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This document, which comprises an AIM admission document drawn up in accordance with the AIM Rules has been issued in connection with the application for Admission. This document does not comprise a prospectus under the Prospectus Rules and has not been approved by or filed with the Financial Services Authority.

Application has been made for all of the Ordinary Shares of Morson Group PLC both issued and to be issued to be admitted to trading on AIM, a market operated by London Stock Exchange plc. **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 of the United Kingdom Listing Authority.**

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 financial adviser. London Stock Exchange plc has not itself examined or approved the contents of this document.

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 Ordinary Shares to the Official List. London Stock Exchange plc has not examined or approved the contents of this document. The Ordinary Shares are not dealt in on any other recognised investment exchange and, apart from the application for admission to AIM, no other such applications have been or will be made.

It is expected that Admission will be effective and dealings in the Ordinary Shares will commence on AIM on 30 March 2006.



(Incorporated and registered in England and Wales under the Companies Act 1985 with Registered Number 5111937)

Placing of 22,500,000 Ordinary Shares at 160p per share

(ISIN Number: GB00B0R7WP21)

Admission to trading on AIM

arranged by Nominated Adviser and Broker

Brewin Dolphin Securities
Corporate Finance

The Directors of Morson Group PLC, whose names appear on page 3 of this document, accept responsibility both individually and collectively for the information contained in this document. To the best of the knowledge and belief of the 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. Under no circumstances should the information contained in this document be relied upon as being accurate at any time after Admission.

Brewin Dolphin Securities Ltd, which is a member of the London Stock Exchange and is authorised and regulated by the Financial Services Authority, is acting only for Morson Group PLC in connection with the Placing and the Admission and is not acting for any other person and will not be responsible to any person other than Morson Group PLC for providing the protections afforded to customers of Brewin Dolphin. In particular, the information contained in this document has been prepared solely for the purposes of the Placing and Admission and it is not intended to be relied on by any subsequent purchasers of Ordinary Shares (whether on or off exchange) and accordingly no duty of care is owed to them.

This document does not constitute an offer to sell or the solicitation of an offer to buy Ordinary Shares in any jurisdiction in which such offer or solicitation is unlawful. In particular, this document is not for distribution in or into the United States of America, Canada, Australia, the Republic of South Africa, the Republic of Ireland or Japan. The Ordinary Shares have not been and will not be registered under the United States Securities Act 1933 (as amended) nor under the applicable securities legislation of the United States of America or any province or territory of Canada, Australia, the Republic of South Africa, the Republic of Ireland or Japan or in any country, territory or possession where to do so may contravene local securities laws or regulations. Accordingly, the Ordinary Shares may not, subject to certain exemptions, be offered or sold directly or indirectly in or into the United States of America, Canada, Australia, the Republic of South Africa, the Republic of Ireland or Japan or to any national, resident or citizen of the United States of America, Canada, Australia, the Republic of South Africa, the Republic of Ireland or Japan. The distribution of this document in other jurisdictions may be restricted by law and therefore persons into whose possession this document comes should inform themselves about and observe any such restrictions. Any failure to comply with these restrictions may constitute a violation of the securities laws of any such jurisdiction.

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DIRECTORS, SECRETARY AND ADVISERS

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Gerard Anthony Mason	<i>Chief Executive</i>
Kevin Patrick Gorton	<i>Managing Director</i>
Paul John Gilmour	<i>Finance Director</i>
Karl Upton Monaghan	<i>Non-executive Director</i>
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PLACING STATISTICS

Issue Price	160p
Number of Ordinary Shares being issued	22,500,000
Percentage of enlarged issued Ordinary Share capital being issued	49.6%
Number of Ordinary Shares in issue following Admission	45,343,750
Gross proceeds of the Placing receivable by the Company	£36.0 million
Net proceeds of the Placing receivable by the Company	£34.3 million
Market capitalisation on Admission at the Issue Price	£72.55 million

EXPECTED TIMETABLE OF PRINCIPAL EVENTS

	<i>2006</i>
Date of publication of Admission Document	27 March
Admission and dealings in the Existing Shares and the New Ordinary Shares expected to commence on	30 March
CREST accounts (where relevant) expected to be credited for the New Ordinary Shares	30 March
Share certificates (where relevant) expected to be despatched for the New Ordinary Shares no later than	14 April

KEY INFORMATION

The following information is extracted from and should be read in conjunction with the full text of this document. This summary is not complete and does not contain all of the information which a prospective investor should consider before making an investment decision with respect to the Ordinary Shares. Prospective investors should read the whole of this document, including the Risk Factors set out in Part 2.

INTRODUCTION

Morson is ranked as the UK's leading provider of Technical recruitment services, supplying human capital solutions from 22 locations across the UK. The Group services a range of sectors including:

- aerospace and defence
- nuclear and power generation
- rail
- chemicals and pharmaceuticals
- automotive
- naval marine and shipbuilding

Morson International, the Group's core business which generated 95 per cent. of Group turnover in 2005, provides a range of human capital solutions, including the provision of temporary personnel, outsourced solutions, managing agent services, permanent recruitment and training services.

Morson Projects, which generated 5 per cent. of Group turnover in 2005, provides bespoke, multi-disciplined engineering design and project management services across a number of technical industries.

KEY STRENGTHS

The Directors believe that the following key strengths underpin the Group's prospects following flotation:

Market position

Morson is ranked as the UK's leading provider of Technical personnel and human capital services. It is estimated that the technical and engineering sectors together are worth approximately £2.8 billion, with the top 10 businesses providing Technical staffing solutions in the UK accounting for approximately £0.9 billion of turnover.

Visibility of earnings

Unlike much of the staffing industry, Morson generally provides recruitment services via framework contracts which typically last for 2–5 years. These contracts have historically generated consistent revenue and the Directors believe these arrangements can offer a good degree of earnings visibility.

Insulation from general recruitment economic cycles

The demand for Technical recruitment services reflects, in the Directors' opinion, the ongoing spend by the public and private sectors on major infrastructure and engineering design projects rather than changes in the short term economic environment, thus providing some insulation from general recruitment industry economic cycles.

Morson Projects

Morson Projects provides the Group with the ability to bid to retain or capture work which may otherwise be lost as a consequence of a customer's preference changing from employing contractors to outsourcing entire projects, hence providing a partial hedge against such changes and giving the Group an advantage over other technical staffing companies which do not have such a capability.

Growth opportunities

Applying the proceeds of the Placing to reduce gearing will allow the Group greater financial and strategic flexibility. The Directors consider that Morson, following Admission, will be better positioned to consolidate the UK Technical recruitment market than many of its competitors who are cash constrained due to their ownership structure.

Proven track record of consistent growth

Since 1999, the Group has grown annual revenues every year even during times when recessionary pressures impacted the general recruitment sector. During the same period, operating profits have grown from £4.6 million to £6.9 million.

THE MORSON BUSINESS MODEL

Morson International (“MI”)

MI's principal business is the provision of temporary staff, normally as an approved supplier, as one of a small number (typically up to 7) of preferred suppliers, as sole supplier, in a consortium with one of its competitors or as a managed vendor.

The Directors believe that in recent years procurement has become increasingly sophisticated and, as a result, many customers are moving away from simple approved supplier arrangements towards small consortia or sole supplier arrangements.

In order to protect its market position, margins and strengthen customer relationships, MI has increasingly focused on providing broad outsourced solutions, whereby the Group manages many aspects of the customer's human capital requirements as opposed to merely the provision of personnel. MI seeks to adopt an innovative and flexible approach to building and developing business solutions which add value to the customer, including the provision of services as a managed vendor which operates by rationalizing the staffing supply chain for the customer.

MI's customers range from smaller local companies to government agencies and blue-chip and multinational companies which are typically involved in long-term projects often supported, financially or otherwise, by national or local Government, for example the construction of Heathrow Terminal 5 and the development of the Joint Strike Fighter.

MI has longstanding relationships with its key customers which the Directors believe strengthen the Company's competitive position and provide barriers to entry. The Company has limited erosion among its key customer base and, as at 31 December 2005, MI had been dealing with its top 20 customers for an average of 11 years.

DYNAMICS OF THE TECHNICAL RECRUITMENT MARKET

There are a number of key market drivers which the Directors believe will continue to enhance Morson's market position in the Technical recruitment market and drive its future growth prospects. The key factors can be summarised as:

Customer market fundamentals – many of Morson's key clients are currently benefiting from publicly, PPP and privately funded long-term infrastructure and other capital intensive projects, which the Directors consider provide a positive outlook for the end markets which Morson services.

Increasing sophistication of procurement – in recent years there has been an increased tendency for businesses to outsource non-core processes. In addition, many of Morson's customers have increasingly sought to rationalise the number of agencies with which they deal and have sought to develop partnering relationships with staffing agencies, embedding them into their overall human capital management. The Directors believe that the broad range of services offered by Morson has positioned the Group to benefit from these trends.

Supply side fundamentals – certain of the market sectors in which the Group operates are experiencing a skills shortage which is increasingly leading to a demand for temporary staff and hence to possible rate increases and/or margin improvements.

GROWTH STRATEGY

The Directors intend to apply the proceeds of the Placing principally to reducing the gearing of the Group with a view to allowing greater strategic flexibility in the future. The Directors intend to pursue a two-pronged strategy to develop the Group's business following Admission through a combination of:

- Organic growth
- Acquisitions and strategic alliances

SUMMARY FINANCIAL INFORMATION

Financial track record

The financial track record of the Company is included in Part 3 of the document and summarised below:

	<i>Year ended 31 December</i>		
	<i>2003</i>	<i>2004</i>	<i>2005</i>
	<i>Actual</i>	<i>Actual</i>	<i>Actual</i>
	<i>£'m</i>	<i>£'m</i>	<i>£'m</i>
Turnover	199.1	234.7	265.9
Profit/(loss) on ordinary activities before taxation	5.8	6.3	6.9
Cash inflow from operating activities	5.7	6.6	10.1

The business has an established base of contracts and customer relationships which underpins the Company's future revenues and the Directors believe provide for a good degree of earnings visibility. Complementing this, the profile of Morson Projects' revenue streams allows the Group also to benefit from a higher margin income stream.

Morson has a strong track record of earnings and revenue growth and of cash generation, as summarised above. The contractual nature of the Company's business has allowed Morson to achieve growth even at times when wider economic factors have weakened the general recruitment market.

Current trading and prospects

Trading in the new financial year has commenced in line with Directors' expectations with demand for the Group's services under key framework contracts continuing to remain strong.

Over recent months the Group has been successful in securing new contracts/work with amongst others British Energy, BAe Systems and Airbus which the Directors believe will impact positively on the Group's performance in 2006.

The Group has been successful in retaining 15 out of the 16 top 20 key framework contracts which have come up for renewal or extension in the past two years. The Directors believe that MI's only key contract loss was a predominantly price-based decision by the client. Even following a contract loss MI has the opportunity to retain revenues by acting as first tier supplier to the successful bidder. MI has already commenced discussions to this end in respect of the one key contract loss. The successful bidder will take over the running of this contract from April 2006.

In the opinion of the Directors the Group's framework contracts provide a good degree of revenue and earnings visibility with 59 per cent. of MI's 2005 revenues being generated from framework contracts within the top 20 clients by revenue which are not up for renewal in 2006.

The Board believes that both MI and MP have a strong pipeline of work and exciting new business opportunities and are therefore confident that the Company will build up on the growth achieved to date.

Dividend policy

The Directors intend to pursue a progressive dividend policy with an interim dividend payable in November of each year and a final dividend in May of each year.

The first dividend to holders of Ordinary Shares is expected to be declared in November 2006 in respect of an interim dividend for the year ending 31 December 2006.

PART 1: INFORMATION ON MORSON

INTRODUCTION

Morson is ranked as the UK's leading provider of Technical recruitment services¹, supplying human capital solutions from 22 locations across the UK. The Group services a range of sectors including:

- aerospace and defence
- nuclear and power generation
- rail
- chemicals and pharmaceuticals
- automotive
- naval marine and shipbuilding

Morson International, the Group's core business which generated 95 per cent. of Group turnover in 2005, provides a range of human capital solutions, including the provision of temporary personnel, outsourced solutions, managing agent services, permanent recruitment and training services.

Morson Projects, which generated 5 per cent. of Group turnover in 2005, provides bespoke, multi-disciplined engineering design and project management services across a number of technical industries.

Since the MBO in 1999 referred to below, the Group has grown annual revenues every year even during times when recessionary pressures impacted the general recruitment sector. During the same period, operating profits have grown from £4.6 million to £6.9 million. The Group achieved this by focussing on sectors which generally have particular staffing requirements and economic cycles different to the wider economy, involving long-term capital intensive projects, often supported, financially or otherwise, by national or local government, for example the construction of Heathrow Terminal 5 and the maintenance and improvement of the rail network.

HISTORY AND BACKGROUND

Morson International was established by Gerry Mason in 1969 to provide temporary staffing and in-house design services. In 1979 Morson Projects was formed to offer bespoke multi-disciplined engineering design services and project management.

In 1989 both companies were sold to The Burns-Anderson Group PLC. Following the administrative receivership in 1992 of The Burns-Anderson Group PLC and its subsidiaries, the business of Morson International was repurchased by Gerry Mason and Ged Mason in 1992, and they went on to acquire Morson Projects Limited in 1998. Following expansion of the business, Ged Mason led an MBO in 1999, which provided an exit for Gerry Mason at the time of his retirement as an executive Director. The MBO was in part funded by Barclays Private Equity, who acquired a 55 per cent. stake in the business and permitted the incentivisation of management through the issue of shares.

In September 2005, the business was bought back from Barclays Private Equity using bank debt and risk capital provided by the Mason family, which valued the business at a value of £53.6 million including £8.8 million of dividends and interest previously paid to Barclays Private Equity during the investment period. The business is now 100 per cent. owned by the Directors and senior management.

¹ Source: Recruitment International Top 100 Report – August 2005, based on turnover

THE MORSON BUSINESS MODEL

Morson International

Morson International (“MI”), the Group’s core business generating 95 per cent. of Group turnover in 2005, provides the following core human capital solutions:

- provision of temporary personnel
- outsourced human capital solutions
- managed vendor services
- permanent recruitment
- training services

Business Model

MI’s principal business is the provision of temporary staff, which accounted for over 99 per cent. of turnover in the year ended 31 December 2005.

Unlike much of the staffing industry, MI generally provides recruitment services via framework contracts which typically last for 2 – 5 years. These contracts govern the terms upon which temporary staff are provided to customers who are often working on long term infrastructure and other capital intensive projects. These contracts have historically generated consistent revenue during their term and the Directors believe that these arrangements can offer MI a good degree of earnings visibility and some insulation from economic cycles in the recruitment sector.

The framework contracts do not have set minimum volume levels, but establish the key terms and conditions, including rates, under which MI will supply contractors. The contracts normally provide for one of the following arrangements:

- as an approved supplier
- as one of a small number (typically up to 7) of preferred suppliers
- as sole supplier
- in a consortium with one of the Company’s competitors; or
- as managed vendor.

The Directors believe that in recent years procurement has become increasingly sophisticated and as a result many customers are moving away from simple approved supplier arrangements towards small consortia or sole supplier arrangements.

In order to protect its market position, margins and strengthen customer relationships, MI has increasingly focused on providing broad outsourced solutions, whereby the Group manages many aspects of the customer’s human capital requirements as opposed to merely the provision of personnel. MI seeks to adopt an innovative and flexible approach to building and developing business solutions which add value to the customer, including the following:

Managed Vendor (“MV”)

In the year ended 31 December 2005, over 60 per cent. of MI’s revenue was generated from MV and sole supplier contracts. MV contracts operate by rationalising the staffing supply chain for MI’s customers. MI acts as a principal managing agent and provides a single point of contact for the customer’s procurement departments, through which the customer’s staffing requirements are channelled and then fulfilled by MI’s own contractor base or, by prior agreement with its customer, through various specified second tier suppliers. The MV solution allows MI efficiently to channel and manage staffing vacancies using tailored software systems developed by MI for each individual customer. The systems used by MI enable job vacancies to be posted on-line, tracking the development of the request against submitted candidate details.

Performance and account management information is generated and presented to the customer for comparison with contractual service level criteria. The Directors believe that MV contracts can generate significant operational and commercial benefits by control and reduction of supply chain costs by the removal of process duplication.

Vendor on Premises (“VOP”)

In order more closely to integrate with certain of its key clients, MI has developed its VOP offering under which MI provides permanent on-site representation to co-ordinate and manage the day-to-day staffing requirements. The Directors believe that this arrangement has proved extremely effective for MI as a way of providing a value added service and developing customer relationships.

Business Process Outsourcing (“BPO”)

The MI BPO service enables organisations to outsource complete departments, functions, projects or processes, with the intention of improving workforce flexibility, reducing costs and enhancing performance. The Directors believe that the availability of Morson Projects to outsource and manage projects on behalf of the customer has become an increasingly important differentiator which offers a competitive advantage to MI in winning and retaining contracts.

Recruitment Assessment Service (“RAS”)

The MI RAS is designed for outsourcing the recruitment of permanent staff. MI’s specialist teams advise on and design recruitment campaigns for the attraction, response handling, screening, assessment and interviewing of permanent staff.

The Directors believe that through these initiatives MI is increasingly being seen as a key partner for its customers as they undertake major capital intensive projects.

Recruitment of contractors

MI currently engages over 7,000 temporary contractors from a database of over 100,000 multi-disciplined engineering personnel. This database has been developed and expanded over a 36 year period and is considered by the Directors to be an important asset and competitive advantage for MI in the efficient and timely sourcing of technically qualified staff including those whose skillsets may be rare or in high demand. The Company endeavours to foster close relationships with its contractors and accordingly employs throughout the year a number of contractor loyalty initiatives. The Directors believe that the strength of these relationships, coupled with the strength of the Morson brand and the Group’s market position, encourages loyalty among the contractor base.

Contractors can be placed with customers for varying periods of time, with an estimated average assignment period of over 12 months. The average fees for a Morson contractor is in the region of £30,000 to £40,000 per annum.

The sourcing of contractors is managed at both a local level by the branch network and also centrally by resourcing managers within industry- and customer-focused teams. Recruitment is undertaken by a variety of traditional and new media including the press and the internet.

MI’s customers and revenue model

MI’s customers include a broad cross section of industries including aerospace, engineering, rail, construction and nuclear. They range from smaller local companies to government agencies and blue chip and multinational companies which typically are involved in long-term projects often supported, financially or otherwise, by national or local Government, for example the construction of Heathrow Terminal 5 and the development of the Joint Strike Fighter. The following is a selection of MI’s customers:

BAE SYSTEMS

ALSTOM

British Nuclear Group
intelligent nuclear clean-up

BAA

British Energy

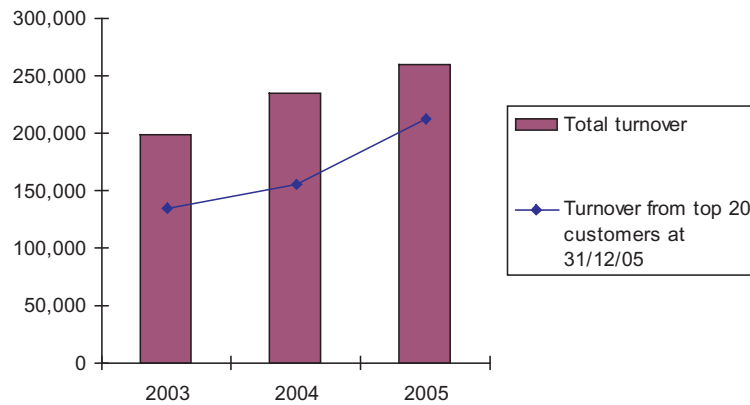
METRONET

AstraZeneca

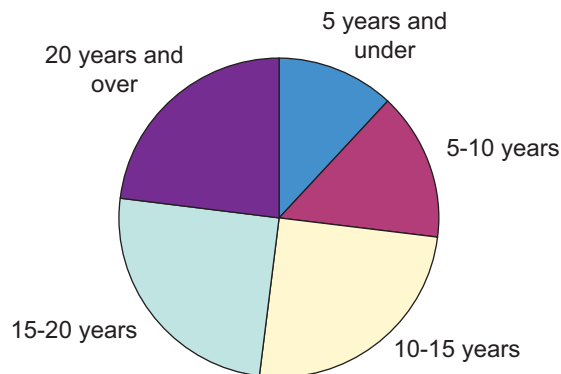
UKAEA
Restoring our Environment

Network Rail

In the year to 31 December 2005, over 80 per cent. of MI's revenues were generated from its top 20 framework contracts. Historically these contracts have provided consistent income streams and therefore the Directors consider that they provide a good degree of visibility of earnings. Over the last 3 years, the turnover generated from the current top 20 customers has been as follows:



MI has developed long-standing relationships with its customers which the Directors believe strengthen the Company's competitive position and provide barriers to entry. The Company has experienced limited erosion among its key customer base. Several of its customer relationships span more than 30 years and, as at 31 December 2005, MI had been dealing with its top 20 customers for an average of 11 years. The following chart demonstrates the proportion of the Company's revenue from its top 20 customers generated from long term relationships:



The Directors consider that the strength of the relationships which MI has with its customers and the Company's focus on the development of innovative and value added service offerings have contributed to the Company winning and retaining contracts.

New business development

MI's new business development activities are principally driven by a dedicated centrally based team focused on the identification of diversified but appropriate tender opportunities, the subsequent submission of tender proposals and, post-award, project implementation. Opportunities are identified from a variety of proprietary databases depending on the industry sector or engineering discipline. This team also seeks proactively to develop organic growth opportunities from key customers and other corporates.

The competitive tendering process enables MI to be innovative and offer a range of suitable delivery options. MI has a record of generating significant levels of new business (including winning re-tenders) both through successful tenders and organic business development via this centralised process. The Directors estimate that the Company is successful in approximately 70 per cent. of pre-qualification and tender processes, meaning any of the qualification stages involved in attaining approved supplier, preferred supplier or managed vendor status. During the last two years, the Company has successfully won 15 out of the 16 contracts among its top 20 which have been due for renewal or extension.

Major contract awards (including renewals) during the year ended 31 December 2005 include the following:

- Renewal and extension of the XPS contract for the provision of technical temporary personnel for BAe Systems;
- Renewal and extension of the XPS contract for non-technical temporary contractors to BAe Systems;
- Renewal of the Metronet sole supplier contract for protection services, track maintenance and labour renewals;
- Success on a new consortium proposal for Network Rail;
- Renewal of the UKAEA contract for the provision of temporary personnel;
- Renewal of technical temporary resource contract for British Energy.

Morson Projects

In 1979 a sister company to MI, Morson Projects Limited ("MP"), was formed in order to take advantage of a growing demand amongst MI's then core client base in aerospace and defence for a completely outsourced solution for selected projects. Since this time MP has grown its service offering such that it now provides a range of engineering design and project management services across a number of technical disciplines.

MP provides the Group with the ability to bid to retain or capture work which might otherwise be lost as a consequence of a customer's preference changing from employing contractors to outsourcing entire projects, and hence provides a partial hedge against such changes. In addition, the Directors believe that MP's capabilities give the Group as a whole an advantage over other technical staffing companies, which do not have such a capability. MP has historically accounted for only a small percentage of Group turnover, generating 5 per cent. of Group turnover in 2005. This is expected to continue but MP is able to obtain significantly higher operating margins than MI contributing to the Group's ability to grow profitability.

Operations

MP currently engages approximately 400 skilled engineers and is organised into discipline-led teams which can operate both autonomously or as integrated units within the customer's business. The requirements of individual projects can span across several technical disciplines, including the following:

- * *Aerospace structure* – initial concept design and stress analysis through to detailed CAD drafting of airframe structure, aero-engine components, systems engineering and interior furnishings.
- * *Mechanical engineering* – production of assembly and manufacturing drawings for applications including materials handling, pipe processing work, plant layouts and fabrications.
- * *Electrical engineering* – design of control systems, building services and protection systems for low voltage domestic/industrial use, up to high voltage transmission and distribution.
- * *Manufacturing engineering* – design of jigs and fixtures for the aerospace and automotive industries, supported by planning and programming of machine tools.
- * *Nuclear engineering* – technical documentation and wet process design.

Revenue profile

The majority of MP's revenue is generated through reimbursable hours with a proportion of the revenue generated from fixed price projects. By the nature of its operations, MP has historically had a less predictable sales profile than MI. MP has recently been successful in winning contracts from BAe Systems and Airbus which the Directors believe should underpin revenues and provide greater earnings visibility for a number of years. Gross margin is typically higher in this division reflecting the value added engineering and design services provided. MP benefits from the availability of MI's technical design staffing resources.

Morson office network

MI and MP are both headquartered separately in Manchester. MI has branch offices or operating facilities at 13 locations across the UK, in addition to 4 client site facilities. The Group's strategy with regard to its branch network is to open an office in a new location only when it is required to service a particular client, for example the Thurso office which services UKAEA, and then develop that office to service new clients in that geography.



THE TECHNICAL RECRUITMENT MARKET

Market size and growth

The market for recruitment services in the UK is estimated to be worth approximately £23.5 billion⁴, with 86 per cent. of these sales relating to the provision of temporary personnel⁴. The recruitment sector remains relatively fragmented with the top 100 of the UK staffing businesses accounting for approximately 50.8 per cent. of the market³.

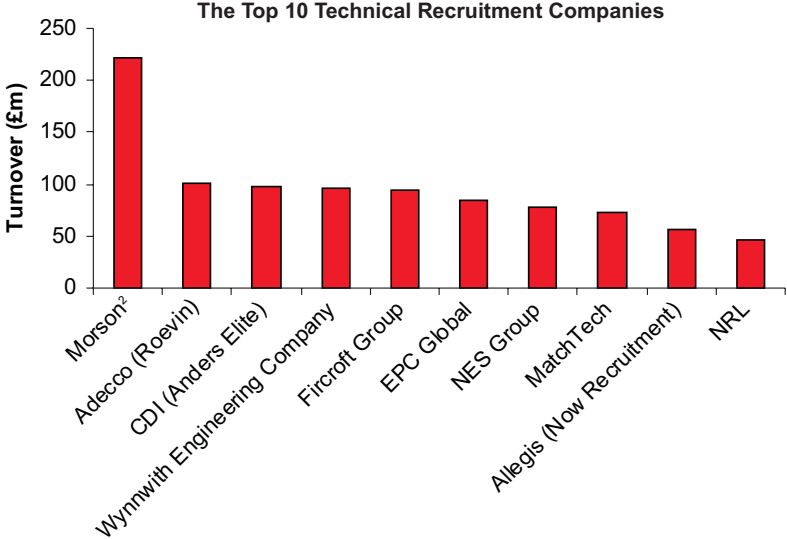
It is estimated that the technical and engineering sectors together represent approximately 14 per cent. of the temporary placements market⁴ and that the top 10 businesses providing Technical staffing solutions in the UK, of which Morson is the largest, account for approximately £0.9 billion of turnover³. The engineering and construction sectors are currently the strongest in the UK in terms of growth of demand for temporary staff⁵ and the Directors believe that these sectors are growing at a rate in excess of the general UK market for recruitment services.

Morson is ranked by Recruitment International as the UK’s leading supplier of Technical personnel and human capital services³.

The market for Technical recruitment services has significantly different characteristics than some other areas of the recruitment market place, in that, for example there is little reliance on ‘spot’ business with the majority of turnover from major and blue-chip clients being generated under framework agreements. It is largely accepted that the performance of the general recruitment market is closely correlated to growth or recession in the wider economy and consequent changes in employers’ confidence in their companies’ growth prospects. However the demand for Technical recruitment services reflects, in the Directors’ opinion, the ongoing spend both by the public and private sectors on major infrastructure and engineering design projects rather than changes in the short term economic environment.

Competition

The UK market for Technical human capital solutions is highly fragmented and dominated by private companies. It is estimated that the top 10 providers of Technical and engineering staff account for approximately £0.9 billion of turnover as set out below³:



In addition to the companies set out in the above table, whose operations are categorised as Technical recruitment, the Company competes with more generalist recruiters, such as Blue Arrow, Hays Montrose, Eden Brown, Rullion and others, in certain sectors.

The Directors consider that few of Morson’s competitors have the geographical coverage, critical mass or service delivery capabilities to match Morson’s ability to provide an efficient and flexible solution to customers’ Technical staffing requirements. The Directors believe that Morson has one of the widest

² 2004 turnover for Morson includes approximately £15 million generated from activities outside Technical recruitment
³ Source: Recruitment International Top 100 Report – August 2005, based on 2004 turnover
⁴ Source: REC 2004/5 Annual Recruitment Industry Survey
⁵ Source: REC Report on Jobs – 4 November 2005

service offerings in the Technical sector, helping to ensure that Morson has greater opportunity to capture new business and retain existing customers whatever their procurement strategies.

Market dynamics

There are a number of key market drivers which the Directors believe will continue to enhance Morson's market position in the Technical recruitment market and drive its future growth prospects. The key factors can be summarised as:

Customer market fundamentals

Many of Morson's key customers are currently benefiting from publicly, PPP and privately funded long-term infrastructure and other capital intensive projects, which the Directors consider provide a positive outlook for the end markets which Morson services. For example:

- *Power and nuclear* – Morson's future opportunities in the power sector arise from decommissioning projects and the outcome of the energy policy review, announced by the government on 29 November 2005, which specifically included the issue of whether the government will facilitate the development of a new generation of nuclear power stations⁷.
- *Aerospace* – Morson has customers operating in both military and civil aerospace sectors and the Directors anticipate significant future growth in this sector. For example Airbus has a large number of ongoing projects which are expected to require an increased demand in staff, including the development of civil aircraft, for example the A380 with which Morson has been involved for a number of years, and military aircraft such as the A400M⁸.
- *Rail* – Morson's key growth sector in recent years has been rail, with revenue increasing 59 per cent. over the two financial years to 31 December 2005. Metronet and Tube Lines, both customers of Morson, entered 30 year Public Private Partnership agreements to maintain and upgrade the London Underground in 2003. In the first seven and a half years, Metronet and Tube Lines have a combined commitment to spend £11.4 billion⁹.

In most of its major sectors Morson has long-standing customer relationships with key market participants.

Increasing sophistication of procurement

- *Business process outsourcing*

In recent years, driven by a desire to reduce costs, there has been an increased tendency for businesses to outsource processes such as human resource management and logistics to third party service providers. Morson has benefited from this trend.

The Directors believe that the trend towards outsourcing will continue in the Group's core sectors. In addition, they believe that as more Technical services are outsourced, the technical 'know-how' is being transferred to the outsourced providers such as Morson Projects, which creates increased barriers to entry for new market entrants.

- *Supplier rationalisation*

The Group has benefited significantly from supplier rationalisation in the UK market place. Many of Morson's customers have, in order to reduce cost and achieve greater levels of efficiency, increasingly sought to rationalise the number of agencies with which they deal, preferring to outsource using either the managed vendor model or alternatively a consortium of three or more preferred suppliers.

The Directors believe that Morson's ability to provide a broad range of services and to act as a managing agent for its customers has strategically positioned the Group to benefit from any future rationalisation programmes.

7 Source: DTI website "Our Energy Challenge – Securing clean, affordable energy for the long term" Consultation Document January 2006

8 Source: Airbus website

9 Source: Metronet and Tube Lines websites

– *Demand for partnership approach and added value services*

The Directors believe that major and blue-chip customers are seeking to develop partnering relationships with staffing agencies, embedding them into their overall human capital management. This has led to Morson developing and supplying services such as:

- business process outsourcing, particularly in the areas of engineering design and project management through Morson Projects
- Managed Vendor contracts which allow MI to efficiently channel and manage staffing vacancies using tailored software systems for each customer

Supply side fundamentals

Certain of the market sectors in which the Group operates are experiencing a skills shortage which is increasingly leading to a demand for temporary staff in those industries and hence to possible rate increases and/or margin improvements. Morson is seeking to mitigate the shortfall in the UK by accessing a European skills base through a joint venture in Serbia and European and US advertising.

GROWTH STRATEGY

As outlined in ‘Details of the Placing’ in Part 2 of this document, the Directors intend to apply the proceeds of the Placing to reduce gearing to allow greater financial and strategic flexibility. The Directors’ strategy to develop the Group’s business following Admission is comprised of both organic and acquisition initiatives.

Organic growth

The Directors intend to deliver organic revenue and earnings growth through the development of business with new and existing customers, targeting higher margin sectors, such as rail and pharmaceutical.

The Directors intend to increase the extent to which customers are tied-in to the Group through increased focus on larger scale and longer term contracts through the development of innovative and value added service offerings such as managed vendor initiatives and outsourced solutions including those offered by MP.

Furthermore, the Directors are seeking to extend the range of services offered to the customer. For example, it is intended that a new division will be established focussing on the provision of skilled blue collar support services into the Group’s existing customer base, seeking to maximise revenue from those customers.

Acquisitions and strategic alliances

The Directors intend to deliver non-organic revenue and earnings growth through developing strategic alliances and seeking acquisitions of complementary businesses. The Technical recruitment market is highly fragmented and provides significant consolidation opportunities, driven by continued supplier rationalisation which benefits larger players such as MI.

The Directors consider that Morson, following Admission, will be better positioned to consolidate the UK Technical recruitment market than many of its competitors who are cash constrained, due to their ownership structure.

REASONS FOR THE PLACING AND ADMISSION

The Group has reached a stage in its development where the Directors consider that its strategic objectives can be most readily achieved in the public arena.

Admission will give the Group access to a new source of funds and tradeable shares to facilitate the Group’s future growth, both organically and by acquisition. The Directors believe that a quotation on AIM will raise the status and market profile of the Group, promoting further awareness of Morson and that this increased awareness will strengthen the Group’s ability to attract new business and take advantage of growth opportunities.

In addition, the Directors believe that Admission will provide liquidity and a value for the Company's equity which, in conjunction with the EMI Scheme, will help the Group to continue to attract, motivate and retain staff of an appropriate calibre to achieve the growth opportunities.

BOARD AND SENIOR MANAGEMENT

Morson has operated in the Technical recruitment market since 1969 and the Board and the senior management team has over 100 years' combined experience in the Technical recruitment markets. This level of experience strengthens the Company's key customer relationships and enhances the opportunities for the management team to develop new service offerings.

Directors

The Board comprises the following directors:

Ged Mason (aged 42) – Chief Executive

Ged has been Chief Executive of Morson since January 2005, having been Managing Director since 1999. He joined Morson International in 1986 following completion of his university education and a period working for a technical recruitment organisation in Canada. As Chief Executive, Ged is responsible for key staff resourcing strategy, managing agent development and key client liaison.

Kevin Gorton (aged 42) – Managing Director

Kevin, who joined the Group in 1995, has extensive experience of managing multi-disciplined human capital management projects, including developing supply chains, change management processes, strategic implementation and operational delivery models. Kevin has a key role in the strategic development of the Group. Kevin has obtained an MBA and has recently submitted a PhD in Strategic Finance.

Paul Gilmour (aged 41) – Finance Director

Paul qualified as a chartered accountant with Touche Ross & Co before joining Morson in 1991 as financial controller. Paul became Finance Director in 1993 and is a key member of the management team responsible for the financial development of the Group.

Gerry Mason (aged 67) – Non-executive Chairman

Gerry trained as an engineer and founded the Morson business in 1969. Under Gerry's leadership the business grew to become the UK's leading provider of technical human capital solutions. Gerry retired as an Executive Director in 1999 but retains a wealth of industry experience and contacts.

Karl Monaghan (aged 43) – Non-executive Director

After graduating from University College Dublin with a Bachelor of Commerce degree, Karl trained as a Chartered Accountant with KPMG in Dublin. He has worked in corporate finance departments at a number of merchant banks and stockbrokers, latterly with Credit Lyonnais Securities for seven years and Robert W. Baird for two years until June 2002. During this time he focused on business services companies and has significant experience in advising companies in the staffing sector. He set up Ashling Capital LLP in December 2002 to provide consultancy services to quoted and private companies. He is also a non-executive director of AIM companies CareTech Holdings PLC and FDM Group PLC.

Ian Knight (aged 54) – Non-executive Director

Ian has worked in the finance departments of a number of major UK and multinational companies. He was previously Group Treasurer of the Yorkshire Water Group from privatisation in 1989 until 1998, when he became Finance and Strategic Development Director for its non-water subsidiaries, helping to grow these infrastructure businesses both organically and by acquisition. He is currently Non-Executive Chairman of QDS Environmental Limited and Delta Simons Environmental Consultants Limited and a Non-Executive Director of Mouchel Parkman Group.

Senior management

The Board is supported by a loyal senior management team who have been with the Group for an average of 15 years. The Directors believe the Group has a low rate of staff turnover compared to the rest of the recruitment sector. For example, turnover among recruitment staff at Morson in 2005 was just 13 per cent.

Management incentivisation and share options

The Directors believe that the recruitment, motivation and retention of key employees is vital for the successful growth of the Company. The Directors consider that an important element in achieving these objectives in a competitive employee market place is to provide employees with a remuneration package which includes an element that is linked to the continued future success of the Company. The Directors believe that while there should be an element of recognition of past contribution of certain key staff, the optimum package should include share incentive arrangements designed to provide continuing stimulus to contribute to the Company's growth over the medium term.

Accordingly the Directors have established the Share Option Schemes. Immediately following Admission, it is intended to issue options under the Share Option Schemes over Ordinary Shares with a value equal to £400,000 at the closing price on the day of Admission.

Further details of the Share Option Schemes are set out in Part 5 paragraph 7 of this document.

SUMMARY FINANCIAL INFORMATION

Financial track record

The financial track record of the Company is included in Part 3 of the document and summarised below:

	<i>Year ended 31 December</i>		
	<i>2003</i>	<i>2004</i>	<i>2005</i>
	<i>Actual</i>	<i>Actual</i>	<i>Actual</i>
	<i>£'m</i>	<i>£'m</i>	<i>£'m</i>
Turnover	199.1	234.7	265.9
Operating profit	5.8	6.3	6.9
Cash inflow from operating activities	5.7	6.6	10.1

The business has an established base of contracts and customer relationships which underpin the Company's future revenues and the Directors believe provide for a good degree of earnings visibility. Complementing this, the profile of Morson Projects' revenue streams allows the Group also to benefit from a higher margin income stream.

Morson has a strong track record of earnings and revenue growth and of cash generation, as summarised above. The contractual nature of the Company's business has allowed Morson to benefit from growth even at times when wider economic factors have weakened the general recruitment market.

Current trading and prospects

Trading in the new financial year has commenced in line with Directors' expectations with demand for the Group's services under key framework contracts continuing to remain strong.

Over recent months the Group has been successful in securing new contracts/work with amongst others British Energy, BAe Systems and Airbus which the Directors believe will impact positively on the Group's performance in 2006.

The Group has been successful in retaining 15 out of the 16 top 20 key framework contracts which have come up for renewal or extension in the past two years. The Directors believe that MI's only key contract loss was a predominantly price-based decision by the client. Even following a contract loss MI has the opportunity to retain revenues by acting as first tier supplier to the successful bidder. MI has already commenced discussions to this end in respect of the one key contract loss. The successful bidder will take over the running of this contract from April 2006.

In the opinion of the Directors the Group's framework contracts provide a good degree of revenue and earnings visibility with 59 per cent. of MI's 2005 revenues being generated from framework contracts within the top 20 clients by revenue which are not up for renewal in 2006.

The Board believes that both MI and MP have a strong pipeline of work and exciting new business opportunities and are therefore confident that the Company will build up on the growth achieved to date.

Dividend policy

The Directors intend to pursue a progressive dividend policy with an interim dividend payable in November of each year and a final dividend in May of each year.

The first dividend to holders of Ordinary Shares is expected to be declared in November 2006 in respect of an interim dividend for the year ending 31 December 2006.

PART 2: INFORMATION ON THE PLACING AND RISK FACTORS

DETAILS OF THE PLACING

Brewin Dolphin, as agent for the Company, has agreed conditionally to place firm a total of 22,500,000 Placing Shares at the Issue Price of 160p per share, representing 49.6 per cent. of the Company's issued share capital following Admission, which will raise approximately £36.0 million before expenses for the Company and £34.3 million after expenses.

The proceeds of the Placing will be utilised by the Company as follows:

	<i>£m</i>
Repayment of bank loans	22.0
Redemption of loan notes	12.3
Expenses	1.7
	<hr/>
	36.0

The Placing Shares will, when issued, rank *pari passu* in all respects with the Existing Shares, including the right to receive all dividends and distributions declared, paid or made after the date of this document.

The Directors, who together will control 46.9 per cent. of the issued share capital of the Company following Admission, have undertaken not to dispose of any Existing Shares for a period of one year following Admission without the prior consent of Brewin Dolphin, except in certain limited circumstances. The Directors have further undertaken to ensure that any disposal made by them of any Existing Shares for a period of one year following the first anniversary of Admission will be made in a manner that will ensure an orderly market can be maintained.

Further details of the Placing Agreement are set out in paragraph 13 of Part 5 of this document.

ADMISSION AND DEALINGS

Application has been made for the whole of the issued ordinary share capital of the Company to be admitted to trading on AIM. No application is being made for any of the Ordinary Shares to be admitted to the Official List of the UK Listing Authority or to the London Stock Exchange's market for listed securities.

The Directors have organised with CRESTCo for the Ordinary Shares to be admitted to CREST with effect from Admission. Accordingly, settlement of transactions in the Ordinary Shares following Admission may take place within the CREST system, if the relevant shareholders so wish. CREST is a voluntary system and holders of Ordinary Shares who wish to receive and retain share certificates will be able to do so. Persons acquiring Ordinary Shares under the Placing may, however, elect to receive Ordinary Shares in uncertificated form if, but only if, that person is a "system member" (as defined in The Uncertificated Securities Regulations (1995)) in relation to CREST.

It is anticipated that trading in the Ordinary Shares will commence at 8.00 am on 30 March 2006.

RISK FACTORS

Investing in the Company involves a degree of risk. You should carefully consider the risks and the other information contained in this document before you decide to invest in the Company. You should note that the risks described below are not the only risks faced by the Company, there may be additional risks that the Directors currently consider not to be material or of which they are not presently aware.

Investment risk an AIM

The Ordinary Shares will be traded on AIM and no application is being made for the admission of the Ordinary Shares to the Official List. AIM has been in existence since June 1995 but admission to AIM should not be taken as to imply that there is a liquid market in the Ordinary Shares. AIM is a market designed for small and growing companies. Both types of company carry higher than normal financial risk and tend to experience lower levels of liquidity than larger companies.

Investors should be aware that the value of the Ordinary Shares may be volatile and may go down as well as up and investors may not therefore recover their original investment.

Competitive pressures

Although currently ranked in a market-leading position in the UK Technical recruitment market, Morson faces the threat of increasing competition. In the mature market sectors in which MI operates, the Group has faced increased margin pressure on retendering. Continuing margin pressure may adversely affect the financial performance of the Company due either to the loss of a key customer contract on retender or reduced income on a retained contract. The Directors are seeking to mitigate this risk by focussing on higher margin sectors and service offerings.

Key customers

The Group generates a high proportion of income from a number of key customers, for example in the aerospace sector which contributed 35 per cent. of MI's turnover in the year ended 31 December 2005. Morson has recently secured new contracts for key customers, such as Airbus and BAe/Exchanging. However the Group is susceptible to a downturn in activity in this sector which could have a material impact on the financial performance of the Group. Despite the Company's historic success in retendering, there can be no assurance that any contracts will be retained as shown by the recent loss of a key contract.

Framework contracts

The framework contracts under which the Group's business generally operates do not specify any volumes of business. Despite the reliably consistent income streams generated from the Company's top 15 framework contracts, there can be no assurance that revenues will be generated at the same rate in the future. In addition, contracts typically contain provisions allowing the customers to terminate those contracts with a short notice period.

The Directors believe it is common practice for many of Morson's major customers, by virtue of their scale and consequent negotiating position, to contract based largely on their standard procurement terms. As a consequence, Morson and consortia partners can be exposed to wide ranging warranties and indemnities in framework agreements, which, if called upon, could have a material impact on the financial position of the Group.

The Directors consider that, in the context of Morson's operations and based on their experience, such warranties and indemnities present a low risk to the Group. Furthermore, Morson has never had any incidence of any claims arising from warranties and indemnities given in framework contracts.

Political environment

A change in government policy may impact on the level of public spending in the key sectors in which the Group operates. Changes of this nature in the macro-economic environment could adversely affect the financial performance of the Company.

Retention of key employees

If Morson fails to retain the key members of the management team or fails to attract appropriately qualified and experienced people as its business grows, there may be material adverse effects on the Company's relationship with its customers and on the rate of growth and profitability.

Management of growth

The Directors expect the Company to grow organically and by acquisition. Failure to successfully manage such growth and the integration of any acquisitions and new customers may have a materially adverse impact on the Company's business.

Legislative change

The Company's business is subject to European and UK employment legislation. Any changes to this, such as the proposed Agency Workers Directive which would give additional employment rights to temporary employees, may impact on the manner in which Morson conducts its business and could therefore affect the financial performance of the Group.

PART 3: FINANCIAL INFORMATION ON MORSON

Accountants' Report on Morson Group PLC for the three years ended 31 December 2005

The following is the full text of a report on Morson Group PLC from Deloitte and Touche LLP, the Reporting Accountants, to the Directors of Morson Group PLC.

Deloitte & Touche LLP
PO Box 500
201 Deansgate
Manchester
M60 2AT

The Directors
Morson Group PLC
Stableford Hall
Stableford Avenue
Monton
Eccles
Manchester
M30 8AP

27 March 2006

Dear Sirs

We report on the financial information set out on pages 24 to 49 of the AIM Admission Document dated 27 March 2006 of Morson Group PLC (the "Company") (the "Admission Document"). In this financial information the Company and its subsidiaries and, in relation to the periods prior to 20 September 2005, Morson Holdings Limited and its subsidiaries, are referred to as the "Group". This financial information has been prepared for inclusion in the Admission Document on the basis of the accounting policies set out Note 1 to the financial information. This report is required by Annex I item 20.1 of the Prospectus Rules and is given for the purpose of complying with that requirement and for no other purpose.

Responsibilities

The directors of the Company are responsible for preparing the financial information on the basis of preparation set out in Note 1 to the financial information and in accordance with UK GAAP.

It is our responsibility to form an opinion as to whether the financial information gives a true and fair view, for the purposes of the Admission Document, 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 in the United Kingdom. Our work included an assessment of evidence relevant to the amounts and disclosures in the financial information. It also included an assessment of significant estimates and judgments made by those responsible for the preparation of the financial information and 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 financial information gives, for the purposes of the Admission Document, a true and fair view of the state of affairs of the Group as at the dates stated and of its profits and cash flows for the periods then ended in accordance with the basis of preparation set out in note 1 and in accordance with UK GAAP.

Yours faithfully

Deloitte & Touche LLP
Chartered Accountants

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FINANCIAL INFORMATION ON THE GROUP

The following financial information has been prepared by the Directors of Morson Group PLC on the basis set out in Note 1 to the financial information for the purposes of complying with the requirements of Annex I item 20.1 in Appendix 3 to the Prospectus Rules, as applied by Schedule Two paragraph (a) of the AIM Rules.

CONSOLIDATED/COMBINED PROFIT AND LOSS ACCOUNTS

	Notes	Year ended 31 December		
		2003 ⁽ⁱ⁾ £'000	2004 ⁽ⁱ⁾ £'000	2005 ⁽ⁱⁱ⁾ £'000
TURNOVER	2	199,074	234,661	265,853
Cost of sales		<u>(182,264)</u>	<u>(215,827)</u>	<u>(244,214)</u>
GROSS PROFIT		16,810	18,834	21,639
Other net operating expenses		(9,027)	(10,624)	(12,498)
Exceptional acquisition costs	4	(136)	–	(25)
Exceptional redundancy costs	4	–	(59)	–
Other exceptional costs	4	–	–	(80)
Goodwill amortisation	4	<u>(1,810)</u>	<u>(1,852)</u>	<u>(2,094)</u>
		<u>(10,973)</u>	<u>(12,535)</u>	<u>(14,697)</u>
OPERATING PROFIT		5,837	6,299	6,942
Net interest payable ⁽ⁱⁱⁱ⁾	3	<u>(3,878)</u>	<u>(4,228)</u>	<u>(4,381)</u>
PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION	4	1,959	2,071	2,561
Tax on profit on ordinary activities	7	<u>(1,359)</u>	<u>(1,213)</u>	<u>(1,597)</u>
PROFIT ON ORDINARY ACTIVITIES AFTER TAXATION FOR THE FINANCIAL YEAR		600	858	964
Equity minority interests		–	–	(9)
RETAINED PROFIT FOR THE FINANCIAL YEAR		<u>600</u>	<u>858</u>	<u>955</u>
EARNINGS PER ORDINARY SHARE (BASIC AND DILUTED)	8	<u>£13.33</u>	<u>£19.21</u>	<u>£34.50</u>
EARNINGS PER ORDINARY SHARE (SUPPLEMENTARY)	8	<u>£0.03</u>	<u>£0.04</u>	<u>£0.05</u>

All results arose from continuing operations.

There are no recognised gains or losses other than the profit for the current and preceding years. Accordingly, a statement of total recognised gains and losses has not been prepared.

- (i) These results reflect the consolidated trading of Morson Holdings Limited and its subsidiary undertakings.
- (ii) These results reflect the aggregation of the consolidated trading of Morson Holdings Limited and its subsidiary undertakings and the trading results of the Company, and additional goodwill amortisation to be charged by the Company to represent a full year's amortisation charge for the combined companies (see note 30 for further details).
- (iii) As a result of the change in capital structure of the Group following the acquisition of Morson Holdings Limited by the Company, the information relating to financing costs in 2005 may not be comparable with 2003 and 2004.

CONSOLIDATED BALANCE SHEETS

		<i>31 December</i>		
	<i>Note</i>	<i>2003⁽ⁱ⁾</i> <i>£'000</i>	<i>2004⁽ⁱ⁾</i> <i>£'000</i>	<i>2005⁽ⁱⁱ⁾</i> <i>£'000</i>
FIXED ASSETS				
Intangible assets	9	28,683	26,940	29,225
Tangible assets	10	2,284	2,021	2,072
		<u>30,967</u>	<u>28,961</u>	<u>31,297</u>
CURRENT ASSETS				
Stocks	12	1,768	1,141	1,754
Debtors	13	37,877	42,102	46,647
Cash at bank and in hand	14	58	1,478	2,409
		<u>39,703</u>	<u>44,721</u>	<u>50,810</u>
CREDITORS: Amounts falling due within one year	15	<u>(35,823)</u>	<u>(40,851)</u>	<u>(45,631)</u>
NET CURRENT ASSETS		<u>3,880</u>	<u>3,870</u>	<u>5,179</u>
TOTAL ASSETS LESS CURRENT LIABILITIES		34,847	32,831	36,476
CREDITORS: Amounts falling due after more than one year	16	(33,991)	(31,431)	(33,632)
PROVISIONS FOR LIABILITIES AND CHARGES	17	(114)	(19)	(31)
TOTAL NET ASSETS		<u>742</u>	<u>1,381</u>	<u>2,813</u>
CAPITAL AND RESERVES				
Called up share capital	18	45	45	100
Share premium account	19	–	–	2,445
Profit and loss account	19	697	1,336	259
TOTAL EQUITY SHAREHOLDERS' FUNDS	20	<u>742</u>	<u>1,381</u>	<u>2,804</u>
Equity minority interests		–	–	9
		<u>742</u>	<u>1,381</u>	<u>2,813</u>

(i) This reflects the consolidated position of Morson Holdings Limited and its subsidiary undertakings.

(ii) This reflects the consolidated position of Morson Group PLC and its subsidiary undertakings.

CONSOLIDATED CASH FLOW STATEMENTS

	Note	Year ended 31 December		
		2003 ⁽ⁱ⁾ £'000	2004 ⁽ⁱ⁾ £'000	2005 ⁽ⁱⁱ⁾ £'000
NET CASH INFLOW FROM				
OPERATING ACTIVITIES	27a	5,736	6,611	10,107
RETURNS ON INVESTMENTS AND				
SERVICING OF FINANCE	27b	(4,226)	(3,746)	(4,049)
TAXATION	27b	(1,001)	(1,358)	(1,918)
CAPITAL EXPENDITURE AND				
FINANCIAL INVESTMENT	27b	(607)	(262)	(407)
ACQUISITIONS AND DISPOSALS	27b	–	(328)	(6,528)
EQUITY DIVIDENDS PAID		–	–	–
CASH (OUTFLOW)/INFLOW BEFORE				
 USE OF LIQUID RESOURCES				
 AND FINANCING		(98)	917	2,795
MANAGEMENT OF LIQUID RESOURCES	27b	–	–	(1,839)
FINANCING	27b	(2,290)	(1,492)	5,638
(DECREASE)/INCREASE IN				
 CASH IN THE YEAR	27c	(2,388)	(575)	1,004

(i) This reflects the consolidated cash flows of Morson Holdings Limited and its subsidiary undertakings.

(ii) The results reflect the aggregation of the consolidated cash flows of Morson Holdings Limited and its subsidiary undertakings and the cash flows of the Company and additional goodwill amortisation to be charged by the Company to represent a full year's amortisation charge for the combined companies (see note 30 for further details).

NOTES TO THE FINANCIAL INFORMATION

1. ACCOUNTING POLICIES

This financial information has been prepared in accordance with applicable accounting standards generally accepted in the United Kingdom ("UK GAAP").

A summary of the principal accounting policies is set out below. All policies have been applied consistently throughout each of the periods.

Basis of preparation

Morson Group PLC was incorporated on 26 April 2004. The company did not trade in the period to 31 December 2004. On 20 September 2005 the company acquired the entire issued share capital of Morson Holdings Limited. In this financial information Morson Group PLC and its subsidiaries and, in relation to periods prior to 20 September 2005, Morson Holdings Limited and its subsidiaries are referred to as the "Group".

In accordance with the guidance in the Annexure to Statement of Investment Reporting 2000 "Investment Reporting Standards Applicable to Public Reporting Engagements on Historical Financial Information" (the "Annexure"), the financial information for Morson Group PLC and Morson Holdings Limited has been presented on a combined basis for the year ended 31 December 2005. In relation to the profits and cash flows, this represents an aggregation of the consolidated results of Morson Holdings Limited for the period from 1 January 2005 to 31 December 2005 and the results of Morson Group PLC as adjusted to incorporate the additional amortisation of goodwill to be charged by the Company to represent a full year's amortisation charge for the combined companies. This basis of accounting is not provided for under UK GAAP but, in accordance with the guidance in the Annexure, has been adopted in order for the financial information to give a true and fair view for the purposes of the Admission Document. Further detail regarding the aggregation is set out in note 30 and a reconciliation of shareholders' funds is set out in note 20.

In relation to the balance sheet, the information presented at 31 December 2005 represents the consolidated balance sheet of Morson Group PLC and its subsidiary undertakings.

The financial information for the years ended 31 December 2003 and 31 December 2004 consolidates the financial information of Morson Holdings Limited and its subsidiary undertakings.

Except as described above in relation to the acquisition of Morson Holdings Limited, the results of subsidiaries acquired or sold are consolidated for the periods from or to the date on which control passed. Acquisitions are accounted for under the acquisition method.

Basis of accounting

The financial information is prepared under the historical cost convention and has been prepared in accordance with applicable United Kingdom accounting standards (as modified in accordance with the guidance in the Annexure as described above) and under the historical cost convention, applied on a consistent basis.

Intangible assets - goodwill

Purchased goodwill (representing the excess of the fair value of the consideration given over the fair value of the separable net assets acquired) arising on business combinations in respect of acquisitions since 1 January 1998 is capitalised. Positive goodwill is amortised to nil by equal annual instalments over its estimated useful life of up to 20 years.

Tangible fixed assets

Tangible fixed assets are stated at cost, net of depreciation and any provision for impairment. Depreciation is provided on all tangible fixed assets, at rates calculated to write off cost, less estimated residual value, of each asset on a straight-line basis over its expected useful life, as follows:

Property improvements	Life of lease
Fixtures, fittings and office equipment	4-8 years
Motor vehicles	4 years

1. ACCOUNTING POLICIES (continued)

Stocks

Stocks are stated at net cost less foreseeable losses. Cost comprises direct payroll costs and the attributable portion of all appropriate overheads.

Turnover

Turnover represents the amounts (excluding value added tax) derived from the provision of services to customers. Turnover is recognised on the basis of hours worked.

Profit is recognised on long term contracts, if the outcome can be assessed with reasonable certainty by including in the profit and loss account, turnover and related costs as contract activity progresses.

Foreign currency

Transactions in foreign currencies are recorded at the rate of exchange at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are reported at the rates of exchange prevailing at that date. Any gain or loss arising from a change in exchange rates subsequent to the date of the transaction is included as an exchange gain or loss in the profit and loss account.

Taxation

UK corporation tax is provided at amounts expected to be paid (or recovered) using the tax rates and laws that have been enacted or substantively enacted at the balance sheet date.

Deferred tax is recognised in respect of all timing differences that have originated but not reversed at the balance sheet date where transactions or events that result in an obligation to pay more tax in the future or a right to pay less tax in the future have occurred at the balance sheet date. Timing differences are differences between the company's taxable profits and its results as stated in the financial statements that arise from the inclusion of gains and losses in tax assessments in periods different from those in which they are recognised in the financial statements.

A net deferred tax asset is regarded as recoverable and therefore recognised only when, on the basis of all available evidence, it can be regarded as more likely than not that there will be suitable taxable profits from which the future reversal of the underlying timing differences can be deducted.

Deferred tax is measured at the average tax rates that are expected to apply in the periods in which the timing differences are expected to reverse based on tax rates and laws that have been enacted or substantively enacted by the balance sheet date. Deferred tax is measured on a non-discounted basis.

Pensions

Contributions to defined contribution schemes are charged to the profit and loss account when the contributions become payable in accordance with the rules of the scheme.

Leases

Tangible fixed assets held under finance leases and the related lease obligations are recorded in the balance sheet at the fair value of the leased assets at the inception of the lease. The excesses of the lease payments over the recorded lease obligations are treated as finance charges which are amortised over each lease term to give a constant rate of charge on the remaining balance of the obligations. Rental costs under operating leases are charged to profit and loss account in equal annual amounts over the periods of the leases.

Investments

Fixed asset investments are shown at cost less provisions for impairment. A review of impairment is carried out if events or changes in circumstances indicate that the carrying value of an investment may not be recoverable. Any loss that arises as a result of such an impairment is recognised in the profit and loss account for the financial year in which it is incurred.

1. ACCOUNTING POLICIES (continued)

Financial instruments

Note 25 of the financial information provides an explanation of the role that financial instruments have had during the period in creating or changing the risks the Group faces in its activities. The explanation summarises the objectives and policies for holding or issuing financial instruments.

The numerical disclosures in note 25 deal with the financial assets and liabilities as defined in FRS 13 and FRS 25, Derivatives and other Financial Instruments. Short term debtors and creditors have been excluded from the disclosures.

Employee benefit trusts

The financial information has been prepared in accordance with UITF 37, Purchase and Sales of Own Shares. Consideration paid for the company's own shares has been deducted from shareholders funds. No gain or loss has been recognised in the profit and loss account or statement of total recognised gains and losses for the purchase of the company's own shares.

Dividends

Dividends are recognised in the year in which they are authorised by the board of directors in accordance with FRS 21, Events after the Balance Sheet Date. Accordingly, the comparative result and position has been restated for the impact of this accounting standard.

Non-equity interests

Preference shares are classified as long term financial liabilities in accordance with FRS 25, Derivatives and other Financial Instruments. The dividends on shares are classified as interest. Accordingly, the comparative result and position has been restated for the impact of this accounting standard.

Cash

Cash, for the purposes of the cash flow statement, comprises cash in hand and deposits repayable on demand less overdrafts payable on demand.

2. SEGMENTAL INFORMATION

The turnover and profit on ordinary activities before taxation relate to the principal activities of the Group. An analysis of turnover by geographical market is as follows:

	2003 £'000	2004 £'000	2005 £'000
United Kingdom	198,348	233,193	263,510
Rest of Europe	719	1,461	2,281
North America	7	7	62
	<u>199,074</u>	<u>234,661</u>	<u>265,853</u>

3. NET INTEREST PAYABLE

	Year ended 31 December		
	2003 £'000	2004 £'000	2005 £'000
Interest payable			
Bank loans and overdrafts	740	1,055	1,822
Finance leases and hire purchase contracts	29	27	22
Other loans	2,576	2,498	1,894
Interest on preference shares	113	205	417
Other financing charges payable	421	445	278
Total interest payable	<u>3,879</u>	<u>4,230</u>	<u>4,433</u>
Interest receivable and similar income	(1)	(2)	(52)
Net interest payable	<u>3,878</u>	<u>4,228</u>	<u>4,381</u>

Included within other finance charges is the amortisation of finance costs of £232,000 (2004: £84,000, 2003: £84,000) associated with the raising of finance. The finance costs have been allocated in accordance with FRS 4, Capital Instruments.

As a result of the change in capital structure of the Group following the acquisition of Morson Holdings Limited by Morson Group PLC, the information relating to financing costs in 2005 may not be comparable with 2003 and 2004.

4. PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION

Profit on ordinary activities before taxation is stated after charging:

	Year ended 31 December		
	2003 £'000	2004 £'000	2005 £'000
Depreciation and amounts written off tangible fixed assets:			
– owned	650	415	401
– held under finance leases and hire purchase contracts	126	105	90
Amortisation of goodwill	1,810	1,852	2,094
Operating lease rentals:			
– plant and machinery	564	684	905
– other	573	795	861
Auditors' remuneration:			
– Group	23	23	28
– Company	6	7	10
– other services	36	5	–
Loss on sale of tangible fixed assets	32	35	8
Exceptional costs:			
– business acquisition	41	–	25
– aborted acquisition costs	95	–	–
– corporate finance advice	–	–	80
– redundancy and legal costs	–	59	–
Staff costs (see note 5)	<u>6,460</u>	<u>7,399</u>	<u>8,824</u>

The auditors for the years ended 31 December 2003 and 31 December 2004 were KPMG LLP. The auditors for the year ended 31 December 2005 were Deloitte & Touche LLP.

5. STAFF COSTS AND EMPLOYEE NUMBERS

The average number of employees (including executive directors) was:

	Year ended 31 December		
	2003 Number	2004 Number	2005 Number
Directors and recruitment managers	78	94	110
Administrative and support staff	144	158	162
	<u>222</u>	<u>252</u>	<u>272</u>

Their aggregate remuneration comprised:

	2003 £'000	2004 £'000	2005 £'000
Wages and salaries	5,719	6,548	7,819
Social security costs	637	731	877
Other pension costs (see note 24)	104	120	128
	<u>6,460</u>	<u>7,399</u>	<u>8,824</u>

6. DIRECTORS' REMUNERATION

a) Directors' remuneration

The total amounts for directors' remuneration were as follows:

	Year ended 31 December		
	2003 £'000	2004 £'000	2005 £'000
Emoluments	584	550	579
Pension contributions	74	79	73
Compensation for loss of office	–	48	–
	<u>658</u>	<u>677</u>	<u>652</u>

	Year ended 31 December 2003			
	Fees/ basic salary £'000	Benefits In kind £'000	Annual bonuses £'000	Total £'000
Executive				
P J Gilmour	99	8	38	145
G A Mason	115	87	30	232
J Walker	21	–	–	21
G G Mason	20	–	–	20
K Jordan	14	–	–	14
K Gorton	73	5	34	112
R Johnson	74	8	32	114
	<u>416</u>	<u>108</u>	<u>134</u>	<u>658</u>

6. DIRECTORS' REMUNERATION (continued)

	Year ended 31 December 2004			
	<i>Fees/ basic salary £'000</i>	<i>Benefits In kind £'000</i>	<i>Annual bonuses £'000</i>	<i>Total £'000</i>
Executive				
P J Gilmour	105	8	31	144
G A Mason	121	91	30	242
J Walker	20	–	–	20
G G Mason	20	–	–	20
K Jordan	12	–	–	12
K Gorton	98	6	24	128
R Johnson (including compensation for loss of office)	100	9	–	109
C Wall	2	–	–	2
	<u>478</u>	<u>114</u>	<u>85</u>	<u>677</u>

	Year ended 31 December 2005			
	<i>Fees/ Basic salary £'000</i>	<i>Benefits In kind £'000</i>	<i>Annual bonuses £'000</i>	<i>Total £'000</i>
Executive				
P J Gilmour	104	9	55	168
G A Mason	125	105	55	285
G G Mason	20	–	–	20
K Jordan	16	–	–	16
K Gorton	83	7	57	147
C Wall	16	–	–	16
	<u>364</u>	<u>121</u>	<u>167</u>	<u>652</u>

(b) Directors' pension contributions

3 directors are members of money purchase schemes (2003: 4; 2004: 4). Contributions paid by the company in respect of such directors are set out in the table below:

	Year ended 31 December		
	2003 £'000	2004 £'000	2005 £'000
Directors' pension contributions			
Executive			
P J Gilmour	7	7	7
G A Mason	56	57	60
K Gorton	4	5	6
R Johnson	7	10	–
	<u>74</u>	<u>79</u>	<u>73</u>

7. TAX ON PROFIT ON ORDINARY ACTIVITIES

	Year ended 31 December		
	2003 £'000	2004 £'000	2005 £'000
Analysis of tax charge in period			
<i>UK corporation tax</i>			
Current tax on income for the period	1,302	1,293	1,478
Adjustments in respect of prior periods	20	15	107
Total current tax	<u>1,322</u>	<u>1,308</u>	<u>1,585</u>
<i>Deferred tax (note 17)</i>			
Origination/(reversal) of timing differences	37	(95)	12
Total tax on profit on ordinary activities	<u>1,359</u>	<u>1,213</u>	<u>1,597</u>

The standard rate of tax for the period, based on the UK standard rate of corporation tax, is 30 per cent. The actual tax charge for the current and previous periods differs from the standard rate for the reasons set out in the following reconciliation:

	Year ended 31 December		
	2003 £'000	2004 £'000	2005 £'000
Profit on ordinary activities before tax	<u>2,067</u>	<u>2,271</u>	<u>2,978</u>
Tax at 30% thereon	620	681	893
Factors affecting the charge for the period:			
Expenses not deductible for tax purposes	624	607	568
Capital allowances in excess of depreciation	58	5	31
Adjustments in respect of previous periods	20	15	107
Small companies relief	–	–	(7)
Foreign company tax	–	–	(7)
Current tax charge for the period	<u>1,322</u>	<u>1,308</u>	<u>1,585</u>

8. EARNINGS PER ORDINARY SHARE

The calculations of earnings per ordinary share are based on the following earnings and number of shares:

	Year ended 31 December		
	2003 £'000	2004 £'000	2005 £'000
Basic and diluted			
Profit after taxation	<u>600</u>	<u>858</u>	<u>964</u>
	<i>Number</i>	<i>Number</i>	<i>Number</i>
Weighted average number of ordinary shares for profit per share	<u>45,000</u>	<u>44,667</u>	<u>27,945</u>

Basic and diluted earnings per share is calculated by dividing the earnings attributable to ordinary shareholders by the weighted average ordinary shares during the year.

	Year ended 31 December		
	2003 £'000	2004 £'000	2005 £'000
<i>Supplementary</i>			
Profit after taxation	<u>600</u>	<u>858</u>	<u>964</u>
	<i>Number</i>	<i>Number</i>	<i>Number</i>
Weighted average number of ordinary shares for profit per share	<u>21,000,000</u>	<u>21,000,000</u>	<u>21,000,000</u>

The supplementary EPS calculation is on the basis of the number of shares of the new parent company following the share restructuring (note 29).

9. INTANGIBLE FIXED ASSETS

Goodwill

	2003 £'000	2004 £'000	2005 £'000
Cost			
At 1 January	35,842	35,842	35,951
Additions	–	109	29,790
Adjustments to investments	–	–	(17)
Elimination of pre-acquisition goodwill	–	–	(35,934)
At 31 December	<u>35,842</u>	<u>35,951</u>	<u>29,790</u>
Amortisation			
At 1 January	5,349	7,159	9,011
Charge for the year	1,810	1,852	2,094
Elimination of pre-acquisition amortisation	–	–	(10,540)
At 31 December	<u>7,159</u>	<u>9,011</u>	<u>565</u>
Net book value			
At 31 December	<u>28,683</u>	<u>26,940</u>	<u>29,225</u>
At 1 January	<u>30,493</u>	<u>28,683</u>	<u>26,940</u>

The directors consider each acquisition separately for the purpose of determining the amortisation period of any goodwill that arises. Goodwill is amortised to nil by equal annual instalments over its estimated useful economic life of up to 20 years.

In the period to September 2005, the directors reassessed the future benefits of the goodwill previously held by Morson Holdings Limited and revised their outlook. This resulted in an increase charge of £209,000 (2004: £36,000, 2003: £nil).

10. TANGIBLE FIXED ASSETS

	<i>Property improvements</i>	<i>Office equipment</i>	<i>Fixtures and fittings</i>	<i>Motor vehicles</i>	<i>Total</i>
	<i>£'000</i>	<i>£'000</i>	<i>£'000</i>	<i>£'000</i>	<i>£'000</i>
31 December 2003					
Cost					
At 1 January 2003	654	1,929	470	419	3,472
Additions	300	270	80	325	975
Disposals	–	–	–	(160)	(160)
At 31 December 2003	<u>954</u>	<u>2,199</u>	<u>550</u>	<u>584</u>	<u>4,287</u>
Depreciation					
At 1 January 2003	100	969	169	56	1,294
Charge for the year	45	548	69	114	776
Disposals	–	–	–	(67)	(67)
At 31 December 2003	<u>145</u>	<u>1,517</u>	<u>238</u>	<u>103</u>	<u>2,003</u>
Net book value					
At 31 December 2003	<u>809</u>	<u>682</u>	<u>312</u>	<u>481</u>	<u>2,284</u>
At 31 December 2002	<u>554</u>	<u>960</u>	<u>301</u>	<u>363</u>	<u>2,178</u>
31 December 2004					
Cost					
At 1 January 2004	954	2,199	550	584	4,287
Additions	40	250	31	27	348
Disposals	–	–	–	(178)	(178)
At 31 December 2004	<u>994</u>	<u>2,449</u>	<u>581</u>	<u>433</u>	<u>4,457</u>
Depreciation					
At 1 January 2004	145	1,517	238	103	2,003
Charge for the year	53	259	79	129	520
Disposals	–	–	–	(87)	(87)
At 31 December 2004	<u>198</u>	<u>1,776</u>	<u>317</u>	<u>145</u>	<u>2,436</u>
Net book value					
At 31 December 2004	<u>796</u>	<u>673</u>	<u>264</u>	<u>288</u>	<u>2,021</u>
At 31 December 2003	<u>809</u>	<u>682</u>	<u>312</u>	<u>481</u>	<u>2,284</u>

10. TANGIBLE FIXED ASSETS (CONTINUED)

31 December 2005	<i>Property improvements</i> £'000	<i>Office equipment</i> £'000	<i>Fixtures and fittings</i> £'000	<i>Motor vehicles</i> £'000	<i>Total</i> £'000
Cost					
At 1 January 2005	994	2,449	581	433	4,457
Additions	73	355	52	143	623
Disposals	–	–	–	(208)	(208)
At 31 December 2005	<u>1,067</u>	<u>2,804</u>	<u>633</u>	<u>368</u>	<u>4,872</u>
Depreciation					
At 1 January 2005	198	1,776	317	145	2,436
Charge for the year	61	261	66	103	491
Disposals	–	–	–	(127)	(127)
At 31 December 2005	<u>259</u>	<u>2,037</u>	<u>383</u>	<u>121</u>	<u>2,800</u>
Net book value					
At 31 December 2005	<u>808</u>	<u>767</u>	<u>250</u>	<u>247</u>	<u>2,072</u>
At 31 December 2004	<u>796</u>	<u>673</u>	<u>264</u>	<u>288</u>	<u>2,021</u>

Included in the total net book value of motor vehicles is £224,000 (2004: £216,000, 2003: £439,000) and in the net book value of office equipment is £49,000 (2004: £59,000, 2003: £126,000) in respect of assets held under finance leases. Depreciation for the year on these assets was £90,000 (2004: £105,000, 2003: £126,000).

11. FIXED ASSET INVESTMENTS

On 20 September 2005 Morson Group PLC acquired 100% of the issued share capital of Morson Holdings Limited for cash consideration of £6,400,000 and acquisition expenses of £128,000. The fair value of the total consideration was £6,528,000.

The following table sets out the book and fair value of the identifiable assets and liabilities acquired.

	<i>Fair value and book value £'000</i>
FIXED ASSETS	
Tangible	2,143
	<u>2,143</u>
CURRENT ASSETS	
Stocks	1,376
Debtors	53,010
Cash	3,682
	<u>58,068</u>
TOTAL ASSETS	<u>60,211</u>
CREDITORS	
Bank loans and overdrafts	(62,464)
Trade creditors	(7,182)
Accruals	(13,006)
Taxation	(821)
	<u>(83,473)</u>
TOTAL LIABILITIES	<u>(83,473)</u>
Net liabilities	(23,262)
Goodwill	29,790
	<u>6,528</u>

No fair value adjustments have been made.

Satisfied by:

	<i>£'000</i>
Cash consideration	6,400
Acquisition expenses	128
	<u>6,528</u>

Net cash outflows in respect of the acquisition comprised:

	<i>£'000</i>
Cash consideration	(6,400)
Cash at bank and in hand acquired	3,682
Bank overdrafts acquired	(25,500)
Acquisition expenses	(128)
	<u>(28,346)</u>

An amount of £285,000 has been charged to the Group profit and loss account in respect of costs incurred in relation to the acquisition in the period from 20 September 2005 to 31 December 2005.

11. FIXED ASSET INVESTMENTS (CONTINUED)

The following acquisitions were made during the year ending 31 December 2004.

Gibbs Engineering Limited

	<i>Book value and fair value £'000</i>
Net assets acquired	
Tangible Fixed Assets	96
Debtors	173
Cash at bank	–
Creditors	(185)
Taxation	–
	<hr/> 84
Goodwill	<hr/> 85
	<hr/> 169
Satisfied by:	
Cash	<hr/> 169

Advantage Personnel Services Limited

	<i>Book value and fair value £'000</i>
Net assets acquired	
Tangible Fixed Assets	–
Debtors	244
Cash at bank	74
Creditors	–
Taxation	(15)
	<hr/> 303
Goodwill	<hr/> 24
	<hr/> 327
Satisfied by:	
Cash	<hr/> 327

The subsidiary undertakings in which the company's interest at the period end is more than 20 per cent. are as follows:

<i>Company</i>	<i>Shareholding</i>	<i>Trading activities</i>	<i>Country of incorporation</i>
Morson Holdings Limited	100% ordinary	Investment holding company	England
Morson Human Resources Limited	100% ordinary	Technical recruitment employment services business	England
Morson Projects Limited	100% ordinary	Engineering design company	England
Morson EBT Trustees Limited (formerly Coralcloud Limited)	100% ordinary	Dormant	England
Advantage Personnel Services Limited	100% ordinary	Dormant	England
Gibbs Engineering Technical Services Limited	100% ordinary	Dormant	England
Morson Serbia d.o.o	51% ordinary	Engineering and project management design services	Serbia

All investments, with the exception of Morson Holdