Interim Report 2008

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Connaught

Putting you first

"The first half of this financial year has been a period of significant progress for the Group and we have delivered another record set of results. Strong organic growth has been supplemented by earnings enhancing acquisitions – the most notable of these being the £91m acquisition of National Britannia, the leading player in the fast growing white collar compliance market.

We are excited about the Group's future. We have a strong business, with excellent earnings visibility: 99% of 2008 and 93% of 2009 market forecast social housing revenues are secured. As market leader, we are perfectly positioned to further capitalise on the favourable conditions in our core markets."

Mark Tincknell, Chairman

Operational Highlights

- Group revenue increased 55% to £256m (2007: £165m), driven by strong organic growth of 23% and growth through acquisitions representing 32% of total revenue
  - Social Housing division revenue increased 45% to £205.6m (2007: £141.4m)
  - Compliance Services division revenue increased 110% to £49.9m (2007: £23.8m)
- Group operating profit* rose 84% to £15.8m (2007: £8.6m)
  - Social Housing division operating profit rose 51% to £11.2m (2007: £7.4m)
  - Compliance Services division operating profit increased 150% to £6.5m (2007: £2.6m), with a significant contribution from the acquisition of National Britannia
- Group operating margins rose to 6.2% from 5.2%, as the Group continues to benefit from increasing economies of scale and its improving service mix
- Profit before tax* increased 60% to £13.0m (2007: £8.1m)
- Diluted earnings per share* increased 40% to 7.6p
- Net debt at £81.5m
- Interim dividend rose 20% to 0.925p per share (2007: 0.77p)
- Total order intake for the financial year to date is £665m, including £210m secured since 29 February 2008. The Group's order book at the half year stands at £2.5bn (2007: £2bn)

* before amortisation of acquisition intangibles

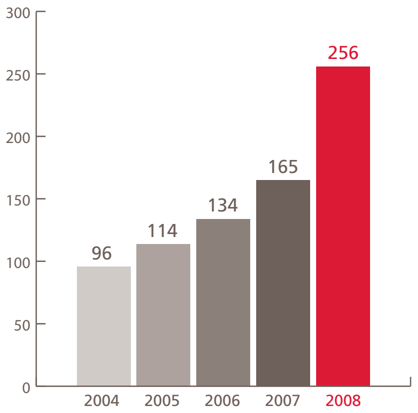
RoSPA 2008 GOLD MEDAL Award

FTSE4Good

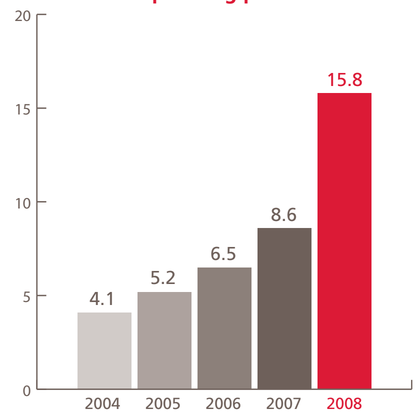
Financial Highlights

	Six months ended 29 February 2008	Six months ended 28 February 2007	% Change
Revenue	**£256m**	£165m	+55%
Operating profit*	**£15.8m**	£8.6m	+84%
Profit before tax*	**£13.0m**	£8.1m	+60%
Profit before tax	**£9.7m**	£8.1m	+20%
Diluted earnings per share*	**7.6p**	5.4p	+40%
Diluted earnings per share	**5.6p**	5.4p	+4%
Interim dividend per share	**0.925p**	0.77p	+20%

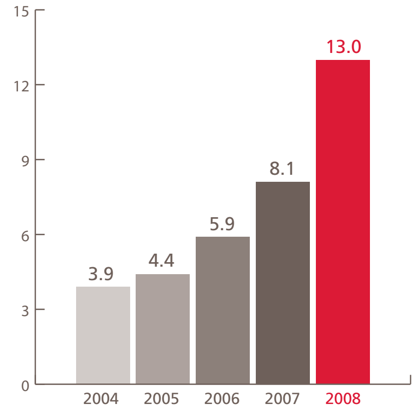
Revenue



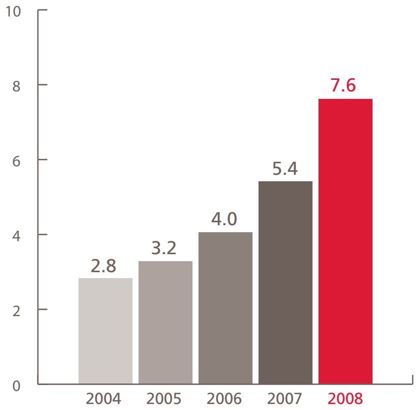
Operating profit*



Profit before tax*



Earnings per share**



* before amortisation of acquisition intangibles
** diluted, before amortisation of acquisition intangibles

Chairman's Statement

Mark Tincknell, Chairman

Overview

In the first six months of this financial year Connaught has continued its high level of growth as it consolidates its position as the leading integrated services provider to both public and private sector clients.

