**	4,703
Adjustment in respect of previous periods	**(312)**	(203)
Total current tax recognised in income statement	**4,992**	4,500
Deferred taxation charge:		
– on defined benefit pension obligations	**16**	10
– on share-based payments	**(200)**	200
– on accelerated capital allowances	—	300
– on amortisation of acquisition intangibles	**(1,008)**	(491)
Total deferred taxation recognised in income statement	**(1,192)**	19
Total tax expense recognised in income statement	**3,800**	4,519

Notes to the Financial Statements – Group Continued

8. TAX EXPENSE CONTINUED

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

	2008 £'000	2007 £'000
Results for the year before tax	**16,582**	15,453
Result for the year multiplied by standard rate of Corporation Tax in the United Kingdom of 30%/28% (2007: 30%)	**4,803**	4,636
Effect of:		
– expenses not deductible for tax purposes	**91**	279
– capital allowances in excess of depreciation	**18**	321
– tax relief on exercise of share options	**(512)**	(386)
– tax rate difference	**(107)**	(30)
– utilisation of tax losses	**(69)**	(98)
– tax liability in respect of disposals	**(112)**	—
– adjustment in respect of prior periods	**(312)**	(203)
Actual tax expense, net	**3,800**	4,519
DEFERRED TAX RECOGNISED DIRECTLY IN EQUITY		
Deferred taxation charge:		
– on defined benefit pension obligations	**(135)**	25
– on share-based payments	**(2,050)**	(1,700)
Total deferred taxation recognised in equity	**(2,185)**	(1,675)
TOTAL TAX		
Total current tax	**4,992**	4,500
Total deferred tax	**(3,377)**	(1,656)

9. DIVIDENDS

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

	2008 £'000	2007 £'000
Final 2007 dividend of 2.90p (2007: final 2006 dividend of 2.40p) per share	**2,135**	1,743
Interim 2008 dividend of 1.35p (2007: interim 2007 dividend of 1.10p) per share	**997**	801
	3,132	2,544

The proposed final 2008 dividend of 3.40p per share has not been included within the Group financial statements as no obligation existed at 31 December 2008.

10. EARNINGS PER SHARE

	Basic		Diluted	
	2008 **p**	2007 p	**2008** **p**	2007 p
Earnings per share	**17.36**	15.65	**16.82**	15.11
Effect of amortisation of acquisition intangibles	**4.89**	2.15	**4.74**	2.07
Effect of full tax adjustment	**(2.65)**	(0.81)	**(2.57)**	(0.78)
Normalised pre-amortisation earnings per share	**19.60**	16.99	**18.99**	16.40
Effect of share-based payment, post tax	**1.16**	0.55	**1.13**	0.53
	20.76	17.54	**20.12**	16.93

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:

	2008 **£'000**	2007 £'000
Profit attributable to shareholders:	**12,782**	10,934
– amortisation of acquisition intangibles	**3,600**	1,500
– full tax adjustment	**(1,953)**	(567)
– share-based payment, post normalised tax	**858**	385
Adjusted profit attributable to shareholders	**15,287**	12,252

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 earnings per share use the same weighted average number of shares as the basic and diluted earnings per share.

	2008 **Millions**	2007 Millions
Weighted average number of shares in issue:	**73.63**	69.85
– dilutive effect of share options	**2.34**	2.51
Weighted average number of share for calculating diluted earnings per share	**75.97**	72.36

Notes to the Financial Statements – Group Continued

11. GOODWILL

	Goodwill arising on consolidation £'000	Purchased goodwill £'000	Total £'000
GROSS CARRYING AMOUNT			
At 1 January 2007	13,405	406	13,811
Additions	32,728	—	32,728
Revision	242	—	242
At 1 January 2008	46,375	406	46,781
Additions	2,567	—	2,567
Revision	2,480	—	2,480
Disposals	(1,570)	—	(1,570)
AT 31 DECEMBER 2008	**49,852**	**406**	**50,258**
ACCUMULATED IMPAIRMENT LOSSES			
At 1 January 2007, at 1 January 2008 and at 31 December 2008	—	—	—
CARRYING AMOUNT			
AT 31 DECEMBER 2008	**49,852**	**406**	**50,258**
At 31 December 2007	46,375	406	46,781
At 31 December 2006	13,405	406	13,811

Additions to goodwill arising on consolidation are detailed within note 25. Revisions are related to adjustments to consideration on prior year acquisitions.

Disposals to goodwill arising on consolidation are detailed within note 26.

