sustainable business

Annual Report & Accounts 2009

consistently delivering

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Connaught is the leading provider of integrated services in the UK. Our success is built on long-standing customer relationships which have been achieved by delivering exactly what we say we will deliver. We enjoy excellent earnings visibility. Our order book stands at £2.8 billion, our margins are improving and therefore we are confident of being able to deliver sustained earnings growth for the foreseeable future.

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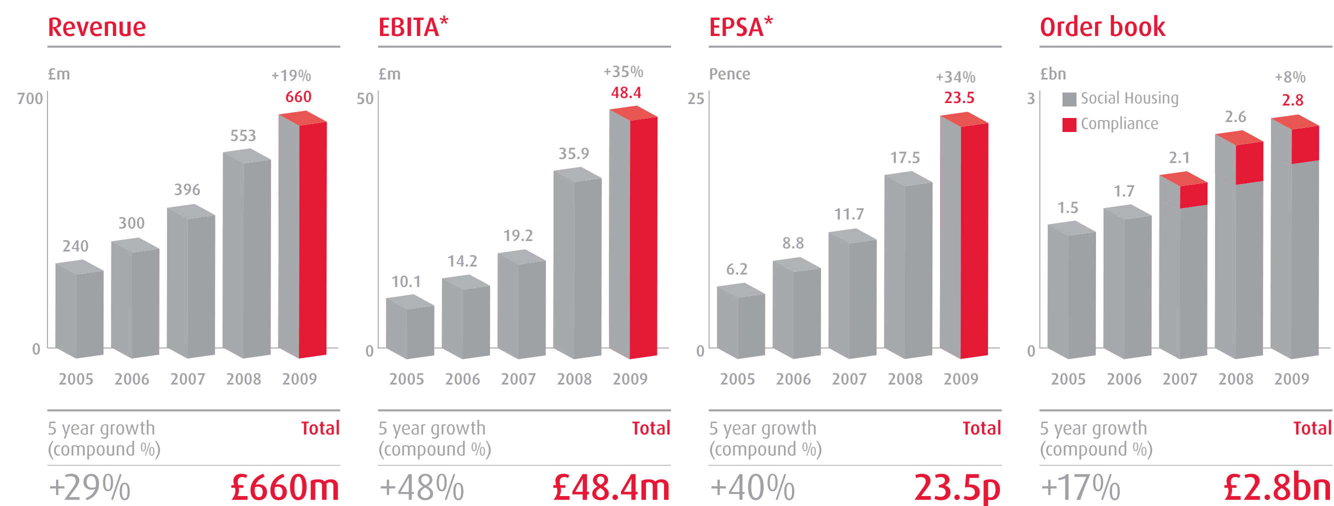
2009 performance

Connaught produced another set of excellent results in 2009. We have maintained a clear focus on our goal of building a sustainable business which consistently delivers shareholder value.



* before amortisation of acquisition intangibles and exceptional items.

Our priorities in 2009 have been to:

- focus on attractive markets
- constantly create value
- deliver sustainable growth
- consistently improve margins
- be a responsible business.

Financial results

- Revenue up 19% to £660m (2008: £553m) driven by strong organic growth of 17%
  - Social Housing revenues up 18% to £528m (2008: £447m), entirely organic growth
  - Compliance revenues up 25% to £132m (2008: £106m), with organic growth of 11%
- Dividend up 18% to 3.16p per share (2008: 2.68p)
- Adjusted operating profit* up 35% to £48.4m (2008: £35.9m)
  - Social Housing operating profit* up 22% to £31.2m (2008: £25.4m)
  - Compliance operating profit* up 48% to £20.5m (2008: £13.8m)
- Group adjusted operating margins* increased to 7.3% (2008: 6.5%)
- Group order book £2.8bn (2008: £2.6bn)
- Pipeline at £4.0bn (2008: £3.6bn).

* before amortisation of acquisition intangibles and exceptional items.

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Our priorities

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Focus on attractive markets

We have built a strong business based on our leadership position in two highly defensive markets with long-term growth opportunities.

We operate primarily in the social housing and compliance markets both of which enjoy high levels of essential and non-discretionary expenditure. They are large, low risk, highly fragmented and increasingly consolidating as public and private sector organisations come under growing pressure to reduce cost and improve service, particularly in the current economic climate.

As a result, clients are bundling more services together into long-term, multi-service contracts.

With our scale, expertise and unrivalled service capability, we are uniquely placed to capitalise on the significant growth potential this consolidation trend represents.

Constantly create value

We have a clearly articulated value proposition to work in partnership with our customers to:

- **drive unnecessary costs out of their operation**
- **improve front-line services**
- **support their corporate and social responsibility agenda.**

Winning the work on this basis is just the beginning. Throughout the life of the contract, we constantly seek new and better ways to further reduce costs and fine-tune service delivery. Our ability to deliver this 'incremental innovation' engenders trust and strengthens our client relationships. The most successful ideas are identified as best practice and shared across our contract base for the benefit of all our customers.

This approach has seen 40% of our organic growth being achieved from existing customers in 2009.

Deliver
sustainable growth

Connaught continues to demonstrate its resilience by delivering consistent and sustainable growth despite continuing economic uncertainty.

In both the public and private sector, we target contracts that generate high quality, recurring revenues. These are either single-service contracts with cross-selling potential or long-term, integrated, multi-service partnerships.

The majority of our growth is generated organically by broadening existing contracts, securing new ones and leveraging our service platform to develop additional revenue streams in related markets.

To stimulate further organic growth, we acquire earnings enhancing, complementary businesses that allow us to further develop our strategic capability, extend our presence in our current markets, or gain a foothold in new adjacent areas.

* before amortisation of acquisition intangibles and exceptional items.

Consistently improve margins

We have a divisional structure which is designed to minimise cost, manage and control risk and deliver a high level of performance, ultimately leading to margin improvement.

Responsibility for financial and operational performance is decentralised into our divisions and their respective business units, allowing greater accountability and ownership, specialist knowledge and customer focus.

At Group level our centralised business functions ensure consistency and deliver economies of scale, whilst managing performance and controlling risk effectively.

In addition we have quality management systems operating across the Group and we positively engage with our people to achieve greater levels of productivity.

All of the above has seen Group margins consistently improve over the last five years.

EBITA

£48.4 million

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Our priorities

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We employ nearly

10,000 people

Be a **responsible** business

sustainable business

Our priorities

consistently delivering

Corporate responsibility is embedded in the way we do things at Connaught, not because we feel an obligation to do so but because we genuinely believe it is the right thing to do.

We are dedicated to growing the business in a manner that is sustainable and socially, ethically, environmentally and financially responsible.

We focus our efforts on four key areas:

- Communities
- The environment
- Our people
- Health and safety.

2009 in focus

During 2009 we successfully delivered the key elements of our growth strategy in both our chosen markets. We continued to implement our integrated services model, which we believe will sustain our earnings growth for many years to come.

Social Housing

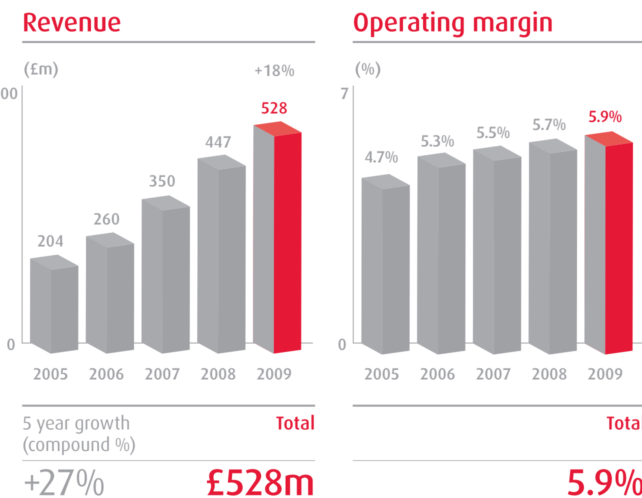
What we do

We provide social housing landlords throughout the UK with a range of planned and response maintenance services, as well as compliance and estate management.

Results

These results reflect Connaught's leading position within social housing and the underlying resilience of this market.

- Revenues up 18% to £528m (2008: £447m)
- Operating margin up to 5.9% (2008: 5.7%)
- Operating profit up 22% to £31.2m (2008: £25.4m)
- Order intake £760m.



5 year growth (compound %)	Total	Total
+27%	£528m	5.9%

Compliance

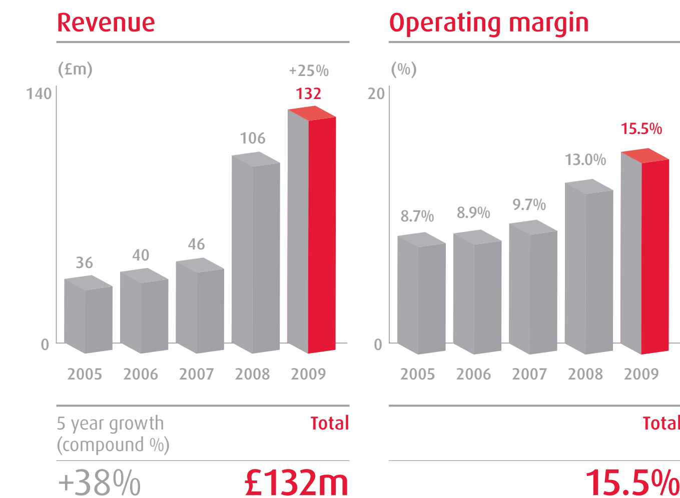
What we do

Connaught is one of the leading providers of safety, health and risk management solutions. The business has information, advisory, training and servicing capabilities to provide a fully integrated compliance solution throughout the UK.

Results

Compliance has made good progress in 2009 both organically and through acquisition.

- Revenues up 25% to £132m (2008: £106m)
- Operating margin up to 15.5% (2008: 13.0%)
- Operating profit up 48% to £20.5m (2008: £13.8m)
- Organic growth 11%.



5 year growth (compound %)	Total	Total
+38%	£132m	15.5%

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2009 in focus

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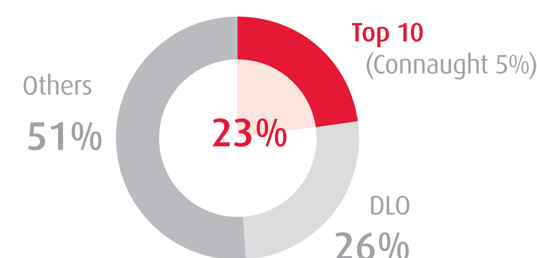
Social Housing

Attractive market fundamentals

- Over 5 million UK households are in social housing and 1.8 million are on waiting lists
- Social housing repairs and maintenance market:
  - worth over £10 billion per annum
  - fragmented with top 10 players sharing 23%
- Work funded directly from social housing rental roll (ring-fenced through Housing Revenue Account)
- Social landlords are seeking to reduce costs through supply chain rationalisation. This trend is accelerated by the current economic climate
- Registered Social Landlords (RSLs) are consolidating, resulting in larger contracts.

The market: £10bn pa*



*Source: Focal Research

Strong organic growth

Forty percent of our £760 million order intake came from existing clients who have either extended their contracts with us or trusted us to provide additional services. We have also entered into long-term partnerships with new clients (see adjacent table).

In addition, we have leveraged our service platform to enter complementary markets in local communities, such as student accommodation, defence housing and public buildings.

Fountains plc acquisition

Since the year end we have completed the £13.3 million acquisition of Fountains plc, which we have combined with our existing environmental business (previously part of the Social Housing division) to create a new third division which we will be reporting separately from 2010.

Positive outlook

We are exceptionally well placed to meet the evolving needs of social landlords and therefore to deliver sustained top-line growth. Our integrated services model gives us competitive advantage and ensures we can achieve good margin progression.

Major new contracts in 2009

	A2 Dominion	William Sutton Homes	Homes in Sedgemoor	East Ayrshire Council	Town and Country Housing
Value	£117m	£57m	£36m	£35m	£30m
Contract duration	12 years	15 years	10 years	7 years	10 years
	This RSL provides 30,000 homes across London and Southern England. The integrated services contract comes with a three-year option to extend.	This planned investment scheme covers the Midlands and South West, and could be extended by another five years.	This Somerset-based client manages 4,200 homes for 10,000 people. Our integrated services offering features a low carbon solution.	We are providing repairs and maintenance for the council's non-housing property portfolio, including education, community centres and leisure facilities.	This client was initially going to select two partners, but decided to award the integrated services contract to Connaught alone. The work is spread over Kent, Sussex and Surrey.

Social Housing integrated services model

Our unique range of services for social landlords is largely self-delivered and underpinned by our proprietary technology, Conntrol™. As a consequence, we have emerged as the partner of choice for social landlords seeking to improve their performance and reduce cost.

sustainable business

2009 in focus

consistently delivering

Case study

Dumfries and Galloway Housing Partnership

We first started working with Dumfries and Galloway Housing Partnership (DGHP) in 2006 on an external render project to 45 properties worth £900,000.

Today, we provide integrated services to the majority of their 10,500 stock, from bathroom and kitchen replacements to reactive repairs and void management. The partnership is now worth £50 million over five years.

Having successfully completed our first project, the DGHP board appointed us to help them create the blueprint for a ground-breaking, customer-focused repairs service.

To revolutionise the service, we worked very closely with DGHP to collectively adopt systems thinking. Front-line and customer service centre staff were consulted on how any obstacles to the effective flow of work could be removed. The repairs processes were then streamlined and built into Conntrol™, our proprietary repairs management IT solution.

Throughout, our partnership ethos has helped individuals from Connaught and DGHP build strong relationships through shared aims and objectives. This high degree of collaboration and trust has been key to improving the service to residents.

As a result, tenant satisfaction has risen to 97%, with the 'very satisfied' rating jumping from 19% (before we became involved) to 76%. Additionally those satisfied with the level of time taken to carry out repairs increased from 41% to 93%.

From £900,000 to **£50m**

Compliance

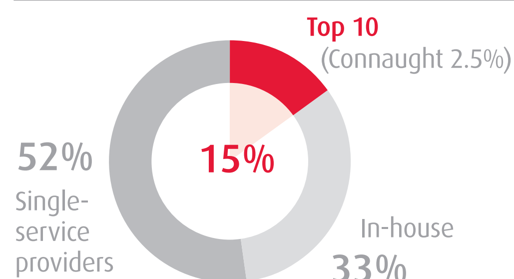
Attractive market fundamentals

- Compliance market:
  - worth £5.7 billion per annum
  - highly fragmented with top 10 players sharing 15%
- Expenditure is largely non-discretionary and underpinned by regulatory, financial and reputational considerations:
  - UK health and safety regulatory framework, reinforced by EU legislation, includes over 200 acts New regulations are introduced each year
  - Increased penalties and higher insurance costs for non-compliant companies
  - Non-compliance reputation risks and corporate responsibility agenda are encouraging directors to meet their obligations now more than ever.

Organisations convicted under Corporate Manslaughter and Corporate Homicide Act (2007) face unlimited fines; individuals deemed responsible are liable to face prosecution under the common law offence of gross negligence manslaughter and imprisonment.

- Inherent complexity and high cost of managing all compliance requirements is encouraging SMEs and multi-site businesses to consolidate their health and safety supply chain and outsource to a single compliance partner. The trend is also accentuated by current economic conditions.

The market: £5.7bn pa*



*Source: Credo

Strong organic growth

We have expanded our major account base with over 100 new multi-year, multi-service contracts worth £33m. Notable wins include Hilton Hotels, Crown Estates, Voyage Care Homes and the Ministry of Justice. Sixty eight percent of our top 400 customers buy a single service. This represents a sizeable opportunity for us to develop these into integrated, multi-service contracts.

Positive outlook

We are uniquely positioned to compete as clients seek a one-stop, cost-efficient solution to their compliance requirements. This, combined with our integrated services model, should ensure long-term profitable growth.

Acquisitions in 2009

Electrical Services	Pest Services	Pest Services	Fire Services
Lowe Group	Predator	Igrox	UK Fire
Value £7.5m	Value £0.6m	Value £3.9m*	Value £12.5m
An electrical compliance business acquired in September 2008. Combined with our existing capability this acquisition establishes Connaught as the UK's leading electrical compliance and testing business.	A pest prevention business acquired in November 2008. This was a strategic purchase to build our nationwide capability.	A pest prevention business acquired in July 2009. Combined with our existing pest business this acquisition creates a significant nationwide pest control capability. * Plus deferred consideration of up to £3m.	A fire services company acquired in July 2009. Connaught is now established as one of the few companies with a fully national fire capability.

Compliance integrated services model

We are significantly differentiated from the traditional competition thanks to our integrated services model. Our nationally available, end-to-end service mix combined with our unique client-facing technology, *e-risk* Manager™ – which gives customers full visibility and control of all their compliance issues – is unique in the UK.

Case study

Virgin Active

Connaught has been working with Virgin Active since July 2008 to deliver a range of integrated health and safety compliance services to their UK-wide network of over 70 health clubs. Our initial gas compliance contract has developed into a multi-service partnership including gas, water and electrical maintenance services, as well as health and safety training.

Benefits to Virgin Active have been as follows:

Identifying and mitigating risk

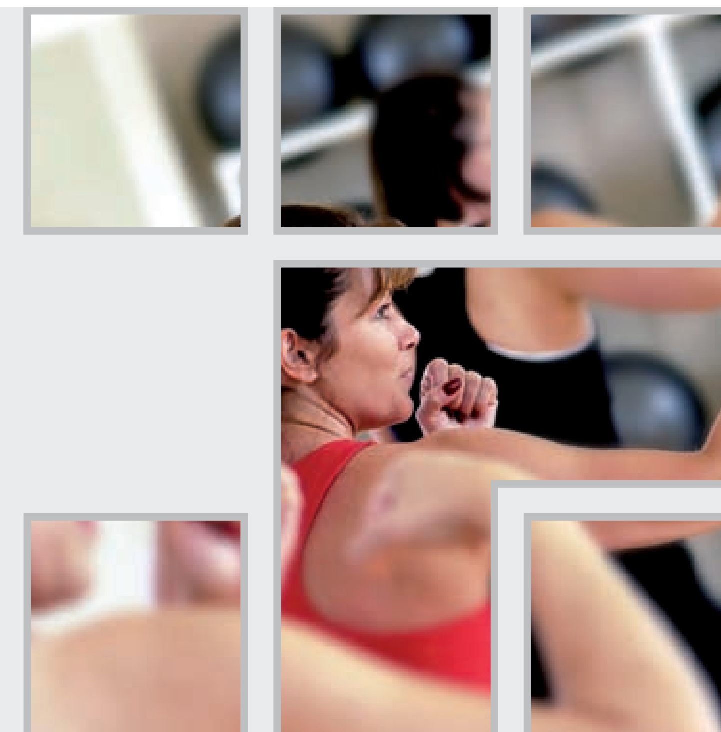
Virgin Active take their health and safety legal compliance very seriously. We are supporting this by being a single source of compliance visibility across their network. In addition, so far we have trained over 75% of their property maintenance staff on electrical standard BS7671 IEE 17th Edition.

Removing avoidable costs

Connaught has helped Virgin Active to reduce their maintenance and management costs through a combination of supply consolidation, reducing the complexity and inconsistency of having multiple service providers.

Improving business performance

Virgin Active has invested in their world-class facilities to deliver an exceptional quality customer experience. Connaught supports Virgin Active to deliver on their brand promise by ensuring continuity of essential services which keep their business running and delivering service to their customers. Thus increasing their customers' satisfaction and retention.



The numbers in **perspective**

Our 2009 financial results bear testament to our strong organic growth supplemented with earnings enhancing acquisitions. Our performance reflects a business consistently delivering and capable of providing sustainable earnings growth.

Revenue

Acquisitions contributed £14m to the revenue in the year, underpinned by strong organic growth of 17%. Social Housing contributed growth of 18%, which was wholly organic reflecting a strong market position, with Compliance delivering 25% growth, underpinned by organic growth of 11%.

Amortisation of other intangibles

The Group actively develops and maintains software for internal and customer facing service delivery. Development-related incremental costs to the business are capitalised and amortised as part of the depreciation and amortisation cost. Amortisation begins once the individual project is completed. In addition, the business licenses software from third parties, the cost of which is included within cost of sales. Both charges are included within our reported measures.

Amortisation of acquisition intangibles

During the year the Group acquired four businesses which created acquisition intangibles that are being amortised over their expected economic lives. Preliminary fair values are included on current year acquisitions, which will be finalised within 12 months of acquisition.

Operating profit

Operating profit increased to £32.6m (2008: £26.9m). Operating profit margins have increased to 5.0% (2008: 4.9%). On a pre-exceptional basis, operating margins have increased to 6.0% (2008: 5.3%).

Finance income and finance costs

Net financing costs for the year are £5.9m (2008: £5.2m), including interest on debt to fund acquisitions in the year.

Taxation

The taxation charge for 2009 is £9.2m (2008: £6.5m), an underlying effective rate of 28.5% (2008: 30%).

Earnings per share

Basic EPS for 2009 is 14.2p (2008: 12.8p), an increase of 10.9%.

Dividends

The Board is proposing a final dividend in respect of the year ended 31 August 2009 of 2.07p (2008: 1.755p), giving a total dividend in respect of the year ended 31 August 2009 of 3.16p (2008: 2.68p), and representing an increase of 18%. Final dividends relating to 2009 are declared and will be reflected in the 2010 financial accounts.

Cashflow

The Group has continued to focus on delivering sustainable cashflow at a rate reflective of the strong organic growth. During the year working capital movements related to both organic growth and acquisitions. We remain highly focused on cash conversion through the efficient management of the cash cycle.

