



# greenaways

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**THIS DOCUMENT IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION. If you are in any doubt as to the action you should take, or the contents of this document, you are recommended to seek your own personal financial advice immediately from your stockbroker, bank manager, solicitor, accountant, fund manager or other independent adviser duly authorised under the Financial Services and Markets Act 2000 who specialises in advising on the acquisition of shares and other securities.**

If you sell or have sold or otherwise transferred all of your Existing Ordinary Shares, please send this document and any accompanying documents or forms as soon as possible to the purchaser or transferee or to the stockbroker, bank or other agent through whom you sell or have sold or transferred your shares for delivery to the purchaser or transferee. However, this document and any accompanying documents should not be sent or transmitted in, or into, any jurisdiction where to do so might constitute a violation of local securities law or regulations, including, but not limited to, the USA and the Excluded Territories.

This document comprises an admission document prepared in accordance with the AIM Rules. This document does not constitute a prospectus for the purposes of the Prospectus Rules and has not been approved by or filed with the Financial Services Authority.

The Directors and Proposed Directors, whose names appear on page 3 of this document, and the Company accept responsibility, both individually and collectively, for the information contained in this document. To the best of the knowledge and belief of the Directors and Proposed Directors and the Company (who have taken all reasonable care to ensure that such is the case), the information contained in this document is in accordance with the facts and does not omit anything likely to affect the import of such information. To the extent information has been sourced from a third party, this information has been accurately reproduced and, as far as the Directors, the Proposed Directors and the Company are aware, no facts have been omitted which may render the reproduced information inaccurate or misleading.

Application will be made for the New Ordinary Shares to be admitted to trading on AIM. It is expected that Admission will become effective and dealings for normal settlement in the Enlarged Share Capital will commence on 4 January 2006.

**AIM is a market designed primarily for emerging or smaller companies to which a higher investment risk tends to be attached than to larger or more established companies. AIM securities are not admitted to the Official List. A prospective investor should be aware of the risks of investing in such companies and should make the decision to invest only after careful consideration and if appropriate consultation with an independent professional financial adviser. The rules of AIM are less demanding than those of the Official List. It is emphasised that no application is being made for admission of the Existing Ordinary Shares or the New Ordinary Shares to the Official List. Neither the Existing Ordinary Shares nor the New Ordinary Shares will be dealt on any other recognised investment exchange and no other such application will be made. Furthermore neither the London Stock Exchange nor the UKLA has itself examined or approved the contents of this document.**

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## **Prime People plc**

### **Proposed acquisition of Macdonald & Company Group Limited Approval of waiver of the obligation to make a mandatory offer under Rule 9 of the City Code on Takeovers and Mergers Admission of the Enlarged Share Capital to trading on AIM 1 for 10 share capital consolidation and Notice of Extraordinary General Meeting**

*Nominated Adviser and Broker to the Company*

**WH Ireland Limited**

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**YOUR ATTENTION IS DRAWN TO THE RISK FACTORS SET OUT IN PART II OF THIS DOCUMENT.**

A notice convening an Extraordinary General Meeting of Prime People plc to be held at Stephenson Harwood, One St Paul's Churchyard, London EC4M 8SH at 11.00 a.m. on 3 January 2006 is set out at the end of this document. The accompanying Form of Proxy for use at the Extraordinary General Meeting should be completed and returned by post or (during normal business hours) by hand to the Company's registrars, Neville Registrars Limited of Neville House, 18 Laurel Lane, Halesowen B63 3DA, as soon as possible, and, to be valid, must arrive not less than 48 hours before the time fixed for the Extraordinary General Meeting. Completion and return of a Form of Proxy will not preclude Shareholders from attending and voting in person at the Extraordinary General Meeting should they so wish.

WH Ireland, which is authorised and regulated by the Financial Services Authority, is acting as the Company's nominated adviser in connection with the matters set out in this document. Its responsibilities as the Company's nominated adviser under the AIM Rules are owed solely to London Stock Exchange and are not owed to the Company or to any director or proposed director of the Company or to any other person in respect of his or its decision to acquire shares in the Company in reliance on any part of this document. No representation or warranty, express or implied, is made by WH Ireland as to any of the contents of this document.

This document is not an offer of securities for sale in the United States and the New Ordinary Shares have not been and will not be registered under the United States Securities Act of 1933, or under the laws of any state, district or other jurisdiction of the US or any of the other Excluded Territories and no regulatory clearances in respect of the New Ordinary Shares have been or will be applied for in any such jurisdiction.

Copies of this document will be available free of charge during normal business hours on any day (except Saturdays, Sundays and public holidays) at the offices of WH Ireland Limited, 11 St. James's Square, Manchester M2 6WH from the date of this document and for a period of one month following Admission.

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## DIRECTORS, PROPOSED DIRECTORS, SECRETARY AND ADVISERS

Directors of Prime People	Peter John Hearn ( <i>Non-executive Chairman</i> ) Simon James Murphy ( <i>Chief Executive</i> ) Christopher Incedon Heayberd ( <i>Finance Director</i> ) David Charles Coubrough ( <i>Non-executive Director</i> ) all of 7 Breams Buildings, London EC4A 1DT
	It is proposed that Peter Hearn and David Coubrough will resign from the Board immediately prior to Admission and that Simon Murphy will step down as Chief Executive and assume a Non-executive role.
Proposed Directors	Robert John Garvin Macdonald ( <i>proposed Executive Chairman</i> ) Peter Hugh Moore ( <i>proposed Managing Director</i> ) John Henry James Lewis ( <i>proposed Non-executive Director</i> ) all of 40A Dover Street, Mayfair, London W15 4NW
Registered Office	7 Breams Buildings, London EC4A 1DT
Proposed new Registered Office	40A Dover Street, Mayfair, London W15 4NW
Company Secretary	Christopher Incedon Heayberd
Nominated Adviser and Broker to the Company and the Enlarged Group	WH Ireland Limited 11 St. James's Square Manchester M2 6WH
Solicitors to the Company	Stephenson Harwood One St Paul's Churchyard London EC4M 8SH
Solicitors to the Nominated Adviser and Broker	Cobbetts LLP Ship Canal House King Street Manchester M2 4WB
Reporting Accountants and Auditors to the Company	Horwath Clark Whitehill LLP 80 Kings Road Reading Berkshire RG1 3BL
Auditors to Macdonald	Reeves and Neylan London Office Colechurch House One London Bridge Walk London SE1 2SX
Solicitors to Macdonald	Howard Kennedy 19 Cavendish Square London W1A 2AW
Registrars	Neville Registrars Limited Neville House 18 Laurel Lane Halesowen B63 3DA
Bankers to the Company	Barclays Bank PLC Corporate Banking PO Box 112 Horsham West Sussex RH12 1YQ

## DEFINITIONS

The following words and expressions shall have the following meanings in this document, unless the context otherwise requires:

“Acquisition”	the proposed acquisition by the Company of the entire issued share capital of Macdonald pursuant to the Acquisition Agreement
“Acquisition Agreement”	the agreement dated 9 December 2005 between the Vendors (1) and the Company (2) pursuant to which the Company has agreed conditionally to acquire the entire issued share capital of Macdonald, further details of which are set out in paragraph 12 of Part VII of this document
“Act”	the Companies Act 1985, as amended
“Acting in concert”	shall have the meaning ascribed thereto in the City Code
“Admission”	the admission of the New Ordinary Shares (including the Consideration Shares) to trading on AIM becoming effective in accordance with the AIM Rules
“AIM”	the market of that name operated by the London Stock Exchange
“AIM Rules”	the rules published by the London Stock Exchange applicable to AIM
“Articles” or “Articles of Association”	the Company’s articles of association from time to time
“Board”	the board of directors of the Company
“City Code”	the City Code on Takeovers and Mergers
“Combined Code”	the Principles of Good Governance and the Code of Best Practice, as set out in an appendix to the Listing Rules
“Company” or “Prime People”	Prime People plc
“Completion”	completion of the Acquisition in accordance with its terms
“Concert Party”	the Vendors
“Consideration”	up to £10.52 million, to be satisfied by the issue of the Consideration Shares and the Deferred Consideration Shares (at a price of 84.13 pence per share) and the payment of an aggregate amount of £3.5 million in cash to the Vendors pursuant to the Acquisition Agreement.
“Consideration Shares”	the 7,155,593 New Ordinary Shares to be issued to the Vendors on completion of the Acquisition, credited as fully paid, pursuant to the Acquisition Agreement, at the Issue Price
“Continuing Directors”	the Proposed Directors, Simon Murphy and Christopher Heayberd
“Control”	shall have the meaning ascribed thereto in the City Code
“CREST”	the computerised settlement system to facilitate the transfer of title of shares in uncertificated form, operated by CRESTCo Limited
“CREST Member”	a person who has been admitted by CRESTCo Limited as a system member (as defined in the Regulations)
“CREST Participant”	a person who is, in relation to CREST, a system participant (as defined in the Regulations)
“Deferred Consideration Shares”	up to 1,188,637 New Ordinary Shares to be issued and allotted to the Vendors as part of the Consideration subject to the achievement by Macdonald, Macdonald Property and Macdonald Freelance, of certain levels of operating profit for the year ending 31 March 2006
“Directors”	the current directors of the Company, whose names appear on page 3 of this document

“EGM” or “Extraordinary General Meeting”	the extraordinary general meeting of the Company to be held at the offices of Stephenson Harwood, on 3 January 2006, notice of which is set out at the end of this document
“Enlarged Group”	Prime People and Macdonald and their subsidiaries together after completion of the Acquisition
“Enlarged Share Capital”	the entire issued ordinary share capital of Prime People upon Admission as enlarged by the issue of the Consideration Shares
“Excluded Territories”	Australia, Canada, Japan, the Republic of Ireland, the Republic of South Africa and their respective territories or possessions
“Existing Ordinary Shares”	36,846,692 Ordinary Shares in issue as at the date of this document
“Form of Proxy”	the form of proxy for use at the EGM which accompanies this document
“Independent Shareholders”	those shareholders of Prime People considered to be independent for the purposes of approving the waiver to make a mandatory offer under Rule 9 of the City Code
“Issue Price”	84.13p per New Ordinary Share
“Listing Rules”	the listing rules (as amended from time to time) made by the UK Listing Authority
“London Stock Exchange”	London Stock Exchange plc
“Macdonald”	Macdonald & Company Group Limited, a company incorporated in England and Wales under company number 03670901
“Macdonald Directors”	Robert Macdonald, Peter Moore and John Lewis
“Macdonald Freelance”	Macdonald & Company Freelance Limited, a wholly owned subsidiary of Macdonald Property
“Macdonald Property”	Macdonald & Company Property Limited, a wholly owned subsidiary of Macdonald
“Macdonald Shares”	ordinary A and B shares of 1p each in the share capital of Macdonald
“Macdonald Share Options”	EMI options over 4,100 ordinary A shares of 1p each in the share capital of Macdonald granted by Macdonald to certain of its employees, each with a vesting date of 30 September 2006
“New Ordinary Shares”	ordinary shares of 10p each in the capital of the Company following the Share Capital Consolidation
“Notice of EGM”	the notice of Extraordinary General Meeting which is set out at the end of this document
“Official List”	the Official List of the UKLA
“Ordinary Shares”	ordinary shares of 1p each in the capital of the Company
“Panel”	the Panel on Takeovers and Mergers of the United Kingdom
“Prime People EMI Scheme”	the EMI employee share option scheme adopted by Prime People, details of which are set out in paragraphs 5.2 and 8 of Part VII
“Prime People Group”	the Company and its subsidiaries
“Proposals”	the Acquisition, the Waiver, the Share Capital Consolidation and Admission, as described in this document
“Proposed Directors”	Robert Macdonald, Peter Moore and John Lewis
“Regulations”	the Uncertificated Securities Regulations 2001

“Resolutions”	the resolutions set out in the Notice of EGM and reference to a “Resolution” shall be the relevant resolution set out in the Notice of EGM
“Share Capital Consolidation”	the consolidation of every 10 Ordinary Shares into 1 New Ordinary Share
“Shareholders” or “Members”	holders of Ordinary Shares
“UK” or “United Kingdom”	the United Kingdom of Great Britain and Northern Ireland
“UKLA” or “UK Listing Authority”	the United Kingdom Listing Authority of the Financial Services Authority, acting in its capacity as the competent authority for the purposes of Part VI of the Financial Services and Markets Act 2000
“United States”	the United States of America, its territories and possessions, any state of the United States of America and the District of Columbia
“Vendors”	the shareholders of Macdonald and the holders of Macdonald Share Options, as listed in paragraph 9.4 of Part VII of this document
“Voting rights”	means all voting rights attributable to the share capital of the Company which are currently exercisable at a general meeting
“Waiver”	the waiver to be granted, subject to the passing of Resolution 7 on a poll of Independent Shareholders at the EGM, by the Panel of the obligation of the Concert Party (or any member thereof) which would otherwise arise under Rule 9 of the City Code upon Completion to make a mandatory cash offer for the New Ordinary Shares not already owned by the Concert Party (or the relevant member thereof) on or after Admission, as further described in Part I of this document
“WH Ireland”	WH Ireland Limited

## EXPECTED TIMETABLE OF PRINCIPAL EVENTS

Date of publication of the admission document	9 December 2005
Last time and date for receipt of forms of proxy for the EGM	1 January 2006
Extraordinary General Meeting	3 January 2006
Completion date of the Acquisition	4 January 2006
Admission effective and dealings in Enlarged Share Capital expected to commence on AIM	4 January 2006
Expected date for posting of share certificates for the New Ordinary Shares (where applicable)	11 January 2006

## ACQUISITION AND SHARE STATISTICS

	<i>Pre Share Capital Consolidation</i>	<i>Post Share Capital Consolidation</i>
Mid market price per Ordinary Share on 7 December 2005 being the most recent practicable date prior to the publication of this document	6.25p	
Number of Existing Ordinary Shares	36,846,692	
Number of Ordinary Shares to be issued to enable the Share Capital Consolidation to take place	8	
Issue price per New Ordinary Share		84.13p
Number of Consideration Shares being issued under the Acquisition		7,155,593
Number of New Ordinary Shares in issue on Admission		10,840,263
Market capitalisation of the Company at the Issue Price on Admission		£9.12m
Maximum number of Deferred Consideration Shares to be issued under the Acquisition		1,188,637
Maximum percentage of the Enlarged Share Capital held by the Vendors following the issue of the Consideration Shares		66.01%
Percentage of the issued share capital held by the Vendors following the issue of the Deferred Consideration Shares (assuming the Deferred Consideration Shares are issued in full)		69.37%

## PART I

### LETTER FROM THE CHAIRMAN OF PRIME PEOPLE

# Prime People plc

(Incorporated and registered in England and Wales under the Companies Act 1948  
(as amended) with registered number 1729887)

*Directors:*

Peter Hearn  
Simon Murphy  
Christopher Heayberd  
David Coubrough

*Registered Office:*

7 Breams Buildings  
London  
EC4A 1DT

9 December 2005

*To the holders of Existing Ordinary Shares*

Dear Shareholder

**Proposed acquisition of Macdonald  
Approval of waiver of the obligation to make a mandatory offer under Rule 9 of the  
City Code on Takeovers and Mergers  
Admission of the Enlarged Share Capital to trading on AIM  
1 for 10 Share Capital Consolidation  
Notice of Extraordinary General Meeting**

#### **1. Introduction**

The Board of Prime People announced today that the Company had agreed conditionally to acquire the entire issued share capital of Macdonald, an independent professional recruitment consultancy to the property industry. The consideration is up to £10.52 million to be satisfied by the issue of 7,155,593 New Ordinary Shares at a price of 84.13 pence per share and £3.5 million in cash together with up to 1,188,637 further New Ordinary Shares by way of deferred consideration at a price of 84.13 pence per share.

The Consideration Shares will represent approximately 66.0 per cent. of the Enlarged Share Capital. Existing shareholders of Prime People will together hold approximately 34.0 per cent. of the Enlarged Share Capital. Assuming all the Deferred Consideration Shares are issued, the Consideration Shares and the Deferred Consideration Shares will represent approximately 69.37 per cent. of the then issued share capital of the Company (assuming no further shares have been issued). In view of the size of Macdonald relative to the Company, the Acquisition will constitute a reverse takeover of Prime People under the AIM Rules and will require the prior approval of Shareholders at the Extraordinary General Meeting, notice of which is set out at the end of this document. Additionally, because the members of the Concert Party (comprising the Vendors) will collectively own more than 30 per cent. of the Enlarged Share Capital as a result of the Acquisition, the Company is seeking a waiver of the obligation under Rule 9 of the City Code which would otherwise require the members of the Concert Party to offer to acquire those New Ordinary Shares that they do not own. A proposal seeking Shareholder approval for such a waiver is, therefore, included in the notice of Extraordinary General Meeting set out at the end of this document. Completion of the Acquisition is conditional, *inter alia*, on the admission of the Consideration Shares to trading on AIM (subject only to allotment).

If the Resolutions are duly passed at the EGM, and the other conditions set out in the Acquisition Agreement are met, trading of the Existing Ordinary Shares on AIM will be discontinued and the Enlarged Share Capital will be admitted to trading on AIM. Dealings on AIM in the Enlarged Share Capital are expected to commence on 4 January 2006. If the Acquisition is not completed, dealings in the Existing Ordinary Shares on AIM will continue.

#### **2. Background to and reasons for the Proposals**

Since May 2005 the Board, with the support of the major shareholders of the Company, has significantly increased its efforts to develop the Company through the identification of an appropriate acquisition in the

support service or industrial sectors. The key characteristics of the target were that it should have strong management and be trading profitably and that it should have the potential to create long term shareholder value as measured by growth in earnings per share and cashflow, with the growth being achieved organically and via complementary acquisitions if appropriate.

The Board believes that Macdonald, with its market position, its reputation as a professional recruitment consultancy to the property sector, its experienced management and its financial performance to date, provides an excellent opportunity to satisfy these criteria and to achieve these objectives.

### **3. Information on Macdonald**

#### *Introduction*

Macdonald is an independent recruitment consultancy operating within the property sector in the recruitment of chartered surveyors and professionals for the property, facilities, construction and related sectors.

Macdonald was incorporated in 1998 and has two trading subsidiaries, Macdonald Property and Macdonald Freelance as well as three dormant subsidiaries.

#### *Activities*

Macdonald Property focuses on the recruitment of full time employees for the property industry, undertaking two types of assignment: file search assignments and executive search and selection assignments. The fees for both types of assignment are usually calculated as a percentage of the projected total remuneration of the candidate in the first year of employment.

Recognising growing demand for temporary and contract recruitment, Macdonald has established teams focused on the introduction of contract professional and support staff who are available for both short and long term contracts. This activity is carried on through Macdonald Freelance. Macdonald Freelance charges fees representing the cost of paying the temporary staff, together with a margin.

Macdonald operates from leasehold offices in Dover Street, London and central Manchester.

#### *Specialist sectors*

The business of Macdonald has, and continues to develop, specialist teams of consultants focusing on particular roles and clients. This approach seeks to ensure that the client's needs can be more effectively serviced by recommending the most suitable recruitment technique and identifying and attracting the most appropriate candidates. Consultants work within the following specialist sector teams:

- general practice, including investment, development, management, agency, property finance and rural practice;
- planning, including town and country planning, transport planning, landscape planning, environmental, urban design and regeneration;
- technical, including quantity surveying, building surveying, project management and professional construction staff;
- business support, including accountants, finance staff, secretaries, data entry and receptionists; and
- facilities management, including health and safety, and environmental.

#### **Clients and candidates**

Macdonald has a wide variety of clients including consultancies, financial institutions, investment funds, property companies and developers. Macdonald also recruits for a number of professional bodies as well as central and local government and other government agencies.

Macdonald is the only recruitment consultancy to be approved by the Royal Institution of Chartered Surveyors ("RICS"), the leading professional body representing property professionals worldwide. RICS has almost 110,000 members of which 85,000 are based in the United Kingdom. Initiatives undertaken include the annual RICS and Macdonald salary and benefits survey guide to remuneration levels in the property sector.

The large number of people associated with the British Institute of Facilities Management (approximately 9,600 members) and the Royal Town Planning Institute (approximately 8,100 members) also provides Macdonald with an extensive pool of potential candidates.

Macdonald has developed a substantial database of approximately 56,500 candidates. Macdonald aims to meet the majority of the recruitment needs of its clients in terms of both function and seniority through database search, advertised selection and executive search. Macdonald currently has around 2,260 positions that it is seeking to fill for clients. Salaries for these positions are in the range of £25,000 to £150,000 per year.

#### *International*

Whilst the majority of Macdonald's revenue is generated in the UK, the international business of Macdonald is becoming increasingly active in certain geographical markets, in particular where there is an opportunity to service existing clients. Macdonald intends to open an office in Dubai in January 2006 and is investigating the benefit of establishing operations in Hong Kong. Both of these markets are currently being serviced from the UK.

#### *Management and employees*

The directors of Macdonald believe that the key determinant to achieving growth within the business is attracting and retaining trained and experienced consultants to win business and identify and place candidates. The average number of people employed by Macdonald (excluding temporary contractors) in the three years and six months ended 30 September 2005 is set out below:

	<i>Year ended 31 March</i>		<i>Six months ended</i>	
	<i>2003</i>	<i>2004</i>	<i>2005</i>	<i>30 September 2005</i>
Permanent consultants	29	27	35	43
Freelance consultants	5	9	12	12
Support staff and management	14	14	15	16
	<u>48</u>	<u>50</u>	<u>62</u>	<u>71</u>

The directors of Macdonald believe that Macdonald's staff turnover is lower than the industry average and that its levels of staff retention contribute to the continuing development of its business. Key structural features and initiatives to attract and retain employees include:

- the remuneration structure, which includes a high level of commission attainable by higher performers;
- share ownership and the granting of options to employees;
- a commitment to the communication of goals and information to staff through conferences and the dissemination of management information; and
- the career opportunities provided by the growth in the business and open and objective criteria for promotion through Macdonald's grading structure.

#### *Summarised financial information*

The following financial information on Macdonald has been extracted without material adjustment from the historical financial information on Macdonald for the three years ended 31 March 2005 and the six months ended 30 September 2005 as set out in Part III(B) of this document. This key financial information should be read in conjunction with the full text of this document and investors should not rely solely on this summarised information.

	<i>Year ended 31 March</i>		<i>Six months ended</i>	
	<i>2003</i>	<i>2004</i>	<i>2005</i>	<i>30 September 2005</i>
	<i>£'000</i>	<i>£'000</i>	<i>£'000</i>	<i>£'000</i>
Turnover	6,562	8,382	11,692	7,429
Gross Profit	3,713	4,213	5,867	3,618
Operating Profit	231	804	1,164	783
Profit on ordinary activities before tax	224	802	1,157	778
Net asset value	512	802	1,127	1,103

#### *Strategy*

Macdonald intends to continue to develop current revenue lines by expanding those teams where demand from clients suggests this is appropriate. A particular focus is expected to be placed on facilities management,

health and safety and regional opportunities within the UK. It is also planned to develop new teams to focus on property finance, architecture and senior construction professionals.

Macdonald has undertaken research to identify international opportunities and plans to commit resources to exploiting those in the Middle East in early 2006 and in the Far East and Australia thereafter.

Where Macdonald is able to identify acquisition targets of an appropriate size and operational fit it aims to pursue these, particularly those acquisitions which may provide access to additional areas of specialism within the property recruitment sector. Whilst the focus of Macdonald is on the property recruitment sector, the Continuing Directors believe that in due course it may be appropriate to apply the model to certain other sectors.

#### **4. Information on Prime People**

Following the disposal of its then principal business, Portfolio International Limited, a hotel and leisure industry recruitment company, in August 2004, the principal operating business of Prime People is Harper Craven Associates Limited which provides management training. In addition Prime People has a 44.66 per cent. shareholding in Cameron Kennedy Resources Limited which is a financial recruitment company. Since May 2005 the main focus of the Board has been the identification and analysis of acquisition opportunities.

Financial information on Prime People is set out in Part IV and Part V of this document.

#### **5. Principal terms and conditions of the Acquisition**

The Vendors and the Company have entered into the Acquisition Agreement, pursuant to which the Company will acquire from the Vendors the entire issued share capital of Macdonald. The aggregate consideration payable by the Company to the Vendors pursuant to the Acquisition Agreement will be £10.52 million and will be payable as follows:

- (a) as to £9.52 million on Completion, payable as to £3.5 million in cash and as to £6.02 million by the issue and allotment to the Vendors, credited as fully paid, of the Consideration Shares (at a price of 84.13 pence per share); and
- (b) up to £1.0 million by the issue and allotment to the Vendors, credited as fully paid, of the Deferred Consideration Shares following the announcement of the results of the Enlarged Group for the period ending 31 March 2006. The Vendors will be entitled to receive £5.00 of further consideration for every £1 that the operating profit of Macdonald and its subsidiaries for the year ending 31 March 2006 exceeds £1.70 million up to a maximum further consideration of £0.75 million and £2.50 of further consideration for every £1 that such operating profit is greater than £1.85 million up to a maximum further consideration of £0.25 million. Such further consideration will be satisfied by the issue to the Vendors of such number of Deferred Consideration Shares as has an aggregate value calculated at the Issue Price equal to the further consideration.

The £3.5 million cash consideration is to be provided from the existing cash resources of Prime People and an acquisition facility provided by Barclays Bank plc. The Consideration Shares and the Deferred Consideration Shares will, when issued, rank *pari passu* with the New Ordinary Shares already in issue including, without limitation, the right to receive all dividends and distributions declared, made or paid on the New Ordinary Shares by reference to record dates after the dates of issue of the Consideration Shares and the Deferred Consideration Shares.

The Acquisition is conditional upon (*inter alia*):

- (a) the Panel granting a waiver of the obligation which would otherwise fall on the Vendors to make a general offer under Rule 9 of the City Code; and
- (b) the shareholders of the Company passing the Resolutions set out in the Notice of EGM other than Resolution 2.

The Acquisition Agreement contains a long-stop date following which the agreement shall terminate should the conditions to completion not be satisfied or waived prior to 31 January 2006.

The Acquisition Agreement contains certain non-competition and other restrictive covenants given by the Proposed Directors.

Upon completion of the Acquisition, each of the Proposed Directors will be appointed as directors of the Company. The service contracts of Robert Macdonald and Peter Moore with Macdonald are being amended to provide for them to become directors of the Company and for John Lewis to enter into a non-executive

appointment letter with the Company. Further details are set out in paragraph 6 of Part VII of this document.

Further details of the Acquisition Agreement are set out in paragraph 12 of Part VII of this document.

## **6. Directors, Proposed Directors and employees**

### *Directors*

The Board currently comprises the following directors in respect of whom brief biographies are set out below:

#### ***Peter Hearn (aged 52) Non-executive Chairman***

Peter Hearn was appointed to the board in June 1992 and on 16 May 2005 became Non-executive Chairman. He qualified as a chartered accountant with Coopers & Lybrand after graduating from Cambridge in 1974. He then worked in a range of industries before founding the PSD Group plc in 1991, which he floated on the London Stock Exchange in 1997, and of which he is now non-executive chairman.

#### ***Simon Murphy (aged 41) Chief Executive***

Simon Murphy was appointed Chief Executive of the Company on 16 May 2005. He qualified as a chartered accountant with Coopers & Lybrand. He was, until April 2005 a managing director within the global investment banking division of HSBC.

#### ***Christopher Heyberd (aged 53) Finance Director***

Christopher Heyberd is a chartered accountant who returned to the Board in June 2000 having spent 4 years as a finance director of PSD Group plc. He has considerable experience as a finance director of both public and private companies.

#### ***David 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 Prime People. He is an executive director of the Bespoke Hotel Company Limited and a non-executive director of four other private companies.

It is proposed that Peter Hearn and David Coubrough will resign from the Board on completion of the Acquisition and that, at the same time, Simon Murphy will step down as Chief Executive and assume a Non-executive role.

### *Proposed Directors*

The Proposed Directors are:

#### ***Robert J G Macdonald (aged 57) proposed Executive Chairman***

Robert Macdonald has held senior positions within the recruitment industry since 1973 when he founded Reuter Simkin Limited, a recruitment business that grew to become a market leader in both legal and property recruitment. After the sale of Reuter Simkin Limited in 1989, he subsequently acquired shares in and was chairman of, two other recruitment companies. Macdonald commenced trading in 1994 from within the legal recruitment business and was separately incorporated in 1996 when certain key members of the staff acquired equity stakes.

#### ***Peter H Moore (aged 36) proposed Managing Director***

From 1992 to 1995 Peter Moore worked with Strutt & Parker, qualifying as a chartered surveyor in December 1994. He joined Macdonald in November 1995 and was appointed Managing Director in 1996.

As Managing Director of Macdonald, Peter has responsibility for its day-to-day operations. He specialises in advising upon topics such as staff retention issues, merger and acquisition, human resource policy and remuneration benchmarking. He is also responsible for the industry's benchmark salary and benefits survey undertaken annually in conjunction with the Royal Institution of Chartered Surveyors.

#### ***John H J Lewis OBE (aged 65) proposed Non-executive Director***

John Lewis is a solicitor and a consultant to Messrs. Eversheds LLP. Previously he served as a partner in Lewis Lewis and Co which merged with Jaques and Co. Jaques and Lewis then merged with Eversheds. He is

also currently a director of GR (Holdings) Plc and various other non-competing private companies. He has served as chairman of Cliveden Plc and Principal Hotels Plc and as deputy chairman of John D Wood & Co Plc, retiring in each case when the company was sold.

#### *Employees*

The Continuing Directors do not intend to make any material amendment to the employment of the Enlarged Group's current employees.

### **7. Current trading and prospects of the Enlarged Group**

#### *Prime People*

The current trading of Prime People is in line with the expectations of the Directors.

#### *Macdonald*

The current trading of Macdonald is in line with the expectations of the directors. Turnover in the first seven months of the current financial year is approximately 35 per cent. ahead of the comparable period of the previous year.