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	12,542	406	12,948
Mechanical and Electrical	—	—	—
Domiciliary Care	37,310	—	37,310
	49,852	406	50,258

An asset is impaired if its carrying value exceeds the unit's recoverable amount which is based upon value in use. At 31 December 2008 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 nine years by a growth rate applicable to each unit and an appropriate terminal value based on a perpetuity calculation assuming no growth beyond year ten.

11. GOODWILL CONTINUED

The rates used were as follows:

	Corporation Tax	Discount rate	Growth rates (years 2–5)
Social Housing	28%	9%	2.5%
Domiciliary Care	28%	11%	10%

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

SOCIAL HOUSING

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%.

Budgeted operating profits during the budget period are estimated by reference to the average operating 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.

DOMICILIARY CARE

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. Each year, local authorities spend in excess of £2 billion on domiciliary care. The Directors believe that future growth is underpinned by a number of factors including the increasingly ageing population in the United Kingdom and the increased desire of the elderly to lead independent lives. Local authorities expenditure on homecare for the elderly has grown rapidly over recent years, averaging 10% per year since 2003. The amount outsourced to independent providers has also risen sharply from 59% in 2001 to in excess of 72% today. It is the Directors' belief that this trend will continue.

The market is highly fragmented with an estimated 4,600 independent providers of homecare services. The increasing regulation in this sector is also expected by the Directors to continue, leading to increased consolidation. Furthermore, the Directors believe that the domiciliary care sector will evolve towards a partnership approach similar to that of the social housing sector and Mears has already begun to see examples of such an approach with its customers. The Directors believe that stakeholders at all levels could benefit from this long-term investment approach.

The Directors believe that there are a number of combined developments in Government thinking that are likely to improve the prospects for business in the domiciliary care sector. Most notably these include the Lifetime Homes, Lifetime Neighbourhoods paper in 2008 and the delivery of the Social Care Transformation Programme as signalled in the concordat Putting People First. These build on the consensus across the social care sector to put together a social care system based on the provision of good quality information, advice and advocacy.

The impairment reviews have incorporated a growth assumption of 10% which the Directors believe to be realistic given the tremendous growth opportunities within Domiciliary Care.

Budgeted operating profits during the budget period are estimated by reference to the average operating margins achieved in the period immediately before the start of the budget period. There is no inclusion for any anticipated efficiency improvements.

A 1% shortfall in forecast growth below 10% would result in the unit's carrying amount falling below its recoverable amount by £1.2m.

Notes to the Financial Statements – Group Continued

12. OTHER INTANGIBLE ASSETS

	Acquisition intangibles			Other intangibles			
	Client relationships £'000	Order book £'000	Total acquisition intangibles £'000	Development expenditure £'000	Intellectual property £'000	Total other intangibles £'000	Total intangibles £'000
GROSS CARRYING AMOUNT							
At 1 January 2007	928	134	1,062	222	—	222	1,284
Acquired on acquisition	7,925	3,935	11,860	—	—	—	11,860
Additions	1,049	—	1,049	225	—	225	1,274
At 1 January 2008	9,902	4,069	13,971	447	—	447	14,418
Acquired on acquisition	—	1,593	1,593	—	—	—	1,593
Additions	—	—	—	501	224	725	725
AT 31 DECEMBER 2008	**9,902**	**5,662**	**15,564**	**948**	**224**	**1,172**	**16,736**
ACCUMULATED AMORTISATION							
At 1 January 2007	223	32	255	—	—	—	255
Amortisation charge for period	950	550	1,500	55	—	55	1,555
At 1 January 2008	1,173	582	1,755	55	—	55	1,810
Amortisation charge for period	2,280	1,320	3,600	112	—	112	3,712
AT 31 DECEMBER 2008	**3,453**	**1,902**	**5,355**	**167**	**—**	**167**	**5,522**
CARRYING AMOUNT							
AT 31 DECEMBER 2008	**6,449**	**3,760**	**10,209**	**781**	**224**	**1,005**	**11,214**
At 31 December 2007	8,729	3,487	12,216	392	—	392	12,608
At 31 December 2006	705	102	807	222	—	222	1,029

Development expenditure relates to internal computer software development. Additions to intangible assets arising on consolidation are detailed within note 25.