Capital expenditure

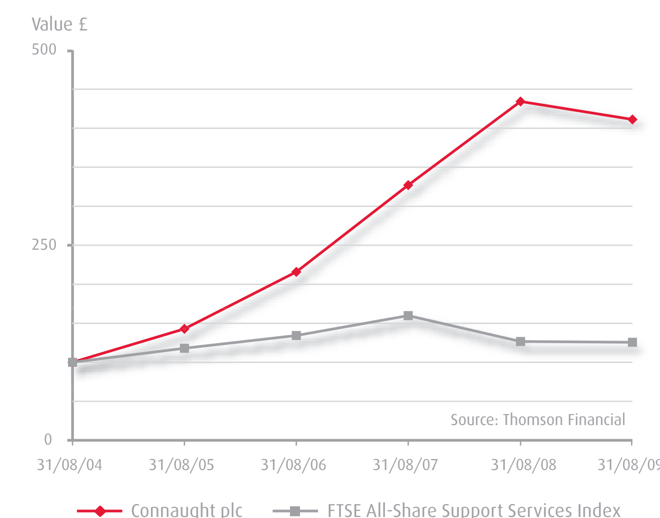
This year has seen a significant amount of change in the business as a result of acquisition integration, systems enhancement and organisational change. This is reflected in the profile of spend on development expenditures, and in both acquisition and disposal of fixed assets, largely relating to incremental systems development costs incurred to affect these organisational changes.

Financial key performance indicators

	Year end 2009	Year end 2008
Revenue	£659.6m	£552.9m
EBITA*	£48.4m	£35.9m
PBT	£26.7m	£21.7m
EPS* (diluted)	23.5p	17.5p
Operating margins*	7.3%	6.5%
Dividend	3.16p	2.68p
Interest cover (x)	8.2	6.9

* before amortisation of acquisition intangibles and exceptional items (£6.8m in relation to the Office of Fair Trading fine and associated costs), but after amortisation of other intangibles.

Total shareholder return



This graph shows the value, by 31 August 2009, of £100 invested in Connaught plc on 31 August 2004 compared with the value of £100 invested in the FTSE All-Share Support Services Index. The other points plotted are the values at intervening financial year.

Proceeds of private placement

In reviewing the business funding facilities during the year, the Board identified a funding opportunity to extend the profile of our existing debt maturity by raising funds on the private debt markets to mature at a term of five and seven years. We successfully completed the private placement in August 2009, raising the equivalent of $92m maturing in 2014 and 2016, which complements our existing bank facilities which mature in 2012.

Net debt

The net debt as at 31 August 2009 was £89m (2008: £71m), an increase of £18m. The business remains largely self funding from an organic growth perspective, drawing on debt to fund acquisitions.

Acquisitions

- On 15 September 2008, we acquired the entire share capital of Lowe Group Holdings Ltd, which trades as Necta Ltd, for a total consideration of £7.5m
- On 26 November 2008, we acquired certain assets from the administrators of Predator Pest Control plc
- On 22 July 2009, we acquired the entire share capital of UK Fire and Igrox for a combined £16.4m.

All businesses are performing in line with expectations.

Financial risk management

The main financial risks faced by the Group relate to the availability of funds to meet business needs, fluctuations in interest rates and the risk of credit default by customers.

Funding and liquidity risk

The Board have reviewed the banking facilities available to the Group and consider them to be adequate for the ongoing operation of the business.

Current committed facilities total £201.9m, with maturities between 2012 and 2016. The core bank facilities are supported by an RBS-led syndicate, and mature in 2012. During August 2009 £10.75m was repaid in line with the scheduled repayment profile. Further details of borrowings can be found in notes 17 and 24 to the Notes of the Consolidated Financial Statements.

Interest rate and currency risk

We maintain interest rate hedges which fix the Group's exposure to interest rate movements over approximately 70% of our core long-term bank debt. Interest rate policy is monitored by the Board and is subject to periodic review. Where private placement debt is originated in other currencies (US Dollar and Euro), these are immediately swapped back in to Sterling for the duration of the placement.

Credit risk

The Group's position with regard to amounts recoverable on contracts is routinely monitored. Customers of the Group consist substantially of public sector organisations and contracts are secured on a long term recurring basis. The Directors consider the customer base therefore to be of a nature where there is limited credit risk to the Group.

Managing
and controlling risk

Our entrepreneurial approach is key to generating value for clients and shareholders. Our risk management framework, overseen by the Board, ensures that we can understand and manage acceptable risk without discouraging this entrepreneurial culture.

The Board of Directors

Our comprehensive framework of management structures, reporting procedures and internal controls ensure that performance is driven throughout the business.

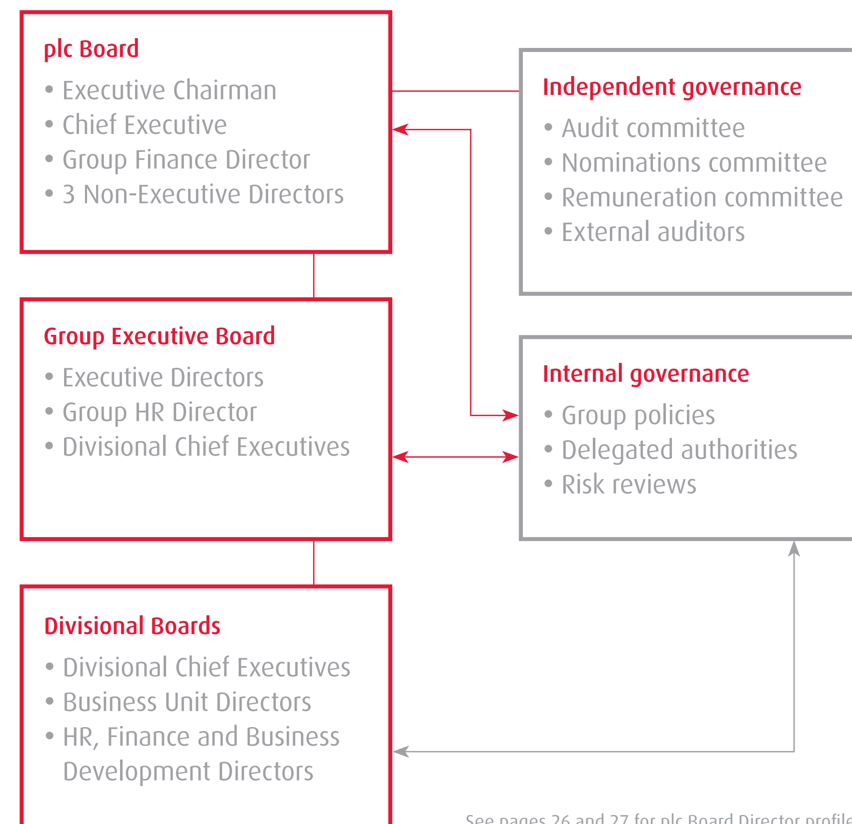
The Board of Directors oversee this framework, providing strategic direction for the Group and ensuring that we continue to deliver long-term value for our clients and shareholders.

Managing our continued growth

Financial and operational performance is monitored and reviewed on a monthly basis and this information is fed to the Board of Directors to allow them to form a detailed understanding of the status of each division.

This close monitoring allows the Board to fulfil its responsibility to:

- approve and oversee delivery of our growth strategy and short and medium-term business objectives
- set Group policies
- maintain our financial performance
- oversee our internal controls.



See pages 26 and 27 for plc Board Director profiles

Managing risk

A comprehensive risk management structure is in place at a strategic and operational level to identify, manage and mitigate those business risks which could impact the Group's long-term performance or service delivery to clients.

Risk management framework

Risk category	Risk and potential impact	Risk mitigation
Financial	Insufficient credit facilities may inhibit the expansion of the Group; Economic conditions may adversely affect the financial performance of various parts of the Group	The Group has committed facilities totalling £202m with varying maturities between 2012-2016; Monthly review of the financial trading performance of the business compared to budget and forecasts; Cash, working capital and credit exposures closely monitored at all levels across the Group
Operational	Group strategy is focused on securing integrated service contracts which are inherently larger and more complex. Failure to identify and price contract risks in these contracts may result in poor financial and operational performance; Ineffective contract mobilisation results in poor financial and operational performance; and potential reduction/termination	Pre-defined bid processes including multi-functional reviews at key stages in the bid process; The Group's infrastructure and operating policies (including The Connaught Way) are regularly reviewed to ensure appropriately resourced to support operational delivery; Business continuity plans routinely tested and developed; The Group holds the ISO quality certifications for 9001, 14001 and 18001
Health and safety	Failure may result in serious injury or death of employee, customer, tenant or member of the public; Property damage and/or pollution/contamination may lead to prosecution, financial penalties, reputational damage and business disruption	The Chief Executive, supported by the Board, is ultimately responsible for health and safety throughout the Group; The Group employs a Health and Safety Director who reports to the Chief Executive and is supported by a team of dedicated professionals; The Group operates in accordance with accredited health and safety policies and procedures
Reputation	Exclusion from new opportunities and rebids resulting in reduced business growth; Investor perception damaged; Potential recruitment and retention challenge	Established processes for managing enquiries and complaints from all stakeholders; Investment in training programmes at all levels; Crisis management procedures implemented and supported by specialist consultancy
Attracting and retaining key staff	Lack of staff with appropriate skills hinders ability to win, mobilise and deliver on contracts; Failure to deliver the strategic potential of the Group	Competitive benefits package, including share scheme participation; Training programmes at all levels, including dedicated Connaught Academy; Career development and succession plans
Fraud	Inadequate fraud prevention processes expose the Group to financial loss and reputational damage	Fraud prevention controls established throughout the Group; Group policies and procedures are published and enforced by Group Finance function
Acquisitions	Failure to deliver on financial targets; Ineffective integration process and/or lack of cultural fit; Failure to identify and price key risks	Comprehensive, multi-disciplined due diligence process; Review and approval at Board level against rigorous criteria; Experienced and dedicated acquisitions team; Dedicated integration team and regular post-acquisition review
Procurement	Lack of continuity of supply resulting in operational failure and inefficiency; Inappropriate relationships with suppliers resulting in collusion/anti-competitive behaviour	Comprehensive strategic supplier engagement and management processes; Use of SAFEcontractor accreditation process; Group-wide competition compliance programme, including compulsory training for all relevant staff

Board of **Directors**

Mark Tincknell
Executive Chairman

Mark, 48, has been employed by Connaught since the early 1980s, originally 'working on the tools' on the company's first ever contract. Under his leadership the Group has developed into the leading provider of essential integrated services in the UK. He completed an MBA at Exeter University in 1990 and led both the MBO in 1996 and the admission to AIM in 1998 at which time he became CEO. Mark is now Executive Chairman.

Mark Davies
Chief Executive

Mark, 49, joined the Group in August 2004 as Chief Operating Officer. Following an early career in finance, sales and marketing roles, Mark has run businesses for the last 20 years with Courtaulds plc and latterly as a divisional Managing Director of Chubb plc, responsible for its activities in the UK, Ireland and Southern Africa. He has an MBA from INSEAD. He became Chief Executive in January 2006.

Stephen Hill
Group Finance Director

Stephen, 41, joined Connaught in September 2006 after 14 years' experience of commercial and plc financial roles. He was Corporate Finance Director at Serco Group plc from 2001 to 2006 and prior to that he was European Finance Director at Black & Decker Inc. Stephen is a Chartered Accountant and associate member of the Institute of Corporate Treasurers. He has a BA (Hons) in European Finance and a Diplom Betriebswirt.

Tim Ross
Deputy Chairman and Senior Independent Director

Tim, 60, read law at Oxford University before qualifying as a solicitor and practising in the City of London, specialising in property and construction. He subsequently joined George Wimpey Plc as a legal adviser before studying at London Business School and moving into general management. He was a Main Board Director of George Wimpey from 1991 to 1996 and is currently Non-Executive Chairman of Hargreaves Services plc and Superglass Holdings plc and a Director of Lavendon Group plc and May Gurney Integrated Services plc. He is also a director of a number of other private and venture capital-backed companies.

Robert Alcock
Non-Executive Director

Robert, 68, was a Non-Executive Director at Capita Group plc for 12 years and Chairman of Capita's Audit Committee from 1993 to 2007. He is a Senior Non-Executive Director and Chairman of the Audit Committee at Huntsworth plc and Senior Independent Director of Leed Petroleum plc.

Caroline Price
Non-Executive Director

Caroline, 45, was Finance Director at TBI plc (now owned by Abertis), a fast-growing FTSE 250 company, between 1995 and 2005. Between 1985 and 1995 she spent ten years at PricewaterhouseCoopers in both the audit and corporate finance practice. Caroline is a member of the audit and resources and funding committees of the Courtauld Institute of Art.

Being a responsible business

Acting in a responsible manner goes hand in hand with the nature of the work we carry out – we have consistently demonstrated that being socially responsible can be combined with business efficiency and competitiveness. There is firm evidence throughout Connaught of the positive impact we have on communities, the environment, our people and health and safety.

Communities

Connaught is synonymous with a community-friendly culture. It would be unthinkable not to use the long-term nature of our contracts to provide sustainable socio-economic benefits wherever we work.

In practice, this takes many shapes and forms, from practical regeneration projects to training programmes and safety awareness campaigns:

- We have a national partnership with Clubs for Young People (CYP), an organisation that reaches out to over 400,000 young people across 3,500 clubs and projects. We recently completed our fourth project together – a seven-month, £125,000 renovation programme at 'The Connaught Log Cabin & Campsite' near Birmingham
- We run career workshops teaching useful practical skills that thousands of young people have benefited from
- We support a number of sports-based educational schemes around the country including the Community Sports Volunteering scheme in Exeter and 'Playing for Success' in partnership with Lambeth Borough Council and the Department for Education & Skills
- Connaught employees donate their time and skills to help revitalise community buildings, gardens and playgrounds across the UK to help create safe, enjoyable public facilities for the entire community
- We have renewed our TPAS Contractor Accreditation in England and gained TPAS Scotland Accreditation, which is recognition for encouraging resident engagement and involvement
- We were proud to win Tenant Care Programme of the Year 2009 with Eastlands Homes at the Housing Excellence Awards.

Local employment and skills development

We are committed to creating training and employment opportunities within the communities we serve. Through working with educational institutions, government bodies and training partners, we help a range of people whether they are school leavers, unemployed or looking to move careers to get the right training.

We also use local labour, suppliers and subcontractors where possible, to ensure long-term socio-economic benefits for these communities.

- We have established a partnership with Warwickshire College to become our sole provider of apprenticeship programmes in England and Wales, helping us to achieve greater consistency and drive up standards
- We work with the Construction Industry Training Board (CITB) to recruit and support apprenticeship payments
- Our partnership with Blackpool Coastal Housing has won two awards in recognition of their positive effect on the local community: "Partnering Scheme of the Year 2009" at the Housing Excellence Awards and the "Local People, Local Jobs" award at the North West Regional Construction Awards 2009
- We work with the Glasgow Homelessness Network (GHN) to provide a programme of practical training for homeless people, including DIY and interview skills that are designed to help them settle and get a job.

The environment

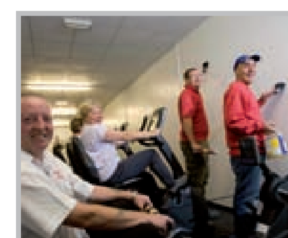
Climate change is a challenge affecting all aspects of the private and public sector. The government has set a binding target to reduce carbon dioxide emissions by 80% by 2050 through the Carbon Reduction Commitment. We are rising to this challenge and working hard to manage energy and waste outputs for ourselves and our clients, minimising our impact on the environment and reducing our costs.

Supporting our clients' environmental agenda

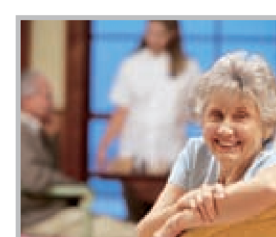
- We are the first major services provider within the UK to have been recommended for Microgeneration Certification Scheme (MCS) accreditation for both design and installation of renewable energy and Low Zero Carbon (LZC) systems. MCS is recognised as the quality mark for LZC installations and the only way to directly access a range of government grant funding
- We segregate waste at source, achieving a dramatic reduction going to landfill and a significant increase in material going down renewable routes. This reduces our costs and we pass these savings on to our customers

32,000 people received our health and safety training last year

50% reduction in electricity bills for Homes in Sedgemoor tenants after installing air source heat pumps



We achieved **96%** customer satisfaction against a target of 93% in the second year of the North Somerset Housing contract



On average **85%** of our waste is currently recycled

4 out of 5 main subcontractors on our Blackpool Coastal Housing partnership are based in Blackpool

- Establishing our own commercial waste and recycling service means we help our clients across the country comply with the Cleaner Neighbourhoods Act
- In response to the Climate Change and Energy Acts 2008, we have introduced a number of initiatives to test performance and ensure we offer a best-in-class solution to clients. These include:
  - undertaking energy audits to help British businesses achieve statutory Energy Performance Certificates and meet their Carbon Reduction Commitment
  - undertaking energy audits as part of planned works for social landlords, aimed at improving the thermal capacity of their stock and acquiring external funding to facilitate this
  - securing eight feasibility funding contracts worth £140,000 with our partners as part of the Technology Strategy Board's 'Retrofit for the Future' competition
  - introducing carbon analysis to our vendor management programme to influence more sustainable supply chain and procurement activities
  - running an accredited training facility for solar thermal technology
  - delivering renewable energy training to maintain ground source heat pumps in partnership with Worcester Bosch Group
  - being the first in Europe to launch a water efficiency training course in partnership with Welsh Water
  - obtaining ISO 14001 accreditation and working with selected clients to roll this out across operational service delivery.

Challenging our own carbon footprint

Within Connaught, we are constantly challenging our own carbon footprint and working to realise significant efficiencies across our fleet and property portfolio:

- Under our carbon fleet policy, all of our vehicle grades fall below a target carbon dioxide level
- New ultra-efficient vehicles boast a carbon dioxide emission of less than 100g per km and have an average fuel efficiency of 74 mpg. Employees are encouraged to choose 'greener' cars with a vehicle tax subsidy offered as an incentive
- Tracker systems and speed limiters on our vans help reduce our emissions and our fuel costs by an estimated 15%
- For our major properties we have a comprehensive Environmental Management System in place that provides a pragmatic basis for continually improving environmental performance
- We have embarked on a space rationalisation programme across our leased properties, wherever possible co-locating with clients and our supply chain to maximise resources
- We are part of the FTSE4Good Index, having been identified as fulfilling low impact and social stakeholder requirements.

More than
3,000
people have been trained at the Connaught Academy

500,000
miles a year are saved using video conferencing in our six main offices.

Our people

We put our people at the heart of our business and as Investors in People we are committed to helping our employees maximise their potential. We look to recruit and develop people with the qualities to take the business forward as we recognise that engaged, motivated people with the right skills are crucial in helping us continue to improve our operational and financial performance.

Equality and diversity

Foremost in our 'people strategy' is the recognition that to be an employer of choice in today's marketplace requires a high degree of consideration and respect for the beliefs and needs of all people.

For example, we run a 'respect@work' e-learning tool which allows us to evaluate each individual's diversity awareness and has been developed with a leading law firm to ensure that it reflects current legislation.

Health and safety

We work closely with our customers, partners, employees and insurers to ensure that we follow best practice throughout our business and make health and safety our number one priority:

- We have achieved our 25th RoSPA Gold Award this year and an industry sector award. We also continue to score positively in independent audits
- With around 4,000 vehicles in our fleet, we have a legal and moral duty of care to protect not only our employees but also members of the public. We are currently rolling out our 'i-drive' scheme to actively promote good driving and perform checks on our drivers to ensure they are suitably qualified and fit to drive
- We support our clients through best practice health and safety forums and participate in external safety groups where we hold a number of executive committee appointments
- Working closely with our insurers we promote health, safety and environmental issues through lectures and seminar sponsorship
- We support a number of national safety campaigns, such as gas awareness with Gas Safe, water compliance with the Legionella Control Association (LCA), carbon monoxide awareness with the HSE and anti-scald awareness with bathroom suppliers Roper Rhodes
- We run regular 'stay safe' workshops in schools, aimed at pupils who live in the areas in which we are working
- Our accident statistics are published annually and sent to clients and authorities to highlight our commitment in this area, illustrated by a 10% improvement in our accident analysis year on year. Our reported incident rate confirms continual improvement across all business units, with the annual rate consistently falling well below government-published statistics
- We hold the management quality system ISO certifications for 9001, 14001 and 18001.

500,000
calls a year taken for the HSE

174 days
of work experience provided to young people in North Nottinghamshire as part of our contract with A1 Housing

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General information

The directors present their report and financial statements for the year ended 31 August 2009. This report includes the Company's Statement in relation to corporate governance, while the Directors' Remuneration Report is set out on pages 40 to 49. The review of the business set out on pages 4 to 31 is incorporated by reference, as is all other information in the 2009 Annual Report to which this Report of the Directors specifically cross references.

Principal activity

The principal activity of the Group continues to be the provision of integrated asset services to the public and private sectors.

Review of operations, current positions and future prospects

Group revenue rose by £107m to £660m, representing an increase of 19%. Group profit before tax increased by £5m to £26.7m.

Details of the Group's operations for the year ending 31 August 2009, its current position and future prospects can be found in the review of the business which is set out on pages 4 to 31. This includes an analysis of the main trends and factors likely to affect the development, performance and position of the business, including environmental, employee, social and community issues, the Group's Key Performance Indicators (KPIs) and a description of the principal risks and uncertainties facing the business.

Dividends

The directors recommend the payment of a final dividend of 2.07p per ordinary share, to be paid on 5 March 2010 to members on the Register at the close of business on 5 February 2010. Together with the interim dividend of 1.09p per ordinary share paid in July 2009, the total dividend for the year will be 3.16p compared with 2.68p for the previous year, an increase of 18%.

Acquisitions

The Group made four acquisitions during the year, for the purpose of expanding geographic scope within specific service streams.

- Lowe Group – an electrical compliance business acquired in September 2008 for £7.5 million;
- Predator – a pest prevention business acquired in November 2008 for £0.6 million;
- UK Fire – a fire safety business acquired in July 2009 for £12.5 million; and
- Igrox – a pest prevention business acquired in July 2009 for £3.9 million plus deferred consideration of up to £3m.

Share capital, voting rights and control

At the date of this report, 138,779,811 ordinary shares of 2p each have been issued and are fully paid up. All shares have the same rights. During the year to 31 August 2009, the Company undertook a vendor placing, issuing eight million new ordinary shares of 2p each; options were also exercised pursuant to the Company's share option schemes resulting in the allotment of 340,376 new ordinary shares. As at the date of this report a further 4,147,957 have been allotted pursuant to the Company share schemes, on 3 September 2009 3,573,568 shares were allotted in a share for share purchase of Fountains plc.