Through continued investment in all areas of its business, particularly in its people and its customer facing IT, Connaught continues to capitalise on its leading position in the highly attractive Social Housing and Compliance markets.

Revenue for the Group increased 55% to £256m (2007: £165m) while operating profit* rose 84% to £15.8m (2007: £8.6m), and Group margins* rose to 6.2% (2007: 5.2%). Organic revenues and operating profit increased 23% and 28% respectively, with the balance from acquisitions made during the 2007 calendar year.

Profit before tax (and amortisation of acquisition intangibles) increased 60% to £13.0m (2007: £8.1m) and diluted earnings per share (before amortisation of acquisition intangibles) rose 40% to 7.6 pence (2007: 5.4 pence). The interim dividend has been increased 20% to 0.925 pence per share.

Order book

Connaught's order intake for the six months was a record £455m, with a further £210m secured since 29 February 2008. This reflects the strength of the Group's market position and the success of its integrated services business. Integrated services contracts represent 76% of the year to date order intake.

The Group's order book at the half year stands at £2.5bn (2007: £2bn), which underpins Connaught's long-term earnings visibility. Currently 99% of the market forecast for social housing revenue for 2008 is now secured, with 93% for 2009 and 77% for 2010.

Social Housing

Connaught's Social Housing division provides integrated services to Local Authorities, Arms Length Management Organisations and Registered Social Landlords throughout mainland UK.

In the six months to 29 February 2008, revenues increased 45% to £205.6m (2007: £141.4m) while operating profit* increased by 51% to £11.2m (2007: £7.4m). Operating margins* increased from 5.2% in 2007 to 5.5% in 2008. Organic revenue and operating profit* growth were 24% and 33% respectively, with the balance from the Baldwins and AE Williams acquisitions made in the second half of 2007.

Social Housing is a large and established market worth over £10bn per annum and is driven by the Government's commitment to improve and maintain the quality of social housing throughout the UK, through planned capital and ongoing maintenance expenditure.

The Social Housing market is stable, as it is one of the few areas of public expenditure funded by a revenue stream, with over 5 million households paying a weekly rent.

The market is fast maturing and its current fragmented nature – with the top ten operators covering just 19% of the market – is changing. Government, Local Authorities and Social Landlords are constantly seeking ways to deliver efficiency improvements, which is leading to the consolidation of outsourced maintenance activity as they move from multiple single service providers to larger integrated service providers that can offer long-term, multi-disciplined partnership.

Connaught, having anticipated this trend, has grown strongly in this area. Following the acquisition of Baldwins and Williams in 2007, Connaught is now the leading provider of integrated services and is increasingly regarded as the partner of choice for clients looking to outsource on a large scale.

Connaught's recent contract wins demonstrate this trend for longer-term complex contracts. In 2006, Paradigm was Connaught's first integrated services contract and now the Group operates more than a dozen such contracts, including the recently awarded Matrix Housing partnership in the Midlands, worth £180m over 10 years.

* before amortisation of acquisition intangibles

In addition Connaught continues to build long-term relationships with its clients, now operating over 130 partnerships across mainland UK, the majority of which offer significant organic growth potential through service extension as clients seek efficiencies through supplier rationalisation. The number of clients buying three or more services from Connaught has risen from less than fifteen to more than thirty in one year. This is a trend we expect will accelerate.

Connaught, in line with its stated strategy, continues to build its presence in Scotland and Wales. In Scotland, the Group secured its first integrated services contract, worth £50m over five years with Dumfries and Galloway Housing Partnership, while in Wales it won the first significant Welsh Housing Quality Standard partnership contract with Rhonndda Cynon Taff, valued at £30m over five years.