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

13. 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 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 1 January 2008	—	3,873	2,503	9,649	1,115	17,140
Additions	—	800	99	2,634	21	3,554
Disposals	—	(6)	(117)	(64)	(187)	(374)
Disposal of subsidiary undertaking	—	(79)	—	(342)	—	(421)
AT 31 DECEMBER 2008	**—**	**4,588**	**2,485**	**11,877**	**949**	**19,899**
DEPRECIATION						
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 1 January 2008	—	872	1,834	5,428	807	8,941
Provided in the year	—	465	106	1,364	54	1,989
Eliminated on disposals	—	—	(113)	(24)	(116)	(253)
Eliminated on disposal of subsidiary undertaking	—	(79)	—	(216)	—	(295)
AT 31 DECEMBER 2008	**—**	**1,258**	**1,827**	**6,552**	**745**	**10,382**
CARRYING AMOUNT						
AT 31 DECEMBER 2008	**—**	**3,330**	**658**	**5,325**	**204**	**9,517**
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

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

	Plant and machinery £'000
NET BOOK AMOUNT	
AT 31 DECEMBER 2008	**42**
At 31 December 2007	70
DEPRECIATION PROVIDED IN THE YEAR	**14**

Notes to the Financial Statements – Group Continued

14. INVESTMENTS

The principal undertakings within the Group at 31 December 2008 are shown below:

	Proportion held	Nature of business
Mears Limited	100%	Provision of maintenance services
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.

15. INVENTORIES

	2008 £'000	2007 £'000
Materials and consumables	**1,377**	802
Work in progress	**7,015**	8,475
	8,392	9,277

The Group consumed inventories totalling £271.3m during the year (2007: £205.8m). No items are being carried at fair value less costs to sell (2007: £nil).

16. CONSTRUCTION CONTRACTS

Revenue of £78.0m (2007: £57.4m) relating to construction contracts has been included in the Consolidated Income Statement.

	2008 £'000	2007 £'000
Contract costs incurred	**66,040**	47,292
Recognised gross profits	**11,968**	10,157
Recognised gross losses	**—**	—
	78,008	57,449
Balances outstanding comprise:		
– retentions	**3,631**	2,418
– due from customers for construction contract work	**13,792**	6,556
– due to customers for construction contract work	**(5,704)**	(2,703)

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'.

17. TRADE AND OTHER RECEIVABLES

	2008 £'000	2007 £'000
Current assets:		
– trade receivables	**45,754**	34,221
– amounts recoverable on construction contracts	**13,792**	6,556
– amounts recoverable on non-construction contracts	**24,221**	6,917
– prepayments and accrued income	**1,887**	2,235
	85,654	49,929
Non-current assets:		
– trade receivables	**2,031**	1,710
Total trade and other receivables	**87,685**	51,639

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. Social Housing customers are typically local authorities and housing associations where credit risk is minimal. Domiciliary care customers are typically county councils where credit risk is minimal. The credit risk within the M&E division is insured. Included in trade receivables is an amount of £2.0m (2007: £1.7m) which is due after more than one year and represents retention balances.

The ageing analysis of trade receivables is as follows:

	2008 £'000	2007 £'000
Neither impaired nor past due	**37,777**	29,435
Less than three months overdue	**7,122**	4,301
More than three months overdue	**2,886**	2,195
Total trade and other receivables	**47,785**	35,931

18. TRADE AND OTHER PAYABLES

	2008 £'000	2007 £'000
Trade payables	**41,055**	27,643
Accruals and deferred income	**15,000**	8,420
Social security and other taxes	**8,127**	8,955
Due to customers for construction contract work	**5,704**	2,703
Other creditors	**4,989**	4,651
Amounts due under finance lease contracts	**28**	38
	74,903	52,410

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.

Notes to the Financial Statements – Group Continued

19. LONG-TERM FINANCIAL LIABILITIES

	2008 £'000	2007 £'000
Other creditors	—	3,178
Amounts due under finance lease contracts	—	13
	—	3,191

Included in other creditors is £nil (2007: £2.8m) relating to deferred consideration on acquisitions.

20. FINANCIAL INSTRUMENTS

The Group uses a limited number of financial instruments, comprising cash and liquid resources, borrowings 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 Group's operations. The Group seeks to finance its operations through a combination of retained earnings and borrowings, and investing surplus cash on deposit. The Group has no interests in the trade of financial instruments.

CATEGORIES OF FINANCIAL INSTRUMENTS

	2008 £'000	2007 £'000
FINANCIAL ASSETS		
LOANS AND RECEIVABLES		
Trade receivables	**47,785**	35,931
Cash at bank and in hand	**16,094**	15,250
	63,879	51,181
FINANCIAL LIABILITIES		
AMORTISED COST		
Short-term borrowings and overdrafts	**(9,500)**	—
Deferred consideration in respect of acquisitions	**(2,625)**	(6,003)
Finance lease payable	**(28)**	(51)
Trade payables	**(41,055)**	(27,643)
	(53,208)	(33,697)
	10,671	17,484

FINANCIAL RISK MANAGEMENT

The Group's activities expose it to a variety of financial risks: market risk (including interest rate risk and price risk), credit risk and liquidity risk. The main risks faced by the Group relate to the availability of funds to meet business needs and the risk of credit default by customers. The Group's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Group's financial performance.