During the year the Company purchased 105,223 shares in the open market to satisfy the matched share element of the Company all employee share incentive plan ("SIP"). As at 31 August 2009, the Company held 260,454 shares on behalf of employees in relation to this scheme.

Shares are also held by the Company's Employee Benefit Trust for the satisfaction of awards under the Company's Long-Term Incentive Plan ("LTIP"). These rank pari passu with the other shares in issue and have no special voting rights, but the voting rights and acceptance of any offer relating to the shares held in the Trust rests with the Trustees of the Trust rather than with the employee or the Company.

As at the close of 28 October 2009 (being the latest practical date prior to the signing of this report) the Company had received the following notifications of interest in accordance with DTR 5:

Shareholder	Number of shares	% of ISC at 28 October 2009	No of shares direct	No of shares indirect	No of financial instruments*
BlackRock Inc	13,440,242	9.7%	–	10,656,666	2,783,576
Co-operative Asset Management	12,359,453	8.9%	12,359,453	–	–
Parvis Asset Management	9,897,828	7.1%	1,603,005	–	8,294,823

* held as Contracts For Difference (CFD) or equity swaps

The Company is not party to any significant agreements that would take effect, alter or terminate following a change of control of the Company. The Company does not have agreements with any director or officer that would provide for compensation for loss of office or employment resulting from a takeover, except that provisions of the Company's share plans may result in options and awards granted under such plans to vest on a takeover.

Rights and restrictions attaching to shares

Under the Company's Articles of Association (the "Articles"), holders of ordinary shares are entitled to receive a dividend in accordance with their holding. The Board may propose and pay an interim dividend, and make a recommendation in relation to the payment of a final dividend, taking heed of the profits legally available for distribution. A final dividend is approved by shareholders in the Annual General Meeting, but no dividend may be approved in excess of the amount recommended by the Board.

At any General Meeting, a resolution put to the vote at the meeting shall be decided on a show of hands unless a poll is properly demanded. On a show of hands every member who is present in person, or by proxy shall have one vote. On a poll, every member present in person, or by proxy, shall have one vote for every share they hold.

Shareholder engagement

The Company is committed to maintaining an open dialogue with all shareholders. This is achieved through presentations, individual and group meetings and responses to shareholder questions.

During the year the executive directors met with all of the leading shareholders to discuss matters relating to the Group and its strategy.

Communication with private shareholders is primarily via the Annual Report and Accounts, Interim Accounts and the Annual General Meeting. In addition, responses are provided to questions posted on the Company website or received directly by the Company.

It is normal that contact with institutional shareholders may be more frequent than with private shareholders, but care is exercised to ensure that any price sensitive information is released to all shareholders simultaneously in accordance with required legislation and best practice.

Re-appointment and removal of directors

In accordance with the Company's Articles and the best practice identified in the 2008 Combined Code, a maximum of one third of the directors offer themselves for re-election at the Annual General Meeting, subject to no director holding office for more than three years without standing for election. Mark Tincknell and Caroline Price will retire from the Board by rotation at the forthcoming Annual General Meeting, and being eligible, offer themselves for re-election. Tim Ross, stands for re-election annually as detailed on page 36. All directors standing for re-election do so with the full support of the other members of the Board. Details of directors' interests in the Company are provided in the Remuneration Report on pages 40 to 49.

Conflicts policy

In accordance with the Companies Act 2006, directors are required to avoid situations in which their interests can, or may conflict with those of the Company. During the year, a comprehensive review was undertaken in relation to conflicts which exist or may exist across the group and a Conflicts Policy introduced. Accordingly, Caroline Price refrains from participating in the discussion or vote regarding the re-appointment and fees of the auditors PricewaterhouseCoopers LLP. This review will be undertaken annually.

Employment policies

The Group depends on the skills and commitment of its employees in order to achieve its objectives. The Group's selection, training and development processes ensure equal opportunities are given to all, regardless of sex, ethnic origin, religion or disability. It is the Group's policy to give full consideration to applications for employment of disabled persons, and as employees they are eligible to participate in all development and promotion opportunities. In the event of a staff member becoming disabled, opportunities exist for them to continue their employment including re-training if required.

Training programmes are made available to staff at all levels of the organisation. The Group has a dedicated training facility, the Connaught Academy, focused on the delivery of practical training programmes. Where appropriate, field-based staff are encouraged to work towards NVQ qualifications.

The Group encourages participation in the business through open dialogue, and internal communications are designed to inform employees about the business of the Group. The Company uses a comprehensive intranet, email and quarterly magazine to supplement regular management briefings. There are dedicated email addresses in place to facilitate comments by staff to senior management.

Employees are encouraged to participate in the financial performance of the Company through the operation of a SIP which provides a 1 for 2 Company match. Approximately 13% of staff currently participate in this scheme.

Whistleblowing

The Group operates a whistleblowing policy and has appointed a third party to operate the service. This service is available to all staff where they are able to report concerns regarding potential malpractice within the organisation. Complaints are directed to the relevant management team, but can be escalated to the Group Company Secretary if appropriate.

Charitable and political donations

Cash donations to charities totalled £20,110 *(2008: £20,878)*. Staff are also encouraged to participate in the donation of time to worthy causes, particularly focused on the communities in which they work. There were no political donations *(2008: nil)*.

Creditor payment policy

Payment terms and conditions are agreed with suppliers in advance and it is the Company policy to pay within terms. At 31 August 2009, 54 days purchases to suppliers were outstanding *(2008: 49 days)*. The Group is not dependent on any key supplier contracts.

Going concern

Details of the Group's business and future development together with the financial position of the Company are set out on pages 4 to 31. The Group aims to secure long-term contracts with a wide range of public and private sector clients, and has raised additional long-term funding during the year. As a consequence despite the continuing economic uncertainty, the directors consider the Group and the Company have adequate resources to remain in operation for the foreseeable future and have therefore continued to adopt the going concern basis in preparing the financial statements.

Post balance sheet events

On 3 September 2009, the Group acquired the entire share capital of Fountains plc for a total cost of £13.3m via a scheme of arrangement.

On 22 September 2009, the Office of Fair Trading ("OFT") published its report on anti-competitive practices in the construction industry, and issued fines for 103 companies totalling £129m. As part of this process the Group was fined £5.6m, an exceptional charge has been taken in the 2009 accounts.

Auditors and disclosure of information to auditors

A resolution to re-appoint PricewaterhouseCoopers LLP as auditors of the Company and Group will be proposed at the forthcoming Annual General Meeting.

Having made the requisite enquiries, the directors in office at the date of this Annual Report and Accounts, have each confirmed that, having taken appropriate steps to make themselves aware of any relevant audit information (as defined by Section 418 of the Companies Act 2006), so far as they are aware, there is no relevant information which has not been made available to the auditors.

Annual General Meeting

The Annual General Meeting of the Company will be held at the offices of PricewaterhouseCoopers, 31 Great George Street, Bristol, BS1 5QD on 15 December 2009. At the meeting a number of resolutions will be proposed, the details of which are set out in the Notice of Meeting (the "Notice") which accompanies this Annual Report and Accounts. There is one resolution being proposed outside the normal course of business, which is to amend the Articles to reflect changes required by the Companies Act 2006. A summary of the principal changes from the existing Articles can be found with the Notice. Detailed notes in relation to each proposal also accompany the Notice.

Corporate governance

Connaught plc and its subsidiaries (the "Group") are committed to adhering to the principles of good governance contained in the Combined Code Principles of Good Governance and Code of Best Practice as updated in June 2008 (the "2008 Code") which it considers fundamental to the integrity of the business and maintaining investors' trust and value to shareholders. The Board expects all its directors, officers and employees to act with honesty, integrity and fairness and in accordance with all of the relevant laws and customs.

Compliance with the Combined Code

Throughout the year the Group has complied with all the provisions of Section 1 of the 2008 Code, except in respect of the role of Executive Chairman. As reported in previous years, Mark Tincknell holds the position of Executive Chairman. Mr Tincknell has served the Group for a number of years in a variety of roles, and the Board considers that his experience and contribution to the strategic direction of the Group remains invaluable.

The role of the Board

The Board is responsible for the overall conduct of the Group's business and has the powers, authorities and duties vested in it by the Company's Articles and the relevant laws and regulations governing its operations. The Board has final responsibility – for the management, direction and performance of the Group; it exercises objective judgement on all corporate matters, independent from executive management; is accountable to shareholders for the proper conduct of the business; and is responsible for the Group's overall Corporate Governance arrangements including the independence of directors, review of the Board and its committees' performance and approval of Group policies.

The Board consists of three executive directors; Mark Tincknell; Mark Davies and Stephen Hill, together with three non-executive directors; Tim Ross; Robert Alcock and Caroline Price. The roles of the Chairman and Chief Executive are separate, with clear accountability and responsibilities defined for each position. The Chairman has primary responsibility for the Board, whilst the Chief Executive has responsibility for the operations and results of the Group.

The non-executive directors are regarded as independent and free from any business or other relationship that could materially impact their judgement. Tim Ross as the Deputy Chairman and Senior Independent Director chairs the Company Board meetings and is available where necessary to meet shareholders and investors. The non-executive directors meet without the executive directors at least once a year. All directors are expected to attend each meeting and attendance during the year is set out on page 37.

Tim Ross has served on the Board for 11 years. Notwithstanding his length of service, Mr Ross is still considered to be independent in terms of Code 3.1 due to his robust judgement and character. In addition, his legal training and considerable corporate experience at George Wimpey plc, Lavendon Group plc and Enstone plc remain invaluable to the Company at this stage of its development. It is therefore the Board's intention to retain the services of Mr Ross, but he will submit himself for re-election annually at the Company's Annual General Meeting.

During the year, David Wells resigned as the Company Secretary and was replaced by Julia Cavanagh. The Board wishes to register its thanks to David for his services as Company Secretary over the past 4 years. There were no other changes to the Board.

Board responsibilities and effectiveness

The Board is responsible for managing the Company on behalf of its shareholders, and each director must act in a way that he or she considers appropriate in determining the long-term success of the Company and value for shareholders. The Board considers strategic matters relating to the long-term growth of the Company, and matters in relation to the short-term delivery of its business objectives. Day-to-day management of the Group is delegated to the Chief Executive who has the responsibility for ensuring the business operates effectively. The Chief Executive is supported by the Group Executive Board, comprising

the executive directors, divisional executives and the Group HR director. The Board has a schedule of matters reserved for its attention; the key components are as follows:

- Approval of the Group's strategy and its medium and short-term plans;
- Approval of interim and final financial statements, dividends and any significant change in accounting policies or practice;
- Remuneration of the auditors and recommendations for removal or appointment of auditors;
- Internal controls and risk management;
- Major acquisitions or disposals;
- Board appointments and removals;
- Approval of non-executive remuneration;
- Approval of Board and Board committees' performance evaluation process.

The Board has meetings scheduled eight times a year and also meets on an adhoc basis as required. Meetings are held in various locations around the business to facilitate the Board's understanding of the detailed operation of the operating divisions. Meeting dates are set annually in advance. The Board also held an offsite meeting to consider the ongoing strategy for the Group.

Regular reports are received from the Chief Executive; Finance Director and the Health & Safety Director. The Company Secretary works to ensure information communicated is accurate, timely and clear. Support from the Company Secretary is available to all directors, and any director may seek independent professional advice on request, at the Company's expense.

The attendance of each director at Board meetings and those of the Audit and Remuneration Committees is shown in the table below.

	Board		Audit		Remuneration	
	Eligible to attend	Attended	Eligible to attend	Attended	Eligible to attend	Attended
Mark Tincknell	8	8	–	–	–	–
Mark Davies	8	8	–	–	–	–
Stephen Hill	8	8	–	–	–	–
Tim Ross	8	8	3	3	3	3
Robert Alcock	8	8	3	3	3	3
Caroline Price	8	8	3	3	3	3

Induction and professional development

On joining the Board, all members including the Company Secretary participate in an induction programme including site visits, meetings with senior management and reviewing appropriate documentation. Julia Cavanagh undertook an appropriate induction programme post her appointment.

During the year the directors received professional briefings, including updates on governance and regulatory matters and financial reporting changes.

Board performance evaluation

An evaluation of Board and Committee effectiveness was undertaken during 2009. Each director completed a questionnaire relating to the operation of the Board and any relevant sub committees of which they were a member. The results of the evaluation were discussed by the Board, and it was concluded that it continued to operate effectively.

The non-executive directors also held separate meetings with each of the executive directors in relation to their individual performance. This will be undertaken annually.

Membership of the committees

The Board has delegated responsibility for certain matters to the following standing committees; nomination; remuneration and audit.

Nomination Committee

The Nomination Committee is chaired by the Senior Independent Director, Tim Ross. The other members are Mark Tincknell and Caroline Price. The Committee reviews the composition of the Board and makes recommendations in relation to changes, both in the nomination of new directors and the continuation of the appointment of existing directors. It is also responsible for the Board's succession planning.

Remuneration Committee

The Remuneration Committee comprises the three non-executive directors and is chaired by Caroline Price. Details of the activities of the Remuneration Committee are provided in the Directors' Remuneration Report on pages 40 to 49. The Chair of the Committee reports back to the Board on the Committee's findings after each meeting.

Audit Committee

The Audit Committee comprises the three non-executive directors and is chaired by Robert Alcock. Both Robert Alcock and Caroline Price have significant accounting experience having previously held positions as company finance directors.

The Committee met three times during the year, with each meeting agenda determined by the financial reporting cycle. The Committee reviewed a wide range of financial reporting and related matters, including the half year and annual accounts prior to their submission to the Board. Particular attention was paid to critical accounting policies and practices adopted by the Group and any significant areas of judgement that materially impact on the reported results.

The Committee provides a forum for the Group auditors to report on the nature, scope and timing of the statutory audit. It also undertakes an annual review of the continued independence, suitability and performance of the auditors, making its recommendation to the Board regarding fees and re-appointment of the auditors. The Committee met with the Group Finance Director to discuss the re-appointment of the auditors and their performance over the period. This provided an opportunity for a detailed discussion before the Committee made its recommendation to the Board. The Committee also considered the policy regarding the provision of non audit services by the auditors.

In accordance with its terms of reference the Committee has considered the Group's internal financial controls.

The Committee invited the Group Finance Director to attend the meetings as required.

The Chair of the Committee reports back to the Board on the Committee's findings after each meeting.

Risk management and internal controls

Acceptance of risk is an inherent part of undertaking business and the Group's risk management framework is designed to provide assurance that risk is both understood and managed whilst not discouraging the entrepreneurial spirit of the staff. The Board has overall responsibility for risk management and internal controls and for regularly reviewing their effectiveness. Senior management are responsible for implementing and maintaining the necessary control systems. Key internal control procedures include:

- The setting of Group policies which are then communicated and monitored for application across the business. Policies include financial, commercial, human resources, health and safety and information technology;
- Authority to operate the business within certain parameters is delegated by the Board to the divisional managing directors, and then further cascaded through the organisation.
- Comprehensive annual financial plans are prepared at the business unit level and then consolidated to form the divisional and Group budgets. Divisional managing directors are required to present their budgets to the Board as part of the review and approval process. There is a monthly review process of divisional performance by the executive directors, who also attend divisional board meetings;
- Key risks and mitigation actions are identified as part of the bidding and acquisition process. These form part of the integration plan post bid award or business acquisition;
- A risk register is in place to identify the key risks to the Group including financial; operations; people; health and safety. The Group register summarises the critical risks arising out of the divisional risk reviews.

The Group has a risk director who reports to the Company Secretary.

During the period the Group has appointed a business continuity director with responsibility for ensuring the robustness of the business continuity processes within the Group. Reviews have been undertaken of a number of key sites and remedial action plans produced where required.

The Board oversees the monitoring system and has delegated responsibility for the review of internal financial controls to the Audit Committee. The external auditors provide a role in supporting the Audit Committee in their review.

Whilst it is recognised that this system is designed to manage rather than eliminate the risk of failure to achieve business objectives and can only provide reasonable and not absolute assurance against material misstatement or loss, by following the risk management processes the Board can provide a reasonable assurance in relation to these matters.

The Board considers that due to the size of the Group and the effectiveness of existing control and review procedures, a separate internal audit function is not required.

By order of the Board
Julia Cavanagh
Company Secretary

28 October 2009

As required by Section 420 of the Companies Act 2006, the directors present the report on directors' remuneration for the year ended 31 August 2009. These regulations require the Company's auditors to report on certain sections of the Report, the "audited information", and to state that this information has been properly prepared in accordance with these regulations. This report is therefore divided into two sections containing audited and non-audited information. Shareholder approval of the report will be sought at the Company Annual General Meeting on 15 December 2009.

Part A: Unaudited information

Remuneration Committee

The Remuneration Committee comprises three independent non-executive directors of the Company; Robert Alcock; Tim Ross and Caroline Price, who acts as chairman of the Committee. Membership of the Committee has remained unchanged for the year. The Committee met three times during the year under review and there was full attendance at each of the meetings. The remit of the Committee covers the total remuneration of the executive directors and review of the remuneration of the senior managers of the Company. Full terms of reference for the Committee are available on the Company's website. The Committee retained the services of Hewitt New Bridge Street as external advisors to provide remuneration and tax advice. Hewitt New Bridge Street were appointed by the Committee for this purpose and provide no other services to the Company that do not relate to senior executive remuneration. Advice and support was also sought from the Executive Chairman, Chief Executive and Company Secretary. Meeting attendance by employees is by the invitation of the Committee but individuals are not present for discussions directly regarding their personal remuneration. The Committee also reviewed surveys and a benchmarking report which was commissioned by the executive directors during the period.

The key responsibilities of the Committee are:

- determining and agreeing with the Board the framework or broad policy for the remuneration of the Chairman, the Chief Executive, the Finance Director and certain other members of the executive management;
- reviewing the ongoing appropriateness and relevance of the remuneration policy;
- approving the design and targets for any annual incentive schemes that include the Chairman, the Chief Executive, the Finance Director, and certain other members of the executive management;
- agreeing the design and targets of share incentive plans;
- assessing the appropriateness and achievement of the performance targets relating to any incentive plans and share plans; and
- appointment of external advisors to the Committee.

Non-executive directors' fees are determined by the full Board (with relevant individuals absenting themselves from discussions where appropriate and particularly in relation to their own remuneration).

Remuneration policy

The Group's remuneration policy is:

- to ensure that individual rewards and incentives are aligned with the performance of the Group and the interests of shareholders;
- to maintain a competitive overall remuneration package in order to attract, retain and motivate high calibre executives capable of achieving the Group's objectives;
- to ensure that performance related elements form a significant proportion of total remuneration.

Key elements of remuneration

The key elements are:

- Base salary;
- Annual bonus scheme with deferral opportunity and matching shares;
- Performance share plan;
- Pension and other standard benefits.

As stated on the previous page, the Committee believes that a significant proportion of the executive directors' potential rewards should be performance-related, and seeks to achieve an appropriate balance between annual and long-term performance objectives through the bonus plan and share-based longer-term incentives. The Committee ensures pay and employment policies in the Group as a whole are taken into account when framing the executive remuneration policy.

In line with the Association of British Insurers' Guidelines on Responsible Investment Disclosure, the Committee ensures that the incentive structure for senior management will not raise environmental, social or governance ("ESG") risks by inadvertently motivating irresponsible behaviour. More generally, the Committee will ensure that the overall remuneration policy does not encourage inappropriate operational risk-taking.

In addition, the Committee regularly reviews the executive remuneration policy to ensure that it takes due account of market practice, best practice and the specific circumstances of the Company.

The main elements of the executive directors' remuneration packages are summarised below:

Element of remuneration	Policy	Delivery mechanism
Base salary	• Regular review against benchmark group(s); • Consideration is given to (i) the economic climate, (ii) market conditions (iii) performance of the Group (iv) the level of pay awards in the rest of the business and (v) the responsibilities of the individual director.	• Paid monthly in cash; • Reviewed annually with any increases normally awarded from 1st September.
Annual bonus scheme	• Drive financial performance across the business; • Stretching targets, primarily based on EPS, required to deliver maximum payment; • Use of EPS aligns performance to shareholders' interest.	• Paid annually on achievement of targets; • Bonus potential of 100%; • 50% of salary for on target EPS performance, with 100% for maximum performance; • Ability to defer up to 50% of net bonus earned into shares; • Shares matched by Company with 2:1 match, dependent on achievement of further EPS/TSR performance conditions over further 3 period.
Long-Term Incentive Plan	• Links individual reward with the long-term growth in the Company; • Performance measured against TSR and EPS growth targets over 3 year period; • Aligned to long-term shareholders' interest.	• Annual award; • Normally up to 100% of salary with up to 200% in exceptional circumstances; and 150% in first year of employment; • Awards vest after 3 years dependent on achievement of performance targets.
Benefits	• Delivered in line with market practice; • Delivered within a framework for all employees.	• Defined contribution pension scheme. Directors receive 15% contribution. Paid monthly; • Health care paid annually; • Life assurance cover; • Car or cash allowance, paid monthly.

Base salary

The executive directors' salaries are determined by the Committee as near as is practicable to the beginning of each year. In deciding appropriate levels, the Committee considers individual performance during the year and relies on objective research which gives up-to-date information on appropriate comparator companies in the support services sector and companies of a similar size in general industry.

In light of the current financial climate, and notwithstanding another year of excellent performance by the Company and its senior management team, it has been decided that no pay rises be given across the Group, except in exceptional circumstances. Directors' salaries have therefore remained unchanged for the forthcoming year. The current salaries of the executive directors, as at 1 September 2009, are: Mark Tincknell £400,000, Mark Davies £400,000 and Stephen Hill £275,000. A review of remuneration against external benchmarks will be undertaken prior to 1 September 2010.

Annual bonus

Potential rewards under the annual bonus scheme are based on the achievement of challenging targets determined by the Committee at the start of each year. The maximum bonus payable to executive directors is 100% of salary. In the year to 31 August 2009, bonuses were dependent on the achievement of demanding Group financial objectives, measured in terms of achieving and exceeding earnings per share ("EPS") growth targets.

