

Prime People Plc

Annual Report and Accounts

for the year ended 31 December

2004

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Chairman's statement

Introduction

I am pleased to report on the results of Prime People Plc for the year to 31 December 2004.

Results

Turnover from continuing operations during the year remained very similar to the previous year showing a slight improvement to £708,653 (2003 – £705,220), although the resulting operating loss from continuing operations was £283,243, as they now bear the group operating costs, compared to a profit of £62,800 in the previous year.

Our associate business, Cameron Kennedy, reported a return to profit and our share of their operating profit for the year of £87,133 is a significant improvement on the previous year's operating loss of £205,343.

On 4 August 2004 we sold the entire share capital of our recruitment business Portfolio International Limited to PSD Group Plc. This sale has realised a profit on disposal of £1,250,850 before writing off goodwill of £641,006 which had previously been deducted from reserves and which we are now required to deduct from the profit on disposal. The overall effect on the net asset position of the company as a consequence of the accounting entries relating to goodwill is nil. Details of the disposal are set out in note 24 of the financial statements.

Net cash at the year end was £2.8m, equivalent to 7.6p per share.

Diluted earnings per share has increased from a loss per share of 1.21p to earnings per share of 1.82p.

Alternative Investment Market

As advised in our Interim Announcement the company has implemented the move from the official list of the London Stock Exchange to AIM. As a consequence, our shares are no longer eligible to be held in PEPs or ISAs and shareholders with such arrangements are again advised to consult their financial advisors.

Prospects

We do not anticipate any significant changes to the performance of the training business in the coming year. Our associate business continues to report improved sales activities and we are reasonably optimistic that the business will continue its positive performance.

We continue to look at new businesses and our ambition is to broaden the business base of the company through acquisition, in the short to medium term.

We will not be making a dividend payment this year as we wish to conserve cash for any potential acquisition.

Richard E M Lee

Non Executive Chairman

1 March 2005

Operating and financial review

Harper Craven Associates

Our training business, having had a strong first quarter, closed with disappointing results reporting a fall in profit before tax from £39,940 to £17,101. Whilst sales have remained flat, costs have increased.

The future for the business remains difficult to predict, and whilst we will monitor costs closely the main focus centres on the need to improve sales.

Cameron Kennedy Resources

Our optimism this time last year is borne out by the company's return to profit and early indications for this year suggest that recovery will continue.

Head Office Costs

Following the disposal of Portfolio International we have undertaken a review of our head office cost base and we have taken the necessary steps to reduce head count.

We will continue to monitor costs closely.

On behalf of the Board

C I Heayberd

Finance Director

1 March 2005

Directors and Advisers

| | |
|--|--|
| Directors | R E M Lee (Non-Executive Chairman) P J Hearn (Executive Director) C I Heayberd (Finance Director) D C Coubrough (Non-Executive) |
| Secretary and registered office | C I Heayberd, 7 Breams Buildings, London EC4A 1DT. |
| Registered number | 1729887 |
| Auditors | BDO Stoy Hayward LLP, 8 Baker Street, London W1U 3LL. |
| Solicitors | Stephenson Harwood, One St Paul's Churchyard, London EC4 8SH. |
| Principal bankers | Barclays Bank plc, The Old Bank, High Street, Lewes, East Sussex BN7 2JP. |
| Registrars | Neville Registrars Limited, Neville House, Laurel Lane, Halesowen, West Midlands B63 3DA. |
| Stockbrokers & Nominated Advisers | W H Ireland Group Plc, 11 St James Square, Manchester M2 6WH. |

Report of the Directors

for the year ended 31 December 2003

The directors present their annual report together with the audited financial statements for the year ended 31 December 2004.

Principal activity, business review and future developments

The principal activity of the group during the year was the provision of recruitment and training services.

A review of the group's business results is contained in the Chairman's statement.

Results and dividends

The consolidated profit on ordinary activities after taxation amounted to £672,386 (2003 loss - £443,168).

The directors do not recommend the payment of a dividend (2003 - £Nil).

Directors and directors' interests

The directors who held office during the year were as follows:

| | |
|---------------|--------------------------|
| R E M Lee | (Non-Executive Chairman) |
| P J Hearn | (Executive Director) |
| C I Heayberd | (Finance Director) |
| D C Coubrough | (Non-Executive) |

The directors who held office at the end of the financial year had the following interests, all of which are beneficial, in the ordinary shares of Prime People Plc, as recorded in the register of directors' share interests:

| | Options on ordinary shares of 1p each | | Ordinary shares of 1p each | |
|---------------|--|-------------|----------------------------|-------------|
| | 31 December | 31 December | 31 December | 31 December |
| | 2004 | 2003 | 2004 | 2003 |
| R E M Lee | - | - | 100,000 | 100,000 |
| C I Heayberd | 391,730 | 391,730 | 150,049 | 150,049 |
| D C Coubrough | - | - | 50,000 | 50,000 |

P J Hearn does not have disclosable interests in any of the group companies.

The director's options are made available under the Company's Inland Revenue Approved Executive Option Schemes. No options have been awarded in the year.

The mid market quotation of the company's ordinary shares at close of business on 31 December 2004 was 6.25p. The highest and lowest mid market quotations in the year were 8p and 3.75p.

There have been no changes to the directors' interests in the ordinary share capital of Prime People Plc between the year end and 25 February 2005.

Directors' biographies

Richard Elliot Michael Lee, aged 59 (Non-Executive Chairman)

Richard Lee was appointed a Non-Executive Director in November 1991. He has considerable experience in executive and non-executive positions with public companies involved in a range of industries. He is also a Director of our stockbrokers W H Ireland Group Plc.

Peter John Hearn, aged 51 (Executive Director)

Peter Hearn is a chartered accountant and is also the Chairman of PSD Group which is the holding company of Codeissue Limited, a substantial shareholder of the company. He became an executive director on 30 April 2003 having held a position as Non Executive Director for a number of years.

Christopher Incedon Heayberd, aged 52 (Finance Director)

Christopher Heayberd is a chartered accountant who returned to the Board in June 2000 having spent 4 years as Finance Director of PSD Group Plc. He has considerable experience as a Finance Director of both public and private companies.

David Charles Coubrough, aged 49 (Non-Executive Director)

David Coubrough was appointed a Non-Executive Director on 30 April 2003, following his resignation as Chief Executive of the group. He is an Executive Director of the Bespoke Hotel Company Limited and a Non-Executive Director of four other private companies.

Substantial shareholders

The following shareholders held interests of 3% or more of the nominal value of the issued ordinary share capital of the company, as recorded in the register of substantial share interests at 25 February 2005.

| | Number of 1p ordinary shares | Percent of issued share capital % |
|---|---------------------------------|---|
| PSD Group plc (held in the name of Codeissue Limited) | 10,867,628 | 29.49 |
| City of London PR Group Plc | 4,294,553 | 11.66 |
| Mrs M Lee | 2,474,340 | 6.72 |
| R J Hornbuckle | 2,148,817 | 5.83 |
| J W Greenhalgh | 1,116,263 | 3.03 |

Except for the interests disclosed above, the directors are not aware of any other interests (direct or indirect) of 3% or more of the issued ordinary share capital of the company.

Policy and practice on payment of creditors

Group

The group agrees payment terms with each of its major suppliers and seeks to abide by these terms, subject to satisfactory performance by the supplier. Trade creditors for the group at the year end represent 7 days average purchases (2003 – 30 days).

Company

The company makes no trade purchases.