Risk management is carried out under policies and guidelines approved by the Board of Directors.

INTEREST RATE RISK MANAGEMENT

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 2008 was:

	Interest rate			
	Fixed £'000	Floating £'000	Zero £'000	Total £'000
FINANCIAL LIABILITIES – 2008	**28**	**9,815**	**2,310**	**12,153**
Financial liabilities – 2007	51	—	5,998	6,049

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

At 31 December 2008 the Group had minimal exposure to movement in interest rates as the interest rate risk was offset by the Group's cash and short-term deposits.

Following the year end, the Group entered into an interest rate hedging arrangement with Barclays Bank PLC and HSBC plc. The arrangement consists of a £15m vanilla swap. The Directors consider that this arrangement will limit the Group's interest rate exposure on the Group's medium term core debt.

20. FINANCIAL INSTRUMENTS CONTINUED

BORROWING FACILITIES

The Group's borrowing facilities are drawn on as required to manage its cash needs. Banking facilities are reviewed regularly and extended and replaced in advance of their expiry.

The Group had total borrowing facilities of £40.0m with Barclays Bank PLC and HSBC plc of which £9.5m was utilised at 31 December 2008.

The facilities comprise a committed five year £15.0m acquisition facility, a £15.0m revolving credit facility and an unsecured overdraft facility of £10.0m.

The undrawn amounts at 31 December 2008 were £5.5m acquisition facility, £15.0m revolving credit facility and overdraft facilities of £10.0m.

LIQUIDITY RISK MANAGEMENT

The main financial risks of the Group relate to the availability of funds to meet business needs.

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.

Management monitors rolling forecasts of the Group's liquidity reserve (comprising undrawn borrowing facilities and cash and cash equivalents) on the basis of expected cash flows. This is generally carried out at a local level in the operating companies of the Group in accordance with practice and limits set by the Group. These limits vary by location and take into account the liquidity and nature of the market in which the entity operates.

The quantum of committed borrowing facilities of the Group is regularly reviewed and is designed to exceed forecasted peak gross debt levels. For short-term working capital purposes the Group utilises bank overdrafts as required. These facilities are regularly reviewed and are renegotiated ahead of their expiry date.

The table below shows the maturity profile of the Group's financial liabilities:

	2008 £'000	2007 £'000
REPAYABLE WITHIN ONE YEAR		
Short-term borrowings	**9,500**	—
Finance lease payable	**28**	38
Deferred consideration in respect of acquisitions	**2,625**	2,820
	12,153	2,858
REPAYABLE BETWEEN ONE AND TWO YEARS		
Finance lease payable	—	13
Deferred consideration in respect of acquisitions	—	3,178
	—	3,191
	12,153	6,049

CREDIT RISK MANAGEMENT

The Group's credit risk is primarily attributable to its trade receivables. The amounts presented in the balance sheet are net of allowances for doubtful receivables, estimated by the Group's management based on prior experience and the current economic environment.

Trade receivables are normally due within 30 to 60 days. Trade and other receivables included in the balance sheet are stated net of a bad debt provision which has been estimated by management following a review of individual receivable accounts. There is no Group-wide rate of provision and provision made for debts that are overdue is based on prior default experience and known factors at the balance sheet date. Receivables are written off against the bad debt provision when management considers that the debt is no longer recoverable.

Social Housing customers are typically local authorities and housing associations. Domiciliary Care customers are typically county councils. Any credit risk within the M&E 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.

CAPITAL MAINTENANCE

The Group's objectives when managing capital are:

- to safeguard the Group's ability to continue as a going concern, so that it can continue to provide returns for shareholders and benefits for other stakeholders;
- to provide an adequate return to shareholders by pricing products and services commensurately with the level of risk; and
- to maintain an optimal capital structure to reduce the cost of capital.

The Group sets the amount of capital in proportion to risk. The Group manages the capital structure and makes adjustments to it in 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.

Notes to the Financial Statements – Group Continued

21. 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 2008 is £3.5m (2007: £1.1m).