#### *Enlarged Group*

The Continuing Directors intend to continue to develop the strategy of profitable growth of the Enlarged Group by expanding market share in its existing core markets whilst continuing to enter new but related markets such as architecture.

### **8. Dividend policy**

Whilst the Enlarged Group will primarily seek to achieve capital growth for shareholders, the Continuing Directors also believe it is appropriate to adopt a progressive dividend policy. The policy will have regard to the capital and strategic requirements of the Enlarged Group and its capital structure. The Continuing Directors anticipate declaring a dividend for the period ending 31 March 2006.

### **9. Proposed change of accounting reference date**

The Continuing Directors intend to change the accounting reference date of the Company to 31 March in line with that of Macdonald. The first set of audited financial statements for the Enlarged Group will therefore be for the 15 months ending on 31 March 2006.

### **10. City Code on Takeovers and Mergers**

The terms of the Acquisition give rise to certain considerations under the City Code. Brief details of the Panel, the City Code and the protections they afford are described below.

The City Code has not, and does not seek to have, the force of law. It has, however, been acknowledged by both government and other regulatory authorities that those who seek to take advantage of the facilities of the securities markets in the United Kingdom should conduct themselves in matters relating to takeovers in accordance with best business standards and so according to the City Code.

The City Code is issued and administered by the Panel. The City Code applies to all takeover and merger transactions, however effected, where the offeree company is, *inter alia*, a listed or unlisted public company resident in the United Kingdom (and to certain categories of private limited companies). The Company is such a company and its Shareholders are entitled to the protection afforded by the City Code.

Under Rule 9 of the City Code, a person who acquires, whether by a series of transactions over a period of time or not, shares which (taken together with shares held or acquired by persons acting in concert with him) carry 30 per cent. or more of the voting rights of a company which is subject to the City Code is normally required to make a general offer in cash to all other shareholders of that company to acquire the balance of the shares not held by such a person (or group of persons acting in concert).

In addition, Rule 9 provides that where any person, together with persons acting in concert with him, holds shares in a company which is subject to the City Code carrying not less than 30 per cent. but not more than 50 per cent. of that company's voting rights and such person, or any person acting in concert with him, acquires additional shares which increase his percentage of the voting rights in that company, such person is normally required, in the same way, to make a general offer to all shareholders.

An offer under Rule 9 must be in cash and at the highest price paid within the preceding 12 months for any shares in the company by the person required to make the offer or any person acting in concert with him.

The Vendors are together deemed to be acting in concert for the purposes of the City Code.

After completion of the Acquisition, and assuming the full Deferred Consideration Shares are issued, the Concert Party's interest will represent, in aggregate approximately 69.37 per cent. of the voting rights attaching to the Company's issued ordinary share capital.

The table below shows the interest of the Concert Party assuming that the Proposals are implemented.

<i>Name</i>	<i>Maximum number of New Ordinary Shares following the issue of the Consideration Shares<sup>1</sup></i>	<i>Maximum percentage of Enlarged Share Capital following the issue of the Consideration Shares<sup>1</sup></i>	<i>Maximum number of New Ordinary Shares following the issue of the Deferred Consideration Shares<sup>5</sup></i>	<i>Maximum percentage of the issued share capital of the Company following the issue of the Deferred Consideration Shares<sup>5</sup></i>
Robert Macdonald	2,126,832	19.62	2,480,127	20.62
Peter Moore <sup>2</sup>	2,452,946	22.63	2,897,906	24.09
John Lewis	12,096	0.11	14,105	0.12
John Lewis and MC Trustees Limited	293,126	2.70	329,320	2.74
Robert Macdonald and Peter Moore (jointly)	439,429	4.05	512,424	4.26
Oliver Wright <sup>3</sup>	439,429	4.05	512,424	4.26
Others members of the Concert Party <sup>4</sup>	1,391,735	12.85	1,597,924	13.28
	<u>7,155,593</u>	<u>66.01</u>	<u>8,344,230</u>	<u>69.37</u>

1 Assuming 100 per cent. exercise of vested Macdonald Share Options. All outstanding options are to vest immediately prior to Completion.

2 Pursuant to agreements dated 8 December 2005, Peter Moore has agreed, immediately prior to Completion, to sell 1,300 Macdonald B Shares to each of (1) John Lewis and MC Trustees Limited, (2) Jeanne Moore and (3) Gordon and Patricia Squires. The table above assumes that the sale of these shares has been completed.

3 Oliver Wright joined the business of Macdonald in September 1994. He was appointed a director of Macdonald on 1 October 2002 and resigned as an employee and director in April 2005 to undertake property development work and to prepare for a role in his family's business.

4 The other members of the Concert Party comprise 22 employees of Macdonald and three relatives of Peter Moore, none of whom will own 3 per cent. or more of the Enlarged Share Capital.

5 Assuming full issue of the Deferred Consideration Shares.

There is no agreement, arrangement or undertaking whereby the beneficial ownership of any of the New Ordinary Shares proposed to be allotted to the members of the Concert Party pursuant to the Acquisition Agreement will be transferred to any other person.

**The Panel has agreed, subject to the passing of Resolution 7 at the EGM on a poll, to waive the obligation of the Concert Party to make a general offer under Rule 9 that would otherwise arise as a result of the Proposals.**

**Shareholders should be aware that, following the Acquisition, the members of the Concert Party will together hold more than 50 per cent. of the voting rights attaching to the Company's issued share capital. Accordingly, the Concert Party, for so long as the members of the Concert Party continue to be treated as acting in concert, may be able to increase its aggregate shareholding without incurring any further obligation under Rule 9 to make a general offer. However, individual members of the Concert Party will not be able to increase their percentage shareholdings through a Rule 9 threshold without Panel consent.**

No member of the Concert Party holds any shares in the Company at the date of this document and none of them has dealt for value in any shares in the Company during the 12 months prior to the date of this document.

Save for the service agreements and non-executive letters of appointment, the changes to Christopher Heayberd's service contract and the termination payment to David Coubrough, the Acquisition Agreement and agreements summarised in paragraphs 6, 12 and 13 respectively of Part VII of this document, there are no agreements, arrangements or understandings (including compensation arrangements) between any

member of the Concert Party and any of the Directors, Proposed Directors, shareholders or recent shareholders of the Company connected with or dependent upon the Acquisition.

#### **11. Lock-in Agreements**

The Vendors (other than Oliver Wright) have agreed in the Acquisition Agreement not to sell the Consideration Shares or Deferred Consideration Shares until the announcement of the results of the Enlarged Group for the year ending 31 March 2007 unless otherwise agreed in writing by the Company acting by the Non-executive Directors and by WH Ireland. Pursuant to a lock-in agreement dated 9 December 2005 between Oliver Wright (1), Prime People (2) and WH Ireland (3), Oliver Wright has agreed to certain orderly market selling arrangements, further details of which are set out in paragraph 13 of Part VII.

#### **12. Corporate governance**

It is, where deemed appropriate, the intention of the Continuing Directors that the Enlarged Group will continue to comply with the Combined Code in so far as it is practicable for a group of its size.

It is proposed that each of the Proposed Directors will be appointed to the Board, conditional on completion of the Acquisition, by the holders of the Existing Ordinary Shares passing Resolution 8 at the EGM as an ordinary resolution, rather than being appointed by a resolution of the existing Board of Directors of the Company on completion of the Acquisition Agreement. Accordingly, as they will have been appointed by the shareholders of the Company, none of the Proposed Directors will be required under the Articles of Association of the Company to submit themselves for re-election at the next Annual General Meeting of the Company unless they retire by rotation at that time.

Under the retirement by rotation provisions of the Articles, at least one-third (or, if their number is not a multiple of three, the nearest number to (but not greater than) one-third) of the directors of the Company at the time of the Annual General Meeting will be required to retire and seek re-election by shareholders at that meeting.

On Admission, the Board will comprise Robert Macdonald, Peter Moore, Christopher Heyberd, John Lewis and Simon Murphy.

A new Audit Committee, comprising the non-executive directors, has been established by the Company to operate from Admission. The Audit Committee will be chaired by Simon Murphy and will meet at least twice each year. The Audit Committee will be responsible for ensuring that appropriate financial reporting procedures are properly maintained and reported on and for meeting with the Company's auditors and reviewing their reports on the accounts and the Company's internal controls.

The Company has in addition established a new Remuneration Committee, comprising the non-executive directors, to operate from Admission. The Remuneration Committee will be chaired by John Lewis. The Remuneration Committee will be responsible for reviewing the performance of the executive directors, for setting their remuneration, determining the payment of bonuses and for considering the grant of options under any share option scheme (including the price per share and the application of performance standards which any apply to any such grant).

The Company operates and will continue to operate a share-dealing code for directors and applicable employees on the basis set out in the Listing Rules.

#### **13. Admission to AIM and dealings in the Enlarged Share Capital**

Application will be made by the Company for the New Ordinary Shares to be admitted to AIM on completion of the Proposals. Subject to completion of the Proposals, trading in the Enlarged Share Capital is expected to commence on 4 January 2006.

If the Acquisition is not approved and Resolution 7 is not passed at the EGM, the Existing Ordinary Shares will continue to be traded on AIM, the Consideration Shares and the Deferred Consideration Shares will not be issued or admitted to AIM, the Share Capital Consolidation will not take place, the Proposed Directors will not be appointed to the Board and the Board will remain as currently constituted.

#### **14. Articles of Association**

Following the coming into force of the Companies (Audit, Investigations and Community Enterprise) Act 2004 it is proposed that the articles of association of Prime People are amended to widen the scope of the indemnities afforded to directors of the Company. Amendments are also being made to clarify the

entitlement of shareholders to hold shares in uncertificated form, for example in CREST. Details of these proposed changes are set out in the Notice of EGM.

## **15. CREST**

CREST is a paperless settlement procedure enabling securities to be evidenced otherwise than by certificate and transferred otherwise than by written instrument. Accordingly, settlement of transactions in the Enlarged Share Capital following Admission may take place within the CREST system if the relevant Shareholders so wish.

CREST is a voluntary system and Shareholders who wish to receive and retain share certificates may do so.

## **16. Taxation**

Information on taxation in the UK with regard to holdings of Ordinary Shares is set out in paragraph 15 of Part VII of this document. Shareholders who are in any doubt as to their tax position or who are subject to tax in any other jurisdiction should consult an appropriate independent professional adviser immediately.

## **17. Proposed share consolidation**

Subject to the approval of shareholders at the EGM, the Directors propose to simplify the Company's capital structure by the consolidation of every 10 issued Ordinary Shares into one New Ordinary Share. This will reduce the total number of shares in issue and is expected to produce a more appropriate trading range for the Company's share price. The number of Ordinary Shares in issue is not divisible by 10 and, immediately prior to the Share Capital Consolidation, it will be necessary for the Company to issue eight further Ordinary Shares to bring the total number of Ordinary Shares in issue to 36,846,700 so as to enable the Share Capital Consolidation to be implemented. For administrative purposes only, these eight shares will be issued to SH Company Secretaries Limited, a company owned by the Company's solicitors and which currently holds no shares in the Company. On the Share Capital Consolidation, SH Company Secretaries Limited will become entitled to a fraction of a 10p share as a result of these eight shares and this fractional element will be dealt with as set out below.

On the Share Capital Consolidation, where the number of Existing Ordinary Shares held by a shareholder is not divisible by 10, that shareholder would become entitled to a fraction of a 10p share. In order to deal with fractional entitlements in the simplest possible way, it is proposed that all fractions of shares resulting from the consolidation will be aggregated and sub-divided and the resulting New Ordinary Shares sold in the market at the best price reasonably obtainable. For administrative convenience, as the proceeds of such sales to which any shareholder is entitled are expected to be less than £3.00 such proceeds will be applied for the benefit of the Company instead of being sent to the shareholder.

## **18. Extraordinary General Meeting**

You will find set out at the end of this document a notice convening the Extraordinary General Meeting of the Company to be held at 11.00 a.m. on 3 January 2006 at the offices of Stephenson Harwood, One St. Paul's Churchyard, London EC4M 8SH, to consider Resolutions:

- (a) to give effect to the Share Capital Consolidation;
- (b) to amend the articles of association of Prime People in order to extend the scope of the directors' indemnity provisions and in order to clarify the right of shareholders to hold shares in uncertificated form;
- (c) to approve the Acquisition;
- (d) to increase the authorised share capital of Prime People in order to create sufficient shares to, *inter alia*, permit the issue of shares in accordance with the terms of the Acquisition;
- (e) to grant authority to the board of directors of the Company to allot unissued shares up to a maximum aggregate nominal amount of £1,230,000;
- (f) to dis-apply statutory pre-emption rights to permit the issue of shares for cash up to a maximum aggregate nominal amount of £54,200, representing 542,000 New Ordinary Shares, being approximately 5 per cent. of the Enlarged Share Capital, to persons other than existing Shareholders of the Company as if free of any right of pre-emption;
- (g) to waive the obligation that would otherwise exist on the Concert Party to make a mandatory offer for the entire issued share capital of Prime People pursuant to Rule 9 of the City Code; and

(h) to appoint the Proposed Directors as stated in the Notice of EGM.

In accordance with the requirements of the Panel, Resolution 7 will be taken by Independent Shareholders on a poll.

#### **19. Intentions of Directors, major Shareholders and connected persons**

The following irrevocable undertakings to vote in favour of the Resolutions have been given by Mrs. M. Lee, City of London PR Group plc, J.W. Greenhalgh, Simon Murphy, Christopher Heayberd and Mrs. David Coubrough in respect of all the Ordinary Shares held by them amounting to 18,752,833 Ordinary Shares in aggregate (representing 50.89 per cent. of the Existing Ordinary Shares):

	<i>Number of Existing Ordinary Shares</i>	<i>Percentage of Existing Ordinary Shares</i>
Mrs. M. Lee	8,999,633	24.42
City of London Group plc	4,294,553	11.65
Simon Murphy	2,300,000	6.24
Christopher Heayberd	1,992,384	5.41
J.W. Greenhalgh	1,116,263	3.03
Mrs. David Coubrough	50,000	0.14
	<u>18,752,833*</u>	<u>50.89</u>

\* 1,875,283 New Ordinary Shares following the Share Capital Consolidation.

#### **20. Action to be taken**

A Form of Proxy is enclosed for use at the EGM. Whether or not a Shareholder intends to attend the EGM, each shareholder is requested to complete, sign and return the Form of Proxy to Neville Registrars Limited, Neville House, 18 Laurel Lane, Halesowen, West Midlands B63 3DA by no later than 11.00 a.m. on 1 January 2006. The completion and return of a Form of Proxy will not preclude Shareholders from attending the EGM and voting in person should Shareholders wish to do so.

#### **21. Further information**

Shareholders' attention is drawn to the contents of the remainder of this document, which provides additional information on the Proposals.

#### **22. Recommendation of the Directors**

**The Directors, who have been so advised by WH Ireland, consider the terms of the Proposals to be fair and reasonable and in the best interests of the Company and Shareholders as a whole. In providing advice to the Board, WH Ireland has taken into account the Directors' commercial assessments. Accordingly, the Directors unanimously recommend Shareholders to vote in favour of the Resolutions as they themselves (and the Shareholders connected with them) have irrevocably undertaken so to do in respect of an aggregate of 4,342,384 Ordinary Shares, representing 11.79 per cent. of the Existing Ordinary Shares.**

Yours faithfully

**Peter Hearn**  
*Non-executive Chairman*

## PART II

### RISK FACTORS

**In addition to the other relevant information in this document, the Directors and the Proposed Directors consider the following risk factors to be of particular relevance to the Company's activities and to any investment in the Company. It should be noted that this list is not exhaustive and that other risk factors may apply. If one or more of the circumstances referred to below, or any other adverse circumstance, actually occurs, the Company's business, financial condition, results or future operations could be materially adversely affected. Prospective investors are strongly encouraged to consult their own investment advisers prior to making an investment decision and should only do so if they are able to sustain a total loss of investment.**

#### **AIM and liquidity of the New Ordinary Shares**

AIM is not the Official List. The New Ordinary Shares will not be listed on the Official List. Notwithstanding Admission and commencement of dealings in the New Ordinary Shares, this should not be taken as implying that there will be a liquid market for the New Ordinary Shares. The Vendors will together hold approximately 69.37 per cent. of the issued share capital of the Company (assuming the issue of all of the Deferred Consideration Shares to the Vendors). As described in Part I of this document, the Vendors will be restricted by virtue of the provisions of the City Code and of the lock-in arrangements which they have entered into with the Company from dealing in the New Ordinary Shares. An investment in the New Ordinary Shares may thus be difficult to realise.

#### **Possible volatility of the price of the Ordinary Shares**

Investors should be aware that the value of the New Ordinary Shares may be volatile and may go down as well as up. Investors may, on disposing of New Ordinary Shares, realise less than their original investment or may lose their entire investment. The New Ordinary Shares may, therefore, not be suitable as a short-term investment. In addition, the market price of a New Ordinary Share may not reflect the underlying value of the Company's net assets. The price at which the New Ordinary Shares will be traded and the price at which investors may realise their New Ordinary Shares will be influenced by a large number of factors, some specific to the Enlarged Group and its proposed operations, some which may affect the business sectors in which the Enlarged Group operates and others affecting sentiment on securities markets in general. Such factors could include the performance of the Enlarged Group's operations, large purchases or sales of the New Ordinary Shares, liquidity or the absence of liquidity in the New Ordinary Shares, legislative or regulatory changes relating to the business of the Company, investor perceptions of the Enlarged Group, changes in senior personnel and general economic conditions.

#### **Taxation framework**

This document has been prepared on the basis of current UK tax legislation and what is understood to be the current practice (including concessions) regarding such legislation by the UK tax authorities as at the date of this document. Such legislation and practice may change and the current interpretation may therefore no longer apply. In addition, the Directors, the Proposed Directors and the Company give no undertaking or guarantee whatsoever to investors that the business of the Enlarged Group will be conducted in a manner which is consistent with the provisions of the Venture Capital Trust regime or any other regime under which investors may seek to obtain favourable taxation treatment.

#### **Dividends**

There can be no assurance as to the level of future dividends. The declaration, payment and amount of any future dividends of the Company are subject to the discretion of the Continuing Directors, and will depend upon, amongst other factors, the Company's earnings, financial position, cash requirements and availability of profits, as well as the provisions of relevant laws or generally accepted accounting principles prevailing from time to time.

#### **Control by major Shareholders**

Following Admission, the Concert Party will be interested in an aggregate of approximately 66 per cent. of the issued New Ordinary Shares (excluding options). As a result the Concert Party may be able to exercise significant influence over certain corporate governance matters requiring shareholder approval, including the election of directors of the Company and the approval of significant corporate transactions and any other transactions requiring a majority vote.

### **Requirements for further funds**

There may be a requirement for the Enlarged Group to raise further funds in the future in order to fully exploit opportunities available and to fund further expansion. Such a funding requirement may be by way of the issue of further New Ordinary Shares on a non pre-emptive basis. There is no commitment in place guaranteeing that any funds required in the future will be available and, if further equity finance is raised, the interests of existing shareholders may be diluted.

### **Management of growth**

The ability of the Enlarged Group to implement its strategy requires effective planning and management control systems. The Board anticipates that further expansion will be required to respond to market opportunities and the potential growth in its client base. The Enlarged Group's growth plans may place a significant strain on the Enlarged Group's management, operational, financial and personnel resources and accordingly, the Enlarged Group's further growth and prospects will depend on its ability to manage this growth, and to continue to expand and improve operational, financial and management information and quality control systems on a timely basis, whilst at the same time maintaining effective cost controls. Any failure to expand and improve operational, financial and management information and quality control systems in line with the Enlarged Group's growth could have a material adverse effect on the Enlarged Group's business, financial condition and results of operations.

### **Other directorships and interests**

Investors should note that none of the non-executive Directors or the non-executive Proposed Directors are or will be in any way limited (other than by their normal duties as company directors) by way of their involvement with the Enlarged Group, from acting in the management or conduct of the affairs of any other company. Should any conflicts of interest be identified they will be declared and dealt with appropriately by the Directors and/or the Proposed Directors.

### **Overseas trading**

Part of the Enlarged Group's trading activities will be conducted overseas. As such, the Enlarged Group's operating profitability could be negatively impacted by fluctuations in the rate of exchange between the pound sterling and other currencies. Foreign revenues and costs may also be subject to special risks that may disrupt markets, including the risk of war, terrorism, civil disturbances, embargo and government activities.

### **Competition**

The Enlarged Group may face significant competition, including from competitors who may have greater resources than the Enlarged Group. There can be no guarantee that the Enlarged Group will be able to compete successfully in such a marketplace.

### **Attraction and retention of key employees**

The Enlarged Group's future success is substantially dependent on the continued services and performance of its executive directors, senior management and other key personnel and its ability to continue to attract and retain highly skilled and qualified personnel. The Directors and the Proposed Directors cannot give assurances that members of the senior management team, the executive Directors and the executive Proposed Directors will continue to remain with the Enlarged Group. The loss of the services of the Continuing Directors, members of senior management and other key employees could damage the Enlarged Group's business. Equally, the ability to attract new employees with appropriate experience and skills cannot be guaranteed.

### **General**

The risks noted above do not necessarily comprise all those potentially faced by the Enlarged Group and are not intended to be presented in any assumed order of priority.

## PART III (A) ACCOUNTANTS' REPORT ON MACDONALD



Horwath Clark Whitehill LLP  
80 Kings Road  
Reading  
Berkshire  
RG1 3BL

The Directors  
Prime People plc  
7 Breems Buildings  
London  
EC4A 1DT

WH Ireland Limited  
11 St. James's Square  
Manchester  
M2 6WH

9 December 2005

Dear Sirs

### **Prime People plc (the "Company") proposed acquisition of Macdonald & Company Group Limited ("Macdonald")**

#### **Admission Document issued by the Company dated 9 December 2005 (the "Admission Document")**

We report on the historical financial information set out in Part III(B) of the Admission Document. This historical financial information has been prepared for inclusion in the Admission Document issued in connection with the proposed acquisition of Macdonald and the Admission of the Enlarged Group to AIM.

#### **Basis of Preparation**

The financial information set out in Part III(B) of the Admission Document, which has been prepared in accordance with applicable United Kingdom generally accepted accounting principles, is based on the audited financial statements of Macdonald, for the period from 1 April 2002 until 30 September 2005 (the "Review Period").

Reeves & Neylan, Chartered Accountants and Registered Auditors, audited the financial statements which form the basis of the financial information and their audit reports were unqualified.

#### **Responsibility**

The financial statements, which form the basis of the financial information in this report, are the responsibility of the directors of Macdonald who approved their issue.

The Directors and Proposed Directors of Prime People plc (the "Directors") are responsible for the contents of the Admission Document in which this report is included.

It is the Directors responsibility to compile the financial information set out in Part III(B) of this Admission Document from the financial statements. It is our responsibility to form an opinion on the financial information and to report our opinion to you.

#### **Basis of Opinion**

We conducted our work in accordance with the Standards for Investment Reporting issued by the Auditing Practices Board. Our work included an assessment of evidence relevant to the amounts and disclosures in the financial information. The evidence included that previously obtained by Reeves & Neylan relating to the financial statements underlying the financial information. Our work also included an assessment of the significant estimates and judgements made by those responsible for the preparation of the financial

statements underlying the financial information and of whether the accounting policies are appropriate to the entity's circumstances, consistently applied and adequately disclosed.

We planned and performed our work 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 information is free from material misstatement whether caused by fraud or other irregularity or error.

**Opinion**

In our opinion, the historical financial information set out in Part III(B) gives, for the purposes of the Admission Document dated 9 December 2005, a true and fair view of the state of affairs of Macdonald as at the dates stated and of the profits, cash flows and recognised gains and losses for the periods then ended.

**Consent**

We consent to the inclusion in the Admission Document dated 9 December 2005 of this report in the form and context in which it is included.

**Responsibility**

For the purposes of paragraph (a) of Schedule Two of the AIM Rules we confirm that we are responsible for this report as part of the Admission Document and declare that we have taken all reasonable care to ensure that the information contained in this report is, to the best of our knowledge, in accordance with the facts and there is nothing omitted from this report which is likely to affect the import of such information.

Yours faithfully

**Horwath Clark Whitehill LLP**  
*Chartered Accountants*

## PART III (B) HISTORICAL FINANCIAL INFORMATION OF MACDONALD

The financial information on Macdonald has been extracted from the published audited accounts of Macdonald for the three accounting periods ended 31 March 2005 and the non statutory audited accounts for the six months ended 30 September 2005. This information has been adjusted to ensure that the basis of preparation and disclosures are materially consistent with those adopted by Prime People in its accounts for the year ended 31 December 2004. The financial information does not constitute statutory accounts within the meaning of section 240 of the Act. Reeves & Neylan, chartered accountants and registered auditors, have reported under section 235 of the Act on the statutory accounts of Macdonald for the three accounting periods ended 31 March 2005 and on the non statutory accounts for the six months ended 30 September 2005. Each report was unqualified and did not contain a statement under 237(2) or (3) of the Act.

### Principal Accounting Policies

#### 1. Accounting Policies

##### 1.1 *Basis of preparation of financial statements*

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

##### 1.2 *Basis of consolidation*

The financial statements consolidate the accounts of Macdonald & Company Group Limited and all of its subsidiary undertakings (“subsidiaries”).

##### 1.3 *Investments*

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

##### 1.4 *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 period.

A fee is due by reference to the date the 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 period where the candidates commenced employment after the balance sheet date.

##### 1.5 *Tangible fixed assets and depreciation*

Tangible fixed assets are stated at cost less depreciation. Depreciation is provided at rates calculated to write off the cost of fixed assets, less their estimated residual value, over their expected useful lives of the following bases:

Short Term Leasehold Property	— 10%	straight line
Fixtures, fittings and equipment	— 25%	straight line

##### 1.6 *Operating leases*

Rentals applicable to operating leases where substantially all of the benefits and risks of ownership remain with the lessor are charged to the profit and loss as incurred.

##### 1.7 *Deferred taxation*

Provision is made in full for all taxation deferred in respect of timing differences that have originated but not reversed by the balance sheet date, except for gains on disposal of fixed assets which will be rolled over into replacement assets. No provision is made for taxation on permanent differences.

Deferred tax assets are recognised to the extent that it is more likely than not that they will be recovered.

Deferred tax balances are not discounted.

##### 1.8 *Foreign currencies*

Assets and liabilities in foreign currencies are translated into sterling at the rates of exchange ruling at the balance sheet date. Transactions in foreign currencies are translated into sterling at the rate ruling on the date of the transaction. Exchange differences are taken into account in arriving at the operating loss.

## 2. Consolidated Profit and Loss Accounts

		<i>Year ended</i> <i>31 March</i> <i>2003</i>	<i>Year ended</i> <i>31 March</i> <i>2004</i>	<i>Year ended</i> <i>31 March</i> <i>2005</i>	<i>Six months</i> <i>ended</i> <i>30 September</i> <i>2005</i>
	<i>Notes</i>	<i>£</i>	<i>£</i>	<i>£</i>	<i>£</i>
<b>Turnover</b>	5.1	6,562,264	8,381,529	11,692,220	7,429,426
Cost of sales		(2,848,789)	(4,168,268)	(5,825,194)	(3,810,930)
<b>Gross Profit</b>		<u>3,713,475</u>	<u>4,213,261</u>	<u>5,867,026</u>	<u>3,618,496</u>
Administrative expenses		(3,482,232)	(3,408,828)	(4,702,711)	(2,835,692)
<b>Operating Profit</b>	5.2	<u>231,243</u>	<u>804,433</u>	<u>1,164,315</u>	<u>782,804</u>
Loss on disposal of investments		—	—	(2,923)	—
Interest receivable		509	92	—	—
Interest payable	5.5	(7,792)	(2,257)	(4,330)	(5,135)
<b>Profit on Ordinary Activities before Taxation</b>		<u>223,960</u>	<u>802,268</u>	<u>1,157,062</u>	<u>777,669</u>
<b>Tax on Profit on Ordinary Activities</b>	5.6	(78,541)	(243,049)	(363,888)	(235,152)
<b>Profit on Ordinary Activities after Taxation</b>		<u>145,419</u>	<u>559,219</u>	<u>793,174</u>	<u>542,517</u>
<b>Dividends</b>	5.7	—	(269,199)	(471,172)	(566,606)
<b>Retained Profit/(Loss) for the Period</b>		<u><u>145,419</u></u>	<u><u>290,020</u></u>	<u><u>322,002</u></u>	<u><u>(24,089)</u></u>
Basic Earnings per share (£)	5.8	1.24	4.78	6.75	4.60
Fully Diluted Earnings per share (£)	5.8	1.24	4.73	6.63	4.44

All amounts relate to continuing operations.

There were no recognised gains and losses other than those included in the profit and loss accounts.