Report of the Directors

continued

Special business for the annual general meeting

The notice of the meeting contains Ordinary and Special Resolutions to be proposed at the annual general meeting. The Special Business is detailed below:

Allotment of shares

The Companies Act 1985 provides that the directors of the company may only allot unissued shares if they have the authority of shareholders or the Articles of Association to do so. Approval of shareholders will therefore be sought in resolution 6 to grant authority to allot shares up to a maximum aggregate nominal amount of £122,810. This amounts to 12,281,000 shares or approximately 33.3% of the total share capital in issue as at 1 March 2005.

Except for the issue of shares pursuant to the terms of the company's existing approved share option scheme, the directors have no intention, at present, of issuing any part of that capital and no issue will be made which will effectively alter control of the company without the prior approval of shareholders in general meeting.

In addition, the Companies Act 1985 gives shareholders statutory rights of pre-emption, whereby any shares issued for cash must be offered to existing shareholders pro rata to their respective holdings. Assuming your directors are granted the authority to issue new shares by shareholders, authority will be sought in resolution 7 to allot shares for cash up to a maximum aggregate nominal amount of £18,423, representing 1,842,300 shares, approximately 5% of the issued ordinary share capital of the company, to persons other than existing shareholders as if the statutory pre-emption rights did not apply. The authorities granted by the relevant resolutions will expire on the earlier of 5 July 2006 or at the conclusion of the next annual general meeting.

Market purchases of own shares

Resolution 8 will be proposed as a special resolution at the Annual General Meeting and, if approved, will give the Company authority to make market purchases of its own shares. The Directors propose that the Company should be authorised to purchase a maximum of 3,684,600 ordinary shares of 1p each, equivalent to approximately 10% of the current ordinary shares in issue.

The effect of any purchases will be to reduce the number of shares in issue and the authority will only be exercised if the directors believe that to do so would result in an increase in earnings per share for remaining shareholders and is in the best interest of shareholders generally.

Auditors

BDO Stoy Hayward LLP have expressed their willingness to continue in office and a resolution to reappoint them will be proposed at the annual general meeting.

On behalf of the Board

C I Heayberd

Director

1 March 2005

Corporate Governance

Statement by the Directors on compliance with the Combined Code

The company is listed on the Alternative Investment Market (AIM) and is therefore not required to comply with the provisions of the 2003 FRC Code. Nevertheless, the Board is committed to ensuring that proper standards of corporate governance operate throughout the Group and has followed the principles of the Code so far as is practicable and appropriate for the nature and size of the Group.

A statement of the directors' responsibilities in respect of the financial statements is set out on page 12. Below is a brief description of the role of the Board and its Committees, followed by a statement regarding the Group's system of internal controls.

The Board

The Board consists of a non-executive chairman, R E M Lee, one other non-executive director and two executive directors.

The non-executive directors, R E M Lee and D C Coubrough, are considered by the Board to be independent of management and free of any relationship which could materially interfere with the exercise of their independent judgement. Both receive a fixed fee for their services and their interests in the shares of the company are as described on page 4.

Biographies of the Board members appear on page 5.

The Board meets at least 4 times each year and more frequently where business needs require and the directors receive monthly management accounts detailing the performance of the group. The board has a schedule of matters reserved to it for decision and the requirement for board approval on these matters is communicated widely throughout the senior management of the group.

There is an agreed procedure for directors to take independent professional advice if necessary at the company's expense. This is in addition to the access which every director has to the company secretary.

All of the directors have significant previous experience as directors of public companies and therefore additional training is felt to be unnecessary for the directors to carry out their duties competently.

Throughout the year the Board has operated without a Chief Executive. The Board believes this is appropriate in the circumstances.

To enable the Board to function effectively and directors to discharge their responsibilities, full and timely access is given to all relevant information. In the case of Board meetings, this consists of a comprehensive set of papers, including regular business progress reports and discussion documents regarding specific matters.

The Board considers itself to be a "small board", and therefore has not set up a separate Nomination Committee. Appointments to the Board of both executive and non-executive directors are based on approval by the full Board.

Any director appointed during the year is required, under the provisions of the company's Articles of Association, to retire and seek election by shareholders at the next Annual General Meeting. The Articles also require that one third of the directors retire by rotation each year and seek re-election at the Annual General Meeting.

The directors have resolved that they will retire at least once every three years even though not required by the company's Articles.

The executive directors abstain from any discussion or voting at full board meetings on Remuneration Committee recommendations where the recommendations have a direct bearing on their own remuneration package.

Remuneration of non-executive directors is determined by the Board. Non-executive directors abstain from discussions concerning their own remuneration.

The company publishes a full annual report and financial statements which are available to shareholders on request and to other parties who have an interest in the group's performance.

All shareholders have the opportunity to put questions at the company's Annual General Meeting.

Audit Committee

The Audit Committee comprises the two non executive directors of the company and is chaired by Richard Lee. Its terms of reference require it to meet not less than twice each year and it provides a forum for reporting by the Group's auditors. By invitation, the meetings are also attended by the Finance Director.

The Audit Committee is responsible for reviewing a wide range of financial matters including ensuring that the financial performance of the Group is adequately measured and controlled, correctly represented, reported to and understood

Corporate Governance

continued

by the Board. The Audit Committee advises the Board on the appointment of external auditors and on their remuneration, both for audit and non-audit work, and discusses the nature and scope of their audit.

Remuneration Committee

The members of the Remuneration Committee, both of whom are independent non-executive directors, comprise R E M Lee and D C Coubrough. The committee is chaired by R E M Lee. The principal terms of reference of the committee are set out in the Remuneration Report on pages 9 to 11. The report also contains full details of directors' remuneration and a statement of the company's remuneration policy. The committee meets when required to consider all aspects of the executive directors' remuneration, drawing on outside advice as necessary.

Going concern

The directors believe the group has adequate resources to continue in operational existence for the foreseeable future. For this reason, they continue to adopt the going concern basis in preparing the accounts.

Internal Controls

The directors are responsible for the Group's system of internal control and for reviewing its effectiveness which, by its nature, can only provide reasonable and not absolute assurance against material misstatement or loss.

The Board has reviewed the effectiveness of the Group's internal control systems for the period 1 January 2004 to the date of approval of the financial statements. The Board will continue to review the effectiveness of its control assessment system on a regular basis.

The Board has established procedures, which are designed to provide effective internal control for the Group and these include:

Control Procedures

The directors have in place an organisational structure with clearly defined levels of responsibility and delegation of authority.

Control procedures include annual budget approval and monitoring of actual performance. Formal staff appraisal procedures and training programmes are in place. Capital expenditure requests are reviewed by the Board and appropriate due diligence work will be carried out when a business is to be acquired.

It is Board policy that executive directors receive suitable training for their position, which is considered as part of the appraisal process.

Risk Management

The directors and operating company management have a clear responsibility for identifying risks facing each of the businesses and for putting in place procedures to mitigate and monitor risks. Risks are formally assessed during the annual budget process, which is monitored by the Board, and the ongoing Group strategy process.

Financial Reporting

The Group has a comprehensive system of financial reporting. There is a detailed budgeting system in place which includes the plan of each operating company being approved by the executive directors and the Board approves the overall Group budget. On a monthly basis, actual results are reported against budget and any significant adverse variances examined and remedial action taken where necessary.

Remuneration Report

The Remuneration Committee comprises R E M Lee (Non-Executive Chairman) and D C Coubrough (Non-Executive director). The Committee makes recommendations to the Board on the total reward package for the company's executive directors.

Remuneration policy

The Committee's aim is to ensure that the remuneration policy enables the company to recruit, retain and motivate executive directors of the appropriate calibre for the long term development of the group.

The following comprised the principal elements of directors' remuneration:

- Basic salaries and benefits
- Performance related bonus
- Share options
- Pensions

The remuneration for non-executive directors consists of fees for their services in connection with Board and Board Committee meetings and, where relevant, for additional services such as chairing a Board Committee. They do not participate in any of the company's bonus, share option or other incentive schemes. Their fees are determined by the Executive directors who have due regard to the level of fees paid to the non-executives of similar companies.

Each element of remuneration payable to executive directors is discussed in more detail below.

Basic salaries and benefits

The company's current and future policy is to pay individual directors a salary at market levels for comparable jobs recognising the size of the company and the business sector in which it operates. Benefits comprise the provision of private medical health insurance.

Performance related bonus

An annual bonus scheme is in operation which enables the executive directors to earn a bonus which is dependent on the company achieving certain profit targets for the year and which will provide a bonus when targets are achieved.

The Committee believes that the mix between basic salaries and performance related payments is sufficient to allow retention of key management as well as provide incentives to improve the group's performance.

Share options

The granting of share options will be at the discretion of the Committee and will be related to performance criteria set by the Committee.

Pensions

The group does not have its own pension fund. The group makes contributions to the personal pension scheme of D C Coubrough.

Service contracts

The company does not have a rigid policy on the duration of contracts with directors. Similarly, notice periods and termination payments under such contracts are negotiated individually with the director concerned. When deciding on the above the Remuneration Committee will consider issues such as prevailing market conditions and the calibre of the individual concerned.

Remuneration Report

continued

Details of directors contracts are shown below:

| Director | Date of contract | Unexpired term | Notice period | Compensation payable on early termination |
|---------------|------------------|----------------|---------------|---|
| R E M Lee | May 2003 | n/a | 1 month | 1 month's salary |
| P J Hearn | No contract | n/a | None | None |
| C I Heayberd | September 2000 | n/a | 6 months | 6 month's salary |
| D C Coubrough | May 2003 | n/a | 1 month | 1 month's salary |

Remuneration of directors

The remuneration of directors who served during 2004 is shown in the table below. Remuneration includes management salaries, fees as directors, taxable benefits and bonuses. Remuneration shown is in respect of each director's period in office during 2004 as a board member of Prime People Plc and includes remuneration from the company and its subsidiary undertakings. Taxable benefits comprise the provision of private medical health insurance.

| | Basic salary | Benefits | Fees | Total 2004 | Total 2003 |
|--|----------------|--------------|---------------|----------------|----------------|
| | £ | £ | £ | £ | £ |
| Non-Executive Chairman | | | | | |
| R E M Lee | – | – | 14,000 | 14,000 | 14,000 |
| Executive directors | | | | | |
| D C Coubrough (highest paid director) to 30 April 2003 | – | – | – | – | 312,266 |
| C I Heayberd | 85,000 | 1,543 | – | 86,543 | 81,304 |
| P J Hearn (from 1 May 2003) | 15,000 | – | – | 15,000 | 10,000 |
| Non-executive directors | | | | | |
| P J Hearn (to 30 April 2003) | – | – | – | – | (9,250) |
| D C Coubrough (from 1 May 2003) | 2,700 | 1,030 | – | 3,730 | 2,402 |
| | <u>102,700</u> | <u>2,573</u> | <u>14,000</u> | <u>119,273</u> | <u>410,722</u> |

P J Hearn waived emoluments for his services as a non-executive Director in the previous year's accounts.

Pension contributions of £5,200 were made on behalf of D C Coubrough in 2004 (2003 – £4,400).

Share options

| | At 1 January 2004 and 31 December 2004 Number | Exercise price | Date granted | Exercise period |
|--------------|--|-------------------|-----------------|------------------------------------|
| C I Heayberd | 141,730 | 6.333p | 6 March 2002 | 7 March 2005 to 7 March 2012 |
| C I Heayberd | 250,000 | 4.833p | 7 May 2003 | 8 May 2006 to 7 May 2013 |

On behalf of the Board

R E M Lee

Chairman of the Remuneration Committee

1 March 2005

Statement of Directors' Responsibilities

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

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the group will continue in business.

The directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the company and to enable them to ensure that the financial statements comply with the Companies Act 1985. They are also responsible for safeguarding the assets of the group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities. They are also responsible for ensuring that the annual report includes information required by the Listing Rules of the Financial Services Authority.

Independent Auditors' Report

Independent auditors' report to the shareholders of Prime People Plc

We have audited the financial statements of Prime People Plc for the year ended 31 December 2004 on pages 14 to 30 which have been prepared under the accounting policies set out on page 18.

Respective responsibilities of directors and auditors

The directors' responsibilities for preparing the Annual Report and the financial statements in accordance with applicable law and United Kingdom Accounting Standards are set out in the Statement of Directors' Responsibilities.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and United Kingdom Auditing Standards.

We report to you our opinion as to whether the financial statements give a true and fair view and whether the financial statements have been properly prepared in accordance with the Companies Act 1985. We also report to you if, in our opinion, the Directors' Report is not consistent with the financial statements, if the company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and transactions with the group is not disclosed.

We read other information contained in the Annual Report and consider whether it is consistent with the audited financial statements. This other information comprises only the Chairman's Statement, the Directors' operating and financial review, Directors' Report, the Corporate Governance Statement and the Remuneration Report. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. Our responsibilities do not extend to any other information.

Our report has been prepared pursuant to the requirements of the Companies Act 1985 and for no other purpose. No person is entitled to rely on this report unless such a person is a person entitled to rely upon this report by virtue of and for the purpose of the Companies Act 1985 or has been expressly authorised to do so by our prior written consent. Save as above, we do not accept responsibility for this report to any other person or for any other purpose and we hereby expressly disclaim any and all such liability.

Basis of audit opinion

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

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

Opinion

In our opinion the financial statements give a true and fair view of the state of the group's and the company's affairs as at 31 December 2004 and of the group's profit for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

BDO STOY HAYWARD LLP

Chartered accountants and registered auditors
London

1 March 2005

Consolidated Profit and Loss Account

for the year ended 31 December 2004

| | Note | Continuing operations | | Discontinued operations | | Total | |
|--|------|-----------------------|------------------|-------------------------|------------------|------------------|------------------|
| | | 2004 | 2003 | 2004 | 2003 | 2004 | 2003 |
| | | £ | £ | £ | £ | £ | £ |
| Turnover | 2 | 708,653 | 705,220 | 1,585,895 | 2,384,662 | 2,294,548 | 3,089,882 |
| Cost of sales | | (179,571) | (149,174) | (7,240) | (11,305) | (186,811) | (160,479) |
| Gross profit | | 529,082 | 556,046 | 1,578,655 | 2,373,357 | 2,107,737 | 2,929,403 |
| Administrative expenses | | (812,325) | (493,246) | (1,384,934) | (2,773,940) | (2,197,259) | (3,267,186) |
| Group operating (loss)/profit | | (283,243) | 62,800 | 193,721 | (400,583) | (89,522) | (337,783) |
| Share of operating profit/(loss) in associates | | 87,133 | (205,343) | – | – | 87,133 | (205,343) |
| Amortisation of goodwill | | (12,000) | (12,000) | – | – | (12,000) | (12,000) |
| | | 75,133 | (217,343) | – | – | 75,133 | (217,343) |
| (Loss)/profit on ordinary activities before interest | | (208,110) | (154,543) | 193,721 | (400,583) | (14,389) | (555,126) |
| Profit on disposal of subsidiary | 24 | | | | | 609,844 | – |
| Interest receivable and similar income (group) | | | | | | 79,530 | 29,382 |
| Interest payable and similar charges | 6 | | | | | (487) | – |
| (Loss)/profit on ordinary activities before taxation | | | | | | 674,498 | (525,744) |
| Taxation on (loss)/profit on ordinary activities | 7 | | | | | (2,112) | 82,576 |
| (Loss)/profit on ordinary activities after taxation and transferred to reserves | 16 | | | | | 672,386 | (443,168) |
| Earnings (loss) per share | | | | | | | |
| – Basic | 8 | | | | | 1.82p | (1.21)p |
| – Diluted | 8 | | | | | 1.82p | (1.21)p |

All recognised gains and losses are included in the profit and loss account.

The notes on pages 18 to 30 form part of these financial statements

Consolidated Balance Sheet

at 31 December 2004

| | Note | 2004 | | 2003 | |
|--|------|-----------|-----------|-----------|-----------|
| | | £ | £ | £ | £ |
| Fixed assets | | | | | |
| Tangible assets | 9 | | 44,028 | | 61,656 |
| Investments: | | | | | |
| Investment in associate | 10 | | 411,676 | | 336,544 |
| | | | <hr/> | | <hr/> |
| | | | 455,704 | | 398,200 |
| Current assets | | | | | |
| Debtors | 11 | 262,052 | | 1,122,697 | |
| Cash at bank and in hand | | 2,835,981 | | 996,494 | |
| | | <hr/> | | <hr/> | |
| | | 3,098,033 | | 2,119,191 | |
| Creditors: amounts falling due within one year | 12 | 200,903 | | 490,446 | |
| | | <hr/> | | <hr/> | |
| Total assets less current assets | | | 2,897,130 | | 1,628,745 |
| Creditors: amounts falling due after more than one year | 13 | | 12,497 | | – |
| | | | <hr/> | | <hr/> |
| Net assets | | | 3,340,337 | | 2,026,945 |
| | | | <hr/> | | <hr/> |
| Capital and reserves | | | | | |
| Called up share capital | 15 | | 368,467 | | 368,467 |
| Share premium account | 16 | | 909,925 | | 909,925 |
| Merger reserve | 16 | | 173,077 | | 173,077 |
| Profit and loss account | 16 | | 1,888,868 | | 575,476 |
| | | | <hr/> | | <hr/> |
| Equity shareholders' funds | | | 3,340,337 | | 2,026,945 |
| | | | <hr/> | | <hr/> |

The financial statements were approved by the Board on 1 March 2005

R E M Lee

P J Hearn

The notes on pages 18 to 30 form part of these financial statements

Company Balance Sheet

at 31 December 2004

| | Note | 2004 | | 2003 | |
|---|------|------------------|------------------|------------------|------------------|
| | | £ | £ | £ | £ |
| Fixed assets | | | | | |
| Tangible assets | 9 | | 9,940 | | 1,126 |
| Investments | 10 | | 266,503 | | 819,483 |
| | | | <u>276,443</u> | | <u>820,609</u> |
| Current assets | | | | | |
| Debtors | 11 | 138,653 | | 220,097 | |
| Cash at bank and in hand | | 2,835,581 | | 996,116 | |
| | | <u>2,974,234</u> | | <u>1,216,213</u> | |
| Creditors: amounts falling due within one year | 12 | 103,788 | | 60,854 | |
| Net current assets | | | <u>2,870,446</u> | | <u>1,155,359</u> |
| Total assets less current liabilities | | | <u>3,146,889</u> | | <u>1,975,968</u> |
| Capital and reserves | | | | | |
| Called up share capital | 15 | | 368,467 | | 368,467 |
| Share premium account | 16 | | 909,925 | | 909,925 |
| Merger reserve | 16 | | 173,077 | | 173,077 |
| Profit and loss account | 16 | | 1,695,420 | | 524,499 |
| Equity shareholders' funds | | | <u>3,146,889</u> | | <u>1,975,968</u> |

The financial statements were approved by the Board on 1 March 2005

R E M Lee

P J Hearn

The notes on pages 18 to 30 form part of these financial statements

Consolidated Cash Flow Statement

for the year ended 31 December 2004

| | Note | 2004 | | 2003 | |
|--|------|-----------|-------------|----------|-----------|
| | | £ | £ | £ | £ |
| Net cash outflow from operating activities | 20 | | (93,986) | | (233,078) |
| Dividend from associated undertaking | | | – | | 83,700 |
| Returns on investment and servicing of finance | | | | | |
| Interest received | | 79,530 | | 29,382 | |
| Interest paid | | (487) | | – | |
| | | | 79,043 | | 29,382 |
| Taxation | | | 74,350 | | (107,873) |
| Capital expenditure and financial investment | | | | | |
| Purchase of tangible fixed assets | | (37,592) | | (28,375) | |
| Sale of tangible fixed assets | | 1,800 | | 17,388 | |
| | | | (35,792) | | (10,987) |
| Acquisitions and disposals | 24 | | | | |
| Sale of subsidiary undertaking | | 1,905,284 | | – | |
| Net cash disposed with subsidiary | | (53,986) | | – | |
| | | | 1,851,298 | | – |
| Net cash inflow/(outflow) before management of liquid resources and financing | | | 1,874,913 | | (238,856) |
| Management of liquid resources | | | | | |
| (Purchase)/sale of deposits | | | (1,647,000) | | 104,000 |
| Financing | | | | | |
| Issue of ordinary share capital | | | – | | 30,000 |
| Capital element of finance leases | | | (2,501) | | – |
| Increase/(decrease) in cash | 21 | | 225,412 | | (104,856) |

The notes on pages 18 to 30 form part of these financial statements

Notes forming part of the Financial Statements

for the year ended 31 December 2004

1 Accounting policies

The financial statements have been prepared under the historical cost convention and in accordance with applicable accounting standards.

The principal accounting policies are:

Basis of consolidation

The consolidated financial statements incorporate the financial statements of Prime People Plc and all of its subsidiary and associated undertakings made up to 31 December 2004. The group uses the acquisition method of accounting to consolidate the results of subsidiary undertakings. The results of subsidiary undertakings are included from the date of acquisition.

In the company's financial statements investments in subsidiary and associated undertakings are stated at cost less amounts written off.

For associated undertakings, the group uses the equity accounting method to include the group's share of operating profit and corporation tax charge. The carrying amount of the associate in the consolidated financial statements represents the group's share of the associates net assets at the balance sheet date plus the unamortised goodwill.

Goodwill

Goodwill arising on an acquisition of a subsidiary undertaking is the difference between the fair value of the consideration paid and the fair value of the identifiable assets and liabilities acquired. It is capitalised and amortised through the profit and loss account over the directors' estimate of its useful economic life. Impairment tests on the carrying value of goodwill are undertaken:

- at the end of the first full financial year following acquisition;
- in other periods if events or changes in circumstances indicate that the carrying value may not be recoverable.

The profit or loss on disposal of a business includes any goodwill arising on acquisitions which was previously eliminated against reserves under the former group policy for acquisitions made before 1 January 1998.

Goodwill arising in respect of the group's interest in its associate, Cameron Kennedy Resources Limited, has been capitalised and is being amortised over 10 years which is the directors' estimate of its useful economic life.

Valuation of investments

Investments held as fixed assets are stated at cost less any provision for impairment.

Turnover, accrued income and deferred income

Turnover represents the amounts (excluding value added tax) derived from the provision of services to third party customers during the year.

Recruitment: A fee is due by reference to the date an applicant accepts an offer of employment and gross fee income is recognised on this basis. Accrued income represents income receivable from placements made in the year where the candidates commenced employment after the balance sheet date.

Training: Fees are accounted for by reference to the date training courses are held. Deferred income arises where training courses have been invoiced but not held by the balance sheet date.

Fixed assets and depreciation

Depreciation is provided to write off the cost, less estimated residual value, of all tangible fixed assets by equal instalments over their expected useful lives. It is calculated using the following rates:

| | | |
|----------------------------------|---|----------------------|
| Fixtures, fittings and equipment | – | 20% to 33% per annum |
| Motor vehicles | – | 20% to 33% per annum |

Leased assets

When assets are financed by leasing agreements that give rights approximating to ownership ('finance leases'), the assets are treated as if they had been purchased outright. The amount capitalised is the present value of the minimum lease payments payable over the term of the lease. The corresponding leasing commitments are shown as amounts payable to the lessor. Depreciation on the relevant assets is charged to the profit and loss account. Lease payments are analysed between capital and interest components so that the interest element of the payment is charged to the profit and loss account over the period of the lease and represents a constant proportion of the balances of capital repayments outstanding. The capital part reduces the amounts payable to the lessor.

All other leases are treated as operating leases. Their annual rentals are charged to the profit and loss account on a straight line basis over the term of the lease.

Deferred taxation

Deferred tax balances are recognised in respect of all timing differences that have originated but not reversed by the balance sheet date except that the recognition of deferred tax assets is limited to the extent that the company anticipates to make sufficient taxable profits in the future to absorb the reversal of the underlying timing differences.

Deferred tax balances are not discounted.

Liquid resources

For the purposes of the cash flow statement, liquid resources are defined as short-term deposits.

2 Segmental information

Geographical location of turnover by destination:

| | Continuing | | Discontinued | | Total | |
|-------------------|----------------|-----------|------------------|-----------|------------------|-----------|
| | 2004 £ | 2003 £ | 2004 £ | 2003 £ | 2004 £ | 2003 £ |
| United Kingdom | 708,653 | 705,220 | 1,356,460 | 2,093,305 | 2,065,113 | 2,798,525 |
| Rest of the World | – | – | 229,435 | 291,357 | 229,435 | 291,357 |
| | 708,653 | 705,220 | 1,585,895 | 2,384,662 | 2,294,548 | 3,089,882 |

All of the group's turnover, profit and net assets originates in the United Kingdom.

The tables below analyse turnover, (loss)/profit on ordinary activities before taxation and net assets of the group.

i) Turnover and (loss)/profit before taxation by class of business:

| | Turnover | | Pre-tax profit/(loss) | |
|--|------------------|-----------|-----------------------|-----------|
| | 2004 £ | 2003 £ | 2004 £ | 2003 £ |
| Continuing operations: | | | | |
| Training | 708,653 | 705,220 | 17,101 | 39,940 |
| Head office costs/(income) | – | – | (222,663) | 52,242 |
| Share of operating profit/(loss) in associates | – | – | 75,133 | (217,343) |
| | 708,653 | 705,220 | (130,429) | (125,161) |
| Discontinued operations: | | | | |
| Recruitment | 1,585,895 | 2,384,662 | 195,083 | (400,583) |
| Profit on disposal of subsidiary | – | – | 609,844 | – |
| | 2,294,548 | 3,089,882 | 674,498 | (525,744) |

ii) Net assets by class of business

| | 2004 £ | 2003 £ |
|----------------|------------------|-----------|
| Recruitment | – | 500,027 |
| Training | 48,274 | 33,888 |
| | 48,274 | 533,915 |
| Associate | 411,676 | 336,544 |
| Central assets | 2,880,387 | 1,156,485 |
| | 3,340,337 | 2,026,944 |

Notes forming part of the Financial Statements

continued

3 Profit on ordinary activities before taxation

| | 2004 £ | 2003 £ |
|--|-----------|-----------|
| This is arrived at after charging/(crediting): | | |
| Auditors' remuneration – audit services - group | 21,549 | 22,900 |
| – non-audit services | 7,000 | 12,500 |
| Depreciation and other amounts written off | | |
| tangible fixed assets – leased assets | 1,840 | – |
| – owned assets | 31,940 | 83,709 |
| Hire of plant and machinery – rentals payable under operating leases | 3,196 | 5,194 |
| Hire of other assets – rental payments under operating leases | 6,831 | 6,857 |
| Lease of land and building | – | 15,750 |
| (Profit)/loss on disposal of fixed assets | (1,800) | 8,071 |
| | <hr/> | <hr/> |

The company audit fee was £9,905 (2003 – £9,650).

4 Directors

| | 2004 £ | 2003 £ |
|---|-----------|-----------|
| Directors' remuneration consists of: | | |
| Fees and emoluments for management services | 119,273 | 144,722 |
| Compensation for loss of office | – | 266,000 |
| Payments to defined contribution pension scheme | 5,200 | 4,400 |
| | <hr/> | <hr/> |
| | 124,473 | 415,122 |
| Highest paid director: | | |
| Emoluments | 86,543 | 314,668 |
| Amounts paid to defined contribution pension scheme | – | 4,400 |
| | <hr/> | <hr/> |
| | 86,543 | 319,068 |
| | <hr/> | <hr/> |

Further details of directors' remuneration are shown in the Remuneration Report on pages 9 to 11.

5 Employees

| | 2004 Number | 2003 Number |
|--|----------------|----------------|
| The average monthly number of employees of the group during the year, including directors, was as follows: | | |
| Consultants | 21 | 35 |
| Designers | – | 1 |
| Management and administration | 13 | 18 |
| | <hr/> | <hr/> |
| | 34 | 54 |
| | <hr/> | <hr/> |

5 Employees (continued)

| | 2004 | 2003 |
|---|-----------------|-----------------|
| | £ | £ |
| Staff costs for all employees, including directors, consist of: | | |
| Wages and salaries | 1,465,292 | 2,177,763 |
| Social security costs | 157,470 | 236,117 |
| Pension costs | 5,800 | 5,000 |
| | <hr/> 1,628,562 | <hr/> 2,418,880 |

6 Interest payable and similar charges

| | Group 2004 | Group 2003 |
|--|---------------|---------------|
| | £ | £ |
| Finance charges payable in respect of finance leases and hire purchase contracts | 487 | – |
| | <hr/> 487 | <hr/> – |

7 Taxation on profit on ordinary activities

| | 2004 | 2003 |
|------------------------------|-------------|----------------|
| | £ | £ |
| UK corporation tax | 2,112 | (74,342) |
| Share of associate's tax | – | (6,935) |
| Overprovision in prior years | – | (1,299) |
| | <hr/> 2,112 | <hr/> (82,576) |

The tax assessed for the year is higher than that obtained by applying the standard rate of corporation tax in the UK. The differences are explained below:

| | 2004 | 2003 |
|---|---------------|-----------------|
| | £ | £ |
| Profit/(loss) on ordinary activities before tax | 674,498 | (525,744) |
| | <hr/> 674,498 | <hr/> (525,744) |
| UK corporation tax at the standard rate of 30% on profit/(loss) on ordinary activities | 202,349 | (157,724) |
| Effects: | | |
| Expenses not deductible for tax purposes – including goodwill | 225,920 | 7,144 |
| Capital allowances for the period in excess of depreciation | (2,956) | (4,150) |
| Losses created in the year | 24,609 | 15,647 |
| Tax rate differences | (3,933) | 3,138 |
| Overprovision in prior years | – | (1,299) |
| Share of associate's (profits)/losses created in the year | (22,540) | 54,668 |
| Profit on disposal of subsidiary not taxable – due to substantial shareholdings exemption | (405,691) | – |
| Utilisation of losses brought forward | (15,646) | – |
| | <hr/> 2,112 | <hr/> (82,576) |

Notes forming part of the Financial Statements

continued

8 Earning per share

The earnings per share is calculated based on a weighted average number of shares of 36,846,692 (2003 36,680,025) and the profit of £672,386 (2003 – loss £443,168), giving a profit per share of 1.82p (2003 loss per share 1.21p).

The effect of all potential ordinary shares is anti-dilutive.

9 Tangible assets

| Group | Improvements to short leasehold premises £ | Fixtures, fittings and equipment £ | Motor vehicles £ | Total £ |
|------------------------|--|---|------------------------|----------------|
| <i>Cost</i> | | | | |
| At 1 January 2004 | 3,989 | 631,471 | 68,445 | 703,905 |
| Additions | – | 37,592 | 22,075 | 59,667 |
| Disposals | (3,989) | (7,260) | (20,095) | (31,344) |
| Disposal of subsidiary | – | (574,007) | (48,350) | (622,357) |
| At 31 December 2004 | – | 87,796 | 22,075 | 109,871 |
| <i>Depreciation</i> | | | | |
| At 1 January 2004 | 3,989 | 581,613 | 56,647 | 642,249 |
| Provision for the year | – | 28,500 | 5,284 | 33,784 |
| Disposals | (3,989) | (7,260) | (20,095) | (31,344) |
| Disposal of subsidiary | – | (538,853) | (39,993) | (578,846) |
| At 31 December 2004 | – | 64,000 | 1,843 | 65,843 |
| <i>Net book value</i> | | | | |
| At 31 December 2004 | – | 23,796 | 20,232 | 44,028 |
| At 31 December 2003 | – | 49,858 | 11,798 | 61,656 |

The net book value of tangible fixed assets held under finance leases includes an amount of £20,232 (2003 – £Nil).

| Company | Fixtures, fittings and equipment £ |
|---------------------|---|
| <i>Cost</i> | |
| At 1 January 2004 | 29,244 |
| Additions | 10,583 |
| Disposals | (7,260) |
| At 31 December 2004 | 32,567 |

9 Tangible assets *(continued)**Depreciation*

| | |
|------------------------|---------|
| At 1 January 2004 | 28,118 |
| Provision for the year | 1,769 |
| Disposals | (7,260) |
| | <hr/> |
| At 31 December 2004 | 22,627 |
| | <hr/> |
| <i>Net book value</i> | |
| At 31 December 2004 | 9,940 |
| | <hr/> |
| At 31 December 2003 | 1,126 |
| | <hr/> |

10 Fixed asset investments

| Group | Country of incorporation | Proportion of voting rights and ordinary share capital held | Nature of business |
|-----------------------------------|--------------------------|---|-------------------------|
| <i>Associated company</i> | | | |
| Cameron Kennedy Resources Limited | England and Wales | 44.66% | Recruitment consultants |

The group's share of the associates results, assets and liabilities is set out below:

| | 2004 £ | 2003 £ |
|---------------------------------|-----------|-----------|
| Turnover | 3,156,293 | 2,199,986 |
| Profit/(loss) before tax | 87,133 | (205,343) |
| Taxation | – | 6,935 |
| Profit/(loss) after tax | 87,133 | (198,408) |
| | | |
| Fixed assets | 13,382 | 30,811 |
| Current assets | 594,899 | 387,177 |
| Liabilities due within one year | (244,600) | (141,439) |
| | <hr/> | <hr/> |

At 31 December 2004 the associate has net assets of £814,371 (2003 – £619,261) and a retained profit/(loss) for the year of £195,113 (2003 – £(444,284)).

The group's interest was acquired with effect from 5 July 1998. On 30 June 2002 share options were exercised resulting in a reduction in the group's interest from 46.5% to 44.66%.

| | 2004 £ | 2004 £ | 2003 £ | 2003 £ |
|---|-----------|-----------|-----------|-----------|
| 44.66% (2003 – 44.66%) of net assets of associate | | 363,676 | | 276,544 |
| Goodwill arising on acquisition | 120,000 | | 120,000 | |
| Amortisation charged to date | (72,000) | | (60,000) | |
| | <hr/> | 48,000 | <hr/> | 60,000 |
| | | <hr/> | | <hr/> |
| | | 411,676 | | 336,544 |
| | | <hr/> | | <hr/> |

Notes forming part of the Financial Statements

*continued***10 Fixed asset investments** *(continued)*

| | |
|---|----------|
| | £ |
| Interest in associate at 1 January 2004 | 336,543 |
| Share of associate's pre-tax loss | 87,133 |
| Share of tax | – |
| Goodwill amortisation | (12,000) |
| | <hr/> |
| Interest in associate at 31 December 2004 | 411,676 |
| | <hr/> |

| Company | Shares in associated company £ | Shares in subsidiary undertakings £ | Total £ |
|---|---|--|------------|
| <i>Cost</i> | | | |
| At 1 January 2004 | 166,500 | 816,101 | 982,601 |
| Disposals | – | (552,980) | (552,980) |
| | <hr/> | <hr/> | <hr/> |
| At 31 December 2004 | 166,500 | 263,121 | 429,621 |
| | <hr/> | <hr/> | <hr/> |
| <i>Amounts provided</i> | | | |
| At 1 January 2004 and at 31 December 2004 | – | 163,118 | 163,118 |
| | <hr/> | <hr/> | <hr/> |
| <i>Net book value</i> | | | |
| At 31 December 2004 | 166,500 | 100,003 | 266,503 |
| | <hr/> | <hr/> | <hr/> |
| At 31 December 2003 | 166,500 | 652,983 | 819,483 |
| | <hr/> | <hr/> | <hr/> |

The following are subsidiary undertakings at the end of the year and have all been included in the consolidated financial statements:

| <i>Subsidiary undertakings</i> | Country of incorporation | Proportion of voting rights and ordinary share capital held | Nature of business |
|---|-----------------------------|--|---------------------|
| Harper Craven Associates Limited | England and Wales | 100% | Management training |
| Prime Design International Limited (name changed from Portfolio Design International Limited) | England and Wales | 100% | Dormant |

For all undertakings listed above, the country of operation is the same as its country of incorporation.

11 Debtors

| | Group | | Company | |
|---|-----------|-----------|-----------|-----------|
| | 2004 £ | 2003 £ | 2004 £ | 2003 £ |
| Amounts receivable within one year | | | | |
| Trade debtors | 65,527 | 623,986 | – | – |
| Amounts owed by subsidiary undertakings | – | – | 52,939 | 212,008 |
| Other debtors | 38,564 | 17,823 | 38,564 | – |
| Prepayments and accrued income | 157,961 | 406,546 | 47,150 | 8,089 |
| Corporation tax recoverable | – | 74,342 | – | – |
| | <hr/> | <hr/> | <hr/> | <hr/> |
| | 262,052 | 1,122,697 | 138,653 | 220,097 |
| | <hr/> | <hr/> | <hr/> | <hr/> |

12 Creditors: amounts falling due within one year

| | Group | | Company | |
|---|----------------|----------------|----------------|---------------|
| | 2004 | 2003 | 2004 | 2003 |
| | £ | £ | £ | £ |
| Bank overdrafts | 15,799 | 48,724 | 14,947 | 9,259 |
| Trade creditors | 6,385 | 20,240 | 362 | – |
| Other creditors | 773 | 12,107 | 568 | – |
| Taxation and social security | 25,920 | 140,795 | 3,487 | 5,361 |
| Obligations under finance leases and hire purchase contracts (secured) | 7,498 | – | – | – |
| Corporation tax | 8 | – | – | – |
| Accruals and deferred income | 144,520 | 268,580 | 84,424 | 17,256 |
| Amounts due to subsidiary undertakings | – | – | – | 28,978 |
| | <u>200,903</u> | <u>490,446</u> | <u>103,788</u> | <u>60,854</u> |

Finance lease liabilities are secured on the assets to which they relate.

13 Creditors: amounts falling due after more than one year

| | 2004 | 2003 |
|--|---------------|----------|
| | £ | £ |
| Obligations under finance leases and hire purchase contracts due within two to five years (secured – see note 12) | 12,497 | – |
| The maturity of these obligations is as follows: | | |
| In one year or less | 8,961 | – |
| In more than one year but not more than two years | 8,961 | – |
| In more than two years but not more than five years | 5,998 | – |
| | <u>23,920</u> | <u>–</u> |
| Less: future finance charges | (3,925) | – |
| | <u>19,995</u> | <u>–</u> |

14 Deferred taxation

| | 2004 | 2003 |
|--|-----------------|-----------------|
| | £ | £ |
| Group | | |
| Unprovided deferred tax is as follows: | | |
| Accelerated capital allowances | (2,585) | (32,314) |
| Losses | (24,609) | (15,647) |
| | <u>(27,194)</u> | <u>(47,961)</u> |

Amounts in brackets denote a deferred tax asset.

Company

| | | |
|--------|-----------------|----------|
| Losses | <u>(24,609)</u> | <u>–</u> |
|--------|-----------------|----------|

Amounts in brackets denote a deferred tax asset.

Notes forming part of the Financial Statements

continued

15 Share capital

| | 2004 | | 2003 | |
|---|-------------------|----------------|------------|---------|
| | Number | £ | Number | £ |
| <i>Authorised</i> | | | | |
| Ordinary shares of 1p each | 80,000,000 | 800,000 | 80,000,000 | 800,000 |
| <i>Allotted, called up and fully paid</i> | | | | |
| Ordinary shares of 1p each | | | | |
| At beginning of year | 36,846,692 | 368,467 | 36,346,692 | 363,467 |
| Shares issued for cash | – | – | 500,000 | 5,000 |
| At end of period | 36,846,692 | 368,467 | 36,846,692 | 368,467 |

Employee share schemes

2001 Employee Share Option Scheme

Under the terms of The Prime People 2001 Employee Share Option Scheme any director of the company who devotes at least 25 hours per week to the group, or any employee (other than a director), and in either case who is not due to retire within 2 years, may be eligible to participate in the Scheme.

Options may be granted within 42 days after the announcement of either the interim or final results of the company in each year, or at other times under exceptional circumstances. No option may be granted under the Scheme more than 10 years after approval of the Scheme by the Inland Revenue.

All options granted under the Scheme will be subject to performance targets set by the Remuneration Committee.

During the year no options were exercised under this scheme.

The total number of share options in issue at the year end are:

| Year of grant | Exercise price pence | Exercise period | Number of options 31 December 2004 | Number of options 31 December 2003 |
|---------------|----------------------|-----------------|------------------------------------|------------------------------------|
| 2002 | 6.333 | 2005-2012 | 496,055 | 496,055 |
| 2003 | 4.833 | 2006-2013 | 500,000 | 500,000 |
| | | | 996,055 | 996,055 |

16 Reserves

| Group | Share premium account £ | Merger reserve £ | Profit and loss account £ |
|---|----------------------------|---------------------|------------------------------|
| At 1 January 2004 | 909,925 | 173,077 | 575,476 |
| Retained profit for the year | – | – | 672,386 |
| Goodwill eliminated on disposal of subsidiary | – | – | 641,006 |
| At 31 December 2004 | 909,925 | 173,077 | 1,888,868 |

The cumulative amount of positive goodwill resulting from acquisitions of subsidiaries which has been eliminated against reserves is £212,979 (2003 – £853,985).

16 Reserves (continued)

| Company | Share premium account £ | Merger reserve £ | Profit and loss account £ |
|------------------------------|----------------------------------|------------------------|------------------------------------|
| At 1 January 2004 | 909,925 | 173,077 | 524,499 |
| Retained profit for the year | – | – | 1,170,921 |
| At 31 December 2004 | 909,925 | 173,077 | 1,695,420 |

The company has taken advantage of the exemption conferred by Section 230(3) of the Companies Act 1985 not to present its own profit and loss account. The amount of consolidated profit after tax and before dividends dealt with in the financial statements of the parent is £1,170,921 (2003 – £48,706).

17 Reconciliation of movements in shareholders' funds

| | Group | | Company | |
|---|------------------|-----------|------------------|-----------|
| | 2004 £ | 2003 £ | 2004 £ | 2003 £ |
| Profit/(loss) for the financial year | 672,386 | (443,168) | 1,170,921 | 48,706 |
| New share capital subscribed | – | 30,000 | – | 30,000 |
| Goodwill eliminated on disposal of subsidiary | 641,006 | – | – | – |
| Net addition/(reduction) to shareholders' funds | 1,313,392 | (413,168) | 1,170,921 | 78,706 |
| Opening shareholders' funds | 2,026,945 | 2,440,113 | 1,975,968 | 1,897,262 |
| Closing shareholders' funds | 3,340,337 | 2,026,945 | 3,146,889 | 1,975,968 |

18 Commitments

As at 31 December 2004 the group had annual commitments under non-cancellable operating leases as set out below:

| Group | 2004 Other £ | 2003 Other £ |
|--------------------------------|--------------------|--------------------|
| Operating leases which expire: | | |
| Within one year | 4,188 | 2,676 |
| In two to five years | – | 8,570 |
| | 4,188 | 11,246 |

Notes forming part of the Financial Statements

continued

19 Related party transactions

During the year PSD Group Plc, the holding company of Codeissue Limited, a 29.9% shareholder of Prime People Plc, charged Prime People Plc £122,202 (2003 – £169,000) for the rent of property. At 31 December 2004, Prime People Plc owed PSD Group Plc £Nil (2003 – £Nil).

On 4 August 2004 Prime People Plc disposed of the entire share capital of Portfolio International Limited to PSD Group Plc. Details of the disposal are set out in note 24.

Subsequent to the sale of Portfolio International Limited, Prime People Plc has continued to provide accounting services to Portfolio International Limited and has charged that company £25,000 for these services. There were no amounts due at 31 December 2004.

The group's associated company, Cameron Kennedy Resources Limited paid £25,000 (2003 – £Nil) in respect of P J Hearn's services as director.

20 Reconciliation of operating profit to net cash outflow from operating activities

| | 2004 £ | 2003 £ |
|--|-----------|-----------|
| Group operating loss | (89,522) | (337,783) |
| Depreciation | 33,784 | 83,709 |
| Loss/(profit) on sale of tangible fixed assets | (1,800) | 8,071 |
| Decrease in debtors | (155,561) | 187,274 |
| Decrease in creditors | 119,113 | (174,349) |
| | <hr/> | <hr/> |
| Net cash outflow from operating activities | (93,986) | (233,078) |
| | <hr/> | <hr/> |

21 Reconciliation of net cash outflow to movement in net funds

| | 2004 £ | 2003 £ |
|--|-----------------|-----------------|
| Increase/(decrease) in cash in the year | 225,412 | (104,856) |
| Cash outflow from decrease in debt and lease financing | 2,501 | – |
| Cash outflow/(inflow) from (increase)/decrease in liquid resources | 1,647,000 | (104,000) |
| | <hr/> | <hr/> |
| Increase/(decrease) in net funds resulting from cash flows in the year | 1,874,913 | (208,856) |
| New finance leases | (22,496) | – |
| Increase/(decrease) in net funds in the year | <hr/> 1,852,417 | <hr/> (208,856) |
| Opening net funds | 947,770 | 1,156,626 |
| | <hr/> | <hr/> |
| Closing net funds | 2,800,187 | 947,770 |
| | <hr/> | <hr/> |

22 Analysis of net funds

| | At 1 January 2004 £ | Cash flow £ | Other non-cash changes £ | At 31 December 2004 £ |
|--------------------------|------------------------------|-------------------|-----------------------------------|--------------------------------|
| Cash at bank and in hand | 494 | 192,487 | - | 192,981 |
| Bank overdraft | (48,724) | 32,925 | - | (15,799) |
| | (48,230) | 225,412 | - | 177,182 |
| Liquid resources | 996,000 | 1,647,000 | - | 2,643,000 |
| Finance leases | - | 2,501 | (22,496) | (19,995) |
| Total | 947,770 | 1,874,913 | (22,496) | 2,800,187 |

23 Financial instruments

The only financial asset the group has is cash at bank. Cash is held either on current account or on short term deposits at floating rates of interest (5.1%) determined by the relevant bank's prevailing base rate.

The group's financial liabilities consist of a bank overdraft and finance leases (see note 22), both denominated in sterling, which provides short term flexibility in meeting working capital requirements. Finance leases are subject to fixed rates of interest (6%) determined by the lender at the inception of the lease. The overdraft is subject to floating rates of interest determined by the relevant bank's prevailing base rate.

The group has no committed borrowing facilities available at 31 December 2004 (2003 – £Nil).

There is no material difference between the book values of the group's financial assets and liabilities and their fair values.

The group's currency exposure is not significant and any resulting gains or losses are recognised in the profit and loss account.

The group does not hold any derivative financial instruments.

24 Disposal of subsidiary

On 4 August 2004 Portfolio International was sold to PSD Group Plc.

The profit on disposal of £609,844 has been calculated as follows:

| | £ |
|---|-----------|
| Net assets disposed of: | |
| Fixed assets | 43,511 |
| Debtors and prepayments | 941,865 |
| Cash | 53,986 |
| Creditors and accruals | (384,928) |
| Net assets disposed of | 654,434 |
| Net cash proceeds | 1,905,284 |
| Profit on disposal before goodwill | 1,250,850 |
| Goodwill previously eliminated against reserves | 641,006 |
| Profit on disposal | 609,844 |

Notes forming part of the Financial Statements

continued

24 Disposal of subsidiary *(continued)*

The net outflow of cash in respect of the disposal of Portfolio International Limited is made up as follows:

| | £ |
|----------------------------------|-----------|
| Cash consideration | 1,905,284 |
| Cash transferred out on disposal | (53,986) |
| | <hr/> |
| | 1,851,298 |
| | <hr/> |

Of the Group profit for the year of £672,386, a profit after taxation of £154,407 is attributable to Portfolio International Limited prior to its disposal.

Portfolio International Limited during the year contributed £103,225 to the Group's net operating cash outflow and utilised £17,967 for capital expenditure.

The directors anticipate that the profit on disposal of Portfolio International Limited will not attract a charge to corporation tax as they believe the disposal meets the conditions for Substantial Shareholdings Exemption.

Notice of Annual General Meeting

Notice is hereby given that the twenty-first Annual General Meeting of Prime People Plc will be held at 7 Breams Buildings, London EC4A 1DT on Tuesday 5 April 2005 at 11.30 am for the following purposes:

Ordinary Business:

1. To receive the Company's financial statements for the year ended 31 December 2004 together with the reports of the directors and auditors thereon.
2. To approve the Remuneration Report
3. To re-elect Mr P J Hearn as a director.
4. To re-appoint BDO Stoy Hayward LLP as auditors for the ensuing year.
5. To authorise the directors to determine the remuneration of the auditors.

Special Business:

6. To consider and, if thought fit, to pass the following resolution as an ordinary resolution:
That the Directors be and are hereby generally and unconditionally authorised in accordance with Section 80 of the Companies Act 1985 ('the Act') to exercise all powers of the Company to allot relevant securities (as defined in sub-section (2) of the said Section 80) up to an aggregate nominal amount of £122,810 provided that this authority shall expire at the conclusion of the Annual General Meeting to be held in 2006 or 15 months after the passing of the resolution (whichever is the earlier) save that the Company may before such expiry make an offer or agreement which would or might require relevant securities to be allotted after such expiry and the Directors may allot relevant securities in pursuance of such an offer or agreement as if the authority conferred hereby had not expired.
7. To consider and, if thought fit, to pass the following resolution as a special resolution:
That pursuant to Section 95 of the Act the Directors be and are hereby empowered to allot equity securities (as defined by Section 94 of the Act) for cash pursuant to the authority conferred by Resolution 6 above as if Section 89(1) of the Act did not apply to such allotment provided that this power shall be limited:
 - a) to the allotment of equity securities in connection with a rights issue, open offer or otherwise in favour of the holders of equity securities in proportion to their respective holdings of such securities but subject to such exclusions or other arrangements as the Directors may deem necessary or expedient to deal with legal or practical problems in respect of overseas holders, fractional entitlements or otherwise; and
 - b) to the allotment (otherwise than pursuant to sub-paragraph (a) above) of equity securities up to an aggregate nominal amount of £18,423.
8. To consider, and if thought fit, to pass the following resolution as a special resolution:
That the Company be and is hereby generally and unconditionally authorised to make market purchases (as defined in Section 163(3) of the Act) of Ordinary shares of 1p each in the issued capital of the Company ("Ordinary shares") subject to the following conditions:
 - a) the maximum number of Ordinary shares which may be purchased is 3,684,600 (representing approximately 10 per cent of the issued Ordinary share capital);
 - b) the maximum price at which an Ordinary share may be purchased is an amount equal to 105% of the average of the middle market quotations for such shares as derived from The Daily Official List of The London Stock Exchange for the five business days immediately preceding the date of purchase and the minimum price is 1p per Ordinary share, in both cases exclusive of expenses; and
 - c) the authority conferred by this Resolution shall expire at the conclusion of the next annual general meeting of the Company provided that any contract for the purchase of ordinary shares permitted by this Resolution which has been concluded before the expiry of this authority may be executed wholly or partly after the authority expires.

Registered Office
7 Breams Buildings
London
EC4A 1DT

By order of the Board
C I Heayberd
Secretary
1st March 2005

Notes:

- i. Any Member having the right to attend and vote at the meeting is entitled to appoint one or more proxies to attend and vote on his behalf. A proxy need not be a member of the Company. To be effective, the form of proxy and any power of attorney or other authority under which it is executed or a notarially certified or office copy of such power or authority must be lodged with the Company's registrars, Neville Registrars Limited, Neville House, 18 Laurel Lane, Halesowen, West Midlands B63 3DA, not less than 48 hours before the time appointed for the meeting.
- ii. In the case of a corporation, the form of proxy should be under its common seal, or under the hand of an officer of the corporation duly authorised in that behalf.
- iii. Directors' service contracts together with a copy of the Rules to the company's Inland Revenue Approved Employee Share Option Scheme and the minutes of the previous Annual General Meeting will be available for inspection 15 minutes prior to the commencement of the Meeting.

Financial Calendar

| | | | |
|---------------------|---|------------------------|-------------|
| Half year results | – | Announcement | August 2005 |
| Full year results | – | Announcement | March 2006 |
| Report and accounts | – | Posted to shareholders | March 2006 |

Principal Addresses

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