	Pension scheme £'000	Share-based payments £'000	Total £'000
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 1 January 2008	16	1,100	1,116
(Debit)/credit to income statement	(16)	200	184
Credit to Consolidated Statement of Recognised Income and Expense	135	2,050	2,185
AT 31 DECEMBER 2008	**135**	**3,350**	**3,485**

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	—	—	—
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 1 January 2008	3,421	300	3,721
On acquisition intangibles acquired	446	—	446
Released in respect of amortisation	(1,008)	—	(1,008)
Provided in respect of accelerated capital allowances	—	—	—
AT 31 DECEMBER 2008	**2,859**	**300**	**3,159**

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.

22. SHARE CAPITAL

	2008 £'000	2007 £'000
AUTHORISED		
100,000,000 ordinary shares of 1p each	**1,000**	1,000
ALLOTTED, CALLED UP AND FULLY PAID		
74,001,851 (2007: 73,244,078) ordinary shares of 1p each	**740**	732

During the year 757,773 ordinary shares of 1p each were issued in respect of share options exercised. The difference between the nominal value of £0.008m and the total consideration of £0.94m has been credited to the share premium account.

23. 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 2007	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
Net result for the year	—	—	—	—	12,782	12,782
Deferred tax	—	—	—	—	2,185	2,185
Pension obligation	—	—	—	—	(967)	(967)
TOTAL RECOGNISED INCOME AND EXPENSE FOR THE YEAR	—	—	—	—	14,000	14,000
Issue of shares	8	933	—	—	—	941
Share option charges	—	—	1,200	—	—	1,200
Dividends	—	—	—	—	(3,132)	(3,132)
AT 31 DECEMBER 2008	**740**	**31,940**	**3,235**	**11,548**	**48,241**	**95,704**

The 'Share-based payment reserve' comprises the amounts charged to the income statement in respect of equity share-based payments.

The 'Merger reserve' relates to the difference between the nominal value and total consideration in respect of the acquisition of Careforce Group PLC, where the Company was entitled to the merger relief offered by the Companies Act.

Notes to the Financial Statements – Group Continued

24. 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:

	2008 £'000	2007 £'000
Depreciation	**1,989**	1,666
Loss/(profit) on disposal of property, plant and equipment	**109**	(127)
Profit on disposal of investments	**(398)**	—
Amortisation	**3,712**	1,555
Share-based payments	**1,200**	550
Finance income	**(263)**	(222)
Finance cost	**1,110**	345
Total	**7,459**	3,767

25. ACQUISITIONS

The Group made three Domiciliary Care acquisitions in 2008, all of which are shown in aggregate due to them being of a similar composition and the structure of the acquisitions being identical. The provision effect of the acquisitions on the Group's assets was as follows:

	Book and fair value £'000
ASSETS	
CURRENT	
Trade receivables	268
Other debtors	38
Cash at bank and in hand	428
Total assets	734
LIABILITIES	
CURRENT	
Trade payables	26
Other creditors	330
Accruals	161
Total liabilities	517
Fair value of net assets acquired	217
Intangibles capitalised	1,593
Deferred tax liability recognised in respect of intangibles capitalised	(446)
Goodwill capitalised	2,567
	3,931
Satisfied by:	
Cash	3,631
Deferred consideration (provisional)	300
	3,931

During 2008 the Group acquired the entire issued share capital of New Futures Care and Support Limited, Seraph Limited and CMS Limited for £3.93m (including acquisition costs), satisfied by £3.6m cash and contingent consideration of £0.3m. The purchases have been accounted for by the acquisition method of accounting.

25. ACQUISITIONS CONTINUED

The intangible asset recognised and valued at £1.6m represents 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 the Care segment's weighted average cost of capital of 11% 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 three years; and
- the value placed on these customer relationships are based on the expected cash inflows. The cash flows are discounted at the Care segment's weighted average cost of capital of 11% 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 five years.

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 acquisitions and the resultant critical mass.

The performance of the Domiciliary Care operations post their inclusion in the Group are not separately identifiable as they have been fully integrated into the Care division. In the period to 31 December 2008, the three Care acquisitions contributed turnover of £3.1m and £0.4m operating profit before amortisation of intangibles.

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

	2008 £'000
Cash at bank and in hand acquired	**428**
Cash consideration	**(3,631)**
Cash paid in respect of prior year acquisitions	**(4,575)**
	(7,778)

During the year the Group paid £4.6m in respect of contingent consideration relating to acquisitions in prior periods.

Following the balance sheet date, on 22 January 2009, the Group and Company acquired 100% of the issued share capital of 3C Asset Management Limited for an initial consideration of £1.0m for the goodwill and intangible assets plus an amount equal to net assets on completion, anticipated to be around £4.5m. Additional deferred consideration up to a maximum of £6.5m may be payable subject to performance criteria.

