

Prime People plc

Interim Report for the six months ended 30 September 2006

Prime People plc, one of the UK's leading commercial property recruitment specialists, announces its interim results for the six months to 30 September 2006.

Financial Highlights

- Ø Profit before tax increased 18% to £0.78m (2005 Pro forma : £0.66m);
- Ø Net fee income increased 28% to £4.91m (2005 Pro forma: £3.83m);
- Ø Operating profit increased 24% to £0.82m (2005 Pro forma: £0.66m);
- Ø Proposed interim dividend of 1.25p per share;

Operational Highlights:

- Ø Fee earners increased by 20% to 79 consultants worldwide;
- Ø Good performance from recently opened Dubai and Hong Kong offices;
- Ø New UK business unit established to focus on architecture recruitment;
- Ø International expansion continues, with Sydney office due to open in December and opportunities being explored in South Africa.

Peter Moore, Managing Director of Prime People plc said:

“The performance of our main subsidiary, Macdonald & Company continues to be very encouraging and we anticipate that there will be further opportunities for significant organic growth both in the UK and internationally.

“In the UK, demand for property professionals remains strong. Our new architecture business unit strengthens our offering and provides one of a number of good opportunities for continued growth in the coming year.

“Our recently opened offices in Dubai and Hong Kong are performing well. We plan to open an office in Sydney next month and are actively exploring opportunities in South Africa.

“Acquisitions remain a part of our growth strategy and we continue to actively explore opportunities.

“Our markets remain strong both in the UK and internationally and continue to provide excellent opportunities for organic growth. We are confident of making further good progress in the second half and producing results in line with expectations.”

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Prime People

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Prime People plc

Interim Report for the six months ended 30 September 2006

Introduction

These results for the six months ended 30 September 2006 are the first in which Prime People Plc has had the benefit of a full period of contribution from its main operating business, Macdonald & Company Group Limited (“Macdonald”) which was acquired on 4 January 2006. I am pleased to report a profit before taxation of £776,300 for the group which is in line with our expectations and which compares to a loss before taxation for the nine month period ended 30 September 2005 of £115,400 when there was no contribution from Macdonald.

Set out below are the results for the six months ended 30 September 2006 compared with the same period for the previous year as if all ongoing businesses had been in existence throughout that period.

The statutory results are set out in the financial tables at the end of this report.

	Six months ended 30 September 2006 £'000 Actual	Six months ended 30 September 2005 £'000 Pro forma	% change
Gross Fee Income	9,289	7,748	+ 19.9%
Direct Costs	(4,380)	(3,920)	
Net Fee Income	4,909	3,828	+ 28.2%
Admin Expenses	(4,088)	(3,165)	
Operating Profit	821	663	+ 23.8%
Net Interest	(45)	(6)	
Profit before tax	776	657	+ 18.1%
Taxation at 30%	(247)	(199)	
Profit after tax	529	458	+15.5%
Fully diluted EPS	4.40p	3.81p	+15.5%

Operating Review

Since the financial year-end we have increased fee earner numbers by 20% from 66 to 79 consultants worldwide.

We have made good progress on our international expansion strategy in the first half. Trading at our recently opened Dubai and Hong Kong offices has been encouraging and each of these offices now employs 6 consultants.

Our overseas expansion strategy is intended to take advantage of long-term opportunities in the global commercial property market and to provide the Group with a degree of counter cyclical protection of our revenues. Further expansion is planned in the second half with the opening of an office in Sydney and we have relocated a fee earner to Johannesburg to investigate opportunities in the Republic of South Africa where early indications are encouraging.

In the UK, we have continued to benefit from the strong demand for property professionals. Our move to new premises in Manchester has started to show positive results in increased performance from that region. We also established an Architecture business unit in London by appointing a senior manager, experienced in the sector, to head up this new division. Whilst initially focused in the UK market, we anticipate that this business unit will be rolled out internationally within the next twelve months. The strong organic growth we are experiencing, will give rise to costs in the current year with benefit accruing in subsequent years.

Financial Results

Macdonald

Our core business, which is the provision of recruitment services to the Commercial Property and Real Estate markets, has performed well during the period. Net Fee Income (NFI) increased by 30.7% from £3.62m to £4.73m over the same period last year.

Harper Craven

Harper Craven, which provides bespoke sales, marketing and management training and coaching programmes, has performed in line with expectations during the period and made a contribution of £29,022 to group profits in the first half (2005: loss of £2,915).

Dividend

An interim dividend of 1.25 pence per ordinary share will be paid on 21 December 2006 to shareholders on the register at 8 December. The payment of this dividend reflects the positive impact of the acquisition of Macdonald and the Board's continuing intention is to have a progressive dividend policy.

Inheritance Taxation

The company is quoted and regulated solely on AIM. The Board and its advisers believe that its activities and status makes investment in its Ordinary Shares compliant for Inheritance Tax Relief. However, shareholders, as always, are advised to seek professional advice in respect of their own tax positions.

Prospects

The performance of Macdonald continues to be very encouraging and we anticipate that there will be further opportunities for significant organic growth both in the UK and abroad.

As referred to above, in the UK and internationally demand for property professionals remains strong. Our new architecture business unit, our recently opened offices in Dubai and Hong Kong, and our opening of an office in Sydney next month, all offer good prospects for solid organic growth.

Acquisitions remain a part of our overall growth strategy and we have held a number of preliminary discussions during the period. However, none of these have met our stringent acquisition criteria. We continue actively to explore opportunities.

We look forward to the second half confident of making further good progress and producing results in line with expectations.

R J G Macdonald
Executive Chairman

Consolidated income statement

for the six months ended 30 September 2006 (unaudited)

	Notes	Six months ended 30 September 2006 £	Nine months ended 30 September 2005 £	15 months ended 31 March 2006 £
Continuing operations				
Gross fee income		9,289,344	490,049	5,373,053
Direct costs		(4,380,192)	(141,304)	(2,256,403)
Net fee income		4,909,152	348,745	3,116,650
Administrative expenses		(4,087,631)	(533,982)	(2,985,125)
Operating profit / (loss)		821,521	(185,237)	131,525
Share of operating loss in associate		-	(20,825)	(78,756)
Impairment loss in associated undertaking		-	(9,000)	(155,920)
		-	(29,825)	(234,676)
Profit / (loss) before interest		821,521	(215,062)	(103,151)
Interest receivable and similar income		4,781	100,760	134,253
Interest payable and similar charges	2	(50,002)	(1,098)	(42,109)
Profit / (loss) before taxation		776,300	(115,400)	(11,007)
Taxation	3	(247,166)	-	(15,510)
Profit/(loss) after tax for continuing activities		529,134	(94,575)	52,239
Share of (loss)/profit after tax in associate		-	(20,825)	(78,756)
Profit/(loss) for the period attributable to equity shareholders		529,134	(115,400)	(26,517)
Earnings / (loss) per share	5			
- Basic		4.56p	(3.13p)	(0.52p)
- Diluted		4.40p	-	(0.52p)
- Continuing basic		4.56p	(2.57p)	6.69p
- Continuing diluted		4.40p	-	6.09p

Consolidated statement of changes in shareholders equity

for the six months ended 30 September 2006 (unaudited)

	Called up Share capital £	Shares to be issued £	Share premium account £	Other reserve £	Share option reserve £	Retained earnings £	Total £
At 1 January 2005	368,467	-	909,925	173,077	-	1,888,868	3,340,337
Loss	-	-	-	-	-	(115,400)	(115,400)
At 30 September 2005	368,467	-	909,925	173,077	-	1,773,468	3,224,937
New shares issued	715,559	-	5,304,441	-	-	-	6,020,000
Consideration shares to be issued	-	1,000,000	-	-	-	-	1,000,000
Profit	-	-	-	-	-	88,883	88,883
Equity dividends	-	-	-	-	-	(46,090)	(46,090)
At 31 March 2006	1,084,026	1,000,000	6,214,366	173,077	-	1,816,261	10,287,730
New shares issued	118,864	(1,000,000)	881,136	-	-	-	-
Profit	-	-	-	-	-	529,134	529,134
Share option charge	-	-	-	-	22,671	-	22,671
Equity dividends	-	-	-	-	-	(120,289)	(120,289)
At 30 September 2006	<u>1,202,890</u>	<u>-</u>	<u>7,095,502</u>	<u>173,077</u>	<u>22,671</u>	<u>2,225,106</u>	<u>10,719,246</u>

Consolidated balance sheet

at 30 September 2006 (unaudited)

	Notes	As at 30 September 2006 £	As at 30 September 2005 £	As at 31 March 2006 £
Assets				
Non-current assets				
- Goodwill		9,769,229	-	9,769,229
- Property, plant and equipment		280,994	35,717	259,861
- Investment in associate		-	381,851	-
- Deferred tax asset		70,337	-	74,669
		<u>10,120,560</u>	<u>417,568</u>	<u>10,103,759</u>
Current assets				
Investment held for sale		-	-	177,000
Trade and other receivables		3,837,708	290,183	3,332,890
Cash and cash equivalents		35,055	2,722,309	317,877
		<u>3,872,763</u>	<u>3,012,492</u>	<u>3,827,767</u>
Total assets		<u>13,993,323</u>	<u>3,430,060</u>	<u>13,931,526</u>
Liabilities				
Current liabilities				
Financial liabilities – borrowings		393,660	36,563	445,001
Trade and other payables		1,653,834	161,686	1,771,922
Current tax liabilities		246,583	-	303,749
		<u>2,294,077</u>	<u>198,249</u>	<u>2,520,672</u>
Non current liabilities				
Financial liabilities – borrowings		980,000	6,874	1,123,124
		<u>980,000</u>	<u>6,874</u>	<u>1,123,124</u>
Total liabilities		<u>3,274,077</u>	<u>205,123</u>	<u>3,643,796</u>
Net assets		<u>10,719,246</u>	<u>3,224,937</u>	<u>10,287,730</u>
Capital and reserves				
Called up share capital		1,202,890	368,467	1,084,026
Share premium account		7,095,502	909,925	6,214,366
Other reserve		173,077	173,077	173,077
Consideration shares to be issued		-	-	1,000,000
Share option reserve		22,671	-	-
Retained earnings		2,225,106	1,773,468	1,816,261
Equity shareholders' funds		<u>10,719,246</u>	<u>3,224,937</u>	<u>10,287,730</u>

Consolidated Cash Flow Statement

for the six months ended 30 September 2006(unaudited)

	Notes	Six months ended 30 September 2006 £	Nine months ended 30 September 2005 £	15 months ended 31 March 2006 £
Cash flows from operating activities				
Cash generated by operations	6	270,427	(218,102)	154,792
Taxation received		-	-	4,815
Corporation tax paid		(300,000)	-	(589,679)
Net cash used in operating activities		(29,573)	(218,102)	(430,072)
Cash flows from investing activities				
Interest received		4,781	100,760	134,253
Interest paid		(50,002)	(1,098)	(42,109)
Purchase of subsidiary undertaking		-	-	(9,875,994)
Net cash acquired with business		-	-	202,368
Proceeds from sale of associate		177,000	-	-
Net purchase of property, plant and equipment		(70,272)	(2,874)	(12,791)
Net cash from /(used) in investing activities		61,507	96,788	(9,594,273)
Cash flows from financing activities				
Issue of ordinary share capital		-	-	6,020,000
New bank loan		-	-	1,400,000
Repayment of bank loan		(140,000)	-	-
Capital element of hire purchase obligations		(3,748)	(5,623)	(9,373)
Dividend paid to shareholders		(120,289)	-	(46,090)
Net cash (used)/from financing activities		(264,037)	(5,623)	7,364,537
Net decrease in cash and cash equivalents		(232,103)	(126,937)	(2,659,808)
Cash and cash equivalents at start of period		160,374	2,820,182	2,820,182
Cash and cash equivalents at end of period		(71,729)	2,693,245	160,374

Notes to the Interim Financial Statements

for the six months ended 30 September 2006 (unaudited)

1. Accounting Policies

The consolidated interim financial statements are for the six months ended 30 September 2006. They have been prepared in accordance with International Financial Reporting Standards (IFRS) using the same accounting policies as those used in the preparation of the accounts for the fifteen months period ended 31 March 2006.

2. Interest

	Six months ended 30 September 2006 £	Nine months ended 30 September 2005 £	15 months ended 31 March 2006 £
Interest expense:			
Interest payable on bank borrowings	49,270	-	40,279
Interest payable on finance leases	732	1,098	1,830
	<u>50,002</u>	<u>1,098</u>	<u>42,109</u>

3. Taxation on profit on ordinary activities

Taxation has been provided by applying the standard rate of corporation tax in the UK.

4. Dividends

	Six months ended 30 September 2006 £	Nine months ended 30 September 2005 £	15 months ended 31 March 2006 £
Interim dividend for 2006 of 1.25 pence per share	-	-	46,090
Final dividend for 2006 of 1 pence per share	120,289	-	-
	<u>120,289</u>	<u>-</u>	<u>49,090</u>

An interim dividend of 1 pence per ordinary share will be paid on 21 December 2006 to those shareholders whose names are on the register on 8 December 2006.

Notes to the Interim Financial Statements (continued)

for the six months ended 30 September 2006 (unaudited)

5. Earnings per share

Earnings per share (EPS) has been calculated in accordance with IAS 33 “Earnings per share” and is calculated by dividing the profit/(loss) attributable to ordinary shareholders by the weighted average number of ordinary shares in issue during the period.

Earnings and weighted average number of shares used in the calculations are shown below:

	Six months ended 30 September 2006 £	Nine months ended 30 September 2005 £	15 months ended 31 March 2006 £
Retained profit/(loss) for basic earnings/(loss) per share	529,134	(115,400)	(26,517)
Tax on profit / (loss)	247,166		15,510
Exceptional item	-		185,700
Loss arising from associate undertaking	-	20,825	234,676
Profit before tax, exceptional items	776,300	(94,575)	409,369
Taxation	(247,166)	-	(71,220)
Adjusted retained profit/(loss) for adjusted earnings per share	529,134	(94,575)	338,149
	Number	Number	Number
Weighted average number of shares used for basic and continuing earnings per share	11,593,516	3,684,670	5,052,844
Dilutive effect of share options and shares to be issued	434,259	187,608	257,522
Diluted weighted average number of shares used for diluted earnings per share	12,027,775	3,872,278	5,310,366
	Pence	Pence	Pence
Basic diluted earnings per share	4.56p	(3.31p)	(0.52p)
Diluted earnings per share	4.40p	-	(0.52p)
Continuing basic earnings per share	4.56p	(2.57p)	6.69p
Continuing diluted earnings per share	4.40p	-	6.09p

Notes to the Interim Financial Statements (continued)

for the six months ended 30 September 2006 (unaudited)

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

	Six months ended 30 September 2006 £	Nine months ended 30 September 2005 £	15 months ended 31 March 2006 £
Operating profit/(loss)	821,521	(185,237)	131,525
Depreciation	49,171	11,096	38,127
Profit/(loss) on sale of tangible fixed assets	(32)	90	90
Share option charge	22,671	-	-
Increase in debtors	(504,816)	(28,131)	(205,943)
Increase/(decrease) in creditors	(118,088)	(15,920)	190,993
Net cash inflow/(outflow) from operating activities	270,427	(218,102)	154,792

7. Nature of the financial information

The interim financial information for the six months ended 30 September 2006, was approved by the board on 21 November 2006.

The financial information set out above does not constitute full accounts within the meaning of Section 254 of the Companies Act 1985. The comparative results for the fifteen months ended to 31 March 2006 have been extracted from the Group's financial statements for that period which have received an unqualified audit report and have been filed with the Registrar of Companies.

Copies of the interim results are being sent to shareholders. Further copies can be obtained from the company's registered office at: 40a Dover Street, Mayfair, London W1S 4NW.