The targets applying to the bonus scheme for the year to 31 August 2010 will again be primarily related to EPS growth targets, however performance will also be measured against additional key financial and strategic targets, which are: order book growth; customer loyalty; employee engagement; cash conversion; and management team performance. These targets will act as qualifiers which will reduce the total bonus amount payable in respect of the Company's EPS performance if not met.

2007 Long-Term Incentive Plan (LTIP)

The 2007 LTIP provides for the grant of "performance share awards" and "matching share awards".

The "normal" maximum value of performance shares that can be granted each year is 100% of salary, although awards up to 200% of salary can be granted if the Committee considers that circumstances are exceptional and therefore make it appropriate to do so. The Committee takes account of the continuing strong performance of the Company and the retention and motivation of the executive directors, when determining the level of the awards grants. As a result, awards made in the year to 31 August 2009 were over shares worth 125% of salary. Matching share awards are granted to the extent that executive directors take up the offer of investing up to 50% of their net annual bonus in Company shares, in return for which matching share awards are made on a 2:1 gross basis (1:1 for more junior participants).

All awards to the most senior executives (i.e. both performance share and matching share awards) vest after a three year period if demanding and stretching performance conditions have been achieved. Fifty percent of all awards made under the Plan to executive directors in the year to 31 August 2009 were subject to a performance condition based on the Company's Total Shareholder Return ("TSR") performance against a comparator group of 24 FTSE 350 companies from the support services and construction and materials sectors. The remaining 50% of awards were subject to an EPS-based performance condition based on real growth in the Company's adjusted EPS.

These awards will vest as follows:

Percentage of award that vests	The Company's TSR ranking against the comparator group	Average annual compound growth in adjusted EPS
Nil	Below median	<RPI + 15% pa
25%	Median	RPI + 15% pa
Between 25% and 100%	Between median and upper quartile	Between RPI + 15% pa and RPI + 25% pa

Straight-line vesting will occur between the targets. To the extent that the performance conditions are not met in full at the end of the three year performance period, awards lapse. The Committee will, where appropriate, seek independent third party verification as to the extent to which the performance conditions are satisfied.

When shareholder approval was sought for the establishment of the 2007 LTIP, it was stated that the Committee was aware that the EPS growth targets were materially more challenging than used by most other companies and that the continued use of these targets would be reviewed prior to subsequent grants to ensure that they remain appropriate. As noted in the 2008 Report and Accounts, a review of the performance conditions was undertaken during the year. The Committee considered the performance requirements for the Company scheme in comparison to a number of companies in the sector, both FTSE 250 and FTSE 100. The review demonstrated that the Company's EPS performance targets were significantly more onerous than all other companies in the comparator group.

As a consequence, the Committee has decided to apply different EPS targets to 50% of all awards that are to be made in the year to 31 August 2010. These targets, which the Committee believes are no less challenging in the circumstances than the targets previously applied to awards, and which remain more challenging than the targets applied by most companies, are set out below:

Percentage of this portion of award that vests	Average annual compound growth in adjusted EPS
Nil	<RPI + 6% pa
100%	RPI + 16% pa
Between Nil and 100%	Between RPI + 6% pa and RPI + 16% pa

The TSR performance condition, to which 50% of all such awards are subject, will remain unchanged.

The Committee have agreed in principle that the 2010 award for the performance share plan will be based on 100% of salary. Executives will be offered the opportunity to participate in the matching share plan based on the amount of the net bonus they invest in Company shares.

Headroom dilution

The Company operates a 15% in 10 years dilution limit for all of its share schemes, however, conscious of shareholders' views regarding dilution, the Committee undertook to grant awards under the LTIP at a rate consistent with the Company operating within the normal 10% in ten year dilution limit over time. Significant progress has been made towards this target, and as at the date of this report the dilution position was 9.7% of the issued share capital of the Company.

Pension policy

The Company makes contributions of 15% of the salaries of Mark Tincknell and Mark Davies to defined contribution (money purchase) private pension arrangements and 15% of the salary of Stephen Hill to a defined contribution (money purchase) executive pension scheme. Pension benefits in respect of the executive directors are given in the table on page 45. Directors did not receive any excess retirement benefits.

Non-executive directors' remuneration

The remuneration of the non-executive directors is determined by the Board in accordance with the Articles and taking account of time commitment, responsibility and fee levels paid in other comparable organisations. The non-executive directors do not have service contracts with the Company, neither are they eligible for bonuses, pensions or participation in the Company's share incentive arrangements. The table below shows the date of appointment and re-appointment for each of the non-executive directors.

Tim Ross	5 December 2007 (re-appointment)
Robert Alcock	1 September 2006
Caroline Price	1 September 2006

Non-executive directors' fees were increased with effect from 1 September 2008 as follows:

Tim Ross	£50,000
Robert Alcock	£40,000
Caroline Price	£35,000

The fees were not increased with effect from 1 September 2009.

Directors' service contracts

In accordance with recommended practice under the 2008 Code, it is Company policy to have service contracts for executive directors which contain a notice period of not more than twelve months. Every director is subject to re-election at the Company's Annual General Meeting at least every 3 years.

The executive directors all have service contracts with the Company, details of which are as follows:

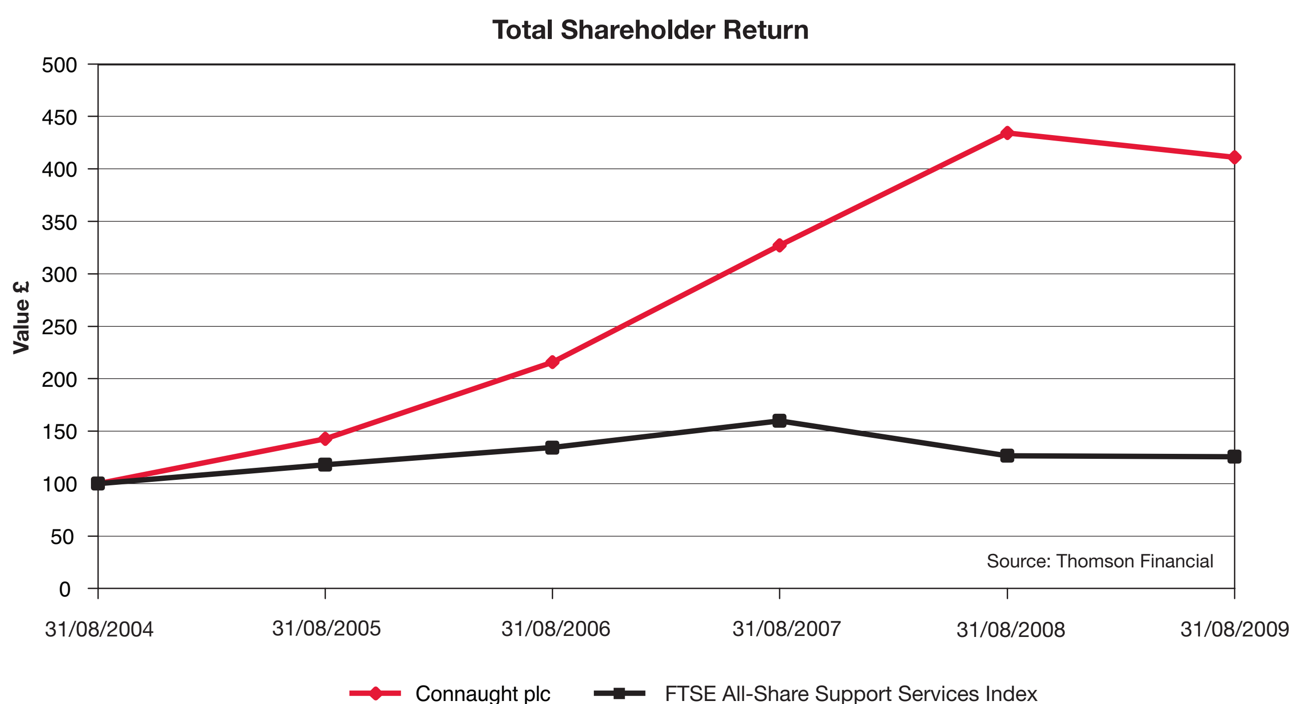
	Contract date	Unexpired term and notice period	Contractual termination payments
Mark Tincknell	1 September 2005	Rolling contract 12 months	None
Mark Davies	1 December 2005	Rolling contract 12 months	None
Stephen Hill	1 September 2006	Rolling contract 12 months	None

None of the executive directors currently earn remuneration from external non-executive appointments. Such appointments can be taken up, provided they do not prejudice the director's ability to fulfil his duties with this Company. Whether any related fees are retained by the executive or remitted to the Company will be considered on a case-by-case basis.

With the exception of service contracts there are no contracts in which any director has a material interest.

Company performance

This graph shows a comparison of the Company's total shareholder return (share price growth plus dividends paid) with that of the FTSE All-Share Support Services Index over the last five financial years. The Company has selected this index as it comprises companies with broadly similar activities and provides an appropriate indication of the Company's relative performance for these purposes.



This graph shows the value, by 31 August 2009, of £100 invested in the Company on 31 August 2004 compared with the value of £100 invested in the FTSE All-Share Support Service Index. The other points plotted are the values at intervening financial years.

Part B Audited information

Directors' remuneration

Pension contributions

	Fees or salary £'000	Bonus £'000	Vehicle benefits £'000	Health insurance benefits £'000	Total 2009 £'000	Total 2008 £'000	Pension contributions 2009 £'000	Pension contributions 2008 £'000
M W Tincknell	400	322	18	1	**741**	591	**60**	55
M D Davies	400	322	18	1	**741**	591	**60**	55
S R Hill	275	207	15	1	**498**	396	**41**	36
T S Ross	50	–	–	–	**50**	50	**–**	–
R Alcock	40	–	–	–	**40**	35	**–**	–
C Price	35	–	–	–	**35**	27	**–**	–
	1,200	851	51	3	**2,105**	1,690	**161**	146

Directors' share incentives

According to the Register of Directors' interests, the rights of the directors to subscribe for shares or debentures in the Company are as follows:

	Date of grant £'000	Number at 1 September 2008 (2p shares) £'000	Granted in year £'000	Exercised/ lapsed/ waived in year £'000	Number at 31 August 2009 (2p shares) £'000	Earliest exercise date £'000	Expiry date £'000	Exercise price (pence) £'000
M W Tincknell								
1998 LTIP	1 Dec 2004	81,000	–	–	81,000	15 Dec 2007	1 Dec 2014	–
1998 LTIP	31 Dec 2006	20,637	–	(20,637)	–	–	–	–
2007 LTIP	5 Dec 2007	137,076	–	–	137,076	5 Dec 2010	5 Dec 2017	–
2007 LTIP	18 Dec 2008	–	197,904	–	197,904	18 Dec 2011	18 Dec 2018	–
		238,713	**197,904**	**(20,637)**	**415,980**			
M D Davies								
1998 LTIP	1 Dec 2004	81,000	–	–	81,000	15 Dec 2007	1 Dec 2014	–
1998 LTIP	31 Dec 2006	20,637	–	–	20,637	31 Dec 2008	31 Dec 2016	–
2007 LTIP	5 Dec 2007	137,076	–	–	137,076	5 Dec 2010	5 Dec 2017	–
2007 LTIP	18 Dec 2008	–	225,856	–	225,856	18 Dec 2011	18 Dec 2018	–
Share options	6 Dec 2004	2,500,000	–	–	2,500,000	6 Dec 2007	6 Dec 2014	95
		2,738,713	**225,856**	**–**	**2,964,569**			
S R Hill								
2007 LTIP	5 Dec 2007	88,120	–	–	88,120	5 Dec 2010	5 Dec 2017	–
2007 LTIP	18 Dec 2007	10,990	–	–	10,990	18 Dec 2010	18 Dec 2017	–
2007 LTIP	18 Dec 2008	–	105,825	–	105,825	18 Dec 2011	18 Dec 2018	–
Share options	1 Sep 2006	1,000,000	–	–	1,000,000	1 Sep 2009	1 Sep 2016	203
		1,099,110	**105,825**	**–**	**1,204,935**			

During the year Mark Tincknell exercised 20,637 share options and retained the shares. In October 2009, Mark Davies exercised 101,637 LTIP and 2,500,000 ESOS options. Of the 1,646,377 shares sold, 1,396,377 were sold to fund the tax, NI and the grant cost of the options. Mr Davies retained 955,260 shares. The gain on sale after deductions was £1,057,818.

In October 2009, Stephen Hill exercised 1,000,000 ESOS options. Of the 900,000 shares sold, 691,812 were sold to fund the tax, NI and the grant cost of the options. Mr Hill retained 100,000 shares. The gain on sale after deductions was £882,239.

The market price of the Company's shares as at 28 August 2009 was £3.76 *(2008: £4.00)* and on 18 December 2008 was £3.64. The share price in the year varied between £2.96 and £4.07 *(2008: £3.19 and £4.31)*

The relevant performance conditions for all awards are described on pages 42 and 43.

Directors' interests

The directors who held office at the end of the financial year, and up to the date of this report, had the following beneficial interests in the shares of the Company as recorded in the Register of Directors' share interests below.

No director had shares in any other Group Company.

	Class of share	Interest at beginning of year or at date of appointment	Interest at 31 August 2009	Interest at 27 October 2009
M W Tincknell	Ordinary 2p	1,309,843	698,480	698,480
M D Davies	Ordinary 2p	257,045	283,358	1,238,618
S R Hill	Ordinary 2p	9,151	12,534	112,534
T S Ross	Ordinary 2p	22,690	22,690	22,690
R Alcock	Ordinary 2p	11,818	11,818	11,818
C Price	Ordinary 2p	–	–	–

Caroline Price is prevented from holding shares in the Company due to her spouse's professional independence rules.

During the year, the following share transactions were made by the directors:

On 18 December 2008 the executive directors acquired shares in the Company pursuant to the 2007 LTIP annual bonus scheme; Mark Tincknell 18,000 shares; Mark Davies 26,313 shares; and Stephen Hill 3,383 shares. The share price was £3.64. Mark Tincknell also undertook the following transactions in the year; on 27 January 2009, he exercised 20,637 share options and retained the shares and on 7 May he sold 650,000 shares at a price of £3.55 per share. As described above Mark Davies and Stephen Hill exercised options after the year end and sold shares at £4.25 per share.

Executive Share Option Scheme

The Executive Share Option Scheme ("ESOS") was introduced in November 1998. Under the ESOS the Committee was able to grant options over shares in the Company to senior executives of the Company. Options were granted on a discretionary basis relative to executives' seniority within the Group. Options were granted with a fixed exercise price equal to the market price of the shares under option at the date of grant. The contractual life of an option is ten years. Options granted under the ESOS will become exercisable on the third or fifth anniversary of the date of grant, subject to the growth in EPS over the period exceeding an average of inflation plus 5% to 15%. Exercise of an option is subject to continued employment.

There were no options granted in relation to this year in the period under review, nor will further options be granted under this scheme.

Options granted in previous years were valued using the Black Scholes option pricing model. The Black Scholes model is considered to be appropriate for valuing options granted under this scheme as it most closely models management's best assessment of the likely behavioural patterns of the option holders. The model uses the following assumptions:

	2009	2008
Grant date	**No grants made**	October 2007
Weighted average share price at grant date	–	362.4p
Weighted average exercise price	–	362.4p
Expected life	–	3-5 years
Expected volatility	–	17.6 -23.5%
Risk free rate	–	4.43 - 4.70%
Expected dividend yield	–	1.0%
Weighted average fair value per option	–	54.4p

The model assumes participatory employees remain in employment with the Group and that all performance conditions are met.

	2009		2008	
	Number	**Weighted average exercise price (pence)**	Number	Weighted average exercise price (pence)
Outstanding at 1 September	**5,962,500**	**148.5**	6,527,500	146.8
Granted	**0**	**0**	700,000	362.4
Lapsed	**0**	**0**	(850,000)	298.5
Exercised	**(340,376)**	**79.3**	(415,000)	125.8
Outstanding at 31 August	**5,622,124**	**152.6**	5,962,500	148.5
Exercisable at 31 August	**2,872,124**	**96.7**	3,212,500	94.9

The weighted average share price at the date of exercise for share options exercised during the year was 423.2p *(2008: 369.6p)*. The options outstanding at 31 August 2009 had a weighted average exercise price of 152.6p *(2008:148.5p)* and weighted average remaining contractual life of 5.9 years *(2008: 7.0 years)*.

The expected volatility of the share price is based on historical volatility over the last three years preceding the grant date.

1998 Long-Term Incentive Plan (LTIP)

The 1998 Long-Term Incentive Plan ("1998 LTIP") was introduced in November 1998. The 1998 LTIP allowed for a bonus in shares or a mixture of shares and cash to be granted to directors and senior managers exceeding profit growth targets. The scheme provided bonus shares equal to the value of an agreed percentage of the profits of the relevant business over the budgeted profit and after accounting for any other bonuses due to be paid. In normal circumstances, the shares granted are held for three years before vesting absolutely and the employee must generally remain in the employment of the Group in order for the bonus shares to vest.

There were no awards granted in relation to this plan in the period under review. Nor will further awards be granted to executive directors as 1998 LTIP has expired.

2007 Long-Term Incentive Plan (LTIP)

The 2007 Long-Term Incentive Plan ("2007 LTIP") was introduced in December 2007. The 2007 LTIP provides for the grant of two types of awards (i) performance awards, being conditional rights to receive shares subject to continued employment over the vesting period and the satisfaction of performance criteria and (ii) matching awards, akin to performance awards except the initial grant and subsequent vesting are also conditional on the retention of linked investment shares, which are acquired by the participant prior to the LTIP grant using up to 50% of their annual bonus.

Share-based payments

The fair value of options granted under the 2007 LTIP is measured as the market price of the ordinary shares on the date of grant, less the present value of dividends expected to be paid during the vesting period. This method is considered to be the most appropriate for valuing options granted under the 2007 LTIP as it treats the options as share awards.

	2009 (2007 LTIP)	2008 (2007 LTIP)	2008 (1998 LTIP)
Grant date			
Share price at grant	**364.0p**	365.0/386.0p	362.4p
Exercise price	**Nil**	Nil	Nil
Vesting period	**3 Years**	3 Years	3 Years
Option life	**3 Years**	3 Years	3 Years
Expected life	**3 Years**	3 Years	3 Years
Risk free rate	**4.57%**	4.57%	4.57%
Expected dividend yield	**1.0%**	1.0%	1.0%

The model assumes participatory employees remain in employment with the Group and that all performance conditions are met.

Share-based payments

The weighted average exercise price of all LTIP awards is nil pence.

The table below combines the movement of options in relation to both the 1998 and 2007 LTIPS.

	2009 Number	2008 Number
Outstanding at 1 September	**1,407,090**	717,334
Granted	**1,137,943**	1,433,589
Waived/lapsed	**(71,719)**	(385,723)
Exercised	**(183,869)**	(358,110)
Outstanding at 31 August	**2,289,445**	1,407,090
Exercisable at 31 August	**223,326**	202,690

The profit & loss charge relating to share-based payments is detailed in note 20 of the accounts.

Outstanding share options

At the year end the outstanding options to purchase ordinary shares in the Company, in accordance with the terms of the applicable schemes, were as follows:

Scheme	Date of grant	Number of shares under option at 31 August 2009	Number of shares under option at 31 August 2008	Exercise price per share	Expiry date
Executive Share Option Scheme	13 Aug 1999	–	20,000	41.6p	13 Aug 2009
	2 Jan 2001	–	25,000	51.5p	2 Jan 2011
	10 Dec 2001	17,500	27,500	59.5p	10 Dec 2011
	30 Oct 2002	–	125,000	50.0p	30 Oct 2012
	4 Mar 2003	15,000	15,000	48.5p	4 Mar 2013
	6 Dec 2004	2,500,000	2,500,000	95.0p	6 Dec 2014
	14 Mar 2005	339,624	500,000	113.4p	14 Mar 2015
	7 Sep 2005	500,000	500,000	140.0p	7 Sep 2015
	9 Jun 2006	500,000	500,000	181.0p	9 Jun 2016
	1 Sep 2006	1,150,000	1,150,000	203.2p	1 Sep 2016
	10 Jan 2007	100,000	100,000	296.5p	10 Jan 2017
	17 Aug 2007	500,000	500,000	313.0p	17 Aug 2017
Long-Term Incentive Plan	2 Jan 2001	9,705	9,705	–	2 Jan 2011
	14 Nov 2001	2,195	2,195	–	14 Nov 2011
	10 Jan 2003	6,290	6,290	–	10 Jan 2013
	15 Mar 2006	184,500	184,500	–	15 Mar 2016
	31 Dec 2006	20,637	114,935	–	31 Dec 2016
	24 Apr 2007	–	41,600	–	24 Apr 2017
	26 Oct 2007	217,359	315,557	–	26 Oct 2017
	1 Nov 2007	13,708	13,708	–	1 Nov 2017
	5 Dec 2007	597,918	605,418	–	5 Dec 2017
	18 Dec 2007	109,190	113,182	–	18 Dec 2017
	31 Dec 2008	1,127,943	–	–	31 Dec 2018

Caroline Price
Chairman of the Remuneration Committee

28 October 2009

Statement of Directors' Responsibilities

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

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have elected to prepare the Group financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union ("EU"), and the Parent Company financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law). Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the 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 accounting estimates that are reasonable and prudent;
- state whether IFRSs as adopted by the EU and applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the Group and Parent Company financial statements respectively;
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and the Group and enable them to ensure that the financial statements and the Directors' Remuneration Report comply with the Companies Act 2006 and, as regards the Group financial statements, Article 4 of the IAS Regulation. They are also responsible for safeguarding the assets of the Company and the Group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

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

Each of the directors in service at the date of approval of this report confirm that, to the best of their knowledge:

- the Group financial statements, which have been prepared in accordance with IFRSs as adopted by the EU, give a true and fair view of the assets, liabilities, financial position and profit of the Group; and
- the review of the business on pages 4 to 31 includes a fair review of the development and performance of the business and the position of the Group, together with a description of the principal risks and uncertainties that it faces.