The provision effect of the acquisitions on the Group's assets was as follows:

	Book value £'000
ASSETS	
Non-current	1,445
Current	12,452
Total assets	13,897
LIABILITIES	
Non-current	218
Current	9,144
Total liabilities	9,362
Fair value of net assets acquired	4,535

Notes to the Financial Statements – Group Continued

26. DISPOSALS

On 11 July 2008 the Group disposed of its subsidiary United Fleet Distribution Limited. The net assets of United Fleet Distribution Limited, at the date of disposal, were as follows:

	2008 £'000
ASSETS	
NON-CURRENT	
Property, plant and equipment	**126**
CURRENT	
Trade receivables	**1,559**
Other debtors	**390**
Cash at bank and in hand	**183**
Total assets	**2,258**
LIABILITIES	
CURRENT	
Trade payables	**667**
Other creditors	**584**
Accruals and deferred income	**338**
Total liabilities	**1,589**
Net assets	**669**
Goodwill	**1,570**
Gain on disposal	**398**
Total consideration, net of costs	**2,637**
Satisfied by:	
– cash, net of costs	**2,637**
Analysis of net inflow in respect of the purchase of the subsidiary undertakings:	
Net cash inflow arising on disposal:	
– cash	**2,637**
– bank balances and cash disposed of	**(183)**
	2,454

The impact of United Fleet Distribution Limited on the Group's results in the current and prior year is disclosed in note 7.

27. 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 £1.24m (2007: £0.82m) to these schemes.

DEFINED BENEFIT SCHEME

The Group contributes to six principal defined benefit schemes on behalf of a number of employees which require contributions to be made to separately administered funds.

These pension schemes are operated on behalf of Mears Limited and 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.

The disclosures in this note have been aggregated.

27. 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 2008 by qualified independent actuaries using the projected unit method.

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

	2008	2007	2006
Rate of increase of salaries	**2.75%**	3.7%	3.7%
Rate of increase for pensions in payment	**3.2%**	3.2%	3.2%
Discount rate	**6.4%**	5.8%	5.2%
Inflation	**2.75%**	3.2%	3.2%
Life expectancy for a 65 year old male	**20.1 years**	19.8 years	19.8 years

Expected rates of return on investments are:

	2008	2007	2006
Equities	**6.8%**	7.6%	7.6%
Bonds	**6.4%**	5.3%	4.9%
Property	**6.8%**	—	—
Cash	**2.0%**	5.7%	5.0%

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

	2008		2007		2006	
	%	**£'000**	%	£'000	%	£'000
Equities	**64**	**29,124**	86	1,219	86	986
Bonds	**22**	**10,106**	7	92	6	63
Property	**8**	**3,798**	—	—	—	—
Cash	**6**	**2,547**	7	100	8	96
Group's estimated asset share		**45,575**		1,411		1,145
Present value of funded scheme liabilities		**(42,778)**		(1,466)		(1,528)
Funded status		**2,797**		(55)		(383)
Asset value not recognised as surplus		**(3,285)**		—		—
Net pension liability		**(488)**		(55)		(383)
Deferred tax asset		**135**		16		—
Net pension liability		**(353)**		(39)		(383)

The amounts recognised in the income statement are as follows:

	2008 £'000	2007 £'000	2006 £'000
Current service cost	**1,034**	158	151
Past service cost	**1,246**	—	—
Total operating charge	**2,280**	158	151
Amount charged to net interest payable:			
– expected return on pension scheme assets	**2,437**	92	68
– expected return on pension scheme liabilities	**(2,425)**	(83)	(60)
Interest on obligation	**12**	9	8
Total charged to the result for year	**2,268**	149	143

Notes to the Financial Statements – Group Continued

27. PENSIONS CONTINUED

IAS 19 'EMPLOYEE BENEFITS' CONTINUED

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

	2008 £'000	2007 £'000	2006 £'000
Present value of obligations at 1 January	**1,466**	1,528	1,182
Current service cost	**1,034**	158	151
Past service cost	**1,246**	—	—
Interest on obligations	**2,425**	83	60
Plan participants' contributions	**506**	44	43
Benefits paid	**(310)**	(7)	(12)
TUPE transfer of employees	**42,950**	—	—
Actuarial (gain)/loss	**(6,539)**	(340)	104
Present value of obligations at 31 December	**42,778**	1,466	1,528