### 3. Consolidated Balance Sheets

		<i>31 March</i> 2003	<i>31 March</i> 2004	<i>31 March</i> 2005	<i>30 September</i> 2005
	<i>Notes</i>	£	£	£	£
<b>Fixed Assets</b>					
Tangible assets	5.9	144,817	123,788	175,232	218,351
<b>Current Assets</b>					
Debtors	5.10	1,593,148	1,876,310	3,211,955	2,775,456
Cash at bank		160,781	26,017	144,768	224,678
		<u>1,753,929</u>	<u>1,902,327</u>	<u>3,356,723</u>	<u>3,000,134</u>
<b>Creditors: amounts falling due within one year</b>	5.11	<u>(1,367,665)</u>	<u>(1,208,279)</u>	<u>(2,385,974)</u>	<u>(2,024,931)</u>
<b>Net Current Assets</b>		<u>386,264</u>	<u>694,048</u>	<u>970,749</u>	<u>975,203</u>
<b>Total Assets less Current Liabilities</b>		<u>531,081</u>	<u>817,836</u>	<u>1,145,981</u>	<u>1,193,554</u>
<b>Creditors: amounts falling due after more than one year</b>	5.12	—	—	—	(82,500)
<b>Provisions for Liabilities and Charges</b>					
Deferred tax	5.13	<u>(19,540)</u>	<u>(16,275)</u>	<u>(19,028)</u>	<u>(8,190)</u>
<b>Net Assets</b>		<u><u>511,541</u></u>	<u><u>801,561</u></u>	<u><u>1,126,953</u></u>	<u><u>1,102,864</u></u>
<b>Capital and Reserves</b>					
Called up share capital	5.15	1,170	1,170	1,180	1,180
Share premium account	5.16	123,625	123,625	137,115	137,115
Other reserves		153,345	153,345	153,345	153,345
Profit and loss account		<u>223,291</u>	<u>513,311</u>	<u>835,313</u>	<u>811,224</u>
<b>Shareholders' Funds — All Equity</b>	5.17	<u>501,431</u>	<u>791,451</u>	<u>1,126,953</u>	<u>1,102,864</u>
<b>Minority Interests — Equity</b>		<u>10,110</u>	<u>10,110</u>	<u>—</u>	<u>—</u>
<b>Shareholders' Funds</b>		<u><u>511,541</u></u>	<u><u>801,561</u></u>	<u><u>1,126,953</u></u>	<u><u>1,102,864</u></u>

#### 4. Consolidated Cash Flow Statements

		<i>Year ended</i> <i>31 March</i> <i>2003</i>	<i>Year ended</i> <i>31 March</i> <i>2004</i>	<i>Year ended</i> <i>31 March</i> <i>2005</i>	<i>Six months</i> <i>ended</i> <i>30 September</i> <i>2005</i>
	<i>Notes</i>	£	£	£	£
Net cash flow from operating activities	5.18	(77,540)	456,158	535,712	1,270,656
Returns on investments and servicing of finance	5.19	(7,174)	(2,165)	(4,330)	(5,135)
Taxation		(52,346)	(76,325)	(42,282)	(204,333)
Capital expenditure and financial investment	5.19	(13,090)	(50,121)	(122,037)	(98,772)
Equity dividends paid		—	(269,199)	(471,172)	(566,606)
<b>Cash Outflow before Financing</b>		<u>(150,150)</u>	<u>58,348</u>	<u>(104,109)</u>	<u>395,810</u>
Financing	5.19	(10,467)	(14,344)	13,500	—
<b>Decrease in Cash in the Year</b>	5.20	<u><u>(160,617)</u></u>	<u><u>44,004</u></u>	<u><u>(90,609)</u></u>	<u><u>395,810</u></u>
<b>Reconciliation of Net Cash Flow to Movement in Net Funds/Debt</b>					
(Decrease)/Increase in cash in the period	5.20	(160,617)	44,004	(90,609)	395,810
Cash outflow from decrease in debt and lease financing		<u>11,177</u>	<u>14,344</u>	<u>—</u>	<u>—</u>
<b>Movement in Net Debt in the Period</b>		<u>(149,440)</u>	<u>58,348</u>	<u>(90,609)</u>	<u>395,810</u>
Opening net debt		<u>(3,777)</u>	<u>(153,217)</u>	<u>(94,869)</u>	<u>(185,478)</u>
<b>Closing Net Debt</b>		<u><u>(153,217)</u></u>	<u><u>(94,869)</u></u>	<u><u>(185,478)</u></u>	<u><u>210,332</u></u>

## 5. Notes to the Financial Information

### 5.1 Turnover

The whole of the turnover is attributable to that of human resources and recruitment.

	<i>Year ended 31 March 2003 £</i>	<i>Year ended 31 March 2004 £</i>	<i>Year ended 31 March 2005 £</i>	<i>Six months ended 30 September 2005 £</i>
A geographical analysis of turnover is as follows:				
Sales — UK	6,459,217	8,321,693	11,521,804	7,322,109
Sales — Other EU	74,599	59,836	67,614	51,250
Sales — Rest of world	28,448	—	102,802	56,067
	<u>6,562,264</u>	<u>8,381,529</u>	<u>11,692,220</u>	<u>7,429,426</u>

### 5.2 Operating profit

	<i>Year ended 31 March 2003 £</i>	<i>Year ended 31 March 2004 £</i>	<i>Year ended 31 March 2005 £</i>	<i>Six months ended 30 September 2005 £</i>
Operating profit is stated after charging:				
Depreciation of tangible fixed assets				
— owned by the company	75,466	71,150	66,945	37,597
Loss on exchange	—	—	—	(683)
Operating lease charges				
— Plant and machinery	11,161	3,355	6,828	933
— Other operating leases	240,207	248,936	239,781	120,090
Auditors' remuneration — audit	12,120	9,780	10,355	12,350
Auditors' remuneration — non-audit	13,233	17,874	16,405	14,146
Research and Development expenditure written off	1,050	1,575	—	—
	<u>1,050</u>	<u>1,575</u>	<u>—</u>	<u>—</u>

### 5.3 Staff costs (including directors)

	<i>Year ended 31 March 2003 £</i>	<i>Year ended 31 March 2004 £</i>	<i>Year ended 31 March 2005 £</i>	<i>Six months ended 30 September 2005 £</i>
Wages and salaries	3,026,264	2,694,755	3,838,540	2,347,057
Social security costs	322,435	307,102	424,580	267,829
Other pension costs	200	—	—	—
	<u>3,348,899</u>	<u>3,001,857</u>	<u>4,263,120</u>	<u>2,614,886</u>

The average number of employees during the Review Period were as follows:

All classes	<u>62</u>	<u>66</u>	<u>87</u>	<u>102</u>
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#### 5.4 Directors' emoluments

	<i>Year ended 31 March 2003 £</i>	<i>Year ended 31 March 2004 £</i>	<i>Year ended 31 March 2005 £</i>	<i>Six months ended 30 September 2005 £</i>
Emoluments for management services	<u>375,525</u>	<u>395,819</u>	<u>307,671</u>	<u>117,617</u>
Emoluments, excluding pension scheme contributions:				
Highest paid director	<u>113,092</u>	<u>168,384</u>	<u>111,600</u>	<u>64,800</u>

#### 5.5 Interest payable

	<i>Year ended 31 March 2003 £</i>	<i>Year ended 31 March 2004 £</i>	<i>Year ended 31 March 2005 £</i>	<i>Six months ended 30 September 2005 £</i>
Bank interest loans and overdrafts	6,671	1,665	—	—
Other loan interest	50	—	—	—
Other Interest Payable	<u>1,071</u>	<u>592</u>	<u>4,330</u>	<u>5,135</u>
	<u>7,792</u>	<u>2,257</u>	<u>4,330</u>	<u>5,135</u>

#### 5.6 Taxation

	<i>Year ended 31 March 2003 £</i>	<i>Year ended 31 March 2004 £</i>	<i>Year ended 31 March 2005 £</i>	<i>Six months ended 30 September 2005 £</i>
<b>Analysis of tax charge in period</b>				
<b>Current Tax</b>				
UK Corporation tax at 30%	77,500	244,650	361,000	248,800
Adjustments in respect of prior year	<u>1,751</u>	<u>1,664</u>	<u>135</u>	<u>(2,810)</u>
Total current tax	<u>79,251</u>	<u>246,314</u>	<u>361,135</u>	<u>245,990</u>
Deferred tax				
Origination and reversal of timing differences arising	<u>(710)</u>	<u>(3,265)</u>	<u>2,753</u>	<u>(10,838)</u>
Total deferred tax	<u>(710)</u>	<u>(3,265)</u>	<u>2,753</u>	<u>(10,838)</u>
Tax on ordinary activities	<u>78,541</u>	<u>243,049</u>	<u>363,888</u>	<u>235,152</u>

## 5.6 Taxation (continued)

The tax assessed for the period is higher than the standard rate of corporation tax in the UK applicable to the group of 30 per cent. As explained below:

	<i>Year ended</i> <i>31 March</i> <i>2003</i> £	<i>Year ended</i> <i>31 March</i> <i>2004</i> £	<i>Year ended</i> <i>31 March</i> <i>2005</i> £	<i>Six months</i> <i>ended</i> <i>30 September</i> <i>2005</i> £
Profit on ordinary activities before tax	<u>223,960</u>	<u>802,268</u>	<u>1,157,062</u>	<u>777,669</u>
Profit on ordinary activities multiplied by standard rate or corporation tax in the UK of 30%	67,188	240,680	347,118	233,301
<b>Effects of:</b>				
Expenses not deductible for tax purposes	12,958	11,406	18,760	8,346
Capital allowances for period in excess of depreciation	16,156	10,606	(2,753)	8,370
Marginal relief	(18,802)	(18,042)	(2,125)	(2,397)
Adjustment to tax in respect of prior years	1,751	1,664	135	(2,810)
Unrelieved losses	—	—	—	1,180
Tax on profit on ordinary activities	<u>79,251</u>	<u>246,314</u>	<u>361,135</u>	<u>245,990</u>
Current tax charge for the period	<u>79,251</u>	<u>246,314</u>	<u>361,135</u>	<u>245,990</u>

There were no factors that may affect future tax charges.

## 5.7 Dividends

	<i>Year ended</i> <i>31 March</i> <i>2003</i> £	<i>Year ended</i> <i>31 March</i> <i>2004</i> £	<i>Year ended</i> <i>31 March</i> <i>2005</i> £	<i>Six months</i> <i>ended</i> <i>30 September</i> <i>2005</i> £
Dividends Paid				
— 'A' Ordinary Shares	—	30,958	56,840	69,408
— 'B' Ordinary Shares	—	238,241	414,332	497,198
Total Dividends Paid	<u>—</u>	<u>269,199</u>	<u>471,172</u>	<u>566,606</u>

## 5.8 Earnings per share

The calculation of the basic earnings per share is based on the weighted average number of 118,043 (31 March 2005 – 117,542; 31 March 2004 – 117,043; 31 March 2003 – 117,043) ordinary shares in issue during the period and on the profits for the period attributable to ordinary shareholders of £542,517 (31 March 2005 – £793,174; 31 March 2004 – £559,219; 31 March 2003 – £145,419).

In calculating the diluted earnings per share, the weighted average number of ordinary shares is adjusted for share options in issue during the period, giving an adjusted average number of shares of 122,283 (31 March 2005 – 119,648; 31 March 2004 – 118,316; 31 March 2003 – 117,043).

Basic earnings per ordinary share	£1.24	£4.78	£6.75	£4.60
Diluted earnings per ordinary share	£1.24	£4.73	£6.63	£4.44

## 5.9 Tangible fixed assets

	<i>Land &amp; Buildings</i> £	<i>Furniture, fittings &amp; equipment</i> £	<i>Total</i> £
<b>Cost:</b>			
1 April 2002	45,571	300,802	346,373
Additions	—	13,890	13,890
Disposals	—	(1,800)	(1,800)
	<hr/>	<hr/>	<hr/>
31 March 2003	45,571	312,892	358,463
Additions	—	50,121	50,121
Disposals	—	(22,595)	(22,595)
	<hr/>	<hr/>	<hr/>
31 March 2004	45,571	340,418	385,989
Additions	—	122,037	122,037
Disposals	—	(77,934)	(77,934)
	<hr/>	<hr/>	<hr/>
31 March 2005	45,571	384,521	430,092
Additions	—	98,772	98,772
Disposals	—	(183,886)	(183,886)
	<hr/>	<hr/>	<hr/>
30 September 2005	45,571	299,407	344,978
<b>Depreciation:</b>			
1 April 2002	3,040	135,665	138,705
Charge for the year	4,557	70,909	75,466
Disposals	—	(525)	(525)
	<hr/>	<hr/>	<hr/>
31 March 2003	7,597	206,049	213,646
Charge for the year	4,557	66,593	71,150
Disposals	—	(22,595)	(22,595)
	<hr/>	<hr/>	<hr/>
31 March 2004	12,154	250,047	262,201
Charge for the year	4,557	62,388	66,945
Disposals	—	(74,286)	(74,286)
	<hr/>	<hr/>	<hr/>
31 March 2005	16,711	238,149	254,860
Charge for the period	2,279	35,318	37,597
On disposals	—	(165,830)	(165,830)
	<hr/>	<hr/>	<hr/>
30 September 2005	<u>18,990</u>	<u>107,637</u>	<u>126,627</u>
<b>Net book value:</b>			
31 March 2003	37,974	106,843	144,817
31 March 2004	33,417	90,371	123,788
31 March 2005	28,860	146,372	175,232
30 September 2005	<u>26,581</u>	<u>191,770</u>	<u>218,351</u>

### 5.10 Debtors: Due within one year

	<i>31 March 2003</i>	<i>31 March 2004</i>	<i>31 March 2005</i>	<i>30 September 2005</i>
	£	£	£	£
Trade debtors	852,998	1,196,794	2,234,782	1,400,057
Other debtors	13,844	13,373	24,354	20,154
Prepayments and accrued income	626,306	566,143	852,819	1,255,245
	<u>1,493,148</u>	<u>1,776,310</u>	<u>3,111,955</u>	<u>2,675,456</u>
Debtors: Due after more than one year				
Other debtors	100,000	100,000	100,000	100,000
	<u>1,593,148</u>	<u>1,876,310</u>	<u>3,211,955</u>	<u>2,775,456</u>

### 5.11 Creditors: Amounts falling due within one year

	<i>31 March 2003</i>	<i>31 March 2004</i>	<i>31 March 2005</i>	<i>30 September 2005</i>
	£	£	£	£
Bank loans and overdraft	313,998	120,886	330,246	14,346
Trade creditors	60,942	127,750	204,912	103,498
Other creditors	274,363	206,899	296,000	216,727
Corporation tax	77,593	247,582	566,435	525,592
Social security and other taxation	249,345	263,599	536,720	579,378
Accruals and deferred income	391,424	241,563	451,661	585,390
	<u>1,367,665</u>	<u>1,208,279</u>	<u>2,385,974</u>	<u>2,024,931</u>

The Group has invoice discounting arrangements which are secured by fixed and floating charges, and cross guarantees between the group companies.

### 5.12 Creditors: Amounts falling due after more than one year

	<i>31 March 2003</i>	<i>31 March 2004</i>	<i>31 March 2005</i>	<i>30 September 2005</i>
	£	£	£	£
Corporation Tax	—	—	—	82,500
	<u>—</u>	<u>—</u>	<u>—</u>	<u>82,500</u>

### 5.13 Deferred Taxation

				£
At 1 April 2002				20,250
Released during the year				(710)
At 31 March 2003				19,540
Released during the year				(3,265)
At 31 March 2004				16,275
Charge for the year				2,753
At 31 March 2005				19,028
Released during the period				(10,838)
At 30 September 2005				<u>8,190</u>
	<i>31 March 2003</i>	<i>31 March 2004</i>	<i>31 March 2005</i>	<i>30 September 2005</i>
	£	£	£	£
The provisions for deferred tax is made up as follows:				
Capital Allowances	19,540	16,275	19,028	8,190
	<u>19,540</u>	<u>16,275</u>	<u>19,028</u>	<u>8,190</u>

#### 5.14 Financial instruments

The Group's financial instruments, excluding short term debtors and creditors, are comprised of cash and invoice discounting arrangements.

Interest on invoice discounting liabilities are subject to a floating rate of 2 per cent. above The Royal Bank of Scotland base rate.

The directors consider the fair value not to be materially different to the carrying value for financial instruments. During the period under review, the Group did not enter into derivative transactions and has not undertaken trading in any financial instruments.

The Group did not have any material currency exposure.

#### 5.15 Share capital

	<i>31 March</i> 2003 £	<i>31 March</i> 2004 £	<i>31 March</i> 2005 £	<i>30 September</i> 2005 £
<i>Authorised:</i>				
26,730 'A' Ordinary shares of 1p each	267	267	267	277
105,970 'B' Ordinary shares of 1p each	1,036	1,036	1,046	1,060
	<u>1,303</u>	<u>1,303</u>	<u>1,313</u>	<u>1,337</u>
<i>Allotted, called up and fully paid:</i>				
14,460 'A' Ordinary shares of 1p each	135	135	135	145
103,583 'B' Ordinary shares of 1p each	1,035	1,035	1,045	1,035
	<u>1,170</u>	<u>1,170</u>	<u>1,180</u>	<u>1,180</u>

'A' Ordinary shares of 1p each and 'B' Ordinary shares of 1p each rank *pari passu* in all respects.

The Company share option scheme was introduced in May 2003. During the Review Period the following options were granted:

<i>Date</i>	<i>Options granted</i>	<i>Exercise price (£)</i>	<i>Exercised/ Lapsed</i>	<i>Options outstanding</i>
May 2003	1,500	13.50	1,500	—
May 2004	1,500	13.50	1,500	—
May 2005	3,600	18.00	—	3,600
September 2005	500	18.00	—	500

## 5.16 Reserves

	<i>Share Premium Account £</i>	<i>Other Reserves £</i>	<i>Profit and Loss Account £</i>
1 April 2002	123,625	152,635	77,872
Retained profit for the year	—	—	145,419
Movements on other reserves	—	710	—
31 March 2003	123,625	153,345	223,291
Retained profit for the year	—	—	290,020
31 March 2004	123,625	153,345	513,311
Retained profit for the year	—	—	322,002
Premium on shares issued during the year	13,490	—	—
Movements on other reserves	—	—	—
31 March 2005	137,115	153,345	835,313
Retained loss for the period	—	—	(24,089)
At 30 September 2005	<u>137,115</u>	<u>153,345</u>	<u>811,224</u>

## 5.17 Reconciliation of movement in shareholders' funds

	<i>Year ended 31 March 2003 £</i>	<i>Year ended 31 March 2004 £</i>	<i>Year ended 31 March 2005 £</i>	<i>Six months ended 30 September 2005 £</i>
Profit for the period	145,419	559,219	793,174	542,517
Dividends	—	(269,199)	(471,172)	(566,606)
	<u>145,419</u>	<u>290,020</u>	<u>322,002</u>	<u>(24,089)</u>
Share capital issued during the period	—	—	10	—
Share premium on shares issued	—	—	13,490	—
Movement on consolidation reserve	710	—	—	—
Net addition to shareholders' funds	<u>146,129</u>	<u>290,020</u>	<u>335,502</u>	<u>(24,089)</u>
Opening shareholders' funds	<u>355,302</u>	<u>501,431</u>	<u>791,451</u>	<u>1,126,953</u>
Closing shareholders' funds	<u><u>501,431</u></u>	<u><u>791,451</u></u>	<u><u>1,126,953</u></u>	<u><u>1,102,864</u></u>

## 5.18 Net cash flow from operating activities

	<i>Year ended 31 March 2003 £</i>	<i>Year ended 31 March 2004 £</i>	<i>Year ended 31 March 2005 £</i>	<i>Six months ended 30 September 2005 £</i>
Reconciliation of operating profit/loss to net cash inflow from operating activities				
Operating profit	231,243	804,433	1,164,315	782,804
Cash balances transferred on sale of subsidiary	—	—	(8,367)	—
Depreciation of tangible fixed assets	75,466	71,150	66,945	37,597
Loss/(profit) on disposal of tangible fixed assets	475	—	—	18,056
(Increase)/decrease in debtors	(380,579)	(283,162)	(1,351,317)	436,499
Increase/(decrease) in creditors	(4,145)	(136,263)	664,136	(4,300)
	<u>(77,540)</u>	<u>456,158</u>	<u>535,712</u>	<u>1,270,656</u>

## 5.19 Analysis of cash flows for headings netted in the cash flow statement

	<i>Year ended 31 March 2003 £</i>	<i>Year ended 31 March 2004 £</i>	<i>Year ended 31 March 2005 £</i>	<i>Six months ended 30 September 2005 £</i>
<b>Returns on investments and servicing of finance</b>				
Interest received	509	92	—	—
Interest paid	(7,793)	(2,257)	(4,330)	(5,135)
Dividends paid to minority interests	110	—	—	—
<b>Net cash outflow from returns on investments and servicing of finance</b>	<u>(7,174)</u>	<u>(2,165)</u>	<u>(4,330)</u>	<u>(5,135)</u>
<b>Capital expenditure and financial investment</b>				
Purchase of tangible fixed assets	(13,890)	(50,121)	(122,037)	(98,772)
Sale of tangible fixed assets	800	—	—	—
<b>Net cash inflow/(outflow) from capital expenditure</b>	<u>(13,090)</u>	<u>(50,121)</u>	<u>(122,037)</u>	<u>(98,772)</u>
<b>Financing</b>				
Issue of ordinary shares	—	—	13,500	—
Repayment of loans	(11,177)	(14,344)	—	—
Intra group transfer of shares	710	—	—	—
<b>Net cash inflow/(outflow) from financing</b>	<u>(10,467)</u>	<u>(14,344)</u>	<u>13,500</u>	<u>—</u>

## 5.20 Analysis of changes in net debt

	<i>Y/e 31 March 2002 £</i>	<i>Cash Flow £</i>	<i>Y/e 31 March 2003 £</i>	<i>Cash Flow £</i>	<i>Y/e 31 March 2004 £</i>	<i>Cash Flow £</i>	<i>Y/e 31 March 2005 £</i>	<i>Cash Flow £</i>	<i>6 months ended 30 Sept 2006 £</i>
Cash at bank and in hand	191,094	(30,313)	160,781	(134,764)	26,017	118,751	144,768	79,910	224,678
Overdrafts	(169,350)	(130,304)	(313,998)	178,768	(120,886)	(209,360)	(330,246)	315,900	(14,346)
Net (debt)/funds	<u>21,744</u>	<u>(160,617)</u>	<u>(153,217)</u>	<u>44,004</u>	<u>(94,869)</u>	<u>(90,609)</u>	<u>(185,478)</u>	<u>395,810</u>	<u>210,332</u>

## 5.21 Operating lease commitments

Annual commitments under non-cancellable operating leases as follows:

	<i>31 March 2003</i>	<i>31 March 2004</i>	<i>31 March 2005</i>	<i>30 September 2005</i>
	£	£	£	£
<b>Land and buildings</b>				
Operating leases which expire:				
Within one year	23,852	—	19,335	19,335
Between two and five years	19,355	19,335	—	—
More than five years	216,000	216,000	216,000	216,000

## 5.22 Principal Subsidiaries

<i>Company Name</i>	<i>Country</i>	<i>Shareholding</i>	<i>%</i>	<i>Description</i>
Macdonald & Company Property Limited	England and Wales	100		Subsidiary
Macdonald & Company Freelance Limited	England and Wales	100		Sub-subsubsidiary
Revive Limited	England and Wales	100		Subsidiary
Propertejobs.com Limited	England and Wales	100		Sub-subsubsidiary

## 5.23 Events occurring after the balance sheet date

On 4 October 2005, three optionholders exercised their entitlement over 1,500 share options at an exercise price of £13.50 per share.

On 5 October 2005, Macdonald paid a dividend to its ordinary shareholders totalling £478,172.

## PART IV

### FINANCIAL INFORMATION ON PRIME PEOPLE

Set out below are the financial statements of Prime People plc for the years ended 31 December 2002, 31 December 2003 and 31 December 2004, together with the independent auditors' reports for these years.

#### (A) Year ended 31 December 2002

##### **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 2002 on pages 37 to 49 which have been prepared under the accounting policies set out on pages 40 and 41. We have also audited the information in the Directors' Remuneration Report that is described as having been audited.

##### *Respective responsibilities of directors and auditors*

The directors' responsibilities for preparing the Annual Report, the Directors' Remuneration 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 and the parts of the Directors' Remuneration Report to be audited in accordance with relevant legal and regulatory requirements, United Kingdom Auditing Standards and the Listing Rules of the Financial Services Authority.

We report to you our opinion as to whether the financial statements give a true and fair view and whether the financial statements and the part of the Directors' Remuneration Report to be audited have been properly prepared in accordance with the Companies Act 1985. 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 or the Listing Rules regarding directors' remuneration and transactions with the group is not disclosed.

We review whether the Corporate Governance Statement reflects the group's compliance with the seven provisions of the Combined Code specified for our review by the Listing Rules, and we report if it does not. We are not required to consider whether the board's statement on internal control covers all risks and controls, or form an opinion on the effectiveness of the group's corporate governance procedures or its risk and control procedures.

We read other information contained in the Annual Report and consider whether it is consistent with the audited financial statements. This other information comprises only the Chairman's Statement, the Chief Executive's operating and financial review, Directors' Report, the unaudited parts of the Directors' Remuneration 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 and the part of the Directors' Remuneration Report to be audited. 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 and the part of the Directors' Remuneration Report to be audited are free from material

misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

*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 2002 and of the group's profit for the year then ended; and
- the financial statements and the part of the Directors' Remuneration Report to be audited have been properly prepared in accordance with the Companies Act 1985.

**BDO STOY HAYWARD**

*Chartered accountants  
and registered auditors*

London

3 March 2003

## Consolidated profit and loss account for the year ended 31 December 2002

	Note	Continuing operations		Discontinued operations		Total	
		2002	2001	2002	2001	2002	2001
		£	£	£	£	£	£
Turnover	2	3,933,886	4,059,632	168,348	493,865	4,102,234	4,553,497
Cost of sales		(169,285)	(221,231)	(3,366)	(24,004)	(172,651)	(245,235)
<b>Gross profit</b>		<u>3,764,601</u>	<u>3,838,401</u>	<u>164,982</u>	<u>469,861</u>	<u>3,929,583</u>	<u>4,308,262</u>
Administrative expenses		(3,415,723)	(3,878,295)	(193,258)	(486,161)	(3,608,981)	(4,364,456)
<b>Group operating profit/(loss)</b>		<u>348,878</u>	<u>(39,894)</u>	<u>(28,276)</u>	<u>(16,300)</u>	<u>320,602</u>	<u>(56,194)</u>
Share of operating (loss)/profit in associates		(53,522)	205,060	—	—	(53,522)	205,060
Amortisation of goodwill		(12,000)	(12,000)	—	—	(12,000)	(12,000)
Loss arising from dilution of interest in associates		(20,250)	—	—	—	(20,250)	—
		<u>(85,772)</u>	<u>193,060</u>	<u>—</u>	<u>—</u>	<u>(85,772)</u>	<u>193,060</u>
<b>Profit on ordinary activities before interest</b>		<u>263,106</u>	<u>153,166</u>	<u>(28,276)</u>	<u>(16,300)</u>	<u>234,830</u>	<u>136,866</u>
Interest receivable and similar income (group)						32,452	25,533
Interest payable and similar charges (group)	6					(536)	(3,499)
<b>Profit on ordinary activities before taxation</b>						<u>266,746</u>	<u>158,900</u>
Taxation on profit on ordinary activities	7					(91,906)	(71,503)
<b>Profit on ordinary activities after taxation and transferred to reserves</b>	15					<u>174,840</u>	<u>87,397</u>
<b>Earnings per share</b>							
Basic	8					0.48p	0.24p
Diluted	8					0.48p	0.24p

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

The notes on pages 40 to 49 form part of these financial statements.

**Consolidated balance sheet at 31 December 2002**

	<i>Note</i>	2002 £	2002 £	2001 £	2001 £
<b>Fixed assets</b>					
Tangible assets	9		142,449		283,345
Investments:					
Investment in associate	10		630,652		699,378
			<u>773,101</u>		<u>982,723</u>
<b>Current assets</b>					
Debtors	11	1,235,628		1,195,853	
Cash at bank and in hand		<u>1,228,340</u>		<u>857,357</u>	
		2,463,968		2,053,210	
<b>Creditors: amounts falling due within one year</b>	12	<u>796,955</u>		<u>790,659</u>	
<b>Net current assets</b>			<u>1,667,013</u>		<u>1,262,551</u>
<b>Total assets less current liabilities</b>			<u>2,440,114</u>		<u>2,245,274</u>
<b>Capital and reserves</b>					
Called up share capital	14		363,467		363,467
Share premium account	15		884,925		864,925
Merger reserve	15		173,077		173,077
Profit and loss account	15		<u>1,018,645</u>		<u>843,805</u>
<b>Equity shareholders' funds</b>			<u>2,440,114</u>		<u>2,245,274</u>

The financial statements were approved by the Board on 3 March 2003.

R E M Lee

D C Coubrough

The notes on pages 40 to 49 form part of these financial statements.

**Company balance sheet at 31 December 2002**

	<i>Note</i>	2002 £	2002 £	2001 £	2001 £
<b>Fixed assets</b>					
Tangible assets	9		5,682		13,308
Investments	10		982,601		982,601
			<u>988,283</u>		<u>995,909</u>
<b>Current assets</b>					
Debtors	11	40,083		263,554	
Cash at bank and in hand		<u>1,154,446</u>		<u>622,924</u>	
		1,194,529		886,478	
<b>Creditors: amounts falling due within one year</b>	12	<u>285,550</u>		<u>173,822</u>	
<b>Net current assets</b>			<u>908,979</u>		<u>712,656</u>
<b>Total assets less current liabilities</b>			<u>1,897,262</u>		<u>1,708,565</u>
<b>Capital and reserves</b>					
Called up share capital	14		363,467		363,467
Share premium account	15		884,925		864,925
Merger reserve	15		173,077		173,077
Profit and loss account	15		<u>475,793</u>		<u>307,096</u>
<b>Equity shareholders' funds</b>			<u>1,897,262</u>		<u>1,708,565</u>

The financial statements were approved by the Board on 3 March 2003.

R E M Lee

D C Coubrough

The notes on pages 40 to 49 form part of these financial statements.