By order of the Board

Julia Cavanagh
Company Secretary

28 October 2009

We have audited the Group financial statements of Connaught plc for the year ended 31 August 2009 which comprise the Consolidated Income Statement, the Consolidated Statement of Changes in Equity, the Consolidated Balance Sheet, the Consolidated Cash Flow Statement, the Statement of Consolidated Accounting Policies and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union.

Respective responsibilities of directors and auditors

As explained more fully in the Directors' Responsibilities Statement, the directors are responsible for the preparation of the Group financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit the Group financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

This report, including the opinions, has been prepared for and only for the Company's members as a body in accordance with Sections 495 and 496 – of the Companies Act 2006 and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come, save where expressly agreed by our prior consent in writing.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Group's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the directors; and the overall presentation of the financial statements.

Opinion on financial statements

In our opinion the Group financial statements:

- give a true and fair view of the state of the Group's affairs as at 31 August 2009 and of its profit and cash flows for the year then ended;
- have been properly prepared in accordance with IFRSs as adopted by the European Union; and
- have been prepared in accordance with the requirements of the Companies Act 2006 and Article 4 of the IAS Regulation.

Opinion on other matter prescribed by the Companies Act 2006

In our opinion:

- the information given in the Directors' Report for the financial year for which the Group financial statements are prepared is consistent with the Group financial statements.

Matters on which we are required to report by exception

We have nothing to report in respect of the following:

Under the Companies Act 2006 we are required to report to you if, in our opinion:

- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

Under the Listing Rules we are required to review:

- the directors' statement, on page 50, in relation to going concern; and
- the part of the Corporate Governance Statement relating to the Company's compliance with the nine provisions of the June 2008 Combined Code specified for our review.

Other matter

We have reported separately on the Parent Company financial statements of Connaught plc for the year ended 31 August 2009 and on the information in the Directors' Remuneration Report that is described as having been audited.

S W Harrison (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
Bristol

29 October 2009

Consolidated Income Statement
for the year ended 31 August 2009

	Note	2009 £m	2008 £m
Continuing operations			
Revenue	2	**659.6**	552.9
Cost of sales		**(559.7)**	(474.8)
Gross profit		**99.9**	78.1
Administrative expenses		**(67.3)**	(51.2)
Operating profit before amortisation of acquisition intangible assets and exceptional item	2	**48.4**	35.9
Amortisation of acquisition intangible assets	11	**(9.0)**	(7.0)
Exceptional item	30	**(6.8)**	(2.0)
Operating profit	2	**32.6**	26.9
Finance costs	5	**(8.8)**	(6.7)
Finance income	6	**2.9**	1.5
Profit before tax	3	**26.7**	21.7
Tax expense	7	**(9.2)**	(6.5)
Profit for the financial year attributable to equity shareholders	20	**17.5**	15.2

Earnings per ordinary share		Pence per share	Pence per share
Basic	9	**14.2**	12.8
Diluted	9	**13.5**	12.2

Consolidated Statements of Changes in Equity

	Note	Share capital £m	Share premium £m	Treasury shares £m	Retained earnings £m	Other reserves £m	Total equity £m
At 1 September 2008	18,19,20	2.5	80.2	(1.5)	37.9	7.7	126.8
Profit for year	20	–	–	–	17.5	–	17.5
Shares							
– proceeds from shares issued	18,19	0.2	28.2	–	–	–	28.4
– share-based payments	20	–	–	–	–	1.3	1.3
Dividends	8	–	–	–	(3.5)	–	(3.5)
Hedging reserve	–	–	–	–	–	(3.0)	(3.0)
At 31 August 2009		**2.7**	**108.4**	**(1.5)**	**51.9**	**6.0**	**167.5**

	Note	Share capital £m	Share premium £m	Treasury shares £m	Retained earnings £m	Other reserves £m	Total equity £m
At 1 September 2007	18,19,20	2.1	20.0	(1.2)	24.4	7.4	52.7
Purchase of treasury shares	20	–	–	(0.3)	–	–	(0.3)
Profit for year	20	–	–	–	15.2	–	15.2
Shares							
– proceeds from shares issued	18,19	0.4	60.2	–	–	–	60.6
– share-based payments	20	–	–	–	1.2	0.3	1.5
Dividends	8	–	–	–	(2.9)	–	(2.9)
At 31 August 2008		**2.5**	**80.2**	**(1.5)**	**37.9**	**7.7**	**126.8**

Consolidated Balance Sheet
at 31 August 2009

	Note	2009 £m	2008 £m
Non-current assets			
Goodwill	10	**175.2**	147.6
Acquisition intangible assets	11	**24.6**	27.3
Other intangible assets	11	**15.5**	9.9
Property, plant and equipment	12	**9.1**	6.3
Trade and other receivables	15	**27.8**	12.6
Deferred tax asset	13	**–**	–
		252.2	203.7
Current assets			
Inventories	14	**7.5**	7.4
Trade and other receivables	15	**154.8**	124.5
Cash and cash equivalents	27	**56.4**	50.0
		218.7	181.9
Total assets		**470.9**	385.6
Current liabilities			
Borrowings	16	**(11.5)**	(16.8)
Trade and other payables	16	**(148.0)**	(132.7)
Current tax liabilities	16	**(3.3)**	(0.1)
		(162.8)	(149.6)
Non-current liabilities			
Borrowings	17	**(133.9)**	(104.1)
Deferred tax liabilities	17	**(1.7)**	(5.1)
Derivative financial instruments	24	**(5.0)**	–
		(140.6)	(109.2)
Total liabilities		**(303.4)**	(258.8)
Net assets		**167.5**	126.8
Shareholders' equity			
Ordinary shares	18	**2.7**	2.5
Share premium	19	**108.4**	80.2
Retained earnings	20	**51.9**	37.9
Other reserves	20	**4.5**	6.2
Total equity		**167.5**	126.8

These financial statements were approved and authorised for issue by the Board of Directors on 28 October 2009 and were signed on its behalf by:

M W Tincknell
Director

S R Hill
Director

Consolidated Cash Flow Statement
for the year ended 31 August 2009

	Note	2009 £m	2008 £m
Cash generated from operations	25	**13.7**	25.7
Exceptional items		**(0.6)**	–
Interest received		**2.9**	1.5
Interest paid		**(9.5)**	(6.7)
Tax paid		**(8.8)**	(5.6)
Net cash generated from operating activities		**(2.3)**	14.9
Cash flows from investing activities			
Acquisition of subsidiaries/businesses		**(14.9)**	(117.8)
Development expenditure	11	**(11.2)**	(7.5)
Proceeds from sale of property, plant and equipment		**5.0**	5.2
Purchase of property, plant and equipment	12	**(3.8)**	(4.8)
Net cash used in investing activities		**(24.9)**	(124.9)
Cash flows from financing activities			
Net proceeds from issue of ordinary share capital	18	**12.5**	60.3
Purchase of treasury shares		**–**	(1.0)
Net proceeds from issue of new bank loan		**81.5**	93.5
Finance lease principal payments		**(0.1)**	(0.3)
Repayment of borrowings		**(56.8)**	(15.2)
Dividends paid to shareholders	8	**(3.5)**	(2.9)
Net cash generated from financing activities		**33.6**	134.4
Net increase in cash and cash equivalents	28	**6.4**	24.4
Cash and cash equivalents at 1 September		**50.0**	25.6
Cash and cash equivalents at 31 August	27	**56.4**	50.0

The principal accounting policies adopted by the Group in the preparations of these financial statements are set out below. These policies have been consistently applied to all years presented unless otherwise stated.

Basis of preparation

These financial statements have been prepared in accordance with International Financial Reporting Standards (IFRSs) and International Financial Reporting Interpretation Committee (IFRIC) interpretations adopted by the European Union (EU) and with those parts of the Companies Act 2006 applicable to companies reporting under IFRS.

These financial statements have been prepared under the historical cost convention modified for the fair value of share-based payments and financial derivatives.

The preparation of financial statements in conformity with generally accepted accounting principles requires the use of estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Although these estimates are based on management's best knowledge of the amount, event or actions, actual results ultimately may differ from those estimates.

The primary statements within the financial statements contained in this document have been presented in accordance with IAS 1 'Presentation of Financial Statements'.

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and entities controlled by the Company (its subsidiaries) made up to 31 August each year. Control is achieved where the Company has the power to govern the financial and operating policies of an investee entity so as to obtain benefits from its activities.

The results of subsidiaries and joint ventures acquired or disposed of during the year are included in the consolidated income statement from the effective date of acquisition or up to the effective date of disposal as appropriate.

The Group balance sheet incorporates the shares held by the Connaught Employee Share Trust and which have not vested by the balance sheet date. These are shown as a deduction from shareholders' equity until such a time as they vest unconditionally with the employees.

Where necessary, adjustments are made to the financial statements of subsidiaries to bring accounting policies used into line with those used by the Group.

All intra-group transactions, balances, income and expenses are eliminated on consolidation.

At the date of authorisation of these financial statements, the following Standards and Interpretations which have not been applied in these financial statements were in issue but not yet effective.

Amendment to IFRS 1 'First time adoption of IFRS' and IAS 27 'Consolidated and separate financial statements' on the 'Cost of an investment in a subsidiary, jointly controlled entity or associate'

Amendments to IFRS 2, Share-based payments group cash-settled transactions

Amendment to IFRS 7, 'Financial instruments: Disclosures'

IAS 1 (revised), 'Presentation of financial statements'

IAS 23 (revised), 'Borrowing costs'

IAS 27 (revised), 'Consolidated and separate financial statements'

Amendment to IAS 32, 'Financial instruments: Presentation', and IAS 1, 'Presentation of financial statements on 'Puttable financial instruments and obligations arising on liquidation'

Amendment to IAS 39, 'Financial Instruments: Recognition and measurement' on 'Eligible hedged items'

Amendment to IAS 39, 'Financial instruments: Recognition and measurement', and IFRS 7, 'Financial instruments: Disclosures', on the 'Reclassification of financial assets'

Amendments to IFRIC 9 and IAS 39 regarding embedded derivatives

IFRIC 15, 'Agreements for construction of real estates'

IFRIC 16, 'Hedges of a net investment in a foreign operation'

IFRIC 17, 'Distributions of non-cash assets to owners'

IFRIC 18, 'Transfer of assets from customers'

Standards, amendments and interpretations not yet effective, but not expected to have a significant impact on the Group's results:

IFRS 8, 'Operating segments'

This standard replaces IAS 14 and uses a 'management approach', under which segment information is presented on the same basis as that used for internal reporting purposes. The Group is reviewing the impact of this policy and it is unlikely that the reportable segments will change.

Amendment to IFRS 2, 'Share-based payments' on 'Vesting conditions and cancellations'

This impact of this amendment to the standard is under review.

IFRS 3 (revised), 'Business combinations'
The Group will incorporate the revised standard in 2010. Acquisition costs are currently capitalised, with effect from 1 September 2009 these costs where material will be treated as exceptional items.

Business combinations

The acquisition of subsidiaries is accounted for using the purchase method. The cost of the acquisition is measured at the aggregate of the fair value, at the date of exchange, of assets given, liabilities incurred or assumed, and the equity instruments issued by the Group in exchange for control of the acquiree, plus any costs directly attributable to the business combination. The acquiree's identifiable assets, liabilities and contingent liabilities that meet the conditions for recognition under IFRS 3 'Business Combinations' are recognised at their fair value at the acquisition date.

Goodwill

Goodwill arising on an acquisition is recognised as an asset and initially measured at cost, being the excess of the cost of the business combination over the Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities recognised. If, after reassessment, the Group's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities exceeds the cost of the business combination, the excess is recognised immediately in the income statement.

Goodwill is recognised as an intangible asset. Goodwill is not amortised and is reviewed for impairment at least annually. Any impairment is recognised immediately in the income statement and is not subsequently reversed.

On disposal of a subsidiary or jointly-controlled entity, the attributable amount of goodwill is included in the determination of the profit or loss on disposal.

Goodwill arising on acquisitions before the date of transition to IFRS has been carried forward as the net book value at the date of transition adjusted where appropriate for impairment. Goodwill written off to reserves under UK GAAP prior to 1998 has not been reinstated.

Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable and represents amounts receivable for goods and services provided in the normal course of business, net of discounts, VAT and other sales-related taxes.

Details of the Group's accounting policies for long-term social housing contracts and maintenance contracts are set out below. Interest income is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that discounts estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount.

Long-term social housing contracts

The Group has a number of long-term contracts in the social housing sector. Where the outcome of such long-term contracts can be measured reliably, revenue and costs are recognised by reference to the stage of completion of the contract activity at the balance sheet date in accordance with IAS 18 'Revenue'. This is measured by the proportion that contract costs incurred for work performed to date bear to the estimated total costs, except where this would not be representative of the stage of completion. Variations in contract work, claims and incentive payments are included to the extent that their recoverability is probable.

Pre-contract costs are expensed as incurred, except where there is a reasonable certainty that the contract will be awarded, in which case they are recognised as an asset which is amortised to the income statement over the period in which they are reimbursed.

Where the outcome of a long-term contract cannot be estimated reliably, contract revenue is recognised to the extent of contract costs that it is probable will be recovered. Contract costs are matched with the contract revenue to which they relate. To the extent that costs are not recoverable they are expensed in the period in which they are incurred.

When it is probable that the total contract costs will exceed total contract revenue, the expected loss is recognised as an expense immediately.

Amounts recoverable on contracts are included in debtors and represent turnover recognised in excess of payments on account.

Maintenance contracts

The Group has a number of contracts for planned maintenance and reactive maintenance in the compliance segment. Planned maintenance revenue is recognised when the work is carried out. Reactive maintenance revenue is recognised over the period of the contract term.

Segmental information

Segmental information is based on the Group's management structure, which is based on business segments.

Unallocated items comprise mainly central corporate expenses. Specific corporate expenses are allocated to the corresponding segments. Segment assets comprise goodwill, other intangible assets, property, plant and equipment, other receivables and prepayments, inventories and trade and other receivables (excluding corporation tax recoverable). Liabilities comprise trade and other payables. Inter-segment trading is not significant.

Research and development expenditure

Where the Group undertakes development activities, and where those activities are in respect of a specific product

that is anticipated to be profitable within identified markets, the costs attributable to that development are deferred and amortised over the expected life of the product. These costs deferred in respect of existing products are being amortised on a straight line basis over five years being the period over which the Group is expected to benefit.

Leases

Where the Group enters into a lease which entails taking substantially all the risks and rewards of ownership of an asset, the lease is treated as a 'finance lease'. The asset is recorded at its fair value in the balance sheet as a tangible fixed asset and is depreciated over its estimated useful life or the term of the lease, whichever is shorter. Future instalments under such leases, net of finance charges, are included within creditors. Rentals payable are apportioned between the finance element, which is charged to income statement, and the capital element, which reduces the outstanding obligation for future instalments.

All other leases are accounted for as 'operating leases' and the rental charges are charged to the income statement on a straight line basis over the life of the lease.

Share-based payments

The Group has applied the requirements of IFRS 2 'Share-based payment'. In accordance with the transitional provisions, IFRS 2 has been applied to all grants of equity instruments at 7 November 2002 that were not fully vested as of 1 September 2005.

The Group issues equity-settled share-based payments to certain employees and until 1 September 2006 operated an Inland Revenue approved Save As You Earn share option scheme open to eligible employees which allows the purchase of shares at a discount. These are measured at fair value at the date of grant. The fair value is expensed on a straight-line basis over the vesting period, based on the Group's estimate of shares that will eventually vest.

Fair value is measured by use of the Black Scholes model as set out on page 47. The expected life used in the model has been adjusted, based on management's best estimate, for the effects of non-transferability, exercise restrictions, and behavioural considerations. Where relevant, the value of the option has also been adjusted to take account of market conditions applicable to the option.

Borrowings

Borrowings are recognised initially at fair value, net of transaction costs incurred. Borrowings are subsequently stated at amortised cost: any difference between the proceeds (net of transactions) and the redemption value is recognised in the income statement over the period of the borrowings.

All borrowing costs are recognised as an expense using the effective interest method.

Pension costs

The Group contributes into defined contribution and Group personal pension schemes. The assets of the schemes are held separately from those of the Group in independently administered funds. The amounts charged against profits represent the contributions payable to the schemes in respect of the accounting period. The Group also contributes to a number of immaterial defined benefit schemes established under the Transfer of Undertakings (Protection of Employment) Regulations (TUPE).

Government grants

Capital based government grants are included within other payables in the balance sheet and credited to the income statement over the estimated useful economic lives of the assets to which they relate in accordance with IAS 20 'Accounting for government grants and disclosure of government assistance'.

Tax including deferred tax

The tax expense represents the sum of current tax expense and deferred tax expense.

Current tax expense is based on taxable profit for the year. Taxable profit differs from net profit as reported in the income statement because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the balance sheet date.

Deferred tax is provided in full, using the liability method, on temporary differences at the balance sheet date between the tax bases of assets and liabilities and their carrying amounts for accounting purposes. The Group's liability for deferred tax is calculated using tax rates that have been enacted or substantively enacted by the balance sheet date.

Deferred tax liabilities are recognised for all taxable temporary differences. Deferred tax assets are recognised for all deductible temporary differences, carry forward of unused tax credits and unused tax losses, to the extent that it is probable that taxable profit will be available against which these items can be utilised.

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries and joint ventures, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is considered no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be utilised.

Property, plant and equipment

Assets held for use in the rendering of services, or for administrative purposes, are stated in the balance sheet at cost, net of accumulated depreciation and any provision for impairment.

Freehold land is not depreciated. In respect of other assets depreciation is provided by the Group to write off the cost less the estimated residual value of tangible fixed assets over their estimated useful economic lives as follows:

Buildings	–	2% straight line per annum
Leasehold improvements	–	Charged over life of lease
Motor vehicles	–	25% straight line per annum
Fixtures, fittings, tools and equipment	–	20% straight line per annum
Plant and machinery	–	20% straight line per annum
Computer hardware	–	25% straight line per annum

Asset lives and residual values are reviewed annually.

Intangible assets

Intangible assets acquired in a business combination are capitalised at fair value at the date of acquisition. Following initial recognition, finite life intangible assets are amortised on a straight-line basis over their estimated useful economic lives, which vary between three and five years, with the expense taken to the income statement through operating expenses.

Customer relationships represent the value of contracts acquired on the acquisition of subsidiaries and are amortised over the average length of the contracts which is currently 3.25 years.

Computer software purchased is amortised over its useful life or four years.

Development expenditure, relating to software, is capitalised as an intangible asset only if all of the following conditions are met:

- an asset is created that can be identified;
- it is probable that the asset created will generate future economic benefits; and
- the development cost of the asset can be measured reliably.

Development expenditure is amortised over the period in which the Group is expected to benefit. This period is between three to five years, or the length of the contract if longer. Provision is also made for any impairment, following an annual review of the above factors. All other development expenditure is written off as incurred.

Impairment of tangible and intangible assets

Annually, or whenever events or changes in circumstances indicate the carrying amounts may not be recoverable, the Group reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where the asset does not generate cash flows that are independent from other assets, the Group estimates the recoverable amount of the cash-generating unit (CGU) to which the asset belongs.

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or CGU) is estimated to be less than its carrying amount, the carrying amount of the asset (or CGU) is reduced to its recoverable amount. An impairment loss is recognised as an expense immediately in the income statement.

Where an impairment loss subsequently reverses, the carrying amount of the asset (or CGU) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (or CGU) in prior years. A reversal of an impairment loss is recognised as income immediately. Impairment losses on goodwill once impaired are not reversed.

Impairment losses and reversals are included with other expenses within the consolidated income statement.

Inventories

Inventories are stated at the lower of cost and net realisable value and comprise service spares and long-term project based contract balances. Cost comprises direct materials and, where applicable, direct labour costs that have been incurred in bringing the inventories to their present location and condition.

Long-term contract work in progress

Contract work in progress is stated as costs incurred, less those transferred to the income statement, after deducting foreseeable losses and payments on account not matched with turnover.

Amounts recoverable on contracts and pre-contract costs

Amounts recoverable on contracts are included in trade and other receivables and represent turnover recognised in excess of payments on account.

Pre-contract costs are expensed as incurred, except where there is a reasonable certainty that the contract will be awarded, in which case they are recognised as an asset

(within amounts recoverable on contracts) which is amortised to the income statement over the period in which they are reimbursed, generally equivalent to the term of the contract.

Cash and cash equivalents

Cash and cash equivalents comprise cash in hand and balances with bank and similar institutions, which are readily convertible to known amounts of cash which are subject to insignificant changes in value and have a maturity of three months or less. This definition is also used for the consolidated cash flow statement.

Exceptional items

The directors consider that items of income or expense, which are material and non-recurring by virtue of their nature and amount, should be disclosed separately if the financial statements are to fairly present the financial performance of the Group.

Financial instruments

The Group has classified its financial instruments in the following categories:

i) ***Loans and receivables***
All loans and receivables are initially recognised at the fair value of the consideration received. Following initial recognition, interest bearing loans and borrowings are subsequently measured at amortised cost using the effective interest method.

ii) ***Derivative financial instruments***
Derivatives are initially recognised at fair value on the date a derivative contract is entered into and are subsequently remeasured at their fair value. The method of recognising the resulting gain or loss depends on whether the derivative is designated as a hedging instrument, and if so, the nature of the item being hedged. The Group designates hedges of particular risk associated with a recognised asset or liability or a highly probable forecast transaction (cash flow hedge).

The Group's interest rate risk arises from long-term borrowings. Borrowings issued at variable rates expose the Group to cashflow interest rate risk. Borrowings issued at fixed rates expose the Group to fair value interest rate risk. Group policy is to maintain approximately 70% of its borrowings in fixed rate instruments.

The Group enters into fixed-to-floating interest rate swaps to hedge the fair value interest rate risk arising where it has borrowed at fixed rates in excess of the 70% target.

The Group's currency risk arises from foreign currency denominated loan notes. Borrowings issued in foreign currencies expose the Group to cashflow foreign exchange risk. The Group enters into cross-currency derivative swaps to hedge the fair value currency risk. The derivatives and the borrowings are retranslated at year end exchange rates and to the extent to which the hedge is effective gains and losses are reflected through reserves.