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

	2008 £'000	2007 £'000	2006 £'000
Fair value of plan assets at 1 January	**1,411**	1,145	939
Expected return on plan assets	**2,437**	92	68
Employers' contributions	**2,802**	182	80
Plan participants' contributions	**506**	44	43
Benefits paid	**(310)**	(7)	(12)
Actuarial gain/(loss)	**(8,527)**	(45)	27
TUPE transfer of employees	**47,256**	—	—
Fair value of plan assets at 31 December	**45,575**	1,411	1,145

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

	2008 £'000	2007 £'000	2006 £'000
Deficit at 1 January 2008	**(55)**	(383)	(243)
Current service cost	**(1,034)**	(158)	(151)
Past service cost	**(1,246)**	—	—
Contributions	**2,802**	182	80
Other finance income	**12**	9	8
Actuarial gain/(loss)	**(1,988)**	295	(77)
Actuarial gain on TUPE transfer of employees	**4,306**	—	—
Reduction in actuarial gain due to non recognition of scheme surpluses	**(3,285)**	—	—
Deficit in scheme at end of year	**(488)**	(55)	(383)

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

	2008 £'000	2007 £'000	2006 £'000
At 1 January	**(25)**	(320)	(243)
Actuarial gain on TUPE transfer of employees	**4,306**	—	—
Actuarial gain/(loss) recognised in the year	**(1,988)**	295	(77)
	2,293	(25)	(320)
Reduction in actuarial gain due to non recognition of scheme surpluses	**(3,285)**	—	—
Total at 31 December	**(992)**	(25)	(320)

27. PENSIONS CONTINUED

IAS 19 'EMPLOYEE BENEFITS' CONTINUED

History of experience gains and losses are as follows:

	2008 £'000	2007 £'000	2006 £'000	2005 £'000	2004 £'000
Fair value of scheme assets	**45,575**	1,411	1,145	939	652
Net present value of defined benefit obligations	**(42,778)**	(1,466)	(1,528)	(1,182)	(794)
Net surplus/(deficit)	**2,797**	(55)	(383)	(243)	(142)
Asset value not recognised as surplus	**(3,285)**	—	—	—	—
Net deficit	**(488)**	(55)	(383)	(243)	(142)
Experience adjustments arising on scheme assets					
Amount	**(8,527)**	(45)	27	86	16
Percentage of scheme assets	**(18.7%)**	(3.2%)	2.4%	9.1%	2.5%
Experience adjustments arising on scheme liabilities					
Amount	**4**	88	49	(75)	(42)
Percentage of scheme assets	**—**	6.0%	(3.2%)	(6.4%)	(5.3%)

The employers' contributions expected to be paid during the financial year ending 31 December 2009 amount to £0.9m.

In addition to the defined benefit schemes above, the Group has a further defined benefit scheme for which it has currently not gained admission status. Employer contributions of £0.1m were made during the year. The scheme is expected to be fully funded and therefore a surplus is likely to arise. In accordance with IAS 19 and the Group's accounting policies, no surplus would be recognised in these accounts and therefore no liability or asset would arise.

28. OPERATING LEASE COMMITMENTS

Non cancellable operating lease rentals payable were as follows:

	Land and buildings		Other	
	2008 £'000	2007 £'000	**2008 £'000**	2007 £'000
EXPIRY DATE				
Within one year	**1,446**	1,627	**5,418**	3,072
Between two and five years	**4,670**	5,294	**6,157**	2,693
After more than five years	**2,864**	3,711	**—**	1

29. CAPITAL COMMITMENTS

The Group had no capital commitments at 31 December 2008 or at 31 December 2007.

30. CONTINGENT LIABILITIES

The Group has guaranteed that it will complete the contracts it has commenced with 17 (2007: 20) local authorities. At 31 December 2008 these guarantees amounted to £5.65m (2007: £3.71m).

The Group had no other contingent liabilities at 31 December 2008 or at 31 December 2007.

31. 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 £16,000 (2007: £37,000). At 31 December 2008 the Group owed £nil (2007: £nil) to Premier Employee Solutions Limited.

During the year the Group purchased strategic advice services from OC&C Strategy Consultants Limited, a company related by common Directorship, of £236,000 (2007: £nil). At 31 December 2008 the Group owed £nil (2007: £199,000) to OC&C Strategy Consultants 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 Remuneration Report.

Company Accounts

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 with the exception of the application of FRS 26 'Financial Instruments: Measurement'.

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 liabilities and equity instruments are classified according to the substance of the contractual arrangements entered into. An equity instrument is any contract that evidences a residual interest in the assets of the entity after deducting all of its financial liabilities.