Further contract wins during the period include:

- Raglan Housing Association, a 15 year, £150m integrated services contract;
- Bromford Corinthia, a 10 year, £60m integrated services contract;
- Midland Heart, a 10 year, £40m response integrated services contract;
- Newham Homes, a 4 year, £43m decent homes contract;
- Greenfields Community Gateway, a 3 year, £30m decent homes contract;

In addition, the Group successfully rebid, at enhanced values, two former Baldwins and Williams response maintenance contracts, respectively Harrogate District Council and the London Borough of Merton, worth a combined £45m.

* before amortisation of acquisition intangibles

Connaught's social housing growth has been further enhanced by improved margins, up from 5.2% to 5.5%, as the Group continues to benefit from economies of scale and service mix.

Compliance

Connaught's Compliance division offers safety, health and risk management solutions through its white collar advisory and blue collar servicing businesses.

In the six months to 29 February 2008, the Compliance division revenue more than doubled from £23.8m in 2007 to £49.9m while operating profits* increased from £2.6m to £6.5m with an operating margin* for the division of 13% (2007: 11%). Organic growth in both revenue and operating profit was 19% with the balance from acquired businesses, notably National Britannia.

Compliance is a highly attractive market, with Connaught's addressable opportunity worth an estimated £5.7bn per annum, and growing at 7-8% per year. The market is being driven by continued tightening of EU health and safety legislation, holding businesses and company directors to account. Ever-increasing regulation is working alongside more stringent enforcement by the Health and Safety Executive.

The insurance industry is an additional growth driver for the health and safety compliance market, with insurers now demanding that their clients demonstrate that they are fully compliant with all relevant legislation and regulations.

Like the social housing market, the compliance market is highly fragmented (the top ten providers share only 15%) and is dominated by smaller single service providers. There is, however, an increasing appetite from businesses to build long-term relationships with one partner who can provide the multiple compliance services that are increasingly demanded.

This trend offers significant opportunities for Connaught as it continues to expand its operations in this market, most notably through the acquisition of Caerphilly-based National Britannia, the market leader in white collar compliance, which was completed in October 2007. Following this acquisition, Connaught can now provide an integrated compliance service encompassing both white collar advisory and blue collar services.

The integration of National Britannia is progressing extremely well. The management structure has been fully integrated with Connaught's Compliance division. Back office and purchasing synergy savings are being delivered and a programme to run customer service and client facing IT from Caerphilly is underway. We anticipate integration costs of £2m in the second half of 2008, with a payback inside the next three financial years.

Focus on developing the major account programme and offering additional services to existing customers is a key priority as Connaught integrates National Britannia. Currently 37% of the major clients buy two services, with only 11% purchasing three or more. Building long-term relationships with these major clients will be a key driver of organic growth.

In addition there is an increasing trend for clients to tender larger integrated compliance services contracts. Connaught has recently been selected as the compliance servicing partner for the National Children's Homes group, a contract worth approximately £4m a year. An early success in promoting this compliance offer to the social housing market has been secured with Matrix Housing, where the ten year integrated services contract mentioned earlier includes £500k of compliance services a year.

In the first half Connaught also completed the £9.1m acquisition of Watertech, a water hygiene and treatment business. The integration of Watertech, and the two other compliance businesses acquired in 2007, PCL and E-Plus, have been successfully completed.

The Compliance division has a healthy pipeline of bolt-on acquisition opportunities, but will continue to be selective with the emphasis on geographic fit and service extension.

Connaught's Compliance division revenue growth has been enhanced by improved margins* up by two percentage points to 13%, a trend which is anticipated to continue through both operating leverage from its Caerphilly hub and an improving service mix.

Social Responsibility

Connaught is dedicated to the communities it serves and continues to make a positive contribution to many local economies. A large proportion of the Group's employees live in the local communities in which they work.

As a pioneer of tenant liaison, Connaught was recently called on by the Tenant Participation Advisory Service to provide support in the development of a new industry quality standard.

Occupational Health and Safety is also a key area of focus and in early 2008 the Group was awarded its 15th ROSPA Gold Award for Health and Safety.

People

We currently employ over 7,500 people, all of whom play an essential part in the delivery of our unique Connaught customer experience. Through the Connaught Academy the development of all our people remains a core priority. The Connaught Academy now trains over 2,500 people per year. We are currently training over 400 apprentices, and in 2008 over 500 first line managers will attend our in-house 'Managing for Success' programme.

The Connaught culture and our values underpin everything we do, providing the foundation for our unique customer experience and we would like to thank everyone in Connaught for playing their part in contributing to the Group's success.