**Consolidated cash flow statement for the year ended 31 December 2002**

	<i>Note</i>	<i>2002</i> £	<i>2002</i> £	<i>2001</i> £	<i>2001</i> £
<b>Net cash inflow from operating activities</b>	20		502,582		383,022
<b>Dividend from associated undertaking</b>			—		158,100
<b>Returns on investment and servicing of finance</b>					
Interest received		32,452		25,533	
Interest paid		(536)		(3,499)	
			31,916		22,034
<b>Taxation</b>			(7,963)		(200,201)
<b>Capital expenditure and financial investment</b>					
Purchase of tangible fixed assets		(33,313)		(203,778)	
Sale of tangible fixed assets		30,300		34,212	
			(3,013)		(169,566)
<b>Net cash inflow before management of liquid resources and financing</b>			523,522		193,389
<b>Management of liquid resources</b>					
Purchase of treasury deposits			(600,000)		(100,000)
<b>Financing</b>					
Capital element of finance lease payments			(13,828)		(12,565)
<b>(Decrease)/increase in cash</b>	21		(90,306)		80,824

The notes on pages 40 to 49 form part of these financial statements.

## Notes forming part of the financial statements for the year ended 31 December 2002

### 1. Accounting policies

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

The Group has adopted FRS 19 Deferred Taxation this year. This change in accounting policy has had no impact on the results of the group but has resulted in the additional disclosures in note 7.

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 2002. 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.

#### *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.

Design: Fees are recognised and invoiced at completion of each stage of a design project.

#### *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:

	<i>Continuing</i>		<i>Discontinued</i>		<i>Total</i>	<i>Total</i>
	<i>2002</i>	<i>2001</i>	<i>2002</i>	<i>2001</i>	<i>2002</i>	<i>2001</i>
	£	£	£	£	£	£
United Kingdom	3,461,873	3,637,245	168,348	493,865	3,630,221	4,131,110
Rest of the World	472,013	422,387	—	—	472,013	422,387
	<u>3,933,886</u>	<u>4,059,632</u>	<u>168,348</u>	<u>493,865</u>	<u>4,102,234</u>	<u>4,553,497</u>

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

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

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

	<i>Turnover</i>		<i>Pre-tax profit/(loss)</i>	
	<i>2002</i>	<i>2001</i>	<i>2002</i>	<i>2001</i>
	£	£	£	£
Continuing operations:				
Recruitment	3,178,425	3,173,431	384,796	107,626
Training	755,461	886,201	66,419	15,031
Head office costs	—	—	(66,303)	(132,893)
Share of operating (loss)/profit in associates	—	—	(85,772)	193,060
	<u>3,933,886</u>	<u>4,059,632</u>	<u>299,140</u>	<u>182,824</u>
Discontinued operations:				
Design	168,348	493,865	(32,394)	(23,924)
	<u>4,102,234</u>	<u>4,553,497</u>	<u>266,746</u>	<u>158,900</u>

(ii) Net assets by class of business

	2002	2001
	£	£
Recruitment	877,707	721,911
Training	73,410	121,941
Design	(56,316)	(23,922)
	<u>894,801</u>	<u>819,930</u>
Associate	630,652	699,378
Central assets	914,661	725,966
	<u><u>2,440,114</u></u>	<u><u>2,245,274</u></u>

**3. Profit on ordinary activities before taxation**

	2002	2001
	£	£
This is arrived at after charging/(crediting):		
Auditors' remuneration — audit services group	24,000	25,713
Depreciation and other amounts written off		
tangible fixed assets — leased assets	6,426	10,435
— owned assets	144,779	169,217
Hire of plant and machinery — rentals payable under operating leases	9,665	13,843
Hire of other assets — rental payments under operating leases	6,421	5,956
Lease of land and building	21,000	21,000
Profit on disposal of fixed assets	(7,296)	(1,763)
	<u><u>(7,296)</u></u>	<u><u>(1,763)</u></u>

The company audit fee was £7,500 (2001 — £11,200).

**4. Directors**

	2002	2001
	£	£
Directors' remuneration consists of:		
Fees and emoluments for management services	234,250	210,279
Payments to defined contribution pension scheme	4,800	4,800
	<u>239,050</u>	<u>215,079</u>

**5. Employees**

	2002	2001
	Number	Number
The average monthly number of employees of the group during the year, including directors, was as follows:		
Consultants	43	51
Designers	3	6
Management and administration	20	26
	<u>66</u>	<u>83</u>

Staff costs for all employees, including directors, consist of:

	£	£
Wages and salaries	2,311,231	2,736,938
Social security costs	236,912	278,948
Pension costs	5,400	5,400
	<u><u>2,553,543</u></u>	<u><u>3,021,286</u></u>

## 6. Interest payable and similar charges

	<i>Group</i> 2002	<i>Group</i> 2001
	£	£
Finance charges payable in respect of finance leases and hire purchase contracts	536	3,499

## 7. Taxation on profit on ordinary activities

	2002	2001
	£	£
UK corporation tax	108,951	8,030
Share of associate's tax	(17,045)	63,473
	<u>91,906</u>	<u>71,503</u>

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:

	2002	2001
	£	£
Profit on ordinary activities before tax	266,746	158,900
UK corporation tax at the standard rate of 30 per cent. on profit on ordinary activities	80,024	47,670
Effects:		
Expenses not deductible for tax purposes	13,279	12,773
Depreciation for the period in excess of capital allowances	16,397	15,145
Tax rate differences	(17,794)	(4,085)
	<u>91,906</u>	<u>71,503</u>

## 8. Earnings per share

The earnings per share is calculated based on a weighted average number of shares of 36,346,692 (2001 — 36,346,692) and the profit of £174,841 (2001 — £87,397), giving earnings per share of 0.48p (2001 — 0.24p).

Diluted earnings per share is based on the above earnings and adjusts the basic weighted average number of shares to 36,571,381 (2001 — 36,651,887) as a result of dilutive share options, giving earnings per share of 0.48p (2001 — 0.24p).

The weighted average number of shares in issue calculated under the different methods reconciles as follows:

	2002	2001
	£	£
Basic	36,346,692	36,346,692
Number of shares under option	1,043,298	500,000
Number of shares which would have been issued at fair value	(818,609)	(194,805)
Diluted	<u>36,571,381</u>	<u>36,651,887</u>

## 9. Tangible assets

<i>Group</i>	<i>Improvements to short leasehold premises £</i>	<i>Fixtures, fittings and equipment £</i>	<i>Motor vehicles £</i>	<i>Total £</i>
<i>Cost</i>				
At 1 January 2002	3,989	650,620	203,384	857,993
Additions	—	33,313	—	33,313
Disposals	—	(7,905)	(46,680)	(54,585)
At 31 December 2002	<u>3,989</u>	<u>676,028</u>	<u>156,704</u>	<u>836,721</u>
<i>Depreciation</i>				
At 1 January 2002	3,989	473,285	97,374	574,648
Provision for the year	—	117,965	33,240	151,205
Disposals	—	(7,099)	(24,482)	(31,581)
At 31 December 2002	<u>3,989</u>	<u>584,151</u>	<u>106,132</u>	<u>694,272</u>
<i>Net book value</i>				
At 31 December 2002	<u>—</u>	<u>91,877</u>	<u>50,572</u>	<u>142,449</u>
At 31 December 2001	<u>—</u>	<u>177,335</u>	<u>106,010</u>	<u>283,345</u>

The net book value of tangible fixed assets for the Group includes an amount of £Nil (2001 — £13,923) in respect of assets held under finance leases and hire purchase contracts.

<i>Company</i>	<i>Fixtures, fittings and equipment £</i>
<i>Cost</i>	
At 1 January 2002	27,425
Additions	1,819
At 31 December 2002	<u>29,244</u>
<i>Depreciation</i>	
At 1 January 2002	14,117
Provision for the year	9,445
At 31 December 2002	<u>23,562</u>
<i>Net book value</i>	
At 31 December 2002	<u>5,682</u>
At 31 December 2001	<u>13,308</u>

## 10. Fixed asset investments

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

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

	2002	2001
	£	£
Turnover	4,044,391	4,456,918
(Loss)/Profit before tax	(53,522)	205,060
Taxation	17,045	(63,473)
(Loss)/Profit after tax	(36,477)	141,587
Fixed assets	28,383	53,929
Current assets	696,235	819,460
Liabilities due within one year	(165,963)	(258,011)

At 31 December 2002 the associate has net assets of £1,250,964 (2001 — £1,323,403) and a retained (loss)/profit for the year of £(76,559) (2001 — £304,490).

The group's interest of 46.5 per cent. 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 per cent. to 44.66 per cent.

	2002	2002	2001	2001
	£	£	£	£
44.66 per cent. (2001 — 46.5 per cent.) of net assets of associate		558,652		615,378
Goodwill arising on acquisition	120,000		120,000	
Amortisation charged to date	(48,000)		(36,000)	
		72,000		84,000
		630,652		699,378
				£
Interest in associate at 1 January 2002				699,379
Share of associate's pre-tax loss				(53,522)
Share of tax				17,045
Goodwill amortisation				(12,000)
Loss arising from dilution of interest				(20,250)
Interest in associate at 31 December 2002				630,652

<i>Company</i>	<i>Shares in associated company</i>	<i>Shares in subsidiary undertakings</i>	<i>Total</i>
	£	£	£
<i>Cost</i>			
At 1 January 2002 and 31 December 2002	166,500	816,101	982,601
<i>Amounts provided</i>			
At 1 January 2002 and 31 December 2002	—	—	—
<i>Net book value</i>			
At 31 December 2002	166,500	816,101	982,601
At 31 December 2001	166,500	816,101	982,601

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>	<i>Country of incorporation</i>	<i>Proportion of voting rights and ordinary share capital held</i>	<i>Nature of business</i>
Portfolio International Limited	England and Wales	100%	Recruitment consultants
Portfolio Design International Limited	England and Wales	75%	Interior Designers
Harper Craven Associates Limited	England and Wales	100%	Management training

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

## 11. Debtors

	<i>Group 2002 £</i>	<i>Group 2001 £</i>	<i>Company 2002 £</i>	<i>Company 2001 £</i>
Amounts receivable within one year				
Trade debtors	760,060	839,872	—	—
Amounts owed by subsidiary undertakings	—	—	—	248,606
Other debtors	13,364	13,614	—	9,317
Prepayments and accrued income	462,204	342,367	40,083	5,631
	<u>1,235,628</u>	<u>1,195,853</u>	<u>40,083</u>	<u>263,554</u>

## 12. Creditors: amounts falling due within one year

	<i>Group 2002 £</i>	<i>Group 2001 £</i>	<i>Company 2002 £</i>	<i>Company 2001 £</i>
Bank overdrafts (partly secured)	71,714	210,425	5,366	10,181
Trade creditors	79,297	8,775	—	320
Other creditors	22,679	45,518	25	—
Taxation and social security	163,652	178,107	6,328	4,443
Corporation tax	109,174	8,185	15,000	—
Obligations under finance leases and hire purchase contracts	—	13,828	—	—
Accruals and deferred income	350,439	325,821	102,018	100,026
Amounts due to subsidiary undertakings	—	—	156,813	58,852
	<u>796,955</u>	<u>790,659</u>	<u>285,550</u>	<u>173,822</u>

Included within bank overdrafts is an amount of £66,194 (2001 — £194,378) which is secured by a fixed and floating charge over the assets of Portfolio Design International Limited.

	<i>Group 2002 £</i>	<i>Group 2001 £</i>
<i>The maturity of finance lease and hire purchase contracts obligations is as follows:</i>		
In one year or less	—	14,364
	—	14,364
Less: future finance charges	—	(536)
	—	13,828

### 13. Deferred taxation

There is no material amount of deferred tax in the group or company.

### 14. Share capital

	2002 Number	2002 £	2001 Number	2001 £
<i>Authorised</i>				
Ordinary shares of 1p each	<u>80,000,000</u>	<u>800,000</u>	<u>80,000,000</u>	<u>800,000</u>
<i>Allotted, called up and fully paid</i>				
Ordinary shares of 1p each	<u>36,346,692</u>	<u>363,467</u>	<u>36,346,692</u>	<u>363,467</u>

#### 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.

On 6 March 2002 options to subscribe for 543,298 shares were issued at an exercise price of 6.333p. These options are exercisable between 7 March 2005 and 7 March 2012.

##### 1988 Employee Share Option Scheme

Under the terms of the 1988 Share Option scheme there were 500,000 options granted to purchase shares of 1p each outstanding at 31 December 2002.

### 15. Reserves

<i>Group</i>	<i>Share premium account £</i>	<i>Merger reserve £</i>	<i>Profit and loss account £</i>
At 1 January 2002	864,925	173,077	843,805
Retained profit for the year	—	—	174,840
Release of accrual in respect of issue costs (note 17i)	<u>20,000</u>	<u>—</u>	<u>—</u>
At 31 December 2002	<u>884,925</u>	<u>173,077</u>	<u>1,018,645</u>

The cumulative amount of positive goodwill resulting from acquisitions of subsidiaries which has been eliminated against reserves is £853,985 (2001 — £853,985).

<i>Company</i>	<i>Share premium account £</i>	<i>Merger reserve £</i>	<i>Profit and loss account £</i>
At 1 January 2002	864,925	173,077	307,096
Retained profit for the year	—	—	168,697
Release of accrual in respect of issue costs (note 17i)	<u>20,000</u>	<u>—</u>	<u>—</u>
At 31 December 2002	<u>884,925</u>	<u>173,077</u>	<u>475,793</u>

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 dealt with in the financial statements of the parent is £168,697 (2001 — £123,807).

## 16. Reconciliation of movements in shareholders' funds

	<i>Group</i> 2002 £	<i>Group</i> 2001 £	<i>Company</i> 2002 £	<i>Company</i> 2001 £
Profit for the financial year	174,840	87,397	168,697	123,807
Release of accrual in respect of issue costs (note 17i)	20,000	—	20,000	—
Net addition to shareholders' funds	194,840	87,397	188,697	123,807
Opening shareholders' funds	2,245,274	2,157,877	1,708,565	1,584,758
Closing shareholders' funds	<u>2,440,114</u>	<u>2,245,274</u>	<u>1,897,262</u>	<u>1,708,565</u>

## 17. Contingent liabilities

- (i) In January 1995 HM Customs & Excise ("Customs") issued an assessment for Value Added Tax under the provisions of section 73 Value Added Tax Act 1994 amounting to £28,509 plus interest. The assessment related to VAT incurred on professional fees in connection with the acquisition of Bowford Engineering Services Limited and the related rights issue. An appeal to an independent tribunal had been lodged but was stood over pending the outcome of other similar cases.

On 8 November 2002 Customs and Excise notified the company that they had withdrawn the assessment. As a result, a prior year accrual of £20,000 has been transferred back to the Share Premium Account.

- (ii) The company has a cross guarantee with one of its subsidiary undertakings to secure its banking facility. As at 31 December 2002 the overdraft secured amounted to £66,194 (2001 — £194,378).

## 18. Commitments

As at 31 December 2002 the group had annual commitments under non-cancellable operating leases as set out below:

	2002		2001	
	<i>Land and buildings</i> £	<i>Other</i> £	<i>Land and buildings</i> £	<i>Other</i> £
<i>Group</i>				
Operating leases which expire:				
Within one year	21,000	1,491	—	2,743
In two to five years	—	2,676	21,000	4,512

## 19. Related party transactions

During the year PSD Group Plc, the holding company of Codeissue Limited, a 29.9 per cent. shareholder of Prime People plc, charged Prime People plc £189,808 (2001 — £192,000) for the rent of property. At 31 December 2002, Prime People plc owed PSD Group Plc £47,000 (2001 — £Nil).

## 20. Reconciliation of operating profit to net cash inflow from operating activities

	2002 £	2001 £
Group operating profit/(loss)	320,602	(56,194)
Depreciation	151,205	179,652
Profit on sale of tangible fixed assets	(7,296)	(1,763)
(Increase)/Decrease in debtors	(39,775)	364,764
<b>Increase/(Decrease) in creditors</b>	<u>77,846</u>	<u>(103,437)</u>
Net cash inflow from operating activities	<u>502,582</u>	<u>383,022</u>

## 21. Reconciliation of net cash inflow to movement in net funds

	2002	2002	2001	2001
	£	£	£	£
(Decrease)/Increase in cash in the year	(90,306)		80,824	
Cash outflow from decrease in debt and lease financing	13,828		12,565	
Cash outflow from increase in liquid resources	600,000		100,000	
Increase in net funds resulting from cash flows in the year		523,522		193,389
Opening net funds		633,104		439,715
Closing net funds		1,156,626		633,104

## 22. Analysis of net funds

	<i>At</i> <i>1 January</i> 2002 £	<i>Cash</i> <i>flow</i> £	<i>At</i> <i>31 December</i> 2002 £
Cash at bank and in hand	357,357	(229,017)	128,340
Bank overdraft	(210,425)	138,711	(71,714)
	146,932	(90,306)	56,626
Liquid resources	500,000	600,000	1,100,000
Finance leases	(13,828)	13,828	—
Total	633,104	523,522	1,156,626

## 23. Financial instruments

Short term debtors and creditors are not treated as financial assets and liabilities respectively for disclosure purposes. 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 determined by the relevant bank's prevailing base rate.

The group's financial liabilities consist of a bank overdraft (see note 22) which provides short term flexibility in meeting working capital requirements. 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 2002.

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.

**(B) Year ended 31 December 2003**

**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 2003 on pages 52 to 65 which have been prepared under the accounting policies set out on pages 56 and 57. We have also audited the information in the Directors' Remuneration Report that is described as having been audited.

*Respective responsibilities of directors and auditors*

The directors' responsibilities for preparing the Annual Report, the Directors' Remuneration 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 and the parts of the Directors' Remuneration Report to be audited in accordance with relevant legal and regulatory requirements, United Kingdom Auditing Standards and the Listing Rules of the Financial Services Authority.

We report to you our opinion as to whether the financial statements give a true and fair view and whether the financial statements and the part of the Directors' Remuneration Report to be audited have been properly prepared in accordance with the Companies Act 1985. 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 or the Listing Rules regarding directors' remuneration and transactions with the group is not disclosed.

We review whether the Corporate Governance Statement reflects the group's compliance with the seven provisions of the Combined Code specified for our review by the Listing Rules, and we report if it does not. We are not required to consider whether the board's statement on internal control covers all risks and controls, or form an opinion on the effectiveness of the group's corporate governance procedures or its risk and control procedures.

We read other information contained in the Annual Report and consider whether it is consistent with the audited financial statements. This other information comprises only the Financial Highlights, the Chairman's Statement, the Directors' operating and financial review, Directors' Report, the unaudited parts of the Directors' Remuneration 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 and the part of the Directors' Remuneration Report to be audited. 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 and the part of the Directors' Remuneration Report to be audited are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

*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 2003 and of the group's loss for the year then ended; and
- the financial statements and the part of the Directors' Remuneration Report to be audited have been properly prepared in accordance with the Companies Act 1985.

**BDO STOY HAYWARD LLP**

*Chartered accountants  
and registered auditors  
London*

4 March 2004

## Consolidated profit and loss account for the year ended 31 December 2003

	Note	Continuing operations		Discontinued operations		Total	
		2003 £	2002 £	2003 £	2002 £	2003 £	2002 £
Turnover	2	3,053,294	3,933,886	36,588	168,348	3,089,882	4,102,234
Cost of sales		(159,157)	(169,285)	(1,322)	(3,366)	(160,479)	(172,651)
<b>Gross profit</b>		<u>2,894,137</u>	<u>3,764,601</u>	<u>35,266</u>	<u>164,982</u>	<u>2,929,403</u>	<u>3,929,583</u>
Administrative expenses		(3,234,135)	(3,415,723)	(33,051)	(193,258)	(3,267,186)	(3,608,981)
<b>Group operating (loss)/profit</b>		<u>(339,998)</u>	<u>348,878</u>	<u>2,215</u>	<u>(28,276)</u>	<u>(337,783)</u>	<u>320,602</u>
Share of operating loss in associates		(205,343)	(53,522)	—	—	(205,343)	(53,522)
Amortisation of goodwill		(12,000)	(12,000)	—	—	(12,000)	(12,000)
Loss arising from dilution of interest in associates		—	(20,250)	—	—	—	(20,250)
		<u>(217,343)</u>	<u>(85,772)</u>	<u>—</u>	<u>—</u>	<u>(217,343)</u>	<u>(85,772)</u>
<b>(Loss)/profit on ordinary activities before interest</b>		<u>(557,341)</u>	<u>263,106</u>	<u>2,215</u>	<u>(28,276)</u>	<u>(555,126)</u>	<u>234,830</u>
Interest receivable and similar income (group)						29,382	32,452
Interest payable and similar charges	6					—	(536)
<b>(Loss)/profit on ordinary activities before taxation</b>						<u>(525,744)</u>	<u>266,746</u>
Taxation on (loss)/profit on ordinary activities	7					82,576	(91,906)
<b>(Loss)/profit on ordinary activities after taxation and transferred to reserves</b>	15					<u>(443,168)</u>	<u>174,840</u>
<b>(Loss)/earnings per share</b>							
Basic	8					(1.21)p	0.48p
Diluted	8					(1.21)p	0.48p

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

The notes on pages 56 to 65 form part of these financial statements

**Consolidated balance sheet at 31 December 2003**

	<i>Note</i>	<i>2003</i> £	<i>2003</i> £	<i>2002</i> £	<i>2002</i> £
<b>Fixed assets</b>					
Tangible assets	9		61,656		142,449
Investments:					
Investment in associate	10		336,544		630,652
			<u>398,200</u>		<u>773,101</u>
<b>Current assets</b>					
Debtors	11	1,122,696		1,235,628	
Cash at bank and in hand		996,494		1,228,340	
		<u>2,119,190</u>		<u>2,463,968</u>	
<b>Creditors: amounts falling due within one year</b>	12	490,446		796,957	
<b>Net current assets</b>			<u>1,628,744</u>		<u>1,667,011</u>
<b>Total assets less current liabilities</b>			<u><u>2,026,944</u></u>		<u><u>2,440,112</u></u>
<b>Capital and reserves</b>					
Called up share capital	14		368,467		363,467
Share premium account	15		909,925		884,925
Merger reserve	15		173,077		173,077
Profit and loss account	15		575,475		1,018,643
<b>Equity shareholders' funds</b>			<u><u>2,026,944</u></u>		<u><u>2,440,112</u></u>

The financial statements were approved by the Board on 4 March 2004

R E M Lee                      P J Hearn

The notes on pages 56 to 65 form part of these financial statements

**Company balance sheet at 31 December 2003**

	<i>Note</i>	<i>2003</i> £	<i>2003</i> £	<i>2002</i> £	<i>2002</i> £
<b>Fixed assets</b>					
Tangible assets	9		1,126		5,682
Investments	10		819,483		982,601
		820,609		988,283	
<b>Current assets</b>					
Debtors	11	220,097		40,083	
Cash at bank and in hand		996,116		1,154,446	
		1,216,213		1,194,529	
<b>Creditors: amounts falling due within one year</b>	12	60,854		285,550	
<b>Net current assets</b>			1,155,359		908,979
<b>Total assets less current liabilities</b>			1,975,968		1,897,262
<b>Capital and reserves</b>					
Called up share capital	14		368,467		363,467
Share premium account	15		909,925		884,925
Merger reserve	15		173,077		173,077
Profit and loss account	15		524,499		475,793
<b>Equity shareholders' funds</b>			1,975,968		1,897,262

The financial statements were approved by the Board on 4 March 2004

R E M Lee                      P J Hearn

The notes on pages 56 to 65 form part of these financial statements

**Consolidated cash flow statement for the year ended 31 December 2003**

	<i>Note</i>	<i>2003</i> £	<i>2003</i> £	<i>2002</i> £	<i>2002</i> £
<b>Net cash (outflow)/inflow from operating activities</b>	20		(233,078)		502,582
<b>Dividend from associated undertaking</b>			83,700		—
<b>Returns on investment and servicing of finance</b>					
Interest received		29,382		32,452	
Interest paid		—		(536)	
		<u>29,382</u>		<u>31,916</u>	
<b>Taxation</b>			(107,873)		(7,963)
<b>Capital expenditure and financial investment</b>					
Purchase of tangible fixed assets		(28,375)		(33,313)	
Sale of tangible fixed assets		17,388		30,300	
			<u>(10,987)</u>		<u>(3,013)</u>
<b>Net cash (outflow)/inflow before management of liquid resources and financing</b>			(238,856)		523,522
<b>Management of liquid resources</b>					
Sale/(purchase) of treasury deposits			104,000		(600,000)
<b>Financing</b>					
Issue of ordinary share capital			30,000		—
Capital element of finance leases			—		(13,828)
<b>Decrease in cash</b>	21		<u>(104,856)</u>		<u>(90,306)</u>

The notes on pages 56 to 65 form part of these financial statements

## Notes forming part of the financial statements for the year ended 31 December 2003

### 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 2003. 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:

	<i>Continuing</i>		<i>Discontinued</i>		<i>Total</i>	<i>Total</i>
	<i>2003</i>	<i>2002</i>	<i>2003</i>	<i>2002</i>	<i>2003</i>	<i>2002</i>
	£	£	£	£	£	£
United Kingdom	2,761,937	3,461,873	36,588	168,348	2,798,525	3,630,221
Rest of the World	291,357	472,013	—	—	291,357	472,013
	<u>3,053,294</u>	<u>3,933,886</u>	<u>36,588</u>	<u>168,348</u>	<u>3,089,882</u>	<u>4,102,234</u>

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:

	<i>Turnover</i>		<i>Pre-tax profit/(loss)</i>	
	<i>2003</i>	<i>2002</i>	<i>2003</i>	<i>2002</i>
	£	£	£	£
Continuing operations:				
Recruitment	2,352,950	3,178,425	(282,798)	384,796
Training	700,344	755,461	39,940	66,419
Head office costs	—	—	(67,758)	(66,303)
Share of operating loss in associates	—	—	(217,343)	(85,772)
	<u>3,053,294</u>	<u>3,933,886</u>	<u>(527,959)</u>	<u>299,140</u>
Discontinued operations:				
Design	36,588	168,348	2,215	(32,394)
	<u>3,089,882</u>	<u>4,102,234</u>	<u>(525,744)</u>	<u>266,746</u>

(ii) Net assets/(liabilities) by class of business

	2003	2002
	£	£
Recruitment	500,027	877,707
Training	33,888	73,410
Design	—	(56,316)
	<u>533,915</u>	<u>894,801</u>
Associate	336,544	630,652
Central assets	1,156,485	914,659
	<u><u>2,026,944</u></u>	<u><u>2,440,112</u></u>

**3. Loss on ordinary activities before taxation**

	2003	2002
	£	£
This is arrived at after charging/(crediting):		
Auditors' remuneration — audit services — group	22,900	24,000
— non-audit services	12,500	—
Depreciation and other amounts written off tangible fixed assets — leased assets	—	6,426
— owned assets	83,709	144,779
Hire of plant and machinery — rentals payable under operating leases	5,194	9,665
Hire of other assets — rental payments under operating leases	6,857	6,421
Lease of land and building	15,750	21,000
Loss/(profit) on disposal of fixed assets	8,071	(7,296)
	<u><u>8,071</u></u>	<u><u>(7,296)</u></u>

The company audit fee was £9,650 (2002 — £7,500).

**4. Directors**

	2003	2002
	£	£
Directors' remuneration consists of:		
Fees and emoluments for management services	144,722	234,250
Compensation for loss of office	266,000	—
Payments to defined contribution pension scheme	4,400	4,800
	<u><u>415,122</u></u>	<u><u>239,050</u></u>

**5. Employees**

	2003	2002
	Number	Number
The average monthly number of employees of the group during the year, including directors, was as follows:		
Consultants	35	43
Designers	1	3
Management and administration	18	20
	<u><u>54</u></u>	<u><u>66</u></u>

Staff costs for all employees, including directors, consist of:

	£	£
Wages and salaries	2,177,763	2,311,231
Social security costs	236,117	236,912
Pension costs	5,000	5,400
	<u><u>2,418,880</u></u>	<u><u>2,553,543</u></u>

## 6. Interest payable and similar charges

	<i>Group</i> 2003 £	<i>Group</i> 2002 £
Finance charges payable in respect of finance leases and hire purchase contracts	—	536

## 7. Taxation on profit on ordinary activities

	2003 £	2002 £
UK corporation tax	(74,342)	108,952
Share of associate's tax	(6,935)	(17,046)
Overprovision in prior years	(1,299)	—
	<u>(82,576)</u>	<u>91,906</u>

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:

	2003 £	2002 £
(Loss)/profit on ordinary activities before tax	<u>(525,744)</u>	<u>266,746</u>
UK corporation tax at the standard rate of 30 per cent. on (loss)/profit on ordinary activities	(157,724)	80,024
Effects:		
Expenses not deductible for tax purposes	7,144	13,279
Depreciation for the period in excess of capital allowances	(4,150)	16,397
Losses created in the year	15,647	—
Tax rate differences	3,138	(17,794)
Overprovision in prior years	(1,299)	—
Share of associate's losses created in the year	54,668	—
	<u>(82,576)</u>	<u>91,906</u>

### *Factors that may affect future tax charges*

The group has losses carried forward of approximately £50,000 which will be available for offset against future profits in the relevant subsidiary company.

## 8. Loss per share

The loss per share is calculated based on a weighted average number of shares of 36,680,025 (2002 — 36,346,692) and the loss of £443,168 (2002 — profit £174,840), giving a loss per share of 1.21p (2002 — earnings per share 0.48p).

Diluted loss per share is based on the above loss and adjusts the basic weighted average number of shares as a result of dilutive share options. There are no dilutive potential ordinary shares in the year ended 31 December 2003.