Where the contractual obligations of financial instruments (including share capital) are equivalent to a similar debt instrument, those financial instruments are classed as financial liabilities. Financial liabilities are presented as such in the balance sheet. Finance costs and gains or losses relating to financial liabilities are included in the profit and loss account. Finance costs are calculated so as to produce a constant rate of return on the outstanding liability.

Where the contractual terms of share capital do not have any terms meeting the definition of a financial liability then this is classed as an equity instrument. Dividends and distributions relating to equity instruments are debited direct to equity.

Parent Company Balance Sheet

as at 31 December 2008

	Note	2008 £'000	2007 £'000
FIXED ASSETS			
Investments	4	**26,855**	29,144
CURRENT ASSETS			
Debtors: amounts due in more than one year	5	**24,184**	18,287
Debtors: amounts due in less than one year	5	**19,804**	20,159
Cash at bank and in hand		—	—
		43,988	38,446
CREDITORS: amounts falling due within one year	6	**(9,595)**	(18,918)
NET CURRENT ASSETS		**34,393**	19,528
		61,248	48,672
CAPITAL AND RESERVES			
Called up share capital	7	**740**	732
Share premium account	8	**31,940**	31,007
Shares to be issued	8	**3,235**	2,035
Profit and loss account	8	**25,333**	14,898
EQUITY SHAREHOLDERS' FUNDS		**61,248**	48,672

The financial statements were approved by the Board of Directors on 3 April 2009.

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

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 £13.6m (2007: £4.4m) which is dealt with in the financial statements of the Company. This result is stated after charging auditors' remuneration of £45,000 relating to audit services and £5,000 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:

	2008 £'000	2007 £'000
Wages and salaries	**1,087**	640
Social security costs	**109**	63
Other pension costs	**162**	103
	1,358	806

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

	2008 Number	2007 Number
Office and management	**7**	4

Details relating to the remuneration in respect of the highest paid Director are detailed in note 5 of the consolidated financial statements.

3. SHARE-BASED EMPLOYEE REMUNERATION

As at 31 December 2008 the Group maintained six share-based payment schemes for employee remuneration. The details of each scheme are included within note 6 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, £0.9m of employee remuneration expense has been included in the Company's profit and loss account for 2008 (2007: £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 2008	29,144
Additions	10
Disposals	(2,299)
AT 31 DECEMBER 2008	**26,855**

Additions relate to costs in respect of a prior year acquisition. Disposals represent the disposal of United Fleet Distribution Limited and are detailed within note 26 to the consolidated financial statements.

Details of the principal undertakings of the Company are shown in note 14 to the consolidated financial statements.

5. DEBTORS

	2008 £'000	2007 £'000
Amounts owed by Group undertakings	**43,988**	38,446

Included in 'Amounts owed by Group undertakings' is £24.2m (2007: £18.3m) which is due in more than one year.

Notes to the Financial Statements – Company Continued

6. CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR

	2008 £'000	2007 £'000
Bank overdrafts	**9,255**	11,432
Social security and other taxes	**83**	45
Amounts owed to Group undertakings	**—**	4,531
Other creditors	**70**	2,872
Accruals	**187**	38
	9,595	18,918

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 2008 was:

	Interest rate			
	Fixed £'000	Floating £'000	Zero £'000	Total £'000
FINANCIAL LIABILITIES – 2008	**—**	**9,255**	**—**	**9,255**
Financial liabilities – 2007	—	11,432	2,820	14,252

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

7. SHARE CAPITAL

	2008 £'000	2007 £'000
AUTHORISED		
100,000,000 ordinary shares of 1p each	**1,000**	1,000
ALLOTTED, CALLED UP AND FULLY PAID		
74,001,851 (2007: 73,244,078) ordinary shares of 1p each	**740**	732

During the year 757,773 ordinary shares of 1p each were issued in respect of share options exercised. The difference between the nominal value of £0.008m and the total consideration of £0.94m has been credited to the share premium account.

8. 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 2008	732	31,007	2,035	14,898
Issue of shares	8	933	—	—
Share option charges	—	—	1,200	—
Retained profit for the year	—	—	—	10,435
AT 31 DECEMBER 2008	**740**	**31,940**	**3,235**	**25,333**

9. CAPITAL COMMITMENTS

The Company had no capital commitments at 31 December 2008 or at 31 December 2007.

10. CONTINGENT LIABILITIES

The Company had no contingent liabilities at 31 December 2008 or at 31 December 2007.

11. PENSIONS

DEFINED CONTRIBUTION SCHEMES

The Company contributes to personal pension schemes of the Directors.

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	3 June 2009
Record date for final dividend	12 June 2009
Dividend warrants posted to shareholders	1 July 2009
Interim results announced	18 August 2009

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