Outlook

These first half results demonstrate the Group's robust position in both its markets. Earnings visibility remains high, with 99% of 2008 and 93% of 2009 market forecast social housing revenues secured. The pipeline stands at a healthy £3.3bn.

Connaught is now the market leader in two highly attractive markets, both of which offer significant growth opportunity, whilst having defensive characteristics. With its strong management team and unique integrated services proposition, the Group is well positioned to deliver strong sustained earnings growth.

Condensed Consolidated Half-yearly Income Statement

for the six months ended 29 February 2008

	Note	Unaudited 29 February 2008 6 months £m	Unaudited 28 February 2007 6 months £m	31 August 2007 12 months £m
Revenue	4	**255.5**	165.2	395.9
Cost of sales		**(213.5)**	(141.1)	(345.1)
Gross profit		**42.0**	24.1	50.8
Administrative expenses		**(29.5)**	(15.5)	(33.5)
Operating profit before amortisation of acquisition intangible assets	4	**15.8**	8.6	19.2
Amortisation of acquisition intangible assets		**(3.3)**	-	(1.9)
Operating profit		**12.5**	8.6	17.3
Finance costs		**(4.4)**	(1.4)	(3.8)
Finance income		**1.6**	0.9	2.3
Profit before tax		**9.7**	8.1	15.8
Tax expense	6	**(2.8)**	(2.4)	(4.8)
Profit for period attributable to equity shareholders		**6.9**	5.7	11.0
Earnings per ordinary share				
Basic	8	**5.9p**	5.6p	10.8p
Diluted	8	**5.6p**	5.4p	10.4p

All operations are classified as continuing.

Statement of Recognised Income and Expense

	Unaudited 29 February 2008 6 months £m	Unaudited 28 February 2007 6 months £m	Audited 31 August 2007 12 months £m
Net profit	**6.9**	5.7	11.0
Share options			
share based payments - deferred tax	**-**	-	1.4
share based payments - current tax	**-**	-	-
Dividends	**(1.8)**	-	(2.1)
	5.1	5.7	10.3

Condensed Consolidated Half-yearly Balance Sheet

as at 29 February 2008

	Note	Unaudited 29 February 2008 £m	Unaudited 28 February 2007 £m	31 August 2007 £m
Non-current assets				
Goodwill	5	**140.2**	33.6	52.4
Acquisition intangible assets		**33.9**	-	9.1
Other intangible assets		**5.1**	4.2	4.3
Property, plant and equipment		**8.2**	5.9	6.6
Trade and other receivables		**8.1**	0.5	5.1
Deferred tax asset		**1.1**	3.1	0.5
		196.6	47.3	78.0
Current assets				
Inventories		**6.6**	6.8	7.6
Trade and other receivables		**127.5**	76.6	104.8
Current tax asset		**1.9**	-	1.7
Cash and cash equivalents		**33.1**	14.0	25.6
		169.1	97.4	139.7
Total assets		**365.7**	144.7	217.7
Current liabilities				
Borrowings	9	**(15.2)**	(1.3)	(1.0)
Trade and other payables		**(126.5)**	(75.4)	(122.0)
Current tax liabilities		**(3.2)**	(2.4)	-
		(144.9)	(79.1)	(123.0)
Non-current liabilities				
Borrowings	9	**(99.4)**	(18.9)	(42.0)
Deferred tax liabilities		**(5.3)**	(0.3)	-
		(104.7)	(19.2)	(42.0)
Total liabilities		**(249.6)**	(98.3)	(165.0)
Net assets	11	**116.1**	46.4	52.7
Shareholders' equity				
Ordinary shares		**2.4**	2.1	2.1
Share premium		**79.0**	19.9	20.0
Retained earnings		**29.5**	18.4	24.4
Other reserves		**5.2**	6.0	6.2
Equity shareholders' funds	11	**116.1**	46.4	52.7