The Group recognises gains or losses on derivatives at fair value through the income statement.

iii) ***Trade receivables***
Trade receivables do not carry any interest and are stated at their fair value as reduced by appropriate allowances for estimated irrecoverable amounts.

iv) ***Trade payables***
Trade payables are not interest bearing and are stated at their fair value.

The Group's policy in respect of financial risk management is included in the finance review on page 23.

Share capital and treasury shares

Debt and equity instruments are classified according to the substance of the contractual arrangements as required by IAS 32 'Financial Instruments: Disclosure and Presentations'. Ordinary shares are classified as equity.

Fair values

The fair values of short-term deposits, loans and overdrafts with a maturity of less than one year are assumed to approximate to their book values.

Dividends

Interim dividends are recorded in the financial statements when they are paid. Final dividends are recorded in the financial statements in the period in which they are approved by the Company's shareholders.

1 Critical accounting judgements

Critical judgements in applying the Group's accounting policies

In the process of applying the Group's accounting policies, which are described in the statement of consolidated accounting policies, management has made the following judgements that have the most significant effect on the amounts recognised in the financial statements.

Revenue recognition

Revenue is recognised for certain long-term project-based contracts 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.

Impairment of goodwill

Determining whether goodwill is impaired requires an estimation of the value in use of the CGUs to which goodwill has been allocated. The value in use calculation involves an estimation of the future cash flows of CGUs and also the selection of appropriate discount rates, which involves judgement, to calculate present values. The carrying value of goodwill is £175.2m (*2008: £147.6m*) at the balance sheet date.

Intangible and tangible assets

Intangible fixed assets (other than goodwill) and tangible fixed assets are amortised or depreciated over their useful lives. Useful lives are based on management's estimates of the period that the assets will generate revenue, which are periodically reviewed for continued appropriateness. Due to the long lives of assets, changes to the estimates used can result in significant variations in the carrying value.

The Group assesses the impairment of tangible and intangible fixed assets subject to amortisation or depreciation whenever events or changes in circumstances indicate that the carrying value may not be recoverable. Factors considered important that could trigger an impairment review include the following:

- significant underperformance relative to historical or projected future operating results;
- significant changes in the manner of the use of the acquired assets or the strategy for the overall business; and
- significant negative industry or economic trends.

Intangible assets are valued based on the following key assumptions, useful lives, management's cash flow forecasts and applying a pre-tax discount rate of 13.5% (weighted average cost of capital).

2 Segmental analysis

The Group manages its business on a market segment basis and these segments are the basis on which the Group reports its primary segment results. A description of each segment is included on pages 18 to 21.

a) Business segments

Year ended 31 August 2009	Social Housing £m	Compliance £m	Central £m	Total £m
Segment revenue	527.6	132.0	–	659.6
Operating profit before amortisation of acquisition intangible assets and exceptional items	**31.2**	**20.5**	**(3.3)**	**48.4**
Amortisation of acquisition intangible assets	(2.5)	(6.5)	–	(9.0)
Exceptional items	–	–	(6.8)	(6.8)
Operating profit/(loss)	**28.7**	**14.0**	**(10.1)**	**32.6**
Finance costs	(1.4)	(0.6)	(6.8)	(8.8)
Finance income	0.3	0.4	2.2	2.9
Profit before tax	**27.6**	**13.8**	**(14.7)**	**26.7**
Tax	(4.1)	(7.5)	2.4	(9.2)
Segment result	**23.5**	**6.3**	**(12.3)**	**17.5**
Segment assets	203.7	66.1	–	269.8
Goodwill attributable	33.2	142.0	–	175.2
Unallocated assets	–	–	25.9	25.9
Total assets	**236.9**	**208.1**	**25.9**	**470.9**
Segment liabilities	150.6	72.9	–	223.5
Unallocated liabilities	–	–	79.9	79.9
Total liabilities	**150.6**	**72.9**	**79.9**	**303.4**
Other segment items				
Capital expenditure (net of disposals)	1.4	0.8	1.6	3.8
Other intangible expenditure (net of disposals)	0.4	8.1	(2.9)	5.6
Depreciation	0.3	0.8	0.7	1.8
Share-based payments	–	–	1.3	1.3
Amortisation of acquisition intangible assets	2.5	6.5	–	9.0
Amortisation of other intangible assets	–	0.3	1.2	1.5

2 Segmental analysis continued

Year ended 31 August 2008	Social Housing £m	Compliance £m	Central £m	Total £m
Segment revenue	446.9	105.9	0.1	552.9
Operating profit before amortisation of acquisition intangible assets and exceptional items	**25.4**	**13.8**	**(3.3)**	**35.9**
Amortisation of acquisition intangible assets	(3.3)	(3.5)	(0.2)	(7.0)
Exceptional items	–	(2.0)	–	(2.0)
Operating profit/(loss)	**22.1**	**8.3**	**(3.5)**	**26.9**
Finance costs	(3.6)	(0.3)	(2.8)	(6.7)
Finance income	0.9	0.6	–	1.5
Profit before tax	**19.4**	**8.6**	**(6.3)**	**21.7**
Tax	(3.1)	(4.7)	1.3	(6.5)
Segment result	**16.3**	**3.9**	**(5.0)**	**15.2**
Segment assets	155.9	69.0	–	224.9
Goodwill attributable	32.9	114.7	–	147.6
Unallocated assets	–	–	13.1	13.1
Total assets	**188.8**	**183.7**	**13.1**	**385.6**
Segment liabilities	154.5	60.8		215.3
Unallocated liabilities			43.5	43.5
Total liabilities	**154.5**	**60.8**	**43.5**	**258.8**
Other segment items				
Capital expenditure (net of disposal)	1.4	0.5	2.8	4.7
Capitalised development costs	–	2.0	5.5	7.5
Depreciation	0.6	0.7	0.5	1.8
Share-based payments	0.2	0.2	0.4	0.8
Amortisation of acquisition intangible assets	3.3	3.5	0.2	7.0
Amortisation of other intangible assets	–	0.2	0.7	0.9

Unallocated assets include corporation tax, other taxes and social security, receivables, sundry receivables and prepayments relating to the Group central services.

Unallocated liabilities include central Group borrowings, creditors and accruals.

b) Geographic segments
All of the Group's activities are based in the United Kingdom.

3 Profit before tax

	2009 £m	2008 £m
Profit before tax is stated after charging:		
Employees benefits expense (note 4)	**231.6**	198.8
Inventories – cost of inventories recorded as cost of sales	**79.8**	79.1
Auditors' remuneration (see analysis below)		
– audit services	**0.3**	0.3
– other services	**0.3**	0.1
Depreciation of tangible fixed assets – owned	**1.6**	1.6
Depreciation of tangible fixed assets – on lease and hire purchase	**0.2**	0.2
Hire of plant and machinery – rentals payable under operating leases	**10.3**	8.6
Hire of other assets – operating leases	**6.8**	4.3
Amortisation of intangible assets (software)	**0.6**	0.3
Amortisation of acquisition customer relationships	**9.0**	7.0
Amortisation of research and development costs	**0.9**	0.7

	2009 £m	2008 £m
Amounts paid to PricewaterhouseCoopers LLP were:		
Fees payable to the Company's auditor for the audit of the Parent Company and consolidated statements	**0.1**	0.1
The audit of the Company's subsidiaries pursuant to legislation	**0.2**	0.2
Fees payable to the Company's auditor for other services	**0.3**	0.1

4 Staff numbers and costs

The average number of persons employed by the Group (including directors) during the year, analysed by category, was as follows:

	2009	2008
Social Housing	**6,506**	5,745
Compliance	**1,553**	1,412
Central	**295**	173
	8,354	7,330

The aggregate payroll costs of these persons were as follows:

	2009 £m	2008 £m
Wages and salaries	**210.2**	177.4
Social security costs	**20.4**	17.3
Other pension costs (note 21)	**3.1**	2.9
Share-based payments (note 20)	**1.3**	1.2
	235.0	198.8

Key management compensation

The remuneration of the directors of the business units of the Group, which includes statutory directors, is set out below in aggregate:

	2009 £m	2008 £m
Short-term employee benefits	**3.9**	3.9
Post employment benefits	**0.2**	0.1
Share-based payments	**1.3**	1.2
	5.4	5.2

Further details are set out in the Remuneration Report in respect of the directors' remuneration.

5 Finance costs

	2009 £m	2008 £m
On bank overdrafts	**1.6**	2.2
Bank loan interest	**6.8**	4.3
Loan note interest	**0.3**	0.1
Hire purchase and finance lease interest	**0.1**	0.1
	8.8	6.7

6 Finance income

	2009 £m	2008 £m
Income from short-term deposits	**0.8**	1.3
Other interest receivable	**2.1**	0.2
	2.9	1.5

7 Tax expense

a) Analysis of charge in the year

	2009 £m	2008 £m
Corporation tax:		
UK corporation tax at 28% (*2008: 29.17%*) on the profits for the year	**12.9**	5.8
Adjustments in respect of prior years	**(0.9)**	0.8
	12.0	6.6
Deferred tax:		
Origination and reversal of temporary differences	**(3.0)**	0.4
Adjustments in respect of prior years	**0.2**	(0.5)
	(2.8)	(0.1)
Total tax charge for the year	**9.2**	6.5

b) Tax reconciliation

	2009 £m	2008 £m
Profit before tax	**26.7**	21.7
Tax on profit at 28% (*2008: 29.17%*)	**7.5**	6.3
Effects of:		
Disallowed expenses and non-taxable income	**2.4**	0.5
Adjustments in respect of prior years	**(0.7)**	(0.2)
Tax rate change	**–**	(0.1)
Total tax charge for the year	**9.2**	6.5

c) Tax credited directly to equity

	2009 £m	2008 £m
Share-based payments	**–**	1.2

The effective rate of tax is 34.5% including exceptional items. The adjusted effective tax rate excluding exceptional items is 28.5%.

8 Dividends

	2009 £m	2008 £m
Equity shares:		
Final dividend for the year ended 31 August 2008 of 1.755p per share (*2007: 1.46p*)	**2.2**	1.8
Interim dividend for the year ended 31 August 2009 of 1.09p per share (*2008: 0.925p*)	**1.3**	1.1
	3.5	2.9

In addition, the directors are proposing a final dividend in respect of the financial year ending 31 August 2009 of 2.07p per share which will absorb an estimated £2.9m of shareholders' funds. Subject to shareholder approval, it will be paid on 5 March 2010 to shareholders who are on the register of members on 5 February 2010.

9 Earnings per share

The basic earnings per share calculations are based upon the average number of ordinary shares in issue in the year of 123,111,618 (*2008: 118,512,926*). The diluted earnings include the effects of all potentially dilutive ordinary shares, which increases the average number of shares to 129,043,641 (*2008: 124,290,896*). The earnings are as set out in the table below.

Additional earnings measures have been included to highlight the impact of the amortisation of acquisition intangible assets and exceptional OFT fine in 2009 on the earnings per share in the year. Management believes that reporting additional measures, including adjusted earnings per share, provides a more meaningful comparison of business performance for the year.

			Earnings per share	
	2009 £m	2008 £m	2009 pence	2008 pence
Basic earnings	**17.5**	15.2		
Basic			**14.2**	12.8
Diluted			**13.5**	12.2
Amortisation of acquisition intangible assets	**9.0**	7.0		
Tax effect of amortisation of acquisition intangible assets	**(2.5)**	(2.0)		
Exceptional costs	**6.8**	2.0		
Tax effect of exceptional costs	**(0.3)**	(0.5)		
Adjusted earnings	**30.5**	21.7		
Basic before amortisation of acquisition intangible assets and exceptional items.			**24.7**	18.3
Diluted before amortisation of acquisition intangible assets and exceptional items.			**23.5**	17.5

10 Goodwill

	2009 £m	2008 £m
At 1 September	**147.6**	52.4
Additions	**28.8**	91.7
Fountains acquisition costs (note 30)	**0.3**	–
Finalisation of fair value adjustments relating to prior year acquisition	**(1.5)**	3.5
At 31 August	**175.2**	147.6

During the year, the acquired goodwill in respect of all Companies was tested for impairment in accordance with IAS 36. Following the impairment test no impairment to the carrying values is required.

The cash generating units are considered to be the Social Housing and Compliance divisions which at 31 August 2009 have goodwill of £33.2m and £142.0m respectively (*2008: £32.9m and £114.7m retrospectively*).

Goodwill is reviewed annually or when other events or changes in circumstances indicate that the carrying amount may not be fully recoverable.

The recoverable amount is determined from value in use calculations. The key assumptions in these calculations are:

- The achievement of budgeted operating profit
- The achievement of growth in market share
- The estimation of terminal values
- The estimation of discount rates

The forecasts are based on approved budgets and strategic plans for the next five years. Subsequent cash flows have been increased in line with the expected growth. The cash flows were discounted using a pre-tax discount rate of 10.8% (*2008: 10.5%*).

No impairment charges were recognised in 2009 (*2008: £nil*).

11 Intangible assets

	Computer software £m	Research & development expenditure £m	Acquisition customer relationships £m	Acquisition computer software £m	Total £m
Cost					
At 1 September 2008	8.2	4.5	30.4	5.8	48.9
Additions	9.4	1.9	–	–	11.3
Acquired	–	–	6.3	–	6.3
Disposals	–	(6.4)	–	–	(6.4)
At 31 August 2009	**17.6**	**–**	**36.7**	**5.8**	**60.1**
Amortisation					
At 1 September 2008	1.5	1.3	7.9	1.0	11.7
Charged for year	0.6	0.9	7.8	1.2	10.5
Disposals	–	(2.2)	–	–	(2.2)
At 31 August 2009	**2.1**	**–**	**15.7**	**2.2**	**20.0**
Net book value					
At 31 August 2009	**15.5**	**–**	**21.0**	**3.6**	**40.1**
At 31 August 2008	6.7	3.2	22.5	4.8	37.2

Included within software is internally generated software. All amortisation has been charged to the income statement through administrative expenses. The directors believe the useful life of the development asset to be five years. Other software purchased is amortised over its useful life or four years, whichever is the shorter. Customer relationships represent the value of contracts acquired on the acquisition of subsidiaries and are amortised over the average length of the contracts which is currently 3.25 years.

Included within computer software are assets under construction of £10.8m (*2008: £6.9m*), which have not been amortised as at 31 August 2009 as they have not been brought into use.

	Computer software £m	Research & development expenditure £m	Acquisition customer relationships £m	Acquisition computer software £m	Total £m
Cost					
At 1 September 2007	3.0	3.2	11.0	–	17.2
Additions	5.9	1.3	0.3	–	7.5
Acquired	–	–	19.1	5.8	24.9
Disposals	(0.7)	–	–	–	(0.7)
At 31 August 2008	**8.2**	**4.5**	**30.4**	**5.8**	**48.9**
Amortisation					
At 1 September 2007	1.3	0.6	1.9	–	3.8
Charged for year	0.3	0.7	6.0	1.0	8.0
Disposals	(0.1)	–	–	–	(0.1)
At 31 August 2008	**1.5**	**1.3**	**7.9**	**1.0**	**11.7**
Net book value					
At 31 August 2008	**6.7**	**3.2**	**22.5**	**4.8**	**37.2**
At 31 August 2007	1.7	2.6	9.1	–	13.4

12 Property, plant and equipment

	Freehold & leasehold property £m	Short leasehold improvements £m	Plant, machinery and motor vehicles £m	Fixtures, fittings, tools and equipment £m	Total £m
Cost					
At 1 September 2008	0.5	2.4	2.8	7.8	13.5
Additions	–	1.3	0.6	1.9	3.8
Acquired	1.4	–	0.3	0.4	2.1
Disposals	(0.1)	(0.2)	(1.2)	(1.6)	(3.1)
At 31 August 2009	**1.8**	**3.5**	**2.5**	**8.5**	**16.3**
Depreciation					
At 1 September 2008	–	0.6	2.1	4.5	7.2
Charged for year	–	0.3	0.2	1.3	1.8
Disposals	–	(0.1)	(0.7)	(1.0)	(1.8)
At 31 August 2009	**–**	**0.8**	**1.6**	**4.8**	**7.2**
Net book value					
At 31 August 2009	**1.8**	**2.7**	**0.9**	**3.7**	**9.1**
At 31 August 2008	0.5	1.8	0.7	3.3	6.3

Included in the total net book value of tangible fixed assets held under hire purchase contracts and finance leases is £1.6m (*2008: £1.6m*) in respect of plant, machinery and motor vehicles and fixtures, fittings, tools and equipment. Depreciation for the year on these assets was £0.2m (*2008: £0.2m*).

As per note 17 the borrowings of the Group are secured by way of fixed and floating charges over the assets of the Group.

	Freehold & leasehold property £m	Short leasehold improvements £m	Plant, machinery and motor vehicles £m	Fixtures, fittings, tools and equipment £m	Total £m
Cost					
At 1 September 2007	0.9	1.3	3.4	7.5	13.1
Additions	–	0.8	0.4	3.5	4.7
Acquired	0.5	0.2	0.2	0.8	1.7
Disposals	(0.9)	–	(2.0)	(7.7)	(10.6)
At 31 August 2008	**0.5**	**2.3**	**2.0**	**4.1**	**8.9**
Depreciation					
At 1 September 2007	–	0.3	2.4	3.8	6.5
Charged for year	–	0.2	0.5	1.1	1.8
Disposals	–	–	(1.6)	(4.1)	(5.7)
At 31 August 2008	**–**	**0.5**	**1.3**	**0.8**	**2.6**
Net book value					
At 31 August 2008	**0.5**	**1.8**	**0.7**	**3.3**	**6.3**
At 31 August 2007	0.9	1.0	1.0	3.7	6.6

13 Deferred tax assets

	2009 £m	2008 £m
As at 1 September	–	0.5
Provided during the year	–	(0.5)
As at 31 August	–	–

Deferred income tax assets are recognised for tax loss carry-forwards to the extent that the realisation of the related tax benefit through the future taxable profits is probable.

14 Inventories

	2009 £m	2008 £m
Raw materials and work in progress	**7.5**	7.4

The Group consumed £79.8m (*2008: £79.1m*) of inventories during the period.

The inventories have been represented to include all amounts receivable on contracts within trade receivables as explained within note 15.

15 Trade and other receivables

a) Current assets

	2009 £m	2008 £m
Trade receivables	**49.8**	39.7
Amounts recoverable on contracts	**91.2**	68.6
Retentions owed by customers	**2.5**	3.6
Other trade receivables	**2.9**	3.4
Prepayments and accrued income	**8.4**	9.2
	154.8	124.5
b) Non-current assets		
Amounts recoverable on contracts	**27.8**	12.6
	182.6	137.1

Trade receivables and amounts recoverable on contracts are in respect of contractual agreements with customers. The directors consider the customer base to be of a nature where there is limited credit risk to the Group. Accordingly, the directors believe there is no further credit risk provision required in excess of the normal provisions for accounts where recovery is doubtful.

The prior year amounts recoverable balance has been represented to include £6.4m of amounts recoverable on contracts which had previously been included within inventories.

15 Trade and other receivables continued

2009	Total £m	Not yet due £m	Past due months 1 – 3 £m	Impaired months 3 – 6 £m	Impaired months 6+ £m
Trade receivables	49.8	31.8	14.1	1.4	2.5
Amounts receivable on contracts	105.0	101.0	2.7	0.5	0.8
	154.8	**132.8**	**16.8**	**1.9**	**3.3**

2008	Total £m	Not yet due £m	Past due months 1 – 3 £m	Impaired months 3 – 6 £m	Impaired months 6+ £m
Trade receivables	39.7	29.2	6.8	2.7	1.0
Amounts receivable on contracts	84.8	64.6	20.2	–	–
	124.5	93.8	27.0	2.7	1.0

The ageing profile for trade receivables includes trade receivables and retentions owed by customers, net of bad debt provisions amounting to £1.6m (*2008: £1.8m*). The movement of bad debt provisions during the year was not material for purposes of further disclosure.

Included in the amounts receivable on contracts within the ageing profile is both amounts receivable held under current and non-current assets respectively. Other receivables are excluded from the above analysis and have been treated as not yet due £2.9m (*2008: £3.4m*).

Amounts recoverable on contracts represent the estimated amounts which have been earned or which valuation, under the terms of the respective contracts, have not yet been agreed with the customers. These amounts have been included at their estimated recoverable values. Included within accounts not yet due is £27.8m (*2008: £12.6m*) which reflects accounts which are recoverable over the period of the contracts to which they relate. Accounts which are over six months overdue and are still to be agreed by the customers are prudently valued at their estimated written down recoverable value.

Amounts not due represent contractual commitments which are not due for payment. Amounts classified as “past due” represent the amounts that are due for payment but for which payment has not been received. Impaired amounts represent the net amount that is expected to be recovered, after making prudent provision for any items that are still subject to negotiation.

The credit risk is managed on an overall Group basis. The customers are largely local authorities and other large “blue chip” organisations. The credit exposure is regarded as low risk given the nature of the customers and spread of customer contracts which minimise “concentration risk”.

16 Current liabilities

a) Trade and other payables

	2009 £m	2008 £m
Trade payables	**47.2**	32.4
Amounts due to suppliers in respect of contracts	**62.9**	57.8
Deferred consideration	**3.9**	1.2
Other taxes and social security	**22.9**	24.4
Corporation tax	**3.3**	0.1
Other trade payables	**2.2**	6.8
Accruals and deferred income	**8.9**	10.1
	151.3	132.8

b) Borrowings: current liabilities

	2009 £m	2008 £m
Bank loans (note 17)	**10.8**	16.5
Obligations under finance leases and hire purchase contracts (note 17)	**0.7**	0.3
	11.5	16.8

17 Non current liabilities

a) Borrowings

	2009 £m	2008 £m
Bank loans	**79.2**	103.7
Private placement loan notes	**54.7**	–
Obligations under finance leases and hire purchase contracts	**–**	0.4
	133.9	104.1
Analysis of debt:		
Obligations under bank loans		
Less than 1 year	**10.8**	16.5
1 to 5 years	**79.2**	103.7
5 years+	**–**	–
	90.0	120.2
Obligations under private placement loan notes		
1 to 5 years	**21.4**	–
5 years+	**33.3**	–
	54.7	–
Obligations under finance leases and hire purchase contracts		
Less than 1 year	**0.7**	0.3
1 to 5 years	**–**	0.4
	0.7	0.7

The bank loans referred to above have been drawn down under a sterling based credit facility from syndicate banks, led by Royal Bank of Scotland, under which each Group Company has cross-guaranteed the borrowings of its fellow Group Companies. Interest rates are set according to agreed financial criteria at 31 August and at the end of every subsequent quarter.