The weighted average number of shares in issue calculated under the different methods reconciles as follows:

	2003 £	2002 £
Basic	36,680,025	36,346,692
Number of shares under option	—	1,043,298
Number of shares which would have been issued at fair value	—	(818,609)
Diluted	<u>36,680,025</u>	<u>36,571,381</u>

## 9. Tangible assets

<i>Group</i>	<i>Improvements to short leasehold premises £</i>	<i>Fixtures, fittings and equipment £</i>	<i>Motor vehicles £</i>	<i>Total £</i>
<i>Cost</i>				
At 1 January 2003	3,989	676,028	156,704	836,721
Additions	—	28,375	-	28,375
Disposals	—	(72,932)	(88,259)	(161,191)
At 31 December 2003	<u>3,989</u>	<u>631,471</u>	<u>68,445</u>	<u>703,905</u>
<i>Depreciation</i>				
At 1 January 2003	3,989	584,151	106,132	694,272
Provision for the year	—	63,712	19,997	83,709
Disposals	—	(66,250)	(69,482)	(135,732)
At 31 December 2003	<u>3,989</u>	<u>581,613</u>	<u>56,647</u>	<u>642,249</u>
<i>Net book value</i>				
At 31 December 2003	<u>—</u>	<u>49,858</u>	<u>11,798</u>	<u>61,656</u>
At 31 December 2002	<u>—</u>	<u>91,877</u>	<u>50,572</u>	<u>142,449</u>
				<i>Fixtures, fittings and equipment £</i>
<i>Company</i>				
<i>Cost</i>				
At 1 January 2003				29,244
Additions				—
At 31 December 2003				<u>29,244</u>
<i>Depreciation</i>				
At 1 January 2003				23,562
Provision for the year				4,556
At 31 December 2003				<u>28,118</u>
<i>Net book value</i>				
At 31 December 2003				<u>1,126</u>
At 31 December 2002				<u>5,682</u>

## 10. Fixed asset investments

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

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

	2003	2002
	£	£
Turnover	2,199,986	2,916,904
Loss before tax	(205,343)	(53,522)
Taxation	6,935	17,046
Loss after tax	(198,408)	(36,476)
Fixed assets	30,811	28,383
Current assets	387,177	696,235
Liabilities due within one year	<u>(141,439)</u>	<u>(165,963)</u>

At 31 December 2003 the associate has net assets of £619,261 (2002 — £1,250,964) and a retained loss for the year of £ (444,284) (2002 — £(76,559)).

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 per cent. to 44.66 per cent.

	2003	2003	2002	2002
	£	£	£	£
44.66 per cent. (2002 — 44.66 per cent.) of net assets of associate		276,544		558,652
Goodwill arising on acquisition	120,000		120,000	
Amortisation charged to date	<u>(60,000)</u>		<u>(48,000)</u>	
		60,000		72,000
		<u>336,544</u>		<u>630,652</u>
				£
Interest in associate at 1 January 2003				630,652
Share of associate's pre-tax loss				(205,343)
Share of tax				6,935
Goodwill amortisation				(12,000)
Dividends received				<u>(83,700)</u>
Interest in associate at 31 December 2003				<u>336,544</u>

<i>Company</i>	<i>Shares in associated company</i>	<i>Shares in subsidiary undertakings</i>	<i>Total</i>
	£	£	£
<i>At 1 January 2003 and 31 December 2003</i>	<u>166,500</u>	<u>816,101</u>	<u>982,601</u>
Amounts provided			
Provided in year and at 31 December 2003	<u>—</u>	<u>163,118</u>	<u>163,118</u>
Net book value			
At 31 December 2003	<u>166,500</u>	<u>652,983</u>	<u>819,483</u>
At 31 December 2002	<u>166,500</u>	<u>816,101</u>	<u>982,601</u>

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>	<i>Country of incorporation</i>	<i>Proportion of voting rights and ordinary share capital held</i>	<i>Nature of business</i>
Portfolio International Limited	England and Wales	100%	Recruitment consultants
Harper Craven Associates Limited	England and Wales	100%	Management training
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

	<i>Group</i> <i>2003</i> £	<i>Group</i> <i>2002</i> £	<i>Company</i> <i>2003</i> £	<i>Company</i> <i>2002</i> £
Amounts receivable within one year				
Trade debtors	623,986	760,060	—	—
Amounts owed by subsidiary undertakings	—	—	212,008	—
Other debtors	17,823	13,364	—	—
Prepayments and accrued income	406,545	462,204	8,089	40,083
Corporation tax recoverable	74,342	—	—	—
	<u>1,122,696</u>	<u>1,235,628</u>	<u>220,097</u>	<u>40,083</u>

### 12. Creditors: amounts falling due within one year

	<i>Group</i> <i>2003</i> £	<i>Group</i> <i>2002</i> £	<i>Company</i> <i>2003</i> £	<i>Company</i> <i>2002</i> £
Bank overdrafts	48,724	71,714	9,259	5,366
Trade creditors	20,240	79,297	—	—
Other creditors	12,107	22,679	—	25
Taxation and social security	140,795	163,652	5,361	6,328
Corporation tax	—	109,174	—	15,000
Accruals and deferred income	268,580	350,441	17,256	102,018
Amounts due to subsidiary undertakings	—	—	28,978	156,813
	<u>490,446</u>	<u>796,957</u>	<u>60,854</u>	<u>285,550</u>

Included within bank overdrafts is an amount of £Nil (2002 — £66,194) which is secured by a fixed and floating charge over the assets of Portfolio Design International Limited.

### 13. Deferred taxation

<i>Group</i>	<i>2003</i> £	<i>2002</i> £
Unprovided deferred tax is as follows:		
Accelerated capital allowances	(32,314)	(36,464)
Losses	(15,647)	—
	<u>(47,961)</u>	<u>(36,464)</u>

Amounts in brackets denote a deferred tax asset.

#### *Company*

There are no material amounts of unprovided deferred tax.

## 14. Share capital

	2003 Number	2003 £	2002 Number	2002 £
<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	36,346,692	363,467	36,346,692	363,467
Shares issued for cash	500,000	5,000	—	—
At end of period	36,846,692	368,467	36,346,692	363,467

On 29 April 2003 the company issued 500,000 ordinary shares of 1p each to meet 500,000 share options exercised under the terms of the 1988 Share Option Scheme.

### 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.

On 7 May 2003 options to subscribe for 500,000 shares were issued at an exercise price of 4.833p. These options are exercisable between 8 May 2006 and 8 May 2013.

During the year no options were exercised under this scheme and 47,243 options lapsed.

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

<i>Year of grant</i>	<i>Exercise price pence</i>	<i>Exercise period</i>	<i>Number of options 31 December 2003</i>	<i>Number of options 31 December 2002</i>
2002	6.333	2005 — 2012	496,055	543,298
2003	4.833	2006 — 2013	500,000	—
			996,055	543,298

#### *1988 Employee Share Option Scheme*

Under the terms of the 1988 Share Option scheme there were 500,000 options, which were exercised on 29 April 2003. This scheme has now lapsed.

## 15. Reserves

<i>Group</i>	<i>Share premium account £</i>	<i>Merger reserve £</i>	<i>Profit and loss account £</i>
At 1 January 2003	884,925	173,077	1,018,643
Issue of shares to meet options exercised	25,000	—	—
Retained loss for the year	—	—	(443,168)
At 31 December 2003	<u>909,925</u>	<u>173,077</u>	<u>575,475</u>

The cumulative amount of positive goodwill resulting from acquisitions of subsidiaries which has been eliminated against reserves is £853,985 (2002 — £853,985).

<i>Company</i>	<i>Share premium account £</i>	<i>Merger reserve £</i>	<i>Profit and loss account £</i>
At 1 January 2003	884,925	173,077	475,793
Issue of shares to meet options exercised	25,000	—	—
Retained profit for the year	—	—	48,706
At 31 December 2003	<u>909,925</u>	<u>173,077</u>	<u>524,499</u>

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 £48,706 (2002 — £168,697).

## 16. Reconciliation of movements in shareholders' funds

	<i>Group 2003 £</i>	<i>Group 2002 £</i>	<i>Company 2003 £</i>	<i>Company 2002 £</i>
(Loss)/profit for the financial year	(443,168)	174,840	48,706	168,697
New share capital subscribed	30,000	—	30,000	—
Release of accrual in respect of issue costs	—	20,000	—	20,000
Net (reduction)/addition to shareholders' funds	(413,168)	194,840	78,706	188,697
Opening shareholders' funds	2,440,112	2,245,272	1,897,262	1,708,565
Closing shareholders' funds	<u>2,026,944</u>	<u>2,440,112</u>	<u>1,975,968</u>	<u>1,897,262</u>

## 17. Contingent liabilities

The company has a cross guarantee with one of its subsidiary undertakings to secure its banking facility. As at 31 December 2002 the overdraft secured amounted to £Nil (2002 — £66,194).

## 18. Commitments

As at 31 December 2003 the group had annual commitments under non-cancellable operating leases as set out below:

	<i>2002</i>		<i>2001</i>	
	<i>Land and buildings £</i>	<i>2002 Other £</i>	<i>Land and buildings £</i>	<i>2001 Other £</i>
<i>Operating leases which expire:</i>				
Within one year	—	2,676	21,000	1,491
In two to five years	—	8,570	—	2,676
	<u>—</u>	<u>11,246</u>	<u>21,000</u>	<u>4,167</u>

## 19. Related party transactions

During the year PSD Group Plc, the holding company of Codeissue Limited, a 29.9 per cent. shareholder of Prime People plc, charged Prime People plc £169,000 (2002 — £189,808) for the rent of property. At 31 December 2003, Prime People plc owed PSD Group Plc £Nil (2002 — £47,000).

## 20. Reconciliation of operating profit to net cash (outflow)/inflow from operating activities

	2003	2002
	£	£
Group operating (loss)/profit	(337,783)	320,602
Depreciation	83,709	151,205
Loss/(profit) on sale of tangible fixed assets	8,071	(7,296)
Decrease/(increase) in debtors	187,274	(39,775)
<b>(Decrease)/increase in creditors</b>	<b>(174,349)</b>	<b>77,846</b>
Net cash (outflow)/inflow from operating activities	<u>(233,078)</u>	<u>502,582</u>

## 21. Reconciliation of net cash (outflow)/inflow to movement in net funds

	2003	2003	2002	2002
	£	£	£	£
Decrease in cash in the year	(104,856)		(90,306)	
Cash outflow from decrease in debt and lease financing	—		13,828	
Cash (inflow)/outflow from (decrease)/increase in liquid resources	<u>(104,000)</u>		<u>600,000</u>	
(Decrease)/increase in net funds resulting from cash flows in the year		(208,856)		523,522
Opening net funds		<u>1,156,626</u>		<u>633,104</u>
Closing net funds		<u>947,770</u>		<u>1,156,626</u>

## 22. Analysis of net funds

	At 1 January 2003 £	Cash flow £	At 31 December 2003 £
Cash at bank and in hand	128,340	(127,846)	494
Bank overdraft	(71,714)	22,990	(48,724)
	56,626	(104,856)	(48,230)
Liquid resources	<u>1,100,000</u>	<u>(104,000)</u>	<u>996,000</u>
Total	<u>1,156,626</u>	<u>(208,856)</u>	<u>947,770</u>

## 23. Financial instruments

Short term debtors and creditors are not treated as financial assets and liabilities respectively for disclosure purposes. 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 determined by the relevant bank's prevailing base rate.

The group's financial liabilities consist of a bank overdraft (see note 22) which provides short term flexibility in meeting working capital requirements. 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 2003.

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.

**(C) Year ended 31 December 2004**

**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 67 to 82 which have been prepared under the accounting policies set out on pages 71 and 72.

*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)
<b>Gross profit</b>		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)
<b>Group operating (loss)/profit</b>		(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)
<b>(Loss)/profit on ordinary activities before interest</b>		(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)			—	—
<b>(Loss)/profit on ordinary activities before taxation</b>						674,498	(525,744)
Taxation on (loss)/profit on ordinary activities	7					(2,112)	82,576
<b>(Loss)/profit on ordinary activities after taxation and transferred to reserves</b>	16					672,386	(443,168)
<b>Earnings (loss) per share</b>							
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 71 to 82 form part of these financial statements

**Consolidated balance sheet at 31 December 2004**

	<i>Note</i>	<i>2004</i> £	<i>2004</i> £	<i>2003</i> £	<i>2003</i> £
<b>Fixed assets</b>					
Tangible assets	9		44,028		61,656
Investments:					
Investment in associate	10		411,676		336,544
			<u>455,704</u>		<u>398,200</u>
<b>Current assets</b>					
Debtors	11	262,052		1,122,697	
Cash at bank and in hand		<u>2,835,981</u>		<u>996,494</u>	
		3,098,033		2,119,191	
<b>Creditors: amounts falling due within one year</b>	12	<u>200,903</u>		<u>490,446</u>	
<b>Total assets less current assets</b>			2,897,130		1,628,745
<b>Creditors: amounts falling due after more than one year</b>	13		<u>12,497</u>		<u>—</u>
<b>Net assets</b>			<u><u>3,340,337</u></u>		<u><u>2,026,945</u></u>
<b>Capital and reserves</b>					
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		<u>1,888,868</u>		<u>575,476</u>
<b>Equity shareholders' funds</b>			<u><u>3,340,337</u></u>		<u><u>2,026,945</u></u>

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

R E M Lee                      P J Hearn

The notes on pages 71 to 82 form part of these financial statements

**Company balance sheet at 31 December 2004**

	<i>Note</i>	<i>2004</i> £	<i>2004</i> £	<i>2003</i> £	<i>2003</i> £
<b>Fixed assets</b>					
Tangible assets	9		9,940		1,126
Investments	10		266,503		819,483
			<u>276,443</u>		<u>820,609</u>
<b>Current assets</b>					
Debtors	11	138,653		220,097	
Cash at bank and in hand		<u>2,835,581</u>		<u>996,116</u>	
		2,974,234		1,216,213	
<b>Creditors: amounts falling due within one year</b>	12	<u>103,788</u>		<u>60,854</u>	
<b>Net current assets</b>			<u>2,870,446</u>		<u>1,155,359</u>
<b>Total assets less current liabilities</b>			<u><u>3,146,889</u></u>		<u><u>1,975,968</u></u>
<b>Capital and reserves</b>					
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		<u>1,695,420</u>		<u>524,499</u>
<b>Equity shareholders' funds</b>			<u><u>3,146,889</u></u>		<u><u>1,975,968</u></u>

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

R E M Lee                      P J Hearn

The notes on pages 71 to 82 form part of these financial statements

**Consolidated cash flow statement for the year ended 31 December 2004**

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

The notes on pages 71 to 82 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 associate's 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:

	<i>Continuing</i>		<i>Discontinued</i>		<i>Total</i>	<i>Total</i>
	<i>2004</i>	<i>2003</i>	<i>2004</i>	<i>2003</i>	<i>2004</i>	<i>2003</i>
	£	£	£	£	£	£
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
	<u>708,653</u>	<u>705,220</u>	<u>1,585,895</u>	<u>2,384,662</u>	<u>2,294,548</u>	<u>3,089,882</u>

All of the group's turnover, profit and net assets originate 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:

	<i>Turnover</i>		<i>Pre-tax profit/(loss)</i>	
	<i>2004</i>	<i>2003</i>	<i>2004</i>	<i>2003</i>
	£	£	£	£
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)
	<u>708,653</u>	<u>705,220</u>	<u>(130,429)</u>	<u>(125,161)</u>
Discontinued operations:				
Recruitment	1,585,895	2,384,662	195,083	(400,583)
Profit on disposal of subsidiary	—	—	609,844	—
	<u>2,294,548</u>	<u>3,089,882</u>	<u>674,498</u>	<u>(525,744)</u>

(ii) Net assets by class of business

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

**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
	<u>(1,800)</u>	<u>8,071</u>

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
	<u>124,473</u>	<u>415,122</u>
Highest paid director:		
Emoluments	86,543	314,668
Amounts paid to defined contribution pension scheme	—	4,400
	<u>86,543</u>	<u>319,068</u>

**5. Employees**

	2004	2003
	Number	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
	<u>34</u>	<u>54</u>

Staff costs for all employees, including directors, consist of:

	2004	2003
	£	£
Wages and salaries	1,465,292	2,177,763
Social security costs	157,470	236,117
Pension costs	5,800	5,000
	<u>1,628,562</u>	<u>2,418,880</u>

#### 6. Interest payable and similar charges

	<i>Group</i>	<i>Group</i>
	2004	2003
	£	£
Finance charges payable in respect of finance leases and hire purchase contracts	487	—
	<u>487</u>	<u>—</u>

#### 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)
	<u>2,112</u>	<u>(82,576)</u>

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)
UK corporation tax at the standard rate of 30 per cent. 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)	—
	<u>2,112</u>	<u>(82,576)</u>

#### 8. Earning per share

The earnings per share are 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

<i>Group</i>	<i>Improvements to short leasehold premises £</i>	<i>Fixtures, fittings and equipment £</i>	<i>Motor vehicles £</i>	<i>Total £</i>
<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).

<i>Company</i>	<i>Fixtures, fittings and equipment £</i>
<i>Cost</i>	
At 1 January 2004	29,244
Additions	10,583
Disposals	(7,260)
At 31 December 2004	32,567
<i>Depreciation</i>	
At 1 January 2004	28,118
Provision for the year	1,769
Disposals	(7,260)
At 31 December 2004	22,627
<i>Net book value</i>	
At 31 December 2004	9,940
At 31 December 2003	1,126

## 10. Fixed asset investments

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

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	<u>(244,600)</u>	<u>(141,439)</u>

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 per cent. to 44.66 per cent.

	2004	2004	2003	2003
	£	£	£	£
44.66 per cent. (2003 — 44.66 per cent.) of net				
Assets of associate		363,676		276,544
Goodwill arising on acquisition	120,000		120,000	
Amortisation charged to date	<u>(72,000)</u>		<u>(60,000)</u>	
		48,000		60,000
		<u>411,676</u>		<u>336,544</u>
				£
Interest in associate at 1 January 2004				336,543
Share of associate's pre-tax loss				87,133
Share of tax				—
Goodwill amortisation				<u>(12,000)</u>
Interest in associate at 31 December 2004				<u>411,676</u>

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

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>	<i>Country of incorporation</i>	<i>Proportion of voting rights and ordinary share capital held</i>	<i>Nature of business</i>
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

	<i>Group 2004 £</i>	<i>Group 2003 £</i>	<i>Company 2004 £</i>	<i>Company 2003 £</i>
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	—	—
	<u>262,052</u>	<u>1,122,697</u>	<u>138,653</u>	<u>220,097</u>

#### 12. Creditors: amounts falling due within one year

	<i>Group 2004 £</i>	<i>Group 2003 £</i>	<i>Company 2004 £</i>	<i>Company 2003 £</i>
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 less than two years	8,961	—
In more than two years but not more than five years	5,998	—
	23,920	—
Less: future finance charges	(3,925)	—
	<u>19,995</u>	<u>—</u>

### 14. Deferred taxation

	2004 £	2003 £
<i>Group</i>		
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.		
<i>Company</i>		
Losses	(24,609)	—

Amounts in brackets denote a deferred tax asset.

### 15. Share capital

	2004 Number	2004 £	2003 Number	2003 £
<i>Authorised</i>				
Ordinary shares of 1p each	<u>80,000,000</u>	<u>800,000</u>	<u>80,000,000</u>	<u>800,000</u>
<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	<u>36,846,692</u>	<u>368,467</u>	<u>36,846,692</u>	<u>368,467</u>

#### 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:

<i>Year of grant</i>	<i>Exercise price pence</i>	<i>Exercise period</i>	<i>Number of options 31 December 2004</i>	<i>Number of options 31 December 2003</i>
2002	6.333	2005 — 2012	496,055	496,055
2003	4.833	2006 — 2013	500,000	500,000
			<u>996,055</u>	<u>996,055</u>

## 16. Reserves

<i>Group</i>	<i>Share premium account</i> £	<i>Merger reserve</i> £	<i>Profit and loss account</i> £
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	<u>909,925</u>	<u>173,077</u>	<u>1,888,868</u>

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

<i>Company</i>	<i>Share premium account</i> £	<i>Merger reserve</i> £	<i>Profit and loss account</i> £
At 1 January 2004	909,925	173,077	524,499
Retained profit for the year	—	—	1,170,921
At 31 December 2004	<u>909,925</u>	<u>173,077</u>	<u>1,695,420</u>

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

	<i>Group 2004</i> £	<i>Group 2003</i> £	<i>Company 2004</i> £	<i>Company 2003</i> £
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	<u>2,026,945</u>	<u>2,440,113</u>	<u>1,975,968</u>	<u>1,897,262</u>
Closing shareholders' funds	<u>3,340,337</u>	<u>2,026,945</u>	<u>3,146,889</u>	<u>1,975,968</u>

## 18. Commitments

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

<i>Group</i>	<i>2004</i> <i>Other</i> £	<i>2003</i> <i>Other</i> £
Operating leases which expire:		
Within one year	4,188	2,676
In two to five years	—	8,570
	<u>4,188</u>	<u>11,246</u>

## 19. Related party transactions

During the year PSD Group Plc, the holding company of Codeissue Limited, a 29.9 per cent. 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

	<i>2004</i> £	<i>2003</i> £
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)
Net cash outflow from operating activities	<u>(93,986)</u>	<u>(233,078)</u>

## 21. Reconciliation of net cash outflow to movement in net funds

	2004	2004	2003	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)	
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		1,852,417		(208,856)
Opening net funds		947,770		1,156,626
Closing net funds		2,800,187		947,770

## 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 per cent.) 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 per cent.) 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	<u>654,434</u>
Net cash proceeds	<u>1,905,284</u>
Profit on disposal before goodwill	1,250,850
Goodwill previously eliminated against reserves	641,006
Profit on disposal	<u><u>609,844</u></u>

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)
	<u><u>1,851,298</u></u>

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.

## PART V

### UNAUDITED INTERIM RESULTS OF PRIME PEOPLE FOR THE NINE MONTHS ENDED 30 SEPTEMBER 2005

#### **Chairman's Statement**

At the time of the interims released in August, the Board announced that it had significantly increased the intensity of its effort to achieve its stated short to medium term strategic aim of identifying acquisitions, which will provide platforms to generate profitable growth and shareholder value.

I am pleased that as a result we have today announced the proposed reverse takeover of Macdonald. As a result of the transaction the year end of Prime People plc will change to 31 March to align with that of Macdonald. Accordingly, we are today publishing second interim financial statements for the 9 months to 30 September 2005.

Prime People plc reports a loss on ordinary activities before taxation of £115,400 for the nine-month period ended 30 September 2005 compared to a profit of £713,696 in the nine months to 30 September 2004. The profit before tax for the corresponding period in 2004 included an operating profit contribution of £165,767 from Portfolio International Limited, and a profit of £609,844 on the disposal of Portfolio, which took place on 5 August 2004.

Harper Craven continues to trade in line with expectations and generated a profit before tax of £27,897 (2004: £27,769). Our associate, Cameron Kennedy, is investing in its business in the year to date with the recruitment of new consultants, the payment of higher bonuses and the cost of moving to new premises being incurred. Our share of losses was £20,825 compared to a profit of £49,549 in the corresponding period in 2004. Of the administrative expenses charged to the period under review some £237,112 related to the head office and public company costs of Prime People.

A dividend of 0.125p per Ordinary Share will be paid on 21 December 2005 to Shareholders on the register on 1 December 2005.

#### **Peter Hearn**

*Non-executive Chairman*

9 December 2005

**Consolidated Profit and Loss Account**  
for the nine months ended 30 September 2005

		<i>Nine months ended 30 September 2005</i>	<i>Nine months ended 30 September 2004</i>	<i>Year ended 31 December 2004</i>
	<i>Notes</i>	<i>Unaudited £</i>	<i>Unaudited £</i>	<i>Audited £</i>
<b>Turnover</b>				
– Continuing operations		490,049	544,039	708,653
– Discontinued operations		—	1,585,895	1,585,895
		<u>490,049</u>	<u>2,129,934</u>	<u>2,294,548</u>
<b>Cost of sales</b>				
– Continuing operations		(141,304)	(139,041)	(179,571)
– Discontinued operations		—	(7,240)	(7,240)
		<u>(141,304)</u>	<u>(146,281)</u>	<u>(186,811)</u>
<b>Gross profit</b>		348,745	1,983,653	2,107,737
Administrative expenses		(533,982)	(1,964,926)	(2,197,259)
<b>Group operating loss</b>				
– Continuing operations		(185,237)	(174,994)	(283,243)
– Discontinued operations		—	193,721	193,721
		<u>(185,237)</u>	<u>18,727</u>	<u>(89,522)</u>
Share of operating profit in associate		(20,825)	49,549	87,133
Amortisation of goodwill		(9,000)	(9,000)	(12,000)
<b>(Loss)/profit on ordinary activities before interest</b>		<u>(215,062)</u>	<u>59,726</u>	<u>(14,389)</u>
Profit on disposal of subsidiary		—	609,844	609,844
Interest receivable and similar income		100,760	44,576	79,530
Interest payable and similar charges		(1,098)	—	(487)
<b>(Loss)/profit on ordinary activities before taxation</b>		<u>(115,400)</u>	<u>713,696</u>	<u>674,498</u>
Tax on (loss)/profit on ordinary activities	2	<u>—</u>	<u>(2,112)</u>	<u>(2,112)</u>
<b>(Loss)/profit on ordinary activities after taxation transferred to reserves</b>	5	<u><u>(115,400)</u></u>	<u><u>711,584</u></u>	<u><u>672,386</u></u>
<b>(Loss)/earnings per ordinary share</b>				
– Basic	4	(0.31)p	1.93p	1.82p
– Diluted		<u>(0.31)p</u>	<u>1.93p</u>	<u>1.82p</u>

**Consolidated Balance Sheet**  
at 30 September 2005

	<i>30 September</i>	<i>30 September</i>	<i>31 December</i>
	<i>2005</i>	<i>2004</i>	<i>2004</i>
	<i>Unaudited</i>	<i>Unaudited</i>	<i>Audited</i>
<i>Notes</i>	<i>£</i>	<i>£</i>	<i>£</i>
<b>Fixed assets</b>			
Tangible assets	35,717	38,564	44,028
Investment in associate	381,851	377,092	411,676
	<u>417,568</u>	<u>415,656</u>	<u>455,704</u>
<b>Current assets</b>			
Debtors	290,183	135,176	262,052
Cash at bank and in hand	2,722,309	2,968,156	2,835,981
	<u>3,012,492</u>	<u>3,103,332</u>	<u>3,098,033</u>
<b>Creditors: Amounts falling due within one year</b>	<u>(198,249)</u>	<u>(125,081)</u>	<u>(200,903)</u>
<b>Net current assets</b>	2,814,243	2,978,251	2,897,130
<b>Creditors: Amount falling due after one year</b>	<u>(6,874)</u>	<u>(14,372)</u>	<u>(12,497)</u>
<b>Net assets</b>	<u>3,224,937</u>	<u>3,379,535</u>	<u>3,340,337</u>
<b>Capital and reserves</b>			
Called up share capital	368,467	368,467	368,467
Share premium account	5 909,925	909,925	909,925
Merger reserve	5 173,077	173,077	173,077
Profit and loss account	5 1,773,468	1,928,066	1,888,868
<b>Shareholders' funds</b>	6 <u>3,224,937</u>	<u>3,379,535</u>	<u>3,340,337</u>

**Consolidated Cash Flow Statement**  
for the nine months ended 30 September 2005

		<i>Nine months ended 30 September 2005</i>	<i>Nine months ended 30 September 2004</i>	<i>Year ended 31 December 2004</i>
	<i>Notes</i>	<i>Unaudited £</i>	<i>Unaudited £</i>	<i>Audited £</i>
<b>Net cash (outflow)/inflow from operating activities</b>	7	(218,102)	64,164	(93,986)
<b>Return on investment and servicing of finance</b>				
Interest received		100,760	44,576	79,530
Interest paid		(1,098)	—	(487)
		<u>99,662</u>	<u>44,576</u>	<u>79,043</u>
<b>Taxation</b>		—	74,350	74,350
<b>Capital expenditure and financial investment</b>				
Purchase of tangible fixed assets		(3,774)	(28,059)	(37,592)
Sale of tangible fixed assets		900	800	1,800
		<u>(2,874)</u>	<u>(27,259)</u>	<u>(35,792)</u>
<b>Acquisitions and disposals</b>				
Sale of subsidiary undertaking		—	1,905,284	1,905,284
Net cash disposal with subsidiary		—	(53,986)	(53,986)
		<u>—</u>	<u>1,851,298</u>	<u>1,851,298</u>
<b>Net cash (outflow)/inflow before management of liquid resources and financing</b>		(121,314)	2,007,129	1,874,913
<b>Management of liquid resources</b>				
Sale/(purchase) of deposits		154,464	(1,944,000)	(1,647,000)
<b>Financing</b>				
Capital element of finance leases		(5,623)	(625)	(2,501)
<b>Increase in cash</b>	8	<u>27,527</u>	<u>62,504</u>	<u>225,412</u>

**Notes to the Interim Financial Statements**  
for the nine months ended 30 September 2005

**1. Accounting policies**

The interim results have been prepared on the same basis and using the same accounting policies as those used in the preparation of the accounts for the year ended 31 December 2004.

**2. Taxation on profit on ordinary activities**

	<i>Group</i>	
	<i>2005</i>	<i>2004</i>
	£	£
UK corporation tax	—	2,112
Share of associate's tax	—	—
	<u>—</u>	<u>2,112</u>

**3. Dividends**

A dividend of 0.125p per Ordinary Share will be paid on 21 December 2005 to shareholders on the register on 1 December 2005.

**4. Loss per share**

The loss per share is calculated based on a weighted average number of shares of 36,846,692 (2004: 36,846,692) and the loss of £154,400 giving a loss per share of 0.31p (2004: earnings per share of 1.93p).

Outstanding share options are not considered to be dilutive in view of the loss in the period.