Condensed Consolidated Half-yearly Cash Flow Statement

for the six months ended 29 February 2008

	Unaudited 29 February 2008 6 months £m	Unaudited 28 February 2007 6 months £m	31 August 2007 12 months £m
Reconciliation of operating profit to net cash flows from operating activities			
Net profit	**6.9**	5.7	11.0
Tax	**2.8**	2.4	4.8
Loss/(profit) on disposal property, plant and equipment	**–**	0.1	(0.1)
Amortisation of intangibles and depreciation	**4.5**	1.2	4.8
Interest income	**(1.6)**	(0.9)	(2.3)
Finance charge	**4.4**	1.4	3.8
Other non cash changes	**0.2**	0.1	0.3
Decrease/(increase) in inventories	**0.2**	(0.2)	(1.0)
(Increase)/decrease in trade and other receivables	**(22.7)**	8.5	(19.5)
Increase/(decrease) in payables	**0.9**	(15.4)	12.3
Cash (outflow)/generated from operating activities	**(4.4)**	2.9	14.1
Cash generated from continuing operating activities excluding operating cash impact of acquisitions	**4.5**	2.9	17.3
Operating cash impact of acquisitions	**(8.9)**	-	(3.2)
Cash flows from operating activities			
Cash generated from operations	**(4.4)**	2.9	14.1
Interest received	**1.6**	0.8	1.7
Interest paid	**(4.8)**	(1.4)	(3.6)
Taxation (paid)/received	**(1.2)**	0.2	(2.4)
Net cash from operating activities	**(8.8)**	2.5	9.8
Cash flows from investing activities			
Acquisition of businesses/subsidiaries	**(110.4)**	(0.1)	(13.9)
Development expenditures	**(0.6)**	(1.8)	(1.8)
Proceeds from sale of property, plant and equipment	**-**	0.3	3.3
Purchase of intangible assets	**(0.1)**	(0.4)	(2.9)
Purchase of property, plant and equipment	**(2.4)**	(2.6)	(1.7)
Net cash used in investing activities	**(113.5)**	(4.6)	(17.0)

	Unaudited 29 February 2008 6 months £m	Unaudited 28 February 2007 6 months £m	31 August 2007 12 months £m
Cash flows from financing activities			
Net proceeds from issue of ordinary share capital	**58.0**	0.7	0.7
(Purchase)/sale of shares	**(1.0)**	0.1	0.1
Net proceeds from issue of new bank loan	**71.9**	18.5	37.9
Finance lease principle payments	**(0.1)**	(0.1)	(0.3)
Repayment of borrowings	**-**	(19.7)	(20.1)
Dividends paid to shareholders	**-**	-	(2.1)
Net cash generated from/(used in) financing activities	**128.8**	(0.5)	16.2
Net increase/(decrease) in cash and cash equivalents	**6.5**	(2.6)	9.0
Cash and cash equivalents at 1 September	**25.6**	16.6	16.6
Cash and cash equivalents at end of period	**32.1**	14.0	25.6

Analysis of net debt

	Unaudited 29 February 2008 6 months £m	Unaudited 28 February 2007 6 months £m	31 August 2007 12 months £m
Cash and cash equivalents	**32.1**	14.0	25.6
Loan notes	**(2.6)**	(1.1)	(4.4)
Finance lease	**(1.2)**	(0.6)	(0.7)
Interest bearing loans and borrowings	**(109.8)**	(18.5)	(37.9)
Net debt	**(81.5)**	(6.2)	(17.4)

Notes to Condensed Consolidated Half-yearly Financial Information

1 General information

The Company is a limited liability company incorporated in the UK. The address of the registered office is Connaught House, Pynes Hill, Rydon Lane, Exeter EX2 5TZ. The Company has its primary listing on the London Stock Exchange. This condensed consolidated half-yearly financial information was approved for issue on 22 April 2008. These interim financial results do not comprise statutory accounts within the meaning of Section 240 of the Companies Act 1985. Statutory accounts for the year ended 31 August 2007 were approved by the Board of Directors on 24 October 2007 and delivered to the Registrar of Companies.

The report of the auditors on those accounts was unqualified, did not contain an emphasis of the matter paragraph and did not contain any statement under Section 237 of the Companies Act 1985.

2 Basis of preparation and accounting policies

This condensed consolidated half-yearly financial information for the half-year ended 29 February 2008 has been prepared in accordance with the Disclosure of Transparency Rules of the Financial Services Authority and with IAS 34, 'Interim financial reporting' as adopted by the European Union. The half-yearly condensed consolidated financial report should be read in conjunction with the annual financial statements for the year ended 31 August 2007 which have been prepared in accordance with IFRSs' as adopted by the European Union.

3 Accounting policies

The accounting policies adopted are consistent with those of the annual financial statements for the year ended 31 August 2007, as described in those financial statements. The following new standards, amendments to standards or interpretations are mandatory for the first time for the financial year ending 31 August 2008

IFRIC 7, 'Applying the restatement approach under IAS 29' effective for annual periods beginning on or after 1 March 2006. This interpretation is not relevant to the Group.

IFRIC 8, 'Scope of IFRS2', effective for annual periods beginning on or after 1 May 2006. This interpretation has not had any impact on the recognition of share-based payments in the Group.

IFRIC 9, 'Reassessment of embedded derivatives ', effective to annual periods beginning on or after 1 June 2006. This interpretation has not had a significant impact on the reassessment of embedded derivatives as the Group already assessed if embedded derivatives should be separated using principles consistent with IFRIC 9.

IFRIC 10, 'Interims and Impairment', effective for annual periods beginning on or after 1 November 2006. This interpretation has not had any impact on the timing or recognition of impairment losses as the Group already accounted for such amounts using principles consistent with IFRIC 10.

IFRS 7, 'Financial instruments: Disclosures' effective for annual periods beginning on or after 1 January 2007. As this interim report contains only condensed financial statements, and as there are no material financial instrument related transactions in the period, full IFRS 7 disclosures are not required at this stage. The full IFRS disclosures, including sensitivity analysis to market risk and capital disclosures required by the amendment of IAS 1, will be given in the annual financial statements.

The following new standards, amendments to standards and interpretations have been issued, but are not effective for the financial half year ending 29 February 2008 and have not been adopted early.

IFRIC 11, 'IFRS 2 - Group and treasury share transactions', effective for annual periods beginning on or after 1 March 2007. Management do not expect this interpretation to be relevant for the Group.

IFRIC 12, 'Service concession arrangements', effective for annual periods beginning on or after 1 January 2008. Management do not expect this to be relevant for the Group.

IFRS 8, 'Operating segments', effective for annual periods beginning on or after 1 January 2009, subject to EU endorsement. Management do not currently foresee any changes to the Group's business segments.

4 Segmental analysis

	Social Housing £m	Compliance £m	Central £m	Total £m
Half year ended 29 February 2008				
Segment revenue	**205.6**	**49.9**	**-**	**255.5**
Operating profit before amortisation of acquisition intangible assets	**11.2**	**6.5**	**(1.9)**	**15.8**
Amortisation of acquisition intangible assets	(1.6)	(1.7)	-	(3.3)
Operating profit	9.6	4.8	(1.9)	12.5
Finance costs	(1.6)	(0.1)	(2.7)	(4.4)
Interest receivable	0.1	0.2	1.3	1.6
Profit before tax	**8.1**	**4.9**	**(3.3)**	**9.7**
Tax	(3.2)	(0.3)	0.7	(2.8)
Segment result	**4.9**	**4.6**	**(2.6)**	**6.9**
Segment assets	131.7	84.4	-	216.1
Goodwill attributable	33.5	104.7	2.0	140.2
Unallocated assets	-	-	9.4	9.4
Total assets	**165.2**	**189.1**	**11.4**	**365.7**
Segment liabilities	135.1	36.5	-	171.6
Unallocated liabilities	-	-	78.0	78.0
Total liabilities	**135.1**	**36.5**	**78.0**	**249.6**
Half year ended 28 February 2007				
Segment revenue	**141.4**	**23.8**	**-**	**165.2**
Operating profit	**7.4**	**2.6**	**(1.4)**	**8.6**
Finance costs	(0.7)	-	(0.7)	(1.4)
Interest receivable	0.2	-	0.7	0.9
Profit before tax	**6.9**	**2.6**	**(1.4)**	**8.1**
Tax	(2.0)	(0.8)	0.4	(2.4)
Segment result	**4.9**	**1.8**	**(1.0)**	**5.7**
Segment assets	71.3	11.9	-	83.2
Goodwill attributable	13.5	20.1	-	33.6
Unallocated assets	-	-	27.9	27.9
Total assets	**84.8**	**32.0**	**27.9**	**144.7**
Segment liabilities	72.8	11.2	-	84.0
Unallocated liabilities	-	-	14.3	14.3
Total liabilities	**72.8**	**11.2**	**14.3**	**98.3**

(continued overleaf)

Notes to Condensed Consolidated Half-yearly Financial Information (continued)

4 Segmental analysis (continued)

	Social Housing £m	Compliance £m	Central £m	Total £m
Year ended 31 August 2007				
Segment revenue	**349.8**	**46.1**	**0.0**	395.9
Operating profit before amortisation of acquisition intangible assets	**18.4**	**4.4**	**(3.6)**	19.2
Amortisation of acquisition intangible assets	(1.9)	-	-	(1.9)
Operating profit	16.5	4.4	(3.6)	17.3
Finance costs	(1.5)	(0.2)	(2.1)	(3.8)
Interest receivable	0.8	0.1	1.4	2.3
Profit before tax	**15.8**	**4.3**	**(4.3)**	15.8
Tax	(4.9)	(1.3)	1.4	(4.8)
Segment result	**10.9**	**3.0**	**(2.9)**	11.0
Segment assets	137.0	15.0	-	152.0
Goodwill attributable	29.4	22.9	-	52.3
Unallocated assets	-	-	13.4	13.4
Total assets	**166.4**	**37.9**	**13.4**	217.7
Segment liabilities	122.2	10.6	-	132.8
Unallocated liabilities	-	-	32.2	32.2
Total liabilities	**122.2**	**10.6**	**32.2**	165.0

5 Acquisitions

During the half year, the Group completed two significant acquisitions.

On 22 October 2007, the Group acquired 100% of the share capital of National Britannia Holdings Ltd for the consideration of £97,000,000. Deferred consideration of £800,000 in the form of Connaught plc share capital was held. In connection with this acquisition loan notes totalling £1,690,000 were issued to the vendor. In the period to 29 February 2008 National Britannia Holdings Ltd contributed £2,465,921 to the Group consolidated operating profit before amortisation of acquisition intangibles.

On 16 October 2007, the Group acquired 100% of the share capital of Water Technology Ltd, for the consideration of £9,100,000. In the period to 29 February 2008 Water Technology Ltd contributed £502,244 to the Group consolidated operating profit.

5 Acquisitions (continued)

	National Britannia Holdings £m	Water Technology £m	Fair value to Group £m
Property, plant and equipment	1.0	0.2	1.2
Trade and other receivables	13.5	2.1	15.6
Cash and cash equivalents	1.5	0.3	1.8
Current liabilities	(15.0)	(1.0)	(16.0)
Net identifiable tangible assets and liabilities	1.0	1.6	2.6
Provisional intangible assets	26.4	1.7	28.1
Deferred tax	(5.3)	(2.4)	(7.7)
Total identifiable assets and liabilities	22.1	0.9	23.0
Provisional goodwill on acquisitions	74.9	8.2	83.1
	97.0	9.1	106.1
Discharged by:			
Cash consideration	88.2	9.1	97.3
Deferred consideration cash shares	0.8	-	0.8
Loan notes	1.7	-	1.7
Costs of acquisition	6.3	-	6.3
	97.0	9.1	106.1

A preliminary valuation of the intangible assets has been undertaken for purposes of the half year accounts. This preliminary valuation will be finalised during the second half of the year. The intangible assets identified comprise customer relationships, trade names and software.

The strategy of the Group has been to create a "hub" of customer relationships which will benefit the entire Group and provide synergistic long term benefits to all Group businesses. Accordingly, the goodwill identified on acquisitions represents the benefits of the assembled workforce and also those synergistic benefits which are expected to accrue from the "hub" of customer relationships and from which all Group companies are expected to benefit.

Finalisation of fair value adjustments relating to prior year acquisitions

The provisional fair values were attributed to the tangible assets and liabilities as at 31 August 2007. Changes between the provisional fair values of the net assets acquired at 31 August 2007 and the anniversary date are shown below.

	Baldwins £m	Williams £m	Fair value to Group £m
Provisional fair value of net identifiable tangible assets at 31 August 2007	11.6	6.8	18.4
Re-assessment of trade receivables, work in progress and current liabilities	(1.5)	(1.3)	(2.8)
Estimated final fair value of net identifiable tangible assets	10.1	5.5	15.6
Goodwill at 31 August 2007			
Re-assessment of trade receivables, work in progress and current liabilities	1.5	1.3	2.8
Additional costs of acquisition	-	0.6	0.6
Changes to goodwill	1.5	1.9	3.4

Notes to Condensed Consolidated Half-yearly Financial Information (continued)

6 Taxation

The taxation charge is calculated by applying the Directors' best estimate of the annual tax rate to the profit for the period. Taxation has been provided for the six months ended 29 February 2008 at an effective tax rate of 29.7% (2007: 30%). The tax rate of 29.7% relates to the weighted average tax rate applicable to the Group for the six months ended 29 February 2008, due to the change in rate of UK corporation tax.

7 Dividend

The final dividend for 2007 of 1.46 pence per share (2006: 1.25 pence per share) was paid on 7 March 2008 to holders on the register on 8 February 2008 and an interim dividend of 0.925 pence per share (2007: 0.77 pence per share) will be paid on 4 July 2008 to holders on the register on 6 June 2008.

8 Earnings per share

Basic earnings per share is calculated by dividing the earnings attributable to ordinary shareholders by the weighted average number of shares during the period. The diluted earnings includes effects of all potentially dilutive ordinary shares.

	Unaudited 29 February 2008 6 months £m	Unaudited 28 February 2007 6 months £m	Audited 31 August 2007 12 months £m
Earnings			
Earnings for basic and diluted earnings per share	6.9	5.7	11.0
Number of shares			
Basic	115,443,007	101,491,238	101,630,116
Diluted	120,898,378	105,207,996	105,875,977
Earnings per share			
Basic earnings per share	5.9p	5.6p	10.8p
Diluted earnings per share	5.6p	5.4p	10.4p
Business performance adjusted earnings per share			
Basic earnings per share	5.9p	5.6p	10.8p
Business performance adjustments:			
Amortisation of acquisition intangibles	2.9p	-	1.9p
Tax effect of amortisation of acquisition intangible assets	(0.9p)	-	(0.5p)
Business performance adjusted earnings per share	7.9p	5.6p	12.2p
Business performance adjusted earnings per share			
Diluted earnings per share	5.6p	5.4p	10.4p
Business performance adjustments:			
Amortisation of acquisition intangibles	2.7p	-	1.8p
Tax effect of amortisation of acquisition intangible assets	(0.7p)	-	(0.5p)
Business performance adjusted diluted earnings per share	7.6p	5.4p	11.7p

9 Analysis of debt

	Unaudited 29 February 2008 £m	Unaudited 28 February 2007 £m	Audited 31 August 2007 £m
Obligations under finance leases and hire purchase contracts			
Less than 1 year	0.9	0.3	0.4
1 to 5 years	0.3	0.3	0.3
5 years +	0.0	-	-
	1.2	0.6	0.7
Bank loans			
Less than 1 year	10.8	-	-
1 to 5 years	99.0	18.5	37.9
5 years +	-	-	-
	109.8	18.5	37.9
Loan notes			
Less than 1 year	2.5	1.0	0.6
1 to 5 years	0.1	0.1	3.8
	2.6	1.1	4.4

10 Derivative financial instruments and hedging activities

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 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.

Cash flow hedge
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. The Group's initial hedging facility with RBS (Royal Bank of Scotland) became active on 18 February 2008.

11 Reconciliation of changes in total equity

	Unaudited 29 February 2008 £m	Unaudited 28 February 2007 £m	Audited 31 August 2007 £m
Opening shareholders funds	52.7	41.1	41.1
Recognised income for the period	6.9	5.7	11.0
Dividends	(1.8)	(1.3)	(2.1)
Issue of ordinary shares	59.3	0.7	0.7
Sale of shares	-	0.1	0.1
Purchase of shares	(1.0)	-	-
Share based payments charge	-	0.1	0.5
Share based payments taken to equity - deferred tax	-	-	1.4
Share based payments taken to equity - current tax	-	-	-
Closing shareholders funds	116.1	46.4	52.7

Notes to Condensed Consolidated Half-yearly Financial Information (continued)

12 Status of accounts

The interim results for the 6 months ended 29 February 2008 and 28 February 2007 are unaudited. The figures for the year ended 31 August 2007 have been extracted from the latest published financial statements of the Group which have been filed at Companies House and on which the auditors gave an unqualified report.

13 Risks

The principal financial and non-financial risks facing the Group are disclosed within the Operations Review (pages 12 to 15) and Finance Review (pages 20 to 21) of the Group's Report and Accounts for the year ended 31 August 2007, a copy of which is available on the Company's website, www.connaught.plc.uk

Statement of Directors' Responsibilities

The Directors confirm that this condensed set of financial statements has been prepared in accordance with IAS 34 as adopted by the European Union, and that the interim management report herein includes a fair review of the information required by DTR 4.2.7 and DTR 4.2.8.

The Directors of Connaught Group are listed in the Connaught Group Annual Report for 31 August 2007.

A list of current Directors is maintained on the Connaught Group website: www.connaught.plc.uk

By order of the Board

Mark Davies.

Mark Davies,
Chief Executive
22 April 2008

Stephen Hill,
Finance Director
22 April 2008

These interim results are being sent to all shareholders. Copies may also be obtained from the Company Secretary at the Registered Office of the Company: Connaught House, Pynes Hill, Rydon Lane, Exeter EX2 5TZ.