The Group's borrowings are secured by way of fixed and floating charges over the assets of the Group. The liabilities under finance leases and hire purchase contracts are secured on the related assets, some of which are held in subsidiary companies.

17 Non current liabilities continued

The effective interest rates at the balance sheet dates were as follows:

	2009	2008
Bank loans	**2.2%**	7.3%
Private placement loan notes	**7.6% - 8.2%**	6.8%

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital.

At 31 August 2009 the Group's bank loans are subject to re-pricing within 3 months of the balance sheet date.

b) Deferred tax liabilities

	2009 £m	2008 £m
As at 1 September	**5.1**	(0.5)
Provided during the year	**(2.8)**	(0.1)
Adjustment in respect of share-based payments	**–**	(1.2)
Initial recognition of intangible assets (note 26)	**0.9**	7.6
Adjustments in respect of acquired tax	**(0.5)**	0.1
Other adjustments	**(1.0)**	(0.8)
As at 31 August	**1.7**	5.1
Recognised deferred tax liabilities		
Accelerated capital allowances	**0.2**	0.8
Temporary differences	**6.4**	8.7
Share-based payments	**(4.6)**	(4.0)
Losses brought forward	**(0.3)**	(0.4)
	1.7	5.1

The adjustments in respect of acquired tax at £0.5m (*2008: £0.1m*) relate to movements in acquired deferred tax assets and liabilities.

18 Called up share capital

	2009 £m	2008 £m
Authorised		
162,700,000 (*2008: 162,700,000*) ordinary shares of 2p each	**3.3**	3.3
Allotted, called up and fully paid		
131,058,286 (*2008: 122,654,623*) ordinary shares of 2p each	**2.7**	2.5

During the year 403,663 (*2008: 415,000*) shares were issued as a result of the exercise of share options and SAYE Schemes for a consideration of £0.4m (*2008: £0.5m*). In July 2009, 8,000,000 2p ordinary shares were issued at a price of 350p by way of a vendor placing. The total amount raised by vendor placing was £28.0m.

19 Share premium

	2009 £m	2008 £m
Balance at 1 September	**80.2**	20.0
Premium on shares issued	**28.2**	60.2
Balance at 31 August	**108.4**	80.2

20 Reserves

a) Retained earnings

	2009 £m	2008 £m
At 1 September	**37.9**	24.4
Profit for the year	**17.5**	15.2
Dividends paid	**(3.5)**	(2.9)
Share-based payments taken to equity – deferred tax	**–**	1.2
At 31 August	**51.9**	37.9

b) Other reserves

	Merger reserve £m	**Capital redemption reserve £m**	**Share-based payment reserve £m**	**Hedging £m**	**Total £m**
1 September 2007	6.1	0.5	0.8	–	7.4
Sale of treasury shares	–	–	–	–	–
Purchase of treasury shares	–	–	–	–	–
Credit in relation to share-based payment	–	–	0.5	–	0.5
Tax on share-based payments	–	–	(0.2)	–	(0.2)
31 August 2008	**6.1**	**0.5**	**1.1**	**–**	**7.7**
Share-based payments	–	–	1.3	–	1.3
Hedging reserve	–	–	–	(3.0)	(3.0)
31 August 2009	**6.1**	**0.5**	**2.4**	**(3.0)**	**6.0**

Own shares held in the Employee Share Ownership Scheme (ESOS) are held in a separate reserve and presented as a deduction from equity. At the year end the ESOS held 466,745, 2p ordinary shares (*2008: 859,444*) at a cost of £0.9m (*2008: £1.7m*) of which all 466,745 (*2008: 859,444*) were provisionally allocated to meet the exercise of options or vesting of awards held by Executive Directors or employees of the Group, under the Unapproved Share Option Scheme or Long-Term Incentive Plan. The market value of these shares at 31 August 2009 was £1.8m (*2008: £3.4m*). Shares held in the ESOS may be used to meet share requirements when share options are exercised or when awards vest under the Long-Term Incentive Scheme. Dividends on shares held in the ESOS have been waived.

21 Pension schemes

The Group contributes into defined contribution and a Group personal pension scheme. The pension cost charge for the year represents contributions paid by the Group to the schemes and amounted to £2.1m (*2008: £1.9m*). Contributions amounting to £0.2m (*2008: £0.3m*) were payable to the schemes at the year end.

The Group also contributes to a number of immaterial defined benefit schemes. The pension cost charged directly to contracts relating to these schemes amounted to £1.0m (*2008: £1.0m*). There is an immaterial shortfall in these funds at 31 August 2009 (*2008: £nil*).

Employer pension contributions in respect of employees who transferred under TUPE to the Group, but who remain part of their former employers pension arrangements, are treated as defined contribution schemes where under the terms of the contract the defined benefit liability remains with the relevant council.

22 Commitments

(i) The Group did not have any capital commitments at the end of either financial year.

(ii) At 31 August 2009 the Group had total future minimum lease payments under non-cancellable operating leases where payments fall due as follows:

	Land and buildings		Vehicles		Equipment	
	2009 £m	2008 £m	**2009 £m**	2008 £m	**2009 £m**	2008 £m
Within one year	**2.6**	2.7	**15.1**	12.1	**4.1**	2.4
In the second to fifth years inclusive	**6.3**	7.1	**22.0**	12.9	**5.0**	3.3
After five years	**6.7**	7.6	**–**	–	**–**	–
	15.6	17.4	**37.1**	25.0	**9.1**	5.7

As a result of the increase in the number of operating leases in respect of equipment, the commitments relating to equipment as at 31 August 2009 has been disclosed.

23 Contingent liabilities

An unlimited bank multilateral guarantee exists between the Company and other Group Companies. At the year end the Group had bank loans and private placement loan notes totalling £146.0m (*2008: £120.2m*). The fees associated with the private placement of £1.3m (note 24) reduces the effective fair value of the Group's loans and loan notes to £144.7m (*2008: £120.2m*).

The Group has guaranteed the performance bonds of its subsidiary companies of £15.1m (*2008: £12.3m*).

24 Derivative financial instruments and hedging activities

Financial risk management, objectives and policies

The Group's financial instruments, other than derivatives, comprise cash, bank loans, finance leases, private placement loan notes and various items, such as trade receivables and trade payables that arise directly from its operations. The Group's policy is to finance its operations through retained earnings and borrowings, placing surplus cash on short-term deposit.

The Group also enters into derivative transactions, primarily interest rate swaps and cross currency swaps. The purpose is to manage the interest rate and currency risks arising from the Group's sources of finance. It is, and has been throughout the period under review, the Group's policy that no trading in financial instruments shall be undertaken.

The principal risks arising from the Group's financial instruments relate to interest rate risk, currency risk, credit risk and liquidity risk. 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. The Group uses derivative financial instruments to hedge certain financial risk exposures.

Group management has responsibility for reducing exposure to financial risk and for ensuring that adequate funds are available to meet anticipated requirements. It operates according to the policies and guidelines established by the Board. The Board reviews and agrees policies for managing each of these financial risks, and these are summarised below. Cash management is carried out centrally. Where necessary, borrowings are raised centrally to provide adequate funds for the operating subsidiaries.

(a) Interest rate risk

The Group's interest rate risk arises from its long-term borrowings. Borrowings issued at variable rates expose the Group to cash flow interest rate risk. The Group manages its cash flow interest rate risk by using floating-to-fixed interest rate swaps. Such interest rate swaps have the economic effect of converting borrowings from floating rates to fixed rates. Generally, the Group raises long-term borrowings at floating rates and swaps them into fixed rates that are lower than those available if the Group borrowed at fixed rates directly. Under the interest rate swaps, the Group agrees with other parties to exchange, at specified intervals, the difference between fixed contract rates and floating-rate interest amounts calculated by reference to the agreed notional amounts. These swaps are designated to hedge underlying debt obligations.

Group policy is to maintain approximately 70% of its borrowings in fixed rate instruments.

(b) Currency risk
The Group has exposure to currency risk as a result of its private placement loan notes, which in part were issued in US dollars and Euros. At the same time as the issue of these loan notes, the Group entered into cross currency swaps to hedge the currency risk arising on the principle and coupon cash flows. It is the Group's policy to negotiate the critical terms of the hedge derivatives to match the terms of the hedged items in order to maximise hedge effectiveness.

(c) Credit risk
The principle credit risk faced by the Group is in respect of trade receivables and amounts recoverable on contracts. The Group's customers consist predominately of public sector organisations and such contracts are secured on a long-term recurring basis. The directors consider therefore the customer base to be of a nature where there is limited credit risk to the Group.

(d) Liquidity risk
Management monitors rolling forecasts of the Group's liquidity reserve (comprising the undrawn committed borrowing facility and cash and cash equivalents (note 27)) on the basis of expected cash flows. This is generally carried out at the operating unit level within the Group in accordance with practice and limits set by the Group. 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 table below analyses the Group's financial liabilities and net-settled derivative financial liabilities into relevant maturity groupings based on the remaining period at the balance sheet to the contractual maturity date. The amounts disclosed in the table are the gross contractual undiscounted cash flows. Balances due within 12 months equal their carrying balances as the impact of discounting is not significant.

At 31 August 2009	Less than 1 year £m	Between 1 and 2 years £m	Between 2 and 5 years £m	Over 5 Years £m
Borrowings	13.5	12.8	94.6	34.6
Derivative financial instruments	1.6	1.6	4.9	2.2
Trade and other payables	148.0	–	–	–

At 31 August 2008	Less than 1 year £m	Between 1 and 2 years £m	Between 2 and 5 years £m	Over 5 Years £m
Borrowings	25.6	19.6	119.3	–
Derivative financial instruments	–	–	–	–
Trade and other payables	132.7	–	–	–

Hedges
Cash flow hedges
During 2008 the Group entered into an interest rate hedging facility with the Royal Bank of Scotland. The facility consists of a £45m vanilla swap and a £15m extendable collar. The interest rate hedges are based on £60m of core bank debt. Group policy is to maintain approximately 70% of its borrowings in fixed rate instruments.

During August 2009 the Group also entered into a series of cross currency swaps with Lloyds TSB Bank plc, Barclays Bank PLC, Svenska Handelsbanken AB and Bank of Ireland to hedge the currency risk arising on its private placement loan notes issued in August 2009. The amounts and maturities of the cross currency swaps correspond to the US dollar and Euro denominated principal and coupon amounts due in respect of the private placement loan notes.

Derivatives are initially recognised at fair value on the date a derivative contract is entered into and are subsequently re-measured at their fair value. The method of recognising any resulting gain or loss depends on whether the derivative is designated as a hedging instrument, and if so, the nature of the item being hedged. All the Group's current hedges have been designated as cash flow hedges.

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash-flow hedges are recognised in equity. The gain or loss relating to any ineffective portion is recognised immediately in the income statement.

Non current hedging liabilities	2009 £m	2008 £m
Interest rate swaps – cash flow hedges	**4.4**	–
Cross currency swaps – cash flow hedges	**0.6**	–
Total	**5.0**	–

Included as a credit within the consolidated income statement is the result from hedging activities of £nil (*2008: gain £0.3m*), which is not considered to be material for further disclosure. The result has been included within other trade receivables.

Capital management
The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the Group's cost of capital.

The Group has a combined bank facility of £112.3m committed until August 2012. The Group also has committed revolving credit facilities of £45m until 2012. The Group had utilised £91.0m (*2008: £120.2m*) of these facilities at 31 August 2009, with approximately £65m of facilities available, but unutilised at the year end. The Group's borrowings are subject to standard covenants tests for a facility of this nature, and have been satisfied during the year.

On 6 August 2009, the Group issued, via a private placement, a series of loan notes with the key characteristics shown in the table below. The sterling equivalent of these notes is £56m with maturities extending to 2014 and 2016. The loan notes were issued in sterling, US dollars and Euros, and have been hedged into the fixed interest sterling equivalents using cross currency swaps.

Term	Sterling equivalent £m	Effective fixed rate
5 years	21.6	7.63%
7 years	34.4	8.11-8.23%

Costs directly attributable to the private placement are £1.3m and these costs have been netted off against the loan notes. The costs will be amortised over the weighted average term of the debt. The sterling equivalent of the loan notes, net of the costs, amounted to £54.7m.

The Group has the following additional undrawn committed borrowing facilities available at 31 August 2009 in respect of fixed and floating rate borrowing facilities which all conditions had been met at that date:

	2009 £m	2008 £m
Undrawn committed facilities at 31 August	**65.2**	37.1

The Group monitors capital on the basis of net debt to operating profit, and interest cover ratios. Net debt is calculated as total borrowings (including current and non-current borrowings as shown in the consolidated balance sheet) less cash and cash equivalents. Operating profit is operating profit before amortisation of acquisition intangible assets and exceptional items as shown in the consolidated income statement. Interest cover is the ratio between operating profit (as defined above) and net finance costs (as shown in the consolidated income statement). The principal financial ratios at 31 August 2009 and 2008 are as follows:

	2009 £m	2008 £m
Total borrowings	**(145.4)**	(120.9)
Less: cash and cash equivalents	**56.4**	50.0
Net debt	**(89.0)**	(70.9)
Operating profit	**48.4**	35.9
Net debt to operating profit ratio (times)	**1.8**	2.0
Net finance costs	**5.9**	5.2
Interest cover ratio (times)	**8.2**	6.9

At 31 August 2009, the Group had net borrowings. It had no financial assets other than amounts recoverable on contracts, trade receivables, and cash at bank. The fair value of trade receivables and payables approximated to their book value.

Fair value of borrowings

	2009		2008	
	Book value £m	**Fair value £m**	Book value £m	Fair value £m
Bank loans and private placement loan notes	**144.7**	144.7	**120.2**	120.2
Obligations under finance leases and hire purchase contracts	**0.7**	0.7	**0.7**	0.7
	145.4	145.4	**120.9**	120.9

25 Reconciliation of net profit to net cash flow from operating activities

Cash generated from operations	**2009 £m**	2008 £m
Profit for the year	**17.5**	15.2
Adjustments for:		
Tax	**9.2**	6.5
Depreciation	**1.8**	1.8
Loss on disposal of property, plant and equipment	**0.4**	–
Amortisation of acquisition intangibles	**9.0**	7.0
Amortisation of intangibles	**1.5**	1.0
Exceptional costs	**6.8**	2.0
Finance income	**(2.9)**	(1.5)
Finance expense	**8.8**	6.7
Other non cash charges	**1.3**	0.9
Cash generated from operations before changes in working capital	**53.4**	39.6
Changes in working capital:		
(Increase) in inventories	**(0.1)**	(6.2)
(Increase) in trade and other receivables	**(39.4)**	(19.6)
(Decrease)/increase in payables	**(0.2)**	11.9
Changes in working capital	**(39.7)**	(13.9)
Cash generated from operations	**13.7**	25.7

26 Acquisitions of subsidiaries

During the year, the Group completed the following acquisitions:

On 15 September 2008, the Group acquired 100% of the share capital of the Lowe Group Ltd, trading as NECTA, for the consideration of £7.5m including a deferred cash consideration of £0.8m In the period to 31 August 2009 Lowe Group Ltd contributed £11.9m to the Group consolidated revenue and £1.7m to operating profit before amortisation of acquisition intangibles. If the Lowe Group had been part of the Group for the full 12 months to 31 August 2009, then it would have contributed £12.4m in revenue and £1.8m in operating profit.

On 26 November 2008, the Group acquired certain assets from the administrators of Predator Pest Control Plc for the cash consideration of £0.6m. In the period to 31 August 2009 Predator contributed £1.0m to the Group consolidated revenue and £0.4m to operating profit before amortisation of acquisition intangibles. Pre-acquisition information has not been disclosed as the assets acquired relate to parts of the former Predator Pest Control Plc and it would be impracticable to attribute revenue and operating profit to these assets.

On 22 July 2009, the Group acquired 100% of the share capital of UK Fire International Ltd, for a consideration of £12.5m. In the period to 31 August 2009 UK Fire International Ltd contributed £1.0m and £nil to Group revenue and operating profit respectively. If UK Fire International Ltd had been part of the Group for the 12 months to 31 August 2009, then it would have contributed £11.2m in revenue and £0.5m in operating profit.

On 22 July 2009, the Group acquired 100% of the share capital of Igrox Ltd, for an initial consideration of £3.9m, plus future deferred cash consideration of up to £3.0m. In the period to 31 August 2009, Igrox Ltd contributed £0.3m and £nil to Group revenue and operating profit respectively. If Igrox Ltd had been part of the Group for the 12 months to 31 August 2009, then it would have contributed £7.0m in revenue and £0.7m in operating profit.

The acquisitions after making fair value adjustments had the following effect on the Group's assets and liabilities.

26 Acquisitions of subsidiaries continued

	Book value £m	Provisional fair value adjustments £m	Provisional fair value to Group £m
Property, plant and equipment	2.3	(0.2)	2.1
Trade and other receivables	8.2	(1.5)	6.7
Cash and cash equivalents	0.3	–	0.3
Current liabilities	(9.0)	(2.2)	(11.2)
Net identifiable tangible assets and liabilities	1.8	(3.9)	(2.1)
Provisional intangible assets	–	3.1	3.1
Deferred tax	–	(0.9)	(0.9)
Total identifiable assets and liabilities	1.8	(1.7)	0.1
Provisional goodwill on acquisitions	–	28.8	28.8
	1.8	**27.1**	**28.9**
Discharged by:			
Cash consideration	–	–	7.0
Share consideration	–	–	15.9
Deferred consideration cash	–	–	3.9
Costs of acquisition	–	–	2.1
	–	–	**28.9**

The intangible assets recognised represent the expected value to be derived from the acquired companies' customer relationships.

The difference remaining between the cost of acquisition and the fair value of the net assets represents a combination of the workforce acquired and future expected cash created from the expected synergistic benefits the acquisitions will provide to the Group in addition to that generated from existing customer relationships. The value of such intangible assets is not separately identifiable and therefore has been treated as goodwill.

Fair value adjustments comprise recognition of assets, liabilities and dilapidations accruals on leasehold properties and related deferred taxation thereon. Intangible assets have also been identified on acquisition.

Finalisation of fair value adjustments relating to prior year acquisition
The provisional fair values attributed to the tangible assets and liabilities were re-assessed at the anniversary date of the acquisition. Changes between the provisional fair values of the net assets acquired as at 31 August 2008 and the anniversary date are stated below.

	Fair value to Group £m
Provisional fair value of net identifiable tangible assets at 31 August 2008	22.3
Re-assessment of current liabilities	(0.8)
Goodwill	0.8
Final fair value of net identifiable tangible assets at anniversary date	**22.3**
Goodwill at 31 August 2008	91.7
Re-assessment of trade receivables and work in progress	(2.6)
Re-assessment of current liabilities	0.8
Additional costs of acquisition	0.3
Final fair value of net identifiable tangible assets at anniversary date	**90.2**

26 Acquisitions of subsidiaries continued

The goodwill value has not been restated as the directors do not believe the adjustment is material.

Due to the long-term nature of the contracts, the initial estimates of the value of work in progress and trade receivables were established at the time of acquisition. On this occasion the contracts were not capable of being assigned and therefore the fair value has been adjusted accordingly. This possibility had been reflected in the consideration paid for the acquisition and, therefore, no diminution in the value of goodwill has arisen.

27 Analysis of cash and cash equivalents

	31 August 2009 £m	Cash flows £m	1 September 2008 £m
Cash in hand and at bank	**56.4**	6.4	50.0

The effective interest rate on short-term deposits at the balance sheet date was 1.5% *(2008: 5.08%)* and these deposits were available on demand.

28 Reconciliation of net cash flow to movement in net debt

	2009 £m	2008 £m
Increase in cash and cash equivalents in the year	**6.4**	24.4
(Increase) in debt and lease financing	**(24.4)**	(78.0)
Change in net debt resulting from cash flows	**(18.0)**	(53.6)
Net debt at beginning of the year	**(71.0)**	(17.4)
Net debt at end of the year	**(89.0)**	(71.0)

Net debt comprises all cash balances less bank loans, loan notes and obligations under finance leases and hire purchase agreements as at the end of the year.

29 Post balance sheet events

On 3 September 2009, the Company acquired the entire share capital of Fountains plc, for a total consideration of £13.3m. Due to the size and timing post year end, no analysis has been determined.

As explained in note 30, in September 2009 the OFT imposed fines in relation to its investigation into anti-competitive practices.

30 Exceptional items

In September 2009 the OFT imposed fines on 103 companies in relation to its long running investigation into anti-competitive practices. The Company received a fine of £5.6m relating to three tenders dating back almost a decade. This fine, and the associated costs, are treated as an exceptional item in the 2009 accounts.

The Company takes the issue of anti-competitive behaviors extremely seriously and has an extensive competition compliance programme in place.

31 List of principal subsidiary undertakings

The Companies listed below are, in the opinion of the directors, the principle undertakings of Connaught plc as at 31 August 2009.