**5. Reserves**

	<i>Share Premium Account</i>	<i>Merger Reserve</i>	<i>Profit and Loss Account</i>
	£	£	£
At 1 January 2005	909,925	173,077	1,888,868
Transfer from Profit and Loss Account	—	—	(115,400)
At 30 September 2005	<u>909,925</u>	<u>173,077</u>	<u>1,773,468</u>

**6. Reconciliation of movement in shareholders' funds**

	<i>30 September 2005</i>	<i>30 September 2004</i>	<i>31 December 2004</i>
	<i>Unaudited</i>	<i>Unaudited</i>	<i>Audited</i>
	£	£	£
<b>(Loss)/profit for the period</b>	(115,400)	711,584	672,386
Goodwill eliminated on disposal of subsidiary	—	641,006	641,006
Opening shareholders' funds	<u>3,340,337</u>	<u>2,026,945</u>	<u>2,026,945</u>
<b>Closing shareholders' funds</b>	<u>3,224,937</u>	<u>3,379,535</u>	<u>3,340,337</u>

## 7. Reconciliation of operating (loss)/profit to net cash (outflow)/inflow from operating activities

	<i>Nine months ended 30 September 2005 Unaudited £</i>	<i>Nine months ended 30 September 2004 Unaudited £</i>	<i>Year ended 31 December 2004 Audited £</i>
Group operating (loss)/profit	(185,237)	18,727	(89,522)
Depreciation	11,096	29,715	33,784
Loss/(profit) on sale of tangible fixed assets	90	(800)	(1,800)
Increase/(decrease) in debtors	(28,131)	(28,685)	(155,561)
(Decrease)/increase in creditors	(15,920)	45,207	119,113
Net cash (outflow) / inflow from operating activities	<u>(218,102)</u>	<u>64,164</u>	<u>(93,986)</u>

## 8. Reconciliation of net cash outflow to movement in net funds

	<i>Nine months ended 30 September 2005 Unaudited £</i>	<i>Nine months ended 30 September 2004 Unaudited £</i>	<i>Year ended 31 December 2004 Audited £</i>
Increase in cash in the period	27,527	62,504	225,412
Cash outflow from decrease in debt and lease financing	5,623	625	2,501
Cash inflow/(outflow) from decrease/(increase) in liquid resources	(154,464)	1,944,000	1,647,000
(Decrease)/increase in net funds resulting from cash flows	(121,314)	2,007,129	1,874,913
New finance leases	—	(22,496)	(22,496)
Opening net funds	2,800,187	947,770	947,770
<b>Closing net funds</b>	<u>2,678,873</u>	<u>2,932,403</u>	<u>2,800,187</u>

## 9. Analysis of net funds

	<i>At 1 January 2005 £</i>	<i>Cash flow £</i>	<i>At 30 September 2005 £</i>
Cash at bank and in hand	192,981	40,793	233,774
Bank Overdraft	(15,799)	(13,266)	(29,065)
	177,182	27,527	204,709
Liquid resources	2,643,000	(154,464)	2,488,536
Finance leases	(19,995)	5,623	(14,372)
<b>Total</b>	<u>2,800,187</u>	<u>(121,314)</u>	<u>2,678,873</u>

## 10. Nature of the financial information

The interim financial information for the nine months ended 30 September 2005, was approved by the board on 8 December 2005.

The financial information set out above does not constitute full accounts within the meaning of Section 254 of the Companies Act 1985. The results for the year to 31 December 2004 are extracts from the published accounts for that year which have received an unqualified audit report and have been filed with the Registrar of Companies.

**PART VI**

**UNAUDITED PRO FORMA STATEMENT OF THE CONSOLIDATED  
NET ASSETS OF THE ENLARGED GROUP**

Set out below is an unaudited pro forma statement of the combined net assets of the Prime People Group and Macdonald and its subsidiaries which has been prepared to show the impact on the net assets of the Prime People Group of the proposed acquisition of Macdonald and its subsidiaries. The pro forma statement of net assets is based on:

- The unaudited interim balance sheet of the Prime People Group as at 30 September 2005, which has been extracted without material adjustment from the interim report reproduced in Part V of this document; and
- The audited balance sheet of Macdonald as at 30 September 2005, which has been extracted without material adjustment from the historical financial information set out in Part III(B) of this document.

The unaudited pro forma statement of net assets has been prepared for illustrative purposes only and, because of its nature, the pro forma statement of net assets addresses a hypothetical situation and, therefore, does not represent the actual financial position of the Prime People Group.

	<i>The Prime People Group as at 30 September 2005</i>	<i>Macdonald and its subsidiaries as at 30 September 2005</i>	<i>Adjustments</i>	<i>Pro forma Net Assets</i>
	£	£	£	£
<b>Fixed assets</b>				
Tangible assets	35,717	218,351	—	254,068
Goodwill	—	—	9,777,136 <sup>(2)</sup>	9,777,136
Investment in associate	381,851	—	—	381,851
	<u>417,568</u>	<u>218,351</u>	<u>9,777,136</u>	<u>10,413,055</u>
<b>Current Assets</b>				
Debtors	290,183	2,775,456	—	3,065,639
Cash at bank and in hand	2,722,309	224,678	(2,514,346) <sup>(3)</sup>	432,641
	<u>3,012,492</u>	<u>3,000,134</u>	<u>(2,514,346)</u>	<u>3,498,280</u>
<b>Creditors: Amounts falling due within one year</b>	<u>(198,249)</u>	<u>(2,024,931)</u>	<u>(195,654)<sup>(4)</sup></u>	<u>(2,418,834)</u>
<b>Net current assets</b>	<u>2,814,243</u>	<u>975,203</u>	<u>(2,710,000)</u>	<u>1,079,446</u>
<b>Total assets less current liabilities</b>	<u>3,231,811</u>	<u>1,193,554</u>	<u>7,067,136</u>	<u>11,492,501</u>
<b>Creditors: Amounts falling due after one year</b>	<u>(6,874)</u>	<u>(82,500)</u>	<u>(1,150,000)<sup>(3)</sup></u>	<u>(1,239,374)</u>
<b>Provision for liabilities and charges</b>				
Deferred taxation	—	(8,190)	—	(8,190)
<b>Net Assets</b>	<u><u>3,224,937</u></u>	<u><u>1,102,864</u></u>	<u><u>5,917,136</u></u>	<u><u>10,244,937</u></u>

Notes:

1. Adjustments have been made to reflect the following:

	£
Consideration represented by share issue	7,020,000
Cash	3,500,000
Consideration	<u><u>10,520,000</u></u>

The calculation of consideration assumes that the deferred consideration will be paid in full.

2. Goodwill arising on the acquisition has been calculated as follows:

	£
Consideration	10,520,000
Transaction costs	360,000
Net Assets of Macdonald	<u>(1,102,864)</u>
Goodwill	<u>9,777,136</u>

The unaudited pro forma statement of net assets has been prepared on the basis that the acquisition of Macdonald will be accounted for using acquisition accounting principles, with the excess of the purchase price over the fair value of separable net assets being capitalised as goodwill. No account has been taken of any fair value adjustments which may arise on the acquisition.

3. Utilisation of cash resources:

	£	£
Initial cash consideration		3,500,000
Transaction costs		<u>360,000</u>
		3,860,000
Existing cash resources		
Prime People	(2,733,309)	
Macdonald (net of overdraft of £14,346)	<u>(210,332)</u>	
		<u>(2,932,641)</u>
Balance to be financed from borrowings		927,359
Bank loan obtained (£210,000 repayable within one year)		<u>1,360,000</u>
Pro forma cash resources		<u>432,641</u>

4. The adjustment to creditors repayable within one year has been calculated as follows:

	£
Bank loan	210,000
Existing indebtedness of Macdonald	<u>(14,346)</u>
	<u>195,654</u>

5. No adjustments have been made to reflect the trading results of Prime People plc since 30 September 2005, the date to which the interim financial statements set out in Part V of this document were prepared.
6. No adjustments have been made to reflect the trading results of Macdonald & Company Group Limited since 30 September 2005, the date to which the historical financial information set out in Part III(B) of this document was prepared.

**Private and Confidential**

The Directors  
Prime People plc  
7 Breams Building  
London  
EC4A 1DY

The Directors  
WH Ireland Limited  
11 St. James's Square  
Manchester  
M2 6WH

9 December 2005

**Prime People plc (the “Company”)**

**Proposed acquisition of Macdonald & Company Group Limited (the “Acquisition”)**

**Admission Document issued by the Company dated 9 December 2005 (the “Admission Document”)**

Dear Sirs

We report on the pro forma statement of net assets (the “Pro forma financial information”) set out in Part VI of the Admission Document, which has been prepared on the basis described, for illustrative purposes only, to provide information about how the acquisition of Macdonald & Company Group Limited might have affected the financial information presented on the basis of the accounting policies adopted by Prime People plc in preparing the financial statements for the nine months ended 30 September 2005.

**Responsibilities**

It is the responsibility of the directors of Prime People plc to prepare the pro forma financial information in accordance with paragraph 20.2 of Annex I of the Prospectus Rules.

It is our responsibility to form an opinion, as required by paragraph 7 of Annex II of the Prospectus Rules, as to the proper compilation of the pro forma financial information and to report that opinion to you.

In providing this opinion we are not updating or refreshing any reports or opinions previously made by us on any financial information used in the compilation of the pro forma financial information, nor do we accept responsibility for such reports or opinions beyond that owed to those to whom those reports or opinions were addressed by us at the dates of their issue.

**Basis of Opinion**

We conducted our work in accordance with the Standards for Investment Reporting and Bulletin 1998/8 “Reporting on pro forma financial information pursuant to the Listing Rules” issued by the Auditing Practices Board in the United Kingdom. The work that we performed for the purpose of making this report, which involved no independent examination of any of the underlying financial information, consisted primarily of comparing the unadjusted financial information with the source documents, considering the evidence supporting the adjustments and discussing the pro forma financial information with the directors of Prime People plc.

We planned and performed our work so as to obtain the information and explanations we considered necessary in order to provide us with reasonable assurance that the pro forma financial has been properly compiled on the basis stated.

**Opinion**

In our opinion:

- (a) the pro forma information has been properly compiled on the basis stated: and
- (b) that basis is consistent with the accounting policies of Prime People plc.

**Consent**

We consent to the inclusion in the Admission Document dated 9 December 2005 of this report in the form and context in which it is included.

**Responsibility**

For the purposes of paragraph (a) of Schedule Two of the AIM Rules we confirm that we are responsible for this report as part of the Admission Document and declare that we have taken all reasonable care to ensure that the information contained in this report is, to the best of our knowledge, in accordance with the facts and there is nothing omitted from this report which is likely to affect the import of such information.

Yours faithfully

**Horwath Clark Whitehill LLP**

## PART VII

### ADDITIONAL INFORMATION

#### 1. The Company

- 1.1 The Company was incorporated and registered in England and Wales on 7 June 1983 under the Companies Act 1948 as a private limited company with the name Lawrence Barnett & Partners Limited with registered number 1729887. It was re-registered as a public company on 22 April 1988 and registered the adoption of the name Prime People on 9 June 1992. Prime People is both the legal and commercial name of the Company. The Company's shares were listed on the Official List in May 1995 and the Company's listing was cancelled and the shares admitted to AIM on 22 June 2004. The principal legislation under which the Company operates is the Act and the regulations made thereunder. The liability of the Company's members is limited.
- 1.2 The Company's registered office and principal place of business is at 7 Breams Buildings, London EC4A 1DT (telephone: 020 7831 5297). It is proposed that, subject to completion of the Acquisition, the Company's registered office and principal place of business will change to 40A Dover Street, Mayfair, London W15 4NW. The ISIN number of the Ordinary Shares is, and of the New Ordinary Shares will be, GB0006967664.
- 1.3 The Company has one wholly owned operating subsidiary, Harper Craven Associates Limited, an entity incorporated and registered in England and Wales that provides management training services, and a 44.5 per cent. stake in an associated business, Cameron Kennedy Resources Limited, a financial recruitment company incorporated and registered in England and Wales. On 4 August 2004 the Company sold the entire issued share capital of Portfolio International Limited for a realised profit before write-offs of £1,250,850. The 44.66 per cent. stake in Cameron Kennedy Resources Limited is held as ordinary shares, comprising 44.66 per cent. of the voting shares in issue.
- 1.4 Macdonald has three direct and two indirect subsidiaries all of which will become indirect subsidiaries of the Company upon Completion. Of these, Macdonald Property and Macdonald Freelance are registered as active; Macdonald & Company Overseas Limited ("Macdonald Overseas"), propertejobs.com Limited ("propertejobs") and Macdonald & Company Pty Limited ("Macdonald Pty") are registered as dormant. All of these subsidiaries are incorporated and registered in England and Wales with the exception of Macdonald Pty which is resident in Australia. Macdonald Property, Macdonald Overseas and Macdonald Pty are wholly-owned subsidiaries of Macdonald and Macdonald Freelance and propertejobs are wholly-owned subsidiaries of Macdonald Property.
- 1.5 The Company is listed on AIM and is therefore not required to comply with the provisions of the Combined Code. Nevertheless, the Board is committed to ensuring that proper standards of corporate governance operate throughout the Prime People Group and has followed the principles of the Combined Code so far as is practicable and appropriate for the nature and size of the Prime People Group.

#### 2. Share capital of the Company

- 2.1 As at the date of this document the Company has an authorised share capital of £800,000 divided into 80,000,000 Ordinary Shares of which 36,846,692 have been allotted, fully paid. The authorised and issued ordinary share capital of the Company at the date of this document is unchanged from 30 September 2005 (the date of the most recent balance sheet of the Company included in this document).
- 2.2 The share capital history of the Company since 31 December 2001 is as follows:
  - (a) As at 1 January 2002 the authorised share capital of the company was £800,000, divided into 800,000,000 Ordinary Shares of 1p each. The allotted, called up and fully paid share capital was £363,466.92 divided into 36,346,692 Ordinary Shares of 1p each. The following changes have occurred to the authorised share capital of the Company since 31 December 2001:
    - (i) On 5 May 2003 the Company issued 500,000 Ordinary Shares of 1p each thereby increasing the allotted, called up and fully paid share capital of the Company to £368,466.92, divided into 36,846,692 Ordinary Shares of 1p each.
    - (ii) By an ordinary resolution passed on 5 April 2005, the Company granted the Directors authority to allot relevant securities up to an aggregate nominal amount of £122,810

provided that the 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 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.

- (iii) By a special resolution passed on 5 April 2005, the Company granted the Directors authority to allot equity securities for cash pursuant to the authority conferred by the ordinary resolution passed at the same Annual General Meeting referred to above as if Section 89(1) of the Companies Act 1985 did not apply to such allotment provided that such power was 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 the authority summarised in sub-paragraph 2.2(iii)(A) above) of equity securities up to an aggregate nominal amount of £18,423.

2.3 On the passing of Resolutions Nos. 1, 3, 4 and 7 to be proposed at the EGM:

- (a) the directors of the Company will be authorised pursuant to and in accordance with section 80 of the Act to exercise all the powers of the Company to allot relevant securities (within the meaning of section 80(2) of the Act) up to an aggregate nominal amount of £1,230,000, provided that such authority shall expire at the conclusion of the next annual general meeting of the Company or the date fifteen months from the date on which such resolution is passed, whichever is earlier, save that the Company may pursuant to such authority make offers or agreements before the expiry of such authority which would or might require relevant securities to be allotted in pursuance of such offers or agreements as if the authority conferred by such resolution had not expired and all authorities previously conferred upon the directors pursuant to section 80 of the Act (including those referred to above) shall be revoked but without prejudice to any exercise of such other authorities prior to the date on which such resolution is passed;
- (b) and subject to the passing of the resolution referred to in paragraph (a) above, the directors of the Company will be empowered pursuant to section 95 of the Act to allot equity securities (as defined in section 94 of the Act) for cash pursuant to the authority to be conferred by the resolution referred to in paragraph 2.3(a) above as if section 89(1) of the Act did not apply to such allotment provided that this power shall be limited to the allotment of equity securities:
  - (i) in connection with a rights issue, an open offer or otherwise in favour of the holders of equity securities in proportion (as nearly as may be) to their respective holdings of securities but subject to such exclusions or other arrangements as the directors may consider necessary or expedient to deal with any legal or practical problems in respect of overseas holders, fractional entitlements or otherwise; or
  - (ii) up to an aggregate nominal amount of £54,200

and shall expire at the conclusion of the next annual general meeting of the Company or the date fifteen months from the date on which such resolution passed, whichever is the earlier, save that the Company may, before the expiry of such power, make offers or agreements which would or might require relevant securities to be allotted after the expiry of such power and the directors of the Company may allot equity securities in pursuance of such offers or agreements as if the power to be conferred thereby had not expired and all the powers previously conferred upon the Company pursuant to section 95 of the Act shall be revoked without prejudice to any exercise of such other powers prior to the date on which the resolution is passed.

2.4 No securities of the Company are currently in issue with a fixed date on which entitlement to a dividend arises and there are no arrangements in force whereby future dividends are waived or agreed to be waived.

2.5 The Ordinary Shares are not redeemable and the New Ordinary Shares will not be redeemable.

- 2.6 The Company has no convertible securities, exchangeable securities or securities with warrants in issue as at the date of this document nor did it have any such securities in issue as at 30 September 2005 save in either case as disclosed in this document.
- 2.7 Save as disclosed in this Part VII and apart from the issue and allotment of the Consideration Shares and the Deferred Consideration Shares:
- (a) no share or loan capital of the Company has, since the date of incorporation of the Company been issued, or been agreed to be issued, fully or partly paid, either for cash or for a consideration other than cash and no such issue is now proposed;
  - (b) no commissions, discounts, brokerages or other special terms have been granted by the Company since the date of its incorporation in connection with the issue or sale of any such share or loan capital; and
  - (c) no share or loan capital of the Company is under option or is agreed conditionally or unconditionally to be put under option.
- 2.8 As at the date of this document the authorised and issued share capital of the Company is and upon Admission will be as follows:

	<i>Authorised</i>		<i>Issued (fully paid)</i>	
	<i>Number</i>	<i>£</i>	<i>Number</i>	<i>£</i>
<i>Current</i>				
Ordinary Shares	80,000,000	800,000	36,846,692	368,467
<i>On Admission</i>				
New Ordinary Shares	16,000,000	1,600,000	10,840,263	1,084,026

- 2.9 The Consideration Shares and the Deferred Consideration Shares will be issued and allotted in reliance upon the authority referred to in paragraph 2.3(a) above.
- 2.10 The Consideration Shares and the Deferred Consideration Shares will when issued rank *pari passu* in all respects with the New Ordinary Shares already in issue including the right to receive all dividends and other distributions declared, made or paid after Admission on the issued share capital of the Company.

### 3. Memorandum of Association

The memorandum of association of the Company provides that the Company's principal objects include carrying on the business of employment agents, marketing consultants and advisers and management consultants and advisers of every and any description; and to carry on any other trade or business whatever of a like and similar nature. The objects of the Company are set out in full in clause 4 of the memorandum of association, a copy of which is available for inspection at the offices of Stephenson Harwood as specified in paragraph 20 of this Part VII.

### 4. Articles of Association

The current articles of association of the Company contain provisions, *inter alia*, to the following effect. It is proposed that the articles of the Company be amended pursuant to Resolution 2 and details of the proposed changes are set out in the attachment to the Notice of EGM.

#### *Voting rights*

Subject to any rights or restrictions for the time being attached to any shares, every holder of shares in the Company present in person shall have one vote, and on a poll every member present in person or by proxy shall have one vote for every share of which he is the holder. At general meetings any resolution shall be decided on a show of hands unless a poll is demanded by any of the chairman, at least three members present in person or by proxy and entitled to vote, any member or members so present and holding at least ten per cent. of voting rights of those members having the right to attend and vote, or any member or members so present holding shares on which at least ten per cent. of the total paid up on all shares conferring that right have been paid. On a poll votes may be given either personally or by proxy. In the case of equality of votes at a general meeting, the chairman shall be entitled to an additional or casting vote.

### *Variation of rights*

Subject to compliance with the Act, all or any of the rights attached to shares in the Company may be varied with the consent in writing of the holders of not less than seventy-five per cent. of shareholders of that class by nominal value, or with the sanction of an extraordinary resolution passed at a class meeting of holders of that class of shares.

### *Alteration of capital*

The Company may by ordinary resolution increase, consolidate or divide its share capital, sub-divide shares into shares of smaller amount than is fixed by its memorandum of association, or cancel any shares which have not been issued and reduce the authorised share capital accordingly. The board may deal with fractions of shares resulting from any consolidation as it sees fit, and in particular may sell shares representing the fractions to any person and distribute the net proceeds of sale in due proportion among members.

The Company may by special resolution reduce its share capital, any capital redemption reserve and any share premium account.

### *Transfer of shares*

Shares may be transferred by an instrument in writing in any usual form or any other form of which the board of directors may approve. The board of directors may in their absolute discretion and without giving any reason for so doing, decline to register any transfer of any share that is not fully paid, and may also decline to register a transfer unless (i) the instrument of transfer is lodged with the Company accompanied by the relevant share certificate; (ii) the instrument is in respect of only one class of share; and (iii) there are no more than four transferees. Notices of refusal are required to be sent to transferees within two months of the date the instrument of transfer is lodged.

### *Directors*

#### (A) Appointment of directors

Directors may be appointed by the Company by ordinary resolution or by the board of directors. A director appointed by the board holds office only until the next following annual general meeting of the Company and is then eligible for election by members but is not taken into account in determining the directors or the number of directors who are to retire by rotation at that meeting. A person other than a director retiring at a general meeting of the Company shall not be appointed or reappointed as a director at a general meeting unless he is recommended by the board or no less than six nor more than thirty-five clear days' notice of the proposed appointment or reappointment is given to the secretary.

#### (B) Directors' retirement

At each annual general meeting of the Company one-third of the directors subject to retirement by rotation shall retire from office by rotation. All directors of the Company are subject to retirement by rotation. The directors to retire on each occasion shall be those who have been longest in office since their last appointment or reappointment but as between persons who became or were reappointed directors on the same day, those to retire shall be determined by lot (unless otherwise agreed between them).

#### (C) Removal of directors by special resolution

The Company may by special resolution remove any director before the expiration of the period of his office.

#### (D) Remuneration of directors

Directors holding any employment or executive office with the Company shall be paid such remuneration as the board may decide in addition to or in lieu of his remuneration as a director. Any director who, by request, goes or resides abroad for any purpose of the Company or who performs services which in the opinion of the board go beyond the ordinary duties of a director may be paid such extra remuneration as the board may determine. Each director may be paid for his reasonable travelling, hotel and incidental expenses of attending and returning from meetings of the board, committees of the board, general meetings of the Company or any other meeting which he is as director entitled to attend, and shall be paid all expenses properly incurred by him in the conduct of the Company's business or in the discharge of his duties as a director of the Company.

#### (E) Directors' interests

Subject to the provisions of the Act and provided that he has declared the nature of his interest to the board, a director is not disqualified by his office from contracting with the Company in any manner, nor is any

contract in which he is interested liable to be avoided, and any director who is so interested is not liable to account to the Company or the members for any benefit realised by the contract by reason of the director holding that office or of the fiduciary relationship thereby established.

A director may act by himself or his firm in a professional capacity for the Company (otherwise than as auditor) and he or his firm shall be entitled to remuneration for professional services as if he were not a director.

#### (F) Restrictions on voting

Except as mentioned below, no director may vote on, or be counted in a quorum in relation to, any resolution of the board in respect of any contract in which he is to his knowledge materially interested and, if he does so, his vote shall not be counted. These prohibitions do not apply to a director in relation to:

- (i) the giving to him of any guarantee, indemnity or security in respect of money lent or obligations undertaken by him for the benefit of the Company or any of its subsidiaries;
- (ii) the giving of any guarantee, indemnity or security to a third party in respect of a debt or obligation of the Company or any of its subsidiary undertakings which he has himself guaranteed, indemnified or secured in whole or in part and whether alone or jointly with others;
- (iii) the subscription or purchase by him of securities of the Company or of any subsidiary of the Company pursuant to any offer in which the director is or may be entitled to participate as a holder of securities;
- (iv) the underwriting or sub-underwriting of any securities of the Company or any of its subsidiaries which the director is to or may participate in;
- (v) any contract in which he is interested by virtue of his interest in shares or debentures or other securities of the Company or by reason of any other interest in or through the Company;
- (vi) any contract concerning any other company (not being a company in which the director owns one per cent. or more (as defined in the Articles)) in which he is interested directly or indirectly (any such interest being a material interest);
- (vii) any act or thing to be done in respect of any pension, superannuation or similar scheme, or retirement, death or disability benefits scheme or employees' share scheme which has been approved by or is subject to and conditional upon approval by the Board of Inland Revenue for tax purposes or under which he benefits in a similar manner to the employees and is not accorded as director any privilege or advantage not generally accorded to the relevant employees to whom such scheme relates; and

Subject to the Act, the Company may by ordinary resolution suspend or relax the above provisions to any extent or ratify any transaction not duly authorised by reason of a contravention of such provisions.

#### (G) General Powers

Subject to the Company's memorandum of association, the articles of association, the Act and any directions given by the Company by special resolution, the business of the Company will be managed by the board who may exercise all the powers of the Company, whether relating to the management of the business of the Company or not. The board has power to delegate to any person any of its powers, authorities and discretions.

#### *Dividends and other distributions*

Subject to compliance with the Act the Company may by ordinary resolution declare dividends but no dividend shall be declared in excess of the amount recommended by the board. If satisfied that it is justified by the financial position of the Company the board may pay interim dividends as they deem appropriate. All dividends shall be declared and paid according to the amounts paid up on shares and all dividends are required to be apportioned and paid pro rata according to the paid up amounts on shares, during any portion of the period in respect of which the relevant dividend is paid. Except in relation to dividends which have been declared and distributions of assets on a winding up, members have no right to share in the profits of the Company.

#### *Distribution of assets on a winding up*

The liquidator may, with the sanction of a special resolution of the Company and subject to compliance with the Act, divide assets between members in whole or in part by way of dividend *in specie*, and may vest the whole or any part of the assets in trustees upon such trusts for the benefit of the contributories as the

liquidator shall think fit, but no member shall be compelled to accept any shares or other assets on which there is any liability.

#### *Pre-emption rights*

The articles of association do not vary the statutory pre-emption provisions contained in sections 89 to 95 of the Act. Accordingly the provisions of section 89 of the Act, which to the extent not disapplied pursuant to section 95 of the Act, confer on shareholders rights of pre-emption in respect of the allotment of equity securities (within the meaning of section 94(2) of the Act) which are, or are to be, paid up in cash (other than allotments to employees under an employees' share scheme (as defined in section 743 of the Act)) apply to the authorised but unissued share capital of the Company.

There are no rights prescribed by the articles of association of the Company in relation to transfers of issued shares.

#### *Borrowing powers*

The directors may exercise all the powers of the Company to borrow money and to mortgage or charge any or all of its undertaking, property and assets present and future and uncalled capital and, subject to compliance with the Act and applicable legislation, to issue debentures and other securities, whether outright or as collateral security for any debt, liability or obligation of the Company or of any third party. Provided always that the aggregate amount from time to time outstanding of all borrowings by the Company's Group shall not at any time without the previous sanction of an ordinary resolution exceed an amount equal to three times the adjusted capital and reserves.

#### *Certificated securities*

The shares are in registered and certificated form. Every share certificate shall be issued under a seal.

#### *Directors' indemnities*

Prime People is required to indemnify directors out of assets of the Company against negligence, default, breach of duty or breach of trust in relation to the Company or associated companies, to provide funds to directors for defending related criminal or civil proceedings.

#### *General meetings*

The Company must hold an annual general meeting each year. The annual general meeting will usually be held in the United Kingdom. The directors will decide when and where the meeting is to be held. The notice calling the meeting must say that the meeting is the annual general meeting. The directors can call an extraordinary general meeting at any time, which will usually be held in the United Kingdom.

All general meetings other than annual general meetings shall be extraordinary general meetings. The directors may convene extraordinary general meetings whenever they think fit and, upon receipt of a requisition of members pursuant to the Act, may proceed to so convene for a date not later than eight weeks following deposit of such requisition at the registered office of the Company. At least twenty-one clear days' notice in writing is required of annual general meetings or extraordinary general meetings called to consider the passing of any special resolution or any resolution appointing a director. All other extraordinary general meetings shall require at least fourteen clear days' notice. Notices are required to specify the place, day and time of the meeting and the general nature of the business to be transacted.

Two members present in person or by proxy and entitled to vote shall be a quorum for the purposes of business at general meetings and no business shall be transacted unless a quorum is present other than the choice or appointment of a chairman.

Subject to legislation and the articles of association, every member can attend a general meeting in person or by proxy. The directors can make arrangements that they, in their discretion, think appropriate to (i) regulate the number of people attending at a place where a general meeting (or adjourned meeting) is to be held; (ii) ensure the safety of people attending at that place; or (iii) enable attendance at that meeting or adjourned meeting, and can change those arrangements at any time.

The right of a member to participate in the business of any general meeting shall include without limitation the right to speak, vote on a show of hands, vote on a poll, be represented by a proxy and have access to all documents which are required by legislation or the articles of association to be made available at the meeting. Any proxy appointed in accordance with the articles of association may speak at any general meeting.

### *Members resident abroad*

Any member whose registered address is not within the United Kingdom can give the Company a postal address within the United Kingdom at which notices or documents may be served on or, delivered to, him. Otherwise, a member whose registered address is not within the United Kingdom is not entitled to receive any notice or document from the Company.

### *Untraced members*

The Company may sell any shares in the Company where (i) such shares have been in issue throughout the 'relevant period' and at least three cash dividends have become payable on the shares during that period and (ii) no such cash dividend has been claimed and (iii) the Company is not aware of any person entitled by transmission to the shares and (iv) two advertisements have been published in newspapers specified in the articles of association giving notice of its intention to sell the shares within three months of the last of the two advertisements and (v) the Company has previously notified the Quotations Department of the London Stock Exchange of the proposal to sell the shares and has had the advertisements referred to above pre-approved by the Quotations Department. The 'relevant period' means for these purposes the period beginning twelve years before the date of publication of the advertisements referred to above. The authority to sell shall extend to shares derived from the original shares. The net proceeds of sale shall belong to the Company and the Company shall owe a non-interest bearing debt in the amount of the proceeds of sale to the former holder of the shares or any person entitled by transmission to the shares.