Name of undertaking	Principal activity
Connaught Partnerships Limited	Social housing maintenance services
Connaught Environmental Limited	Estate management services
Connaught Compliance Limited	Electrical and mechanical maintenance services
Conntrol Limited	Web-enabled asset management services
Connaught Technical Solutions Limited	Gas heating, electrical, ventilation and air conditioning services
Connaught Academy Limited	Training gas technicians
Connaught GasForce Limited	Gas heating – ventilation and air conditioning services
GasForce Technical Services Limited	Gas heating and refrigeration services
Connaught Baldwin Limited	Social housing maintenance services
Connaught Scotland Limited	Specialist maintenance services
Environment Plus (UK) Limited	Water analysis specialist
P.C.L. (Nationwide) Limited	Electrical and lighting installation and maintenance
C B Services Limited	Electrical installation and maintenance
Apollo Plant Hire Limited	Plant hire
A.E. Williams & Son (Builders) Limited	Social housing maintenance services
Water Technology Limited	Water hygiene and treatment services
Magi-cal Water Filters Limited	Water filter systems
Connaught Compliance Fire Services Limited	Fire protection services
A.N.T. Environmental Services Limited	Health and safety consultancy
BCCR Holdings Limited	Health and safety consultancy
Corporate Governance Through Controls Assurance Limited	Water safety and asbestos consultancy
E.H.&S.S. Limited	Occupational health services
Elite Workwear UK Limited	Health and safety consultancy
Hygiene Monitoring Services Limited	Health & safety and food safety consultancy
National Britannia Certification Limited	Accreditation and certification services
National Britannia Group Limited	Group service company
National Britannia Limited	Health and safety consultancy
Occhea Limited	Occupational health services
Safety Works Limited	Health and safety consultancy
Corporate Health & Safety Solutions Limited	Health and safety training company
Connaught Predator Limited	Pest control
Lowe Group (Holdings) Limited	Electrical services
Connaught Compliance Electrical Services Limited	Electrical services
UK Fire International Limited	Fire related services
Igrox Limited	Pest control

All of the above subsidiaries are incorporated in and operate in the United Kingdom and are included in the consolidation.

All of the above undertakings are registered in England and Wales, except Connaught Scotland Ltd, which is registered in Scotland, and are wholly owned by the Group.

32 Registered office

The Company is incorporated under the Companies Act in England and Wales and domiciled in the United Kingdom. The Company's registered office is: Connaught House, Grenadier Road, Exeter Business Park, Exeter, Devon EX1 3QF.

Five-Year Summary (Unaudited)

Income statement	2009 £m	2008 £m	2007 £m	2006 £m	2005 £m
Revenue	**659.6**	552.9	395.9	299.7	239.5
Gross profit	**99.9**	78.1	50.8	36.9	32.1
Operating and administrative expenses	**(67.3)**	(51.2)	(33.5)	(22.8)	(22.7)
Operating profit before intangible asset amortisation and exceptional item	**48.4**	35.9	19.2	14.1	10.1
Acquisition intangible asset amortisation and impairment	**(9.0)**	(7.0)	(1.9)	–	–
Exceptional item	**(6.8)**	(2.0)	–	–	(0.7)
Operating profit	**32.6**	26.9	17.3	14.1	9.4
Net interest paid	**(5.9)**	(5.2)	(1.5)	(1.2)	(1.2)
Profit before taxation	**26.7**	21.7	15.8	12.9	8.2
Tax charge	**(9.2)**	(6.5)	(4.8)	(3.9)	(2.4)
Profit for the financial year	**17.5**	15.2	11.0	9.0	5.8
Dividends	**(3.5)**	(2.9)	(2.0)	(1.8)	(1.6)
Retained profit	14.0	12.3	9.0	7.2	4.2
Earnings per share					
Basic	**14.2p**	12.8p	10.8p	9.1p	6.0p
Exceptional items	**5.3p**	1.3p	–	–	0.4p
Acquisition intangible asset amortisation	**5.2p**	4.2p	1.4p	–	–
Adjusted basic	**24.7p**	18.3p	12.2p	9.1p	6.4p
Adjusted diluted	**23.5p**	17.5p	11.7p	8.8p	6.2p
Dividends per share	**2.9p**	2.4p	2.0p	1.8p	1.7p
Balance sheet					
Non-current assets	**252.2**	203.7	78.0	40.6	38.8
Net-current assets	**55.9**	32.3	16.7	19.7	8.9
Total assets less current liabilities	**308.1**	236.0	94.7	60.3	47.7
Non-current liabilities	**(140.6)**	(109.2)	(42.0)	(19.2)	(16.8)
Net assets	**167.5**	126.8	52.7	41.1	30.9
Net debt	**(89.0)**	(71.0)	(17.4)	(4.9)	(11.2)

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Independent Auditors’ Report to the members of Connaught plc

We have audited the Parent Company financial statements of Connaught plc for the year ended 31 August 2009 which comprise the Parent Company Balance Sheet, the Statement of Accounting Policies and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

Respective responsibilities of directors and auditors

As explained more fully in the Directors’ Responsibilities Statement on page 50, the directors are responsible for the preparation of the Parent Company financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit the Parent Company financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board’s Ethical Standards for Auditors.

This report, including the opinions, has been prepared for and only for the Company’s members as a body in accordance with Sections 495 to 497 of the Companies Act 2006 and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Parent Company’s circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the directors; and the overall presentation of the financial statements.

Opinion on financial statements

In our opinion the Parent Company financial statements:

- give a true and fair view of the state of the Company’s affairs as at 31 August 2009;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Opinion on other matters prescribed by the Companies Act 2006

In our opinion:

- the part of the Directors’ Remuneration Report to be audited has been properly prepared in accordance with the Companies Act 2006; and
- the information given in the Directors’ Report for the financial year for which the Parent Company financial statements are prepared is consistent with the Parent Company financial statements.

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion:

- adequate accounting records have not been kept by the Parent Company, or returns adequate for our audit have not been received from branches not visited by us; or
- the Parent Company financial statements and the part of the Directors’ Remuneration Report to be audited are not in agreement with the accounting records and returns; or
- certain disclosures of directors’ remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

Other matter

We have reported separately on the Group financial statements of Connaught plc for the year ended 31 August 2009.

S W Harrison (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
Bristol
29 October 2009

Company Balance Sheet
at 31 August 2009

	Note	2009 £m	2008 £m
Fixed assets			
Tangible fixed assets	1	**9.1**	8.5
Investments	2	**178.0**	157.2
		187.1	165.7
Current assets			
Debtors	3	**105.1**	21.1
Cash at bank and in hand		**–**	2.9
		105.1	24.0
Creditors: amounts falling due within one year	4	**(35.5)**	(20.3)
Net current assets		**69.6**	3.7
Total assets less current liabilities		**256.7**	169.4
Creditors: amounts falling due after one year	5	**(133.9)**	(71.9)
Net assets		**122.8**	97.5
Capital and reserves			
Called up share capital	7	**2.7**	2.5
Share premium account	8	**108.4**	80.2
Merger reserve	8	**6.1**	6.1
Capital redemption reserve	8	**0.5**	0.5
Own share reserve	8	**(1.5)**	(1.5)
Share-based payment reserve	8	**2.4**	1.1
Profit and loss account	8	**7.2**	8.6
Hedging reserve	8	**(3.0)**	–
Equity shareholders' funds		**122.8**	97.5

These financial statements were approved by the Board of directors on 28 October 2009 and were signed on its behalf by:

M W Tincknell
Director

S R Hill
Director

Except as stated below, the following accounting policies have been applied consistently in dealing with items which are considered material in relation to the Company's financial statements.

Basis of preparation

The financial statements have been prepared in accordance with applicable accounting standards and under the historical cost accounting rules, in accordance with the Companies Act 1985 and applicable United Kingdom accounting standards (UK GAAP).

As permitted by S230(3) of the Companies Act 2006, the Company's profit and loss account and statement of total recognised gains and losses has not been presented.

The Connaught plc consolidated financial statements for the year ended 31 August 2009 contain a consolidated cash flow statement. Consequently, the Company has taken advantage of the exemption in FRS 1 (Revised 1996) 'Cash Flow Statements' not to present its own cash flow statement.

The Company has taken advantage of the exemptions in FRS 8 'Related Party Disclosures' not to disclose transactions with other Group members.

Tangible fixed assets and depreciation

Depreciation is provided by the Company to write off the cost less the estimated residual value of tangible fixed assets over their estimated useful economic lives as follows:

Buildings	–	2% straight line per annum
Leasehold improvements	–	Charged over life of lease
Motor vehicles	–	25% straight line per annum
Fixtures, fittings, tools and equipment	–	20% straight line per annum
Plant and machinery	–	20% straight line per annum
Computer equipment	—	25% straight line per annum
Management software packages	–	Charged over estimated life of package

Leases

Where the Company enters into a lease which entails taking substantially all the risks and rewards of ownership of an asset, the lease is treated as a 'finance lease'. The asset is recorded in the balance sheet as a tangible fixed asset and is depreciated over its estimated useful life or the term of the lease, whichever is shorter. Future instalments under such leases, net of finance charges, are included within creditors. Rentals payable are apportioned between the finance element, which is charged to the profit and loss account, and the capital element, which reduces the outstanding obligation for future instalments.

All other leases are accounted for as 'operating leases' and the rental charges are charged to the profit and loss account on a straight line basis over the life of the lease.

Pension costs

The Company operates defined contribution and Group personal pension schemes. The assets of the schemes are held separately from those of the Group in independently administered funds. The amounts charged against profits represent the contributions payable to the schemes in respect of the accounting period.

Tax including deferred tax

The tax expense represents the sum of current tax expense and deferred tax expense.

Current tax expense is based on taxable profit for the year. Taxable profit differs from net profit as reported in the income statement because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Company's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the balance sheet date.

Full provision (on an undiscounted basis) is made for deferred tax assets and liabilities arising from timing differences between the recognition of gains and losses in the financial statements and their recognition in the respective tax computations. Deferred tax assets are recognised only to the extent that they are more likely than not to be recovered in the short term.

Dividends

Final dividends are recognised as a liability in the Company's financial statements in the period in which the dividends are approved by shareholders, while interim dividends are recognised in the period in which the dividends are paid.

Investments held as fixed assets

Investments held as fixed assets comprise the Company's investment in subsidiaries and are shown at initial cost (being the fair value of the consideration paid including amounts attributable to transaction costs) less any provision for impairment (reviewed on an individual basis if events or circumstances dictate the carrying value may not be fully recoverable).

Share-based payment

The Company has applied the requirements of FRS 20.

The Company issues equity-settled share-based payments to certain employees. These are measured at fair value at the date of grant. The fair value is expensed on a straight-line basis over the vesting period, based on the Group's estimate of shares that will eventually vest.

Fair value is measured by use of the Black Scholes model as set out on page 47. The expected life used in the model has been adjusted, based on management's best estimate, for the effects of non-transferability, exercise restrictions, and behavioural considerations. Where relevant, the value of the option has also been adjusted to take account of market conditions applicable to the option.

Financial instruments

Derivative financial instruments

Derivatives are initially recognised at fair value on the date a derivative contract is entered into and are subsequently remeasured at their fair value. The method of recognising the resulting gain or loss depends on whether the derivative is designated as a hedging instrument, and if so, the nature of the item being hedged. The Company designates hedges of particular risk associated with a recognised asset or liability or a highly probable forecast transaction (cash flow hedge).

The Company's interest rate risk arises from long-term borrowings. Borrowings issued at variable rates expose the Company to cashflow interest rate risk. Borrowings issued at fixed rates expose the Company to fair value interest rate risk. Company policy is to maintain approximately 70% of its borrowings in fixed rate instruments.

The Company enters into fixed-to-floating interest rate swaps to hedge the fair value interest rate risk arising where it has borrowed at fixed rates in excess of the 70% target.

The Company's currency risk arises from foreign currency denominated loan notes. Borrowings issued in foreign currencies expose the Company to cashflow foreign exchange risk. The Company enters into cross-currency derivative swaps to hedge the fair value currency risk. The derivatives and the borrowings are retranslated at year end exchange rates and to the extent to which the hedge is effective gains and losses are reflected through reserves.

The Company recognises gains or losses on derivatives at fair value through the income statement.

The Company's policy in respect of financial risk management is included in the finance review on page 23.

The Company has taken advantage of the FRS29: Financial Instruments: disclosures exemption and has not provided financial instruments disclosures for the Company alone.

1 Fixed assets

	Short leasehold improvements £m	Plant, machinery and motor vehicles £m	Fixtures, fittings, tools and equipment £m	Total £m
Cost				
At 1 September 2008	1.3	0.2	10.6	12.1
Additions	1.0	–	7.5	8.5
Disposals	–	(0.1)	(6.8)	(6.9)
31 August 2009	**2.3**	**0.1**	**11.3**	**13.7**
Depreciation				
At 1 September 2008	0.3	0.1	3.2	3.6
Charged for year	0.2	–	0.8	1.0
Disposals	–	–	–	–
At 31 August 2009	**0.5**	**0.1**	**4.0**	**4.6**
Net book value				
At 31 August 2009	**1.8**	**–**	**7.3**	**9.1**
At 31 August 2008	1.0	0.1	7.4	8.5

Included within computer software are assets under construction of £2.6m (*2008: £6.9m*), which have not been amortised as they have not been brought into use.

2 Investments

Shares in Group Companies	2009 £m	2008 £m
Cost and net book value		
At 1 September	**157.2**	55.7
Additions	**20.8**	101.5
Disposals	**–**	–
At 31 August	**178.0**	157.2

At 31 August 2009 the Company owned the entire ordinary equity share capital, either directly or indirectly, of the following principal subsidiary undertakings:

Name of undertaking	Principal activity
Connaught Partnerships Limited	Social housing maintenance services
Connaught Environmental Limited	Estate management services
Connaught Compliance Limited	Electrical and mechanical maintenance services
Conntrol Limited	Web-enabled asset management services
Connaught Technical Solutions Limited	Gas heating, electrical, ventilation and air conditioning services
Connaught Academy Limited	Training gas technicians
Connaught GasForce Limited	Gas heating – ventilation and air conditioning services
GasForce Technical Services Limited	Gas heating and refrigeration services
Connaught Baldwin Limited	Social housing maintenance services
Connaught Scotland Limited	Specialist maintenance services
Environment Plus (UK) Limited	Water analysis specialist
P.C.L. (Nationwide) Limited	Electrical and lighting installation and maintenance
C B Services Limited	Electrical installation and maintenance
Apollo Plant Hire Limited	Plant hire
A.E. Williams & Son (Builders) Limited	Social housing maintenance services
Water Technology Limited	Water hygiene and treatment services
Magi-cal Water Filters Limited	Water filter systems
Connaught Compliance Fire Services Limited	Fire protection services
A.N.T. Environmental Services Limited	Health and safety consultancy
BCCR Holdings Limited	Health and safety consultancy
Corporate Governance Through Controls Assurance Limited	Water safety and asbestos consultancy
E.H.&S.S. Limited	Occupational health services
Elite Workwear UK Limited	Health and safety consultancy
Hygiene Monitoring Services Limited	Health & safety and food safety consultancy
National Britannia Certification Limited	Accreditation and certification services
National Britannia Group Limited	Group service company
National Britannia Limited	Health and safety consultancy
Occhea Limited	Occupational health services
Safety Works Limited	Health and safety consultancy
Corporate Health & Safety Solutions Limited	Health and safety training company
Connaught Predator Limited	Pest control
Lowe Group (Holdings) Limited	Electrical services
Connaught Compliance Electrical Services Limited	Electrical services
UK Fire International Limited	Fire related services
Igrox Limited	Pest control

All of the above subsidiaries are incorporated in and operate in the United Kingdom and are included in the consolidation.

All of the above undertakings are registered in England and Wales, except Connaught Scotland Ltd which is registered in Scotland, and are wholly owned by the Group.

3 Debtors

	2009 £m	2008 £m
Amounts falling due in less than one year:		
Amounts owed by subsidiary undertakings	**89.6**	8.4
Other taxes and social security	**1.2**	2.9
Corporation tax	**9.6**	5.9
Deferred tax asset	**1.7**	–
Other debtors	**2.4**	1.8
Prepayments and accrued income	**0.6**	2.1
	105.1	21.1

There were no amounts falling due in more than one year.

Amounts owed by subsidiary undertakings are interest free, unsecured and have no set date of repayment.

4 Creditors: amounts falling due within one year

	2009 £m	2008 £m
Overdraft	**3.8**	–
Bank loans (note 5)	**10.8**	10.8
Trade creditors	**4.7**	5.2
Amounts owed to subsidiary undertakings	**–**	0.7
Other creditors	**0.1**	0.8
Accruals and deferred income	**7.6**	1.6
Deferred consideration	**3.5**	1.2
Hedging	**5.0**	–
	35.5	20.3

Amounts owed to subsidiary undertakings are interest free, unsecured and have no set date of repayment.

5 Creditors: amounts falling due after one year

	2009 £m	2008 £m
Bank loans	**79.2**	71.9
Private placement loan notes	**54.7**	–
	133.9	71.9
Analysis of debt:		
Obligations under bank loans		
In one year or less, or on demand	**10.8**	10.8
Between one and five years	**79.2**	71.9
	90.0	82.7
Obligations under private placement loan notes		
Between one and five years	**21.4**	–
Over five years	**33.3**	–
	54.7	–

The bank loans referred to above have been drawn down under a committed credit facility under which each Group Company has cross-guaranteed the borrowings of its fellow Group Companies. Interest rates are set according to agreed financial criteria at 31 August and at the end of every subsequent quarter. The borrowings are secured by way of fixed and floating charges over the assets of the Group.

6 Dividends

	2009 £m	2008 £m
Equity shares:		
Final dividend for the year ended 31 August 2008 of 1.755p per share (*2007: 1.46p*)	**2.2**	1.8
Interim dividend for the year ended 31 August 2009 of 1.09p per share (*2008: 0.925p*)	**1.3**	1.1
	3.5	2.9

In addition, the directors are proposing a final dividend in respect of the financial year ending 31 August 2009 of 2.07p per share which will absorb an estimated £2.9m of shareholders' funds. Subject to shareholder approval, it will be paid on 5 March 2010 to shareholders who are on the register of members on 5 February 2010.

7 Share capital

	2009 £m	2008 £m
Authorised		
162,700,000 (2008: 162,700,000) ordinary shares of 2p each	**3.3**	3.3
Allotted, called up and fully paid		
131,058,286 (2008: 122,654,623) ordinary shares of 2p each	**2.7**	2.5

During the year 403,663 (*2008: 415,000*) shares were issued as a result of the exercise of share options and SAYE schemes for a consideration of £0.4m (*2008: £0.5m*). In July 2009, 8,000,000 2p ordinary shares were issued at a price of 350p, by way of a vendor placing.

8 Reserves

a) Retained earnings

	2009 £m	2008 £m
At 1 September	**8.6**	9.4
Profit for the year	**2.1**	2.1
Dividend paid	**(3.5)**	(2.9)
At 31 August	**7.2**	8.6

8 Reserves continued

b) Other reserves

	Merger reserve £m	Capital redemption reserve £m	Share premium account £m	Own shares reserve £m	Share-based payment reserve £m	Hedging reserve £m	Total £m
31 August 2007	6.1	0.5	20.0	(1.2)	0.8	–	26.2
Premium on shares issued	–	–	60.2	–	–	–	60.2
Share-based payments	–	–	–	(0.3)	0.3	–	–
31 August 2008	6.1	0.5	80.2	(1.5)	1.1	–	86.4
Premium on shares issued	–	–	28.2	–	–	–	28.2
Share-based payments	–	–	–	–	1.3	–	1.3
Hedging movements	–	–	–	–	–	(3.0)	(3.0)
31 August 2009	**6.1**	**0.5**	**108.4**	**(1.5)**	**2.4**	**(3.0)**	**112.9**

The Group's own shares reserve is held in an offshore trust in Jersey under the management of AIBWorthytrust limited. However, the shares are under the control of the Remuneration Committee and have therefore been included in the Company's shareholders equity.

9 Reconciliation of movements in shareholders' funds

	2009 £m	2008 £m
Profit for the year	**2.1**	2.1
Dividends	**(3.5)**	(2.9)
Premium on shares issued	**28.2**	60.2
Shares issued	**0.2**	0.4
Share based payments	**1.3**	–
Hedging movements	**(3.0)**	–
Net addition to shareholders' funds	**25.3**	59.8
Opening shareholders' funds as previously reported	**97.5**	37.7
Closing shareholders' funds	**122.8**	97.5

10 Contingent liabilities

An unlimited bank multilateral guarantee exists between the Company and other Group Companies. At the year end the Company had bank loans and private placement loan notes totalling £146.0m (*2008: £120.2m*). The fees associated with the private placement of £1.3m, (note 24 of the Group accounts), reduces the effective fair value of the Company's loans and loan notes to £144.7m (*2008: £120.2m*).

The Company has guaranteed the performance bonds of its subsidiary Companies of £15.1m (*2008: £12.3m*).

11 Other information

As permitted by S230(3) of the Companies Act 1985, the profit and loss account of the Company has not been presented. The profit attributable to shareholders, dealt with in the financial statements of the Company is £2.1m (*2008: £2.1m*). This is after charging an audit fee of £0.1m (*2008: £0.1m*).

12 Staff costs

	2009 £m	2008 £m
Wages and salaries	**13.6**	8.6
Social security costs	**1.7**	1.2
Pension	**0.5**	0.5
Share schemes	**1.3**	0.8
	17.1	11.1

Average staff numbers were 250 (*2008: 173*).

13 Post balance sheet events

On 3 September 2009, the Company acquired the entire share capital of Fountains plc, for a total consideration of £13.3m. Due to the timing post year end, no analysis has been determined.

14 Registered office

Connaught plc is a Company incorporated in England and Wales. The Company's registered office is: Connaught House, Grenadier Road, Exeter Business Park, Exeter, Devon, EX1 3QF.

Investor information

Registrars
Capita IRG
The Registry
34 Beckenham Road
Beckenham
Kent
BR3 4TH

Solicitors
Jones Day
21 Tudor Street
London
EC4Y 0DJ

Brokers
Altium Securities
30 St James Square
London
SW1Y 4AL

KBC Peel Hunt Ltd
111 Old Broad Street
London
EC2N 1PH

Bankers
The Royal Bank of Scotland
Corporate Banking
3rd Floor
3 Temple Back East
Bristol
BS1 6DZ

Corporate Finance Advisor
Close Brothers
10 Crown Place
London
EC2A 4FT

Auditors
PricewaterhouseCoopers LLP
31 Great George Street
Bristol
BS1 5QD

Head Office
Connaught House
Grenadier Road
Exeter Business Park
Exeter
Devon EX1 3QF

T: 01392 444546
website: www.connaught.plc.uk
contact us: info@connaught.plc.uk

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Connaught plc
Connaught House
Grenadier Road
Exeter Business Park
Exeter
Devon EX1 3QF

Tel 01392 444546
Fax 01392 444543
info@connaught.plc.uk
www.connaught.plc.uk

Registered Company No. 3184319