The Company may stop sending cheques or warrants through the post for any dividend payable in respect of shares if in respect of at least two consecutive dividends the cheques or warrants in respect of those shares have been returned undelivered or remain uncashed but shall recommence sending cheques or warrants in respect of those shares if the holder or person entitled by transmission claims the arrears of dividend and does not request alternative future payment arrangements.

### *Disclosure of ownership of shares*

Section 212 of the Act provides a public company with the statutory means to ascertain the persons who are or have within the last three years been interested in its relevant share capital and the nature of those interests. There are no provisions in the articles of association of the Company governing the ownership threshold above which shareholder ownership must be disclosed.

Other than as provided under the Act and the City Code there are no rules or provisions relating to mandatory takeover bids in relation to the New Ordinary Shares and no rules or provisions relating to squeeze-out and/or sell-out rules relating to the New Ordinary Shares. A summary of the relevant provisions of the City Code is set out in Part I of this document.

### *Squeeze-out*

Under the Act, if a person who has made a general offer to acquire New Ordinary Shares were to acquire 90 per cent. of the New Ordinary Shares within four months of making its offer, it could then compulsorily acquire the remaining 10 per cent. It would do so by sending a notice to outstanding shareholders telling them that it will compulsorily acquire their New Ordinary Shares and then, six weeks later, executing a transfer of the outstanding New Ordinary Shares in its favour and paying the consideration to the Company, which would hold the consideration on trust for outstanding shareholders. The consideration offered to the shareholders whose New Ordinary Shares are compulsorily acquired under the Act must, in general, be the same as the consideration that was available under the takeover offer.

### *Sell-out*

The Act gives minority shareholders a right to be bought out in certain circumstances by a person who has made a general offer as described in the paragraph immediately above this paragraph. If, at any time before the end of the period within which the offer can be accepted, the offeror holds, or has agreed to acquire not less than 90 per cent. of the New Ordinary Shares, any holder of New Ordinary Shares to which the offer relates who has not accepted the offer can, by a written communication to the offeror, require it to acquire those New Ordinary Shares.

The offeror is required to give each shareholder notice of this right to be bought out within one month of that right arising. The offeror may impose a time limit on the rights of minority shareholders to be bought out, but that period cannot end less than three months after the end of the acceptance period. If a shareholder exercises his rights, the offeror is entitled and bound to acquire those New Ordinary Shares on the terms of the offer or on such other terms as may be agreed.

## 5. Directors' and Proposed Directors' interests

- 5.1 As at 7 December 2005 (the latest practicable date prior to the publication of this document), the interests, all of which are beneficial, of the Directors and the Proposed Directors, including persons connected with them within the meaning of section 346 of the Act in the issued share capital of the Company which have been notified to the Company pursuant to section 324 or section 328 of the Act and are required to be entered in the register maintained under section 325 of the Act are or will be at Admission as follows:

<i>Director/Proposed Director</i>	<i>Existing Ordinary Shares</i>	<i>Percentage of Existing Ordinary Shares</i>	<i>New Ordinary Shares</i>	<i>Percentage of New Ordinary Shares</i>
Robert Macdonald	—	—	2,126,832	19.62
Peter Moore	—	—	2,452,946	22.63
John Lewis	—	—	12,096	0.11
John Lewis and MC Trustees Limited	—	—	293,126	2.70
Robert Macdonald and Peter Moore	—	—	439,429	4.05
Simon Murphy	2,300,000	6.24	230,000	2.12
Christopher Heayberd	1,992,384	5.41	199,238	1.84
David Coubrough*	50,000	0.14	5,000	0.05

\* All of the Existing Ordinary Shares and New Ordinary Shares in which Mr Coubrough is interested are or (in the case of the New Ordinary Shares) will be held by Mr Coubrough's wife.

- 5.2 As at the date of this document the following options are outstanding under the Prime People EMI Scheme:

<i>Name of grantee</i>	<i>Date of grant</i>	<i>Number of Ordinary Shares under option</i>	<i>Exercise price</i>	<i>Latest exercise date</i>
Simon Murphy	16 May 2005	1,842,335	5.75p	15 May 2015
Christopher Heayberd	16 May 2005	1,842,335	5.75p	15 May 2015

The grantees have agreed not to exercise these options prior to 17 May 2007.

- 5.3 The Remuneration Committee of the Board will comprise John Lewis and Simon Murphy. The Remuneration Committee is responsible for determining the terms of administrative, management and supervisory bodies' service contracts for both the Company and its wholly owned subsidiaries on Completion. There are no other senior managers or members of administrative, management or supervisory bodies of the Company (other than as described in paragraph 6 of this Part VII). The proposed service contracts of such persons are described in paragraph 6 of this Part VII.
- 5.4 Save as disclosed in paragraphs 5.1 and 5.2 above, as at 7 December 2005 (the latest practicable date prior to the publication of this document) none of the Directors or the Proposed Directors nor any person connected with them (within the meaning of section 346 of the Act) had or will have any interest, beneficial or otherwise, in the share or loan capital of the Company.
- 5.5 There are no loans or guarantees provided by the Company or Macdonald for the benefit of any of the Directors or the Proposed Directors nor are there any loans or guarantees provided by any of the Directors or the Proposed Directors for the Company or Macdonald.
- 5.6 Save as disclosed in this document no Director or Proposed Director has any interest, direct or indirect, in any assets which have been or are proposed to be acquired or disposed of by, or leased to, the Company and no contract or arrangement exists in which a Director or Proposed Director is interested and which is significant in relation to the Enlarged Group.
- 5.7 Save as disclosed in this document, no Director or Proposed Director has or has had any interest in any transaction which is or was unusual in its nature or conditions, or significant to the business of the Company and which was effected by the Company since its incorporation, or which is or was unusual in its nature or conditions or significant to the business of the Company.
- 5.8 None of the Directors or Proposed Directors (nor any member of any of their families (as defined in the AIM Rules)) has a related financial product (as defined in the AIM Rules) referenced to the Ordinary Shares or New Ordinary Shares.

- 5.9 None of the Directors or the Proposed Directors has:
- (a) any unspent convictions in relation to indictable offences;
  - (b) had any bankruptcy order made against him or entered into any voluntary arrangements;
  - (c) been a director of a company which has been placed in receivership, compulsory liquidation, creditors' voluntary liquidation, administration, been subject to a voluntary arrangement or any composition or arrangement with its creditors generally or any class of its creditors whilst he was a director of that company or within the 12 months after he ceased to be a director of that company;
  - (d) been a partner in any partnership which has been placed in compulsory liquidation, administration or been the subject of a partnership voluntary arrangement whilst he was a partner in that partnership or within the 12 months after he ceased to be a partner in that partnership;
  - (e) been the owner of any asset which has been placed in receivership or a partner in any partnership which has been placed in receivership whilst he was a partner in that partnership or within the 12 months after he ceased to be a partner in that partnership;
  - (f) been publicly criticised by any statutory or regulatory authority (including recognised professional bodies); or
  - (g) been disqualified by a court from acting as a director of any company or from acting in the management or conduct of the affairs of a company.
- 5.10 The following members of the Concert Party own more than 1 per cent. of the issued share capital of Macdonald: Peter Moore (34.28 per cent.), Robert Macdonald (29.72 per cent.), John Lewis and MC Trustees Limited (7.19 per cent.), Oliver Wright (6.14 per cent.), John Lewis (3.21 per cent.), Jeanne Moore (2.50 per cent.), Gordon and Patricia Squires (2.50 per cent.), Helen Astill (2.48 per cent.), Richard Williams (1.62 per cent.), Christian Lawrence (1.33 per cent.) and Jilly Thomson (1.21 per cent.).
- 5.11 Save as disclosed in this Part VII none of the Concert Party, Macdonald, the directors of Macdonald, nor any person acting in concert with any of them, has any interests, rights to subscribe for or short positions (whether conditional or absolute and whether in money or otherwise) in relevant securities in the Company, including any short position under a derivative, any agreement to sell or any delivery obligation or right to require another person to purchase or take delivery of any relevant securities in the Company. Save as disclosed in this Part VII none of the Concert Party, Macdonald, the directors of Macdonald, nor any person acting in concert with any of them has dealt in relevant securities in the Company during the disclosure period. None of the Concert Party, Macdonald or any person acting in concert with any of them is a party to any "arrangement".
- 5.12 As at 7 December 2005 (the last practicable date before the publication of this document), WH Ireland had an interest in 1,713,574 Ordinary Shares.
- 5.13 Save as disclosed in this Part VII none of the Company, the Directors, associates of the Company (of the category (i) as set out in the definition appearing in paragraph 5.15 of this Part VII below), pension funds or employee benefit trusts of either the Company or any such associate, connected adviser to either the Company or such associates or person controlling, controlled by or under the same control as any such connected adviser (other than an exempt principal trader or exempt fund manager) nor any person who is a party to any "arrangement" with the Company or an associate of the Company (falling into any of the categories (i) to (v) inclusive as set out in the definition appearing in paragraph 5.15 of this Part VII below) has any interests, rights to subscribe for or short positions in relevant securities in Macdonald or the Company, including any short position under a derivative, any agreement to sell or any delivery obligation or right to require another person to purchase or take delivery of any relevant securities in the Company or Macdonald.
- 5.14 None of the Concert Party, Macdonald, nor any person acting in concert with any of them has borrowed or lent any relevant securities in Prime People or Macdonald. None of the Company, the Directors nor any person acting in concert with the Directors has borrowed or lent any relevant securities in the Company or Macdonald.
- 5.15 Save as otherwise expressly provided, references in this paragraph 5 to "relevant securities" are to Existing Ordinary Shares, New Ordinary Shares, shares in Macdonald and securities convertible into,

or exchangeable for, rights to subscribe for, exercising, converting or closing out of, derivatives referable to and options (including traded options) in respect of, any of the foregoing.

References to the term “associate” in this paragraph 5 will include the following:

- (i) Macdonald’s or the Company’s parent, subsidiaries and fellow subsidiaries, and their associated companies, and companies of which such companies are associated companies (for the purpose of ownership or control of 20 per cent. of more of the equity share capital of a company is regarded as the test of associated company status);
- (ii) connected advisers and persons controlling, controlled by or under the same control as such connected advisers;
- (iii) the directors (together with their close relatives and related trusts) of Macdonald, the Company or any company covered in (i);
- (iv) the pension funds of Macdonald, the Company or any company covered in (i);
- (v) any investment company, unit trust or other person whose investments an associate manages on a discretionary basis, in respect of the relevant investment accounts;
- (vi) an employee benefit trust of Macdonald, the Company or any company covered in (i); and
- (vii) a company having a material trading arrangement with Macdonald or the Company.

References in this paragraph 5 to “connected adviser” mean:

- (i) in relation to Macdonald or the Company:
  - (a) an organisation which is advising that party in relation to the Acquisition; and
  - (b) a corporate broker to that party;
- (ii) in relation to a person who is acting in concert with Macdonald or with the directors of the Company, an organisation which is advising that person either:
  - (a) in relation to the Acquisition; or
  - (b) in relation to the matter which is the reason for that person being a member of the relevant concert party; and
- (iii) in relation to a person who is an associate of Macdonald or of the Company by virtue of paragraph (i) of the definition of associate, an organisation which is advising that person in relation to the Acquisition.

References in this paragraph 5 to a person having an interest in securities include where:

- (i) he owns them;
- (ii) he has the right (whether conditional or absolute) to exercise or direct the exercise of the voting rights attaching to them or has general control of them;
- (iii) by virtue of any agreement to purchase, option or derivative he:
  - (a) has the right or option to acquire them or call for their delivery; or
  - (b) is under an obligation to take delivery of them,whether the right, option or obligation is conditional or absolute and whether it is in the money or otherwise; or
- (iv) he is party to any derivative:
  - (a) whose value is determined by reference to their price; and
  - (b) which results, or may result, in his having a long position in them.

A person who has long economic exposure, whether absolute or conditional, to changes in the price of securities will be treated as interested in those securities. A person who only has a short position in securities will not be treated as interested in those securities.

References in this paragraph 5 to an “arrangement” or “arrangements” includes an indemnity or option arrangement and any agreement or understanding, formal or informal, of whatever nature, relating to relevant securities which may be an inducement to deal or refrain from dealing.

References in this document to the disclosure period means the 12 month period ending on the date of this document.

5.16 Other than directorships of the Company, the Directors and Proposed Directors hold and have previously held during the 5 years preceding the date of this document, the following other directorships or partnerships:

<i>Director/ Proposed Director</i>	<i>Current</i>	<i>Past</i>
Peter Hearn	PSD Group plc E.R.C. International Limited PSD Contracts Limited PSD Limited The Electronics Recruitment Company Limited Professional Selection and Development Limited Reuter Simkin Limited Hoggett Bowers Interim Management Limited ASB Selection Limited Cameron Kennedy Resources Limited Harper Craven Associates Limited Hoggett Bowers Limited	MPM Connect Limited (dissolved 18 May 2004) Portfolio International Limited
Simon Murphy	None	None
Christopher Heayberd	Queensbury Shelters Limited Prime Design International Limited	M & A Hygiene plc Portfolio International Limited
David Coubrough	Maldon Crystal Salt Company Limited Holroyd Howe Limited The Bespoke Hotel Company Limited Brazz plc Bloomsbury Properties Limited The West Central and Suburban Investment Company Limited Vernon Smith Limited	Prime Design International Limited Portfolio International Limited Portfolio Recruitment Limited
Robert Macdonald	Acechildcare Acechild Limited Revive Limited Flying Start Nurseries Limited Macdonald & Company Property Limited Macdonald & Company Overseas Limited Straker Simkin Limited Macdonald & Company Group Limited Macdonald and Company Freelance Limited Qi Lin Limited Propertejobs.com Limited	Denbeigh Warwick International Limited
Peter Moore	Macdonald & Company Property Limited Macdonald and Company Freelance Limited Macdonald & Company Group Limited Propertejobs.com Limited Macdonald & Company Overseas Limited	Jobbloodhound.com Limited (dissolved 4 March 2003) Denbeigh Warwick International Limited

<i>Director/ Proposed Director</i>	<i>Current</i>	<i>Past</i>
John Lewis	Grayshott Hall Limited Blakeney Hotels Limited Blakeney Holdings Limited Goodenough College GR (Holdings) plc Hertford House Marketing Limited Carew-Jones & Motley Limited Macdonald & Company Group Limited Mintbay Limited Soundkirk Limited Tulsebridge Limited Morelands (Glastonbury) Limited A. Baily and Company Limited A. Stanford and Company Limited Holland Villas Limited The Burlington Magazine Publications Limited	Meridien Hotels (P) Limited Meridien Hotels (GB) Limited Hatch Group Limited

## **6. Directors' and Proposed Directors' service arrangements**

- 6.1 The Proposed Directors entered into service agreements with Macdonald Property on 1 April 2005, details of which are set out below:
- (a) The contract between Robert Macdonald and Macdonald Property provides for Robert Macdonald to act as the part time executive chairman and director of the board of Macdonald Property at a salary of £86,250 per annum. The contract has no fixed term and is terminable by 12 months' notice in writing from either party. Under the contract Robert Macdonald is entitled to 18 working days' paid holiday per annum, medical insurance and critical illness insurance. He is subject to certain covenants for a period of 6 months following termination of his employment including: non-compete and non-solicitation. He is also subject to a confidentiality undertaking. He is entitled to participate in the company's discretionary bonus scheme. Any bonus payment is at the absolute discretion of the company and subject to the approval of the Remuneration Committee.
  - (b) Macdonald Property has entered into a service agreement with Peter Moore on terms identical to those set out in paragraph (a) above save that Peter Moore was appointed as managing director at a salary of £138,000 per annum, is entitled to 30 working days paid holiday per annum and works full time. He is entitled to participate in the company's discretionary bonus scheme. Any bonus payment is at the absolute discretion of the company and subject to the approval of the Remuneration Committee.
  - (c) The contract between John Lewis and Macdonald Property provides for John Lewis to act as a non-executive director of Macdonald Property with a directors' fee of £5,000 per annum and a service fee of £18,000 per annum payable to Blakeney Holdings Limited. The contract is for a minimum two year fixed term and is terminable by 12 months' written notice from either Blakeney Holdings Limited or Macdonald. Mr. Lewis has covenanted not to introduce business to any other person or entity with which any company in the Macdonald group deals during this service agreement. He is also subject to a confidentiality undertaking. Blakeney Holdings Limited is also a party to the service agreement and may substitute or replace Mr. Lewis as the provider of services.
- 6.2 It is proposed that Robert Macdonald and Peter Moore enter into new service agreements with Prime People on completion of the Acquisition, on substantially the same terms as those set out in paragraphs (a) and (b) above save that their new agreements will not contain any provisions regarding bonuses. John Lewis is to enter into a non-executive director appointment letter with Prime People on Completion. Under the non-executive appointment letter, he will be appointed for an initial term of one year from Completion and paid a fee of £15,000 per annum. The appointment may be terminated earlier by either party on three months' notice. The new service agreements and appointment letter will replace those listed in paragraph 6.1 above in their entirety.
- 6.3 The contract dated 16 May 2005 between Christopher Heayberd and Prime People provides for Christopher Heayberd to act as Finance Director of Prime People at a salary of £85,000 per annum.

The contract has no fixed term and is terminable by 6 months' notice in writing from either party. Under the contract Christopher Heayberd is entitled to 30 working days holiday per annum and medical insurance. He is subject to the following covenants for a period of 6 months following termination of his employment: non-compete and non-solicitation of Prime People employees or clients. He is also subject to a confidentiality undertaking. Conditional upon Completion, Christopher Heayberd's service contract is to be amended to increase his notice period to 12 months and to increase his salary to £100,000 per annum, to be reviewed by the Company on 1 April 2006 and annually thereafter.

- 6.4 The contract dated 16 May 2005 between Simon Murphy and Prime People provides for Simon Murphy to act as Chief Executive of Prime People at a salary of £100,000 per annum. The contract has no fixed term and is terminable by six months' notice in writing from either party. Under the contract Simon Murphy is entitled to 30 working days holiday per annum and medical insurance. He is subject to the following covenants: non-compete and non-solicitation of Prime People employees or clients. He is also subject to a confidentiality undertaking.

Simon Murphy is to step down as Chief Executive on completion of the Acquisition but will remain as a director in a non-executive capacity. He will receive normal salary and benefits up to that date. He will receive his contractual entitlement of £50,000 less tax and employees' National Insurance as payment in lieu of notice.

On Completion Simon Murphy will enter into a non-executive director appointment letter under which he will be appointed for an initial term of one year from Completion and paid a fee of £15,000 per annum. The appointment may be terminated earlier by either party on three months' notice.

Simon Murphy entered into an amended share option agreement confirming that the exercise price per share of the share options held by him be adjusted to 5.75p in exchange for a discretionary bonus scheme being implemented. The Company has agreed to a payment of £90,934. He will agree not to exercise the share options prior to 17 May 2007 notwithstanding that the share options will become exercisable on the change of control of the Company on completion of the Acquisition. He has acknowledged that the one for ten share consolidation of the Company will result in the total number of ordinary shares subject to his share options being reduced to 184,233 and the exercise price of his share options increasing to 57.5p per share.

- 6.5 Each of the agreements referred to above, other than pre-existing service agreements referred to in paragraphs 6.1 (a) to (c), 6.3 and 6.4, is, and the changes to Christopher Heayberd's contract are, conditional on Admission.
- 6.6 David Coubrough on resigning from the Board will receive a termination payment of £3,750.
- 6.7 Save as set out in this paragraph 6, there are no existing or proposed service contracts between any Directors or Proposed Directors and the Company or any subsidiary of the Company and there are no such service contracts which have been entered into or amended within six months of the date of this document or which contain any provision for compensation payable for early termination of the contract or contain any commission or profit sharing arrangements.

## **7. Employees and recent director**

The average number of employees of Prime People for each of the last three financial years was 2002: 66, 2003: 54, 2004: 37 of which none were employees employed on a temporary basis. Two employees hold shares in the capital of the Company and details of the employee share scheme are described in paragraph 8 of this Part VII.

Richard Elliot Michael Lee was appointed to the board on 11 December 1991 and resigned on 8 August 2005. He was a non-executive director throughout his tenure of office.

## **8. The Prime People EMI Scheme**

A total of 3,684,670 Ordinary Shares in the Company are subject to employee share option under the Prime People EMI Scheme. Options have been granted to Simon Murphy and Christopher Heayberd over 1,842,335 Ordinary Shares each. The exercise price of these options is 5.75p. This was amended at the time of the issue of the interim results for the six months ended 30 June 2005 from either nil or the par value of the Ordinary Shares in exchange for an agreement to pay a discretionary cash bonus. Details of the cash bonus to be paid to Simon Murphy are set out in paragraph 6.4 of this Part VII. Christopher Heayberd is to receive a cash bonus of £5,934.26. The options are exercisable after 16 May 2007 and only upon the satisfaction of a

performance condition, or upon the event of a change of control. Simon Murphy and Christopher Heyberd will enter into an agreement with the Company immediately prior to Completion that they will not exercise their options until 17 May 2007. The option exercise price and the number of shares under option will be amended to reflect the proposed 1 for 10 share consolidation on the Share Capital Consolidation taking effect.

At Admission, save as disclosed in paragraph 8 of this Part VII there will be no arrangement for the employees of the Company or its subsidiaries to participate in the capital of the Company.

## 9. Substantial Shareholdings and Concert Party Shareholdings and intentions

9.1 As at 7 December 2005 (the latest practicable date prior to the publication of this document), in addition to the interests of the Directors and Proposed Directors set out in paragraph 5 of this Part VII above, the Directors and the Proposed Directors were aware that the following persons were and will be interested, directly or indirectly, in 3 per cent. or more of the issued share capital of the Company as at that date and upon Completion and Admission:

<i>Name</i>	<i>Number of Existing Ordinary Shares</i>	<i>Percentage of Existing Ordinary Share capital</i>	<i>Number of New Ordinary Shares following Completion and Admission</i>	<i>Percentage of issued New Ordinary Shares following Completion and Admission</i>
Mrs. M. Lee	8,999,633	24.42	899,963	8.30
City of London PR	4,294,553	11.66	429,455	3.96
R.J. Hornbuckle	2,148,187	5.83	214,818	1.98
J.W. Greenhalgh	1,116,263	3.03	111,626	1.03
Oliver Wright	Nil	—	439,429	4.05

9.2 Save as disclosed in paragraph 9.1 of this Part VII, neither the Directors nor the Proposed Directors are aware of any person who was at 7 December 2005 (the latest practicable date prior to the publication of this document) interested, directly or indirectly, or who will, upon Completion or Admission have an interest, directly or indirectly, in 3 per cent. or more of the issued capital of the Company.

9.3 Save as disclosed in this Part VII, the Company is not aware of any person who exercises or could exercise, directly or indirectly, jointly or severally, control over the Company.

9.4 The table below shows the interests of the Concert Party, assuming that the Proposals are implemented, following the issue of the Consideration Shares and following the issue of the Deferred Consideration Shares.

<i>Name</i>	<i>Maximum number of New Ordinary Shares following the issue of the Consideration Shares<sup>1</sup></i>	<i>Maximum percentage of Enlarged Share Capital following the issue of the Consideration Shares<sup>1</sup></i>	<i>Maximum number of New Ordinary Shares following the issue of the Deferred Consideration Shares<sup>1</sup></i>	<i>Maximum percentage of issued Ordinary Share capital following the issue of the Deferred Consideration Shares<sup>1</sup></i>
Peter Moore <sup>3</sup>	2,452,946	22.63	2,897,906	24.09
Robert Macdonald	2,126,832	19.62	2,480,127	20.62
John Lewis	12,096	0.11	14,105	0.12
John Lewis and MC Trustees Limited <sup>2</sup>	293,126	2.70	329,320	2.74
Robert Macdonald and Peter Moore	439,429	4.05	512,424	4.26
Oliver Wright	439,429	4.05	512,424	4.26
Jeanne Moore	178,885	1.65	196,102	1.63
Gordon and Patricia Squires	178,943	1.65	196,170	1.63
Helen Astill	177,669	1.64	207,183	1.72
Anne Roberts	60,476	0.55	70,523	0.59
Christian Lawrence	95,489	0.88	111,351	0.93
Richard Williams	115,746	1.07	134,972	1.13

	<i>Maximum number of New Ordinary Shares following the issue of the Consideration Shares<sup>1</sup></i>	<i>Maximum percentage of Enlarged Share Capital following the issue of the Consideration Shares<sup>1</sup></i>	<i>Maximum number of New Ordinary Shares following the issue of the Deferred Consideration Shares<sup>1</sup></i>	<i>Maximum percentage of issued Ordinary Share capital following the issue of the Deferred Consideration Shares<sup>1</sup></i>
James Sheppard	57,874	0.52	67,487	0.56
Rachel Hampson	28,937	0.27	33,744	0.28
Jilly Thomson	86,810	0.80	101,230	0.84
Charles Holroyde	28,937	0.27	33,744	0.28
Walter Ellicott	28,937	0.27	33,744	0.28
Ben Gilbertson	57,874	0.52	67,487	0.56
Michelle Witt	28,937	0.27	33,744	0.28
Liz Flavell	28,937	0.27	33,744	0.28
Karen Cresswell	28,937	0.27	33,744	0.28
Josef Woodward	11,575	0.11	13,497	0.11
Steven Johnson	11,575	0.11	13,497	0.11
Simon Crabb	11,575	0.11	13,497	0.11
William Buck	28,937	0.27	33,744	0.28
Roberta Barlow	28,937	0.27	33,744	0.28
William Glover	28,937	0.27	33,744	0.28
Alexandra Large	28,937	0.27	33,744	0.28
Lisa Robinson	28,937	0.27	33,744	0.28
Joanne Donnor	28,937	0.27	33,744	0.28
	<u>7,155,593</u>	<u>66.01</u>	<u>8,344,230</u>	<u>69.37</u>

1 Assuming full exercise of the Macdonald Share Options and assuming the sale of 1,300 Macdonald B Shares by Peter Moore to each of (1) John Lewis and MC Trustees Limited, (2) Jeanne Moore and (3) Gordon and Patricia Squires under agreements dated 8 December 2005 has been completed.

2 Peter Moore and Robert Macdonald will jointly own 439,429 New Ordinary Shares as nominee for MC Trustees Limited.

9.5 The Concert Party's current intention is to continue the business of the Prime People Group without any major changes, including with regard to the continued employment of the employees of the Prime People Group. The Concert Party believes that the Acquisition, which through the combination of businesses will give the Concert Party control of an AIM quoted company, will provide a platform for future potential growth by acquisition and/or organic expansion.

## 10. Related party transactions

The Company has entered into no related party transactions (as described in Regulation (EC) No 1606/2002) between the financial year beginning 31 December 2001 and the date of this document save the contract to sell Portfolio International Limited to PSD Group Plc, details of which are set out in sub-paragraph 13(A)(iv) of this Part VII.

## 11. Working capital

The Directors and the Proposed Directors are of the opinion, having made due and careful enquiry, that the Company and the Enlarged Group will have sufficient working capital for its present requirements, that is for at least 12 months from Admission.

## 12. The Acquisition Agreement

Under the Acquisition Agreement, the Company has agreed, subject to certain conditions, to acquire from the Vendors the entire issued share capital of Macdonald. The aggregate consideration payable by the Company to the Vendors pursuant to the Acquisition Agreement will be £10.52 million, which will be satisfied on completion of the Acquisition as stated below and the opportunity of further deferred consideration also as stated below. The consideration shall be paid as follows:

- (a) as to £9.52 million on Completion, payable as to £3.5 million in cash and as to £6.02 million by the issue and allotment to the Vendors, credited as fully paid, of the Consideration Shares (at a price of 84.13 pence per share); and
- (b) up to £1.0 million by the issue and allotment to the Vendors, credited as fully paid, of the Deferred Consideration Shares following the announcement of the results of the Enlarged Group for the period ending 31 March 2006. The Vendors will be entitled to receive £5.00 of further consideration for every £1 that the operating profit of Macdonald and its subsidiaries for the year ending 31 March 2006 exceeds £1.70 million up to a maximum further consideration of £0.75 million and £2.50 of further consideration for every £1 that such operating profit is greater than £1.85 million up to a maximum further consideration of £0.25 million such further consideration will be satisfied by the issue to the Vendors of such number of Deferred Consideration Shares as has an aggregate value calculated at the Issue Price equal to the further consideration.

The £3.5 million cash consideration is to be provided from the existing cash resources of Prime People and an acquisition facility provided by Barclays Bank plc and the Consideration Shares and the Deferred Consideration Shares will, when issued, rank *pari passu* with the New Ordinary Shares already in issue including, without limitation, the right to receive all dividends and distributions declared, made or paid on the New Ordinary Shares by reference to a record date after the date of issue of the Consideration Shares. The Consideration Shares and the Deferred Consideration Shares will not have different voting rights from the other New Ordinary Shares.

The Acquisition is conditional upon (*inter alia*):

- (a) the Panel granting a waiver of the obligation which would otherwise fall on the Vendors to make a general offer under Rule 9 of the City Code; and
- (b) the Shareholders passing the Resolutions set out in the Notice of EGM other than Resolution 2 and in the case of Resolution 7, such Resolution must be passed on a poll.

The Acquisition Agreement contains a long-stop date following which the agreement shall terminate should the conditions to completion not be satisfied or waived prior to 31 January 2006.

Prime People has agreed to pay £50,000 (plus VAT) as a contribution to the costs of the Vendors on Completion (but not otherwise).

Under the terms of the Acquisition Agreement the Proposed Directors have given certain warranties to the Company in respect of, *inter alia*, Macdonald and its activities prior to completion. The Acquisition is conditional on the Company not having discovered prior to Admission that there has been a material adverse change (as defined in the Acquisition Agreement) prior to Completion. The aggregate maximum liability of the Proposed Directors in respect of the warranties is limited to the consideration received by them. Claims in respect of the warranties are subject to certain restrictions and the period during which claims may be brought expires on 31 March 2012 in relation to tax warranties and 31 December 2007 in relation to all other claims. A tax covenant is also to be given by the Proposed Directors on completion of the Acquisition pursuant to the Acquisition Agreement under which the Proposed Directors will agree to indemnify the Company against certain taxation liabilities of Macdonald and its subsidiaries arising on or before completion. The period during which claims may be brought under the tax covenant expires on 31 March 2012.

Certain non-competition and other restrictive covenants have also been given by the Proposed Directors under the terms of the Acquisition Agreement.

Upon Completion, each of the Proposed Directors will, subject to the passing of Resolutions 1 to 7 (other than Resolution 2), be appointed as directors of the Company. Robert Macdonald and Peter Moore will enter into new service agreements with Prime People and John Lewis is to enter into a non-executive appointment letter with the Company. Further details are set out in paragraphs 6.1 and 6.2 of this Part VII.

Under the terms of the Acquisition Agreement, the Company has given certain warranties to the Vendors in respect of, *inter alia*, the Company and its activities prior to the date of Completion.

### **13. Material contracts**

The following contracts (not being contracts entered into in the ordinary course of business) have been entered into by the Company and Macdonald and the Concert Party within the two years immediately preceding the date of this document and are or may be material. Other than as set out below or elsewhere in this document neither the Company nor Macdonald has entered into any contract (not being a contract

entered into in the ordinary course of business) which contains any obligation or entitlement which is material to the Enlarged Group at the date of this document.

*(A) The Company and subsidiary interests*

- (i) The Acquisition Agreement (described in paragraph 12 of this Part VII).
- (ii) On 9 December 2005, the Company entered into two agreements with WH Ireland (the “WH Ireland Engagement Agreements”) under which WH Ireland agreed to act as the Company’s broker and nominated adviser in respect of the Proposals and on an ongoing basis. The WH Ireland Engagement Agreement contains indemnities and warranties given by the Company to WH Ireland and members of the WH Ireland group of companies. On completion of the Proposals, WH Ireland will receive under the terms of the WH Ireland Engagement Agreement a corporate finance fee of £75,000 plus applicable taxes and plus such other fair and reasonable expenses as may be agreed by WH Ireland and the Company.
- (iii) Barclays Bank plc (the “Bank”), has agreed to make a loan facility of up to £1.4 million available to Prime People for the purpose of financing the Acquisition. The facility may be drawn in one amount and must be drawn on or before 1 February 2006. Repayment is to be made in 20 quarterly instalments of principal of £70,000. The facility and any other amounts owing to the Bank are to be secured by any security or guarantees now or subsequently held by the Bank and in addition by cross guarantees and debentures by and between Prime People and all material subsidiaries including Macdonald, Macdonald Freelance and Macdonald Property and the giving of these cross guarantees and debentures is an outstanding condition precedent to drawdown of the facility. Before Macdonald and its subsidiaries may enter into these security documents on Completion, those companies must comply with the “financial assistance whitewash” procedure set out in section 155 of the Act. Under the terms of the Acquisition Agreement the Proposed Directors must procure compliance with this procedure and the delivery of the security documents on Completion.
- (iv) On 4 August 2004 the Company agreed to sell the entire issued share capital of Portfolio International Limited to PSD Group Plc, realising a profit on disposal of £1,250,850 before writing off goodwill of £641,006 which the Company was required to deduct from the profit on disposal. Claims for breach of warranties relating to tax and claims under the tax indemnity can be brought at any point up to 31 December 2010 and claims for breach of any other warranties can be brought at any point up to two years following disposal. There is an overall cap of £1.95 million on all claims under the share purchase agreement.
- (v) On 16 May 2005 the Company adopted an EMI employee share option scheme and granted options under it to employees over a total of 3,684,470 Ordinary Shares. Further details of these options are set out in paragraphs 5.2 and 8 of Part VII.
- (vi) Lock In Arrangements
  - (1) The Vendors (other than Oliver Wright) have each agreed not to sell the Consideration Shares or Deferred Consideration Shares allotted to them until the announcement of the results of the Enlarged Group for the year ending 31 March 2007 unless otherwise agreed in writing by the Company acting by the Non-executive Directors and by WH Ireland.
  - (2) Oliver Wright has agreed not to sell any of the Consideration Shares or Deferred Consideration Shares (“Shares”) allotted to him until the announcement of the results of the Enlarged Group for the year ending 31 March 2006 unless otherwise agreed in writing by the Company and by WH Ireland. He has further agreed that for the 12 month period commencing on the announcement of the results of the Enlarged Group for the year ending 31 March 2006 (the “Second Restricted Period”) he will only be able to dispose of the Shares on the following conditions:
    - (i) such disposal shall be effected through WH Ireland who shall charge commission at its market rate;
    - (ii) the Shares shall be disposed of in such orderly manner as WH Ireland shall reasonably require, with a view to maintaining an orderly market in the shares of the Company;
    - (iii) such disposal is limited to a maximum of 25 per cent. of the Shares held by him in any period of three months during the Second Restricted Period (a “Quarter”), the first such Quarter to commence on the first day of the Second Restricted Period;

- (iv) the minimum price per Share shall be 84p (assuming that the Share Capital Consolidation has taken place, or 8.4p in the event that it has not).
- (3) The Lock In arrangements referred to in (1) and (2) above will not apply in the following circumstances:
  - (i) in the case of a takeover offer including pursuant to the provision of an irrevocable undertaking to accept such an offer;
  - (ii) in the event of a disposal by the personal representatives of a Vendor (including Mr Wright) in the event of their death;
  - (iii) in the event of an intervening court order; and
  - (iv) in the event of a disposal pursuant to section 425 of the Act.

*(B) Macdonald*

Oliver Wright, Peter Moore, Robert Macdonald and Macdonald entered into a shareholders' agreement in relation to shares in Macdonald on 22 November 2001 that will terminate automatically on sale of the entire issued share capital of Macdonald without liability to Macdonald. Peter Moore and Robert Macdonald jointly hold 7,593 Macdonald Shares as nominee for MC Trustees Limited.

*(C) The Concert Party*

A voting agreement was entered into between Peter Moore and Robert Macdonald on 22 November 2001 by which either or both of Peter Moore and Robert Macdonald were in certain circumstances required to vote in favour of certain shareholder matters including a bona fide offer to purchase the entire issued share capital of Macdonald for £9,000,000 or more in aggregate. This voting agreement falls away on Peter Moore and Robert Macdonald ceasing to hold shares in Macdonald.

Pursuant to agreements dated 8 December 2005, Peter Moore has agreed, upon Completion, to sell 1,300 Macdonald B Shares to each of (1) John Lewis and MC Trustees Limited, (2) Jeanne Moore and (3) Gordon and Patricia Squires.

Pursuant to an agreement dated 1 April 2005, John Lewis and MC Trustees Limited (through the agency of Robert Macdonald and Peter Moore) acquired 72 Macdonald A Ordinary Shares and 15,114 Macdonald B Ordinary Shares from Oliver Wright and, at the same time, John Lewis sold 1,791 Macdonald B Ordinary Shares and 1,792 Macdonald B Ordinary Shares to Jeanne Moore and Gordon and Patricia Squires (the parents/parents-in-law of Peter Moore) respectively on the same terms and at the same price as the acquisition from Oliver Wright, except as to uplift on a change of control within nine months from 1 April 2005. The uplift for the Oliver Wright sale is based on a formula depending upon the date of actual change of control of Macdonald, whereas the uplift for the personal sale by John Lewis is a fixed percentage share for the entire nine month period. In both cases, interest is to be added.

Other than as described in paragraphs 13(B) and (C) there are no contracts entered into by any member of the Concert Party that are considered to be material.

#### **14. Litigation**

No legal or arbitration proceedings are active, pending or threatened against or being brought by the Company or Macdonald which are having or may have a significant effect on the financial position of the Company, Macdonald or any subsidiary of either such company (as the same is defined in section 736 of the Act) and, so far as the Directors and the Proposed Directors are aware, there are no such proceedings pending or threatened by or against the Company, Macdonald or any such subsidiary interest as aforesaid, and there have not been any governmental, legal or arbitration proceedings (including threatened proceedings of which the Directors and the Proposed Directors are aware) during the 12 month period prior to the date of this document that may have, or have had, significant effects on the Company's, Macdonald's or any subsidiary interests' financial position or profitability.

#### **15. United Kingdom taxation**

The following statements are intended only as a general guide to current United Kingdom tax legislation and to what is understood to be the current practice of the United Kingdom HM Revenue and Customs (the "Revenue") for shareholders who are resident, or ordinarily resident, in the United Kingdom for tax

purposes and who hold their shares as investments. Any person who is in any doubt as to his tax position is strongly recommended to consult his professional advisers immediately.

### ***Taxation of dividends***

#### ***(a) Tax treatment of the Company***

Under current United Kingdom law no taxation will be withheld from dividends paid by the Company. In addition, there is no longer an obligation on the Company to account for advance corporation tax on dividends paid by it.

#### ***(b) Tax treatment of United Kingdom resident individual shareholder***

An individual United Kingdom resident shareholder is generally entitled to a notional tax credit in respect of the dividend, which he can set off against his total liability to United Kingdom income tax. The amount of the tax credit is equal to 1/9th of the cash dividend. The cash dividend aggregated with the amount of the tax credit (“the gross dividend”) will be included in the shareholder’s income for United Kingdom tax purposes and will be treated as the top slice of the shareholder’s income. Thus, a shareholder receiving a dividend of £90 will be treated as having received income of £100 that has a tax credit of £10 attached to it. An individual United Kingdom resident shareholder who, after taking into account the gross dividend, pays income tax at the lower rate or basic rate will have no further liability to account for income tax on the dividend.

Depending on their personal circumstances UK resident, or ordinarily resident, shareholders may be subject to capital gains tax in respect of any gain arising on disposal.

#### ***(c) Tax treatment of United Kingdom resident corporate shareholder***

A shareholder of Ordinary Shares that is a company resident (for tax purposes) in the UK and receives a dividend paid by the Company will not be subject to tax in respect of the dividend.

A corporate shareholder resident for tax purposes in the UK that sells or otherwise disposes of its Ordinary Shares may, depending upon the shareholder’s circumstances, and subject to any available relief, incur a liability to UK tax on any capital gain or deemed capital gain realised.

#### ***(d) Shares held outside the CREST system***

The conveyance or transfer on sale of the Ordinary Shares will usually be subject to stamp duty on the instrument of transfer, generally at the rate of 0.5 per cent. of the amount or value of the consideration. Stamp duty is charged in multiples of £5. An obligation to account for stamp duty reserve tax (“SDRT”) at the rate of 0.5 per cent. of the amount or value of the consideration will also arise if an unconditional agreement to transfer the Ordinary Shares is not completed by a duly stamped instrument of transfer before the “accountable date” for SDRT purposes. The accountable date is the seventh day of the month following the month in which the agreement for the transfer is made (extended to 60 days from the date of the agreement by concession from the Revenue). Any SDRT paid can be reclaimed if a duly stamped instrument is entered into within 6 years of the agreement and the appropriate stamp duty paid (although if this does not take place within the 60 day period referred to above, a liability to interest and penalties may arise). It is the purchaser of the shares who is in general liable to account for stamp duty or SDRT.

#### ***(e) Shares held within the CREST system***

The transfer of the Ordinary Shares in uncertificated form in the CREST system will generally attract a liability to SDRT at the rate of 0.5 per cent. of the amount or value of the consideration and this will generally be deducted automatically. The above statements are intended as a general guide to the current position. Certain categories of person may not be liable to stamp duty or SDRT, or may be liable at a higher rate.

**If you are in any doubt as to your tax position, or are subject to tax in a jurisdiction other than in the UK, you should consult your professional adviser immediately.**

## 16. Middle market quotations

The closing middle market quotations for Ordinary Shares, as derived from the AIM Appendix of the London Stock Exchange Daily Official List, on the first day of dealings of each month since June 2005 and on 7 December 2005 (being the latest practicable date prior to the publication of this document) were:

<i>Date</i>	<i>Price per Ordinary Share (p)</i>
1 July 2005	6.00
1 August 2005	5.75
1 September 2005	6.00
3 October 2005	6.375
1 November 2005	6.50
1 December 2005	6.25
7 December 2005	6.25

## 17. Persons responsible for this document

The Directors and the Proposed Directors, whose names and addresses appear on page 3 of this document, accept responsibility for the information contained in this document. To the best of the knowledge and belief of the Directors and Proposed Directors (who have taken all reasonable care to ensure that such is the case), the information contained in this document is in accordance with the facts and does not omit anything likely to affect the import of such information.

## 18. General

- 18.1 Horwath Clark Whitehill LLP has given and has not withdrawn its written consent to the inclusion of its report on Macdonald in the form set out in Part III(A) of this document and to the inclusion of its report on the pro forma statement of net assets of the Enlarged Group set out in Part VI of this document and to the references to its name and reports in the form and context in which they appear in this document.
- 18.2 WH Ireland has given and has not withdrawn its written consent to the issue of this document with the inclusion of its name in the form and context in which it appears.
- 18.3 Except for the Existing Ordinary Shares which were admitted to trading on AIM on 22 June 2004 and other than the current application for Admission, neither the Consideration Shares nor Deferred Consideration Shares have been admitted to dealings on any recognised investment exchange nor has any application for such admission been made nor are there intended to be any other arrangements for dealings in the Existing Ordinary Shares, or the Consideration Shares or Deferred Consideration Shares.
- 18.4 The total costs and expenses relating to Admission, the Acquisition and the Share Capital Consolidation payable by the Company are estimated to amount to approximately £360,000 (including stamp duty and irrecoverable value added tax).
- 18.5 The accounting reference date of the Company is 31 December in each year. It is proposed that, subject to completion of the Acquisition, the Company's accounting reference date will change to 31 March in each year.
- 18.6 Save for the share option arrangements disclosed in this document, the payments to Christopher Heayberd and Simon Murphy respectively described in paragraphs 6.4 and 8 of this Part VII and the relevant members of the Concert Party in respect of the New Ordinary Shares to which they may become entitled under the Acquisition Agreement as described in paragraph 12 of this Part VII and set out in the table set out in sub-paragraph 9.4 of this Part VII, in the last twelve months no person (excluding professional advisers otherwise disclosed in this document and trade suppliers) has received or is contractually entitled to receive, directly or indirectly, from any member of the Enlarged Group or after Admission any payment or benefit from any member of the Enlarged Group to the value of £10,000 or more or securities in any member of the Enlarged Group to such value or has entered into any contractual arrangements to receive the same from any member of the Enlarged Group at the date of Admission.
- 18.7 The financial information relating to the Company and Macdonald contained in this document does not constitute statutory accounts of Macdonald for the year ended 31 March 2005 or of the Company for the year ended 31 December 2004 which have been filed with the Registrar of Companies and

contain an unqualified audit report within the meaning of section 235 of the Act and such report did not contain any statement required by the auditors under section 237(2) or (3) of the Act.

- 18.8 Save as set out in the unaudited interim results of Prime People for the nine months ended 30 September 2005 set out in Part V of this document, there has been no material change in the financial or trading position of the Company since 31 December 2004 or of Macdonald since 30 September 2005, being the dates, respectively, to which the most recent audited accounts of the Company and audited accounts of Macdonald, respectively, have been drawn up.
- 18.9 There are no environmental issues that the Board has determined may affect the Company's utilisation of tangible fixed assets and the Board has not identified any events that have occurred since the end of the last financial year and which are considered to be likely to have a material effect on the Company's prospects for the current financial year.
- 18.10 Where any information in this document is stated as sourced from a third party, the Directors confirm that this information has been accurately reproduced and as far as the Directors are aware and is able to ascertain from information published from that third party, no facts have been omitted that would render the reproduced information inaccurate or misleading.
- 18.11 The Consideration Shares and Deferred Consideration Shares will be issued in certificated form. It is expected that certificates in respect of the Consideration Shares will be despatched by 11 January 2006. No temporary documents of title will be issued in connection with the Acquisition.
- 18.12 Save as disclosed in this document there are no significant investments in progress by the Company and the Board has not made any firm commitments in respect of future significant investments, nor have there been any significant investments by the Company in the period since 31 December 2001.
- 18.13 Save as disclosed in this document, the Company is not aware of any arrangements, the operation of which, may at a subsequent date result in a change of control of the Company nor has there been any public takeover bid for the Company's equity share capital in the period commencing 1 January 2004.
- 18.14 The voting rights attached to each Ordinary Share currently held by and each New Ordinary Share which will on Admission be held by the major shareholders of the Company are the same as and will on Admission be the same as the voting rights attached to the other Ordinary Shares and New Ordinary Shares respectively.
- 18.15 BDO Stoy Hayward LLP were auditors of the Company for the years ended 31 December 2002, 2003 and 2004.
- 18.16 There are no significant recent trends, uncertainties, demands, commitments or events that are reasonably likely to have a material effect on the Company's prospects for at least the current financial year or that have taken effect since the end of the last financial year.

## **19. Availability of the Admission Document**

Copies of this document are available during normal business hours on any weekday (Saturdays, Sundays and public holidays excepted) free of charge from the Company's registered office and at the offices of WH Ireland for the period from the date of this document until one month after Admission.

## **20. Documents for inspection**

Copies of the following documents may be inspected at the offices of Stephenson Harwood during usual business hours on any weekday (Saturday, Sundays and public holidays excepted) for the period expiring at the close of business on 4 February 2006:

- (a) the Memorandum and Articles of Association of the Company and Macdonald;
- (b) the audited statutory accounts of Macdonald for the three financial years ended 31 March 2005 and for the six months ending 30 September 2006;
- (c) the audited statutory accounts of the Company for the three financial years ended 31 December 2004;
- (d) the reports by Horwath Clark Whitehill LLP on Macdonald and the pro forma net assets of the Enlarged Group set out in Parts III(A) and VI of this document;
- (e) the letters of resignation of certain of the Directors;
- (f) the service agreements of each of the Directors as set out in paragraph 6 of this Part VII;

- (g) the proposed service agreements and letters of appointment of each of the Proposed Directors and the Directors referred to in paragraph 6 of this Part VII;
- (h) the material contracts referred to in paragraph 13 of this Part VII;
- (i) the consent letters referred to in paragraphs 18.1 and 18.2 of this Part VII;
- (j) the irrevocable commitments obtained from Prime People shareholders as listed in paragraph 19 of Part I; and
- (k) this document.

Dated 9 December 2005

# Prime People plc

*(Registered in England and Wales under company number 1729887)*

## NOTICE OF EXTRAORDINARY GENERAL MEETING

NOTICE IS HEREBY GIVEN that an extraordinary general meeting of Prime People plc (the "Company") will be held at the offices of Stephenson Harwood, One St. Paul's Churchyard, London EC4M 8SH on 3 January 2006 at 11.00 a.m. for the purpose of considering and, if thought fit, passing the following resolutions of which resolutions 1, 2 and 6 will be proposed as special resolutions and resolutions 3, 4, 5, 7 and 8 will be proposed as ordinary resolutions:

### SPECIAL RESOLUTIONS

1. THAT, subject to the passing of Resolutions 3 to 5 and 7 in the notice of the meeting at which this resolution is to be proposed and pursuant to article 42 of the articles of association of the Company, every ten issued and to be issued ordinary shares of 1p each be and the same are hereby consolidated and converted into one ordinary share of 10p each in the capital of the Company but otherwise with the same rights attached to them as stated in the articles of association of the Company, provided that the Directors may deal with fractional entitlements of shares as they shall see fit in accordance with article 43 of the articles of association of the Company.
2. THAT, in the notice of the meeting at which this resolution is to be proposed, the articles of association of the Company be amended by the renumbering of articles 12, 13 and 14 as articles 12A, 12B and 12C, the insertion of new articles 13A to 13M as the same are attached to this Notice, and the replacement of article 126 with a new article 126 as the same is attached to this Notice.

### ORDINARY RESOLUTIONS

3. THAT, subject to the passing of Resolutions 1, 4, 5 and 7 in the notice of the meeting at which this resolution is to be proposed, the acquisition of the entire issued share capital of Macdonald & Company Group Limited be and is hereby approved.
4. THAT, subject to the passing of Resolutions 1, 3, 5, 6 and 7 in the notice of the meeting at which this resolution is to be proposed, the authorised share capital of the Company be increased to £1,600,000 by the creation of 8,000,000 ordinary shares of 10p each to have the rights attached to them as described in the articles of association of the Company.
5. THAT, subject to the passing of Resolutions 1, 3, 4 and 7 in the notice of the meeting at which this resolution is to be proposed, 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 £1,230,000 provided that such authority shall expire at the conclusion of the next annual general meeting of the Company or the date fifteen months from the date of this resolution, whichever the earlier, save that the Company may pursuant to such authority make offers or agreements before the expiry of such authority which would or might require relevant securities to be allotted in pursuance of such offers or agreements as if the authority conferred by this resolution had not expired and all authorities previously conferred upon the Company pursuant to Section 80 of the Act shall be revoked but without prejudice to any exercise of such other authorities prior to the date of this resolution.

### SPECIAL RESOLUTION

6. THAT, subject to the passing of Resolutions 1, 3, 4, 5 and 7, 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 5 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 £54,200.

## ORDINARY RESOLUTIONS

7. THAT, subject to the passing of Resolution 3 in the notice of the meeting at which this resolution is to be proposed, the waiver by The Panel on Takeovers and Mergers of any requirement for the members of the Concert Party (as defined in the admission document dated 9 December 2005 containing the Notice of this Extraordinary General Meeting) individually or collectively to make a general offer under Rule 9 of the City Code on Takeovers and Mergers following the issue of up to 8,344,230 ordinary shares of 10p each in the capital of the Company to the proposed vendors of the share capital of Macdonald & Company Group Limited, such vendors being considered to be members of the Concert Party, such that they would hold up to 69.37 per cent. of the voting share capital of the Company pursuant to the acquisition described in Resolution 3 in the notice of the meeting at which this resolution is to be proposed, be and is hereby approved.
8. THAT, conditionally on the passing of Resolutions 1 to 7, each of Robert Macdonald, Peter Moore and John Lewis be appointed as additional directors of the Company with immediate effect and, as appointees of the shareholders, therefore not be required to submit themselves for re-election at the next Annual General Meeting of the Company unless they retire by rotation at that time.

By order of the Board  
Christopher Heayberd  
*Secretary*

*Registered Office:*  
7 Breams Buildings  
London EC4A 1DT  
9 December 2005

### Notes:

- (1) A member of the Company may appoint one or more proxies to attend (and, on a poll, to vote) instead of the member. A proxy of a member need not also be a member of the Company.
- (2) The instrument appointing a proxy, and the power of attorney or other authority (if any) under which it is signed, or a notarially certified copy of that power or authority, must be deposited with the Company's registrars, Neville Registrars of Neville House, 18 Laurel Lane, Halesowen B63 3DA not less than 48 hours before the time for holding the meeting. A form of proxy accompanies this document for use by members.
- (3) Completion of the form of proxy will not preclude a member from attending and voting in person.
- (4) Any corporation which is a member of the Company may authorise a person (who need not be a member of the Company) to act as its representative to attend, speak and vote (on a show of hands or a poll) on its behalf. Pursuant to article 67 of the articles of association of the Company, such authorisation must be executed on behalf of the corporate member by a duly authorised officer.
- (5) Any instrument of proxy shall be deemed to confer authority to attend at any adjourned meeting as for the meeting to which the instrument of proxy relates.
- (6) Resolution 7 will be taken on a poll.

# Prime People plc

*(Registered in England and Wales under company number 1729887)*

## **ATTACHMENT TO NOTICE OF EXTRAORDINARY GENERAL MEETING**

- (a) To amend article 12 of the articles of association of the Company (the “Articles”) by its renumbering as article 12A and the insertion of the words “Subject to the provisions of article 13” at the beginning of that article;
- (b) To renumber articles 13 and 14 of the Articles as articles 12A, 12B and 12C respectively and to insert the following further articles:
  - 13A Unless otherwise determined by the Board, no person shall be entitled to receive a certificate in respect of any share for so long as the title to that share is evidenced otherwise than by a certificate and for so long as transfers of that share may be made otherwise than by a written instrument by virtue of the Regulations. The Board shall have power to implement any arrangements they may, in their absolute discretion, think fit in relation to the evidencing and transfer of shares in uncertificated form (subject always to the requirements of the relevant system concerned).
  - 13B Conversion of shares in certificated form into shares in uncertificated form and vice versa may be made in such manner as the Directors may, in their absolute discretion, think fit (subject always to the requirements of the relevant system concerned).
  - 13C The Company shall enter on the register how many shares are held by each member in uncertificated form and in certificated form and shall maintain the register in each case as is required by the relevant system concerned. Unless the Directors otherwise determine, holdings of the same holder or joint holders in certificated form and uncertificated form shall be treated as separate holdings.
  - 13D A class of share shall not be treated as two classes by virtue only of that class comprising both shares in certificated form and shares in uncertificated form or as a result of any provision of these Articles which apply only in respect of shares in certificated form or shares in uncertificated form.
  - 13E The Company shall not be bound to register more than four persons as the joint holders of a share, except in the case of executors or trustees of a deceased member.
  - 13F The provisions of articles 13J and 13K shall not apply to shares or debentures in uncertificated form.
  - 13G Notwithstanding any other provision of these Articles any provision in these Articles which is inconsistent with any regulations applicable from time to time in relation to the holding of shares in uncertificated form or the transfer thereof by means of a relevant system shall not apply in relation to any shares which are to be so held or transferred and shall accordingly be construed as if such provision incorporates such amendment as may be necessary to make the same consistent with such regulations.
  - 13H Every certificate for shares or debentures shall (subject to article 105) be issued under the Seal or bear an imprint or representation of the Seal or such other form of authentication as the Directors may determine and, subject as hereinafter provided, if issued under the Seal, shall bear the autographic signatures of at least one Director and the Secretary: Provided that the Board may by resolution determine that such signatures or either of them shall be dispensed with or shall be affixed by some method or system of mechanical signature.
  - 13I Certificates for shares or debentures registered in an overseas branch register for use in a place in which the Company has an official seal may be issued under such seal or bearing an imprint or representation of such seal, in which event the certificates need not be signed or authenticated.
  - 13J Subject to the provisions of these Articles, every member (other than a recognised clearing house or a nominee of a recognised clearing house or of a recognised investment exchange in respect of whom the Company is not by law required to complete and have ready for delivery a certificate)

shall be entitled without payment to one certificate for all his shares of each class or, upon payment of such reasonable sum as the Board shall determine for each additional certificate, to several certificates each for one or more of such shares: Provided that in the case of any share registered in the names of two or more persons the Company shall not be bound to issue more than one certificate in respect thereof to all the joint holders, and delivery of such certificate to any one of them shall be sufficient delivery to all. Where a member transfers part of the shares to which any certificate relates he shall be entitled to a certificate for the balance thereof without payment. Every certificate shall specify the number and class and distinguishing numbers (if any) of the shares to which it relates and the amount paid up thereon.

13K Subject to compliance with applicable laws the Company shall within one month after the allotment of any of its shares or debentures, and within five days after lodgment with the Company of any duly stamped and valid transfer of any of its shares or debentures, complete and have ready for delivery the certificates for the shares or the debentures so allotted or transferred, unless the conditions of issue of the shares or debentures otherwise provide or unless the shares or debentures are allotted or transferred as the case may be to a recognised clearing house or a nominee of a recognised clearing house or of a recognised investment exchange in respect of whom the Company is not by law required to complete and have ready for delivery a certificate.

13L If at any time all the issued shares of the Company, or all the issued shares of a particular class, are fully paid up and rank *pari passu* for all purposes, none of those shares shall thereafter (subject to any resolution of the Board to the contrary) have a distinguishing number so long as it remains fully paid up and ranks *pari passu* for all purposes with all shares of the same class for the time being issued and fully paid up.

13M If any certificate is worn out or defaced or is alleged to have been stolen, destroyed or lost, it may be renewed on such terms as to evidence, indemnity and the payment of the Company's exceptional out of pocket expenses as the Board may require and (in the case of wearing out or defacement) on surrender of the old certificate.

and

(c) To replace article 126 with the following article 126 and add articles 127 and 128 as follows:

126 Subject to the provisions of, and so far as is permitted by and consistent with the Act, every Director, company secretary or other officer of the Company shall be indemnified out of the assets of the Company against (a) any liability incurred by or attaching to him in connection with any negligence, default, breach of duty or breach of trust by him in relation to the Company or any associated company (as defined in Section 309A(6) of the Act (an "Associated Company") other than (i) any liability to the Company or any Associated Company and (ii) any liability of the kind referred to in Sections 309B(3) or (4) of the Act; and (b) any other liability incurred by or attaching to him in the actual or purported execution and/or discharge of his duties and/or the exercise or purported exercise of his powers and/or otherwise in relation to or in connection with his duties, powers or office. Where a Director, company secretary or other officer of the Company is indemnified against any liability in accordance with this article 126 such indemnity shall extend to all costs, charges, losses, expenses and liabilities incurred by him in relation thereto.

127 Subject to the provisions of, and so far as is permitted by and consistent with the Act, the Company (i) shall provide a Director, company secretary or other officer of the Company with funds to meet reasonable expenditure incurred or to be incurred by him in defending any criminal or civil proceedings or in connection with any application under the provisions mentioned in Section 337A(2) of the Act and (ii) shall do anything to enable a director, company secretary or other officer of the Company to avoid incurring such expenditure, but so that the terms set out in Section 337A(4) to (6) of the Act shall apply to any such provision of funds or other things done.

128 To the extent permitted by the Act the Directors may arrange insurance cover at the cost of the Company in respect of any liability, loss or expenditure incurred by any Director or other officer of a Group Company in relation to anything done or omitted to be done or alleged to have been done or omitted to be done as a Director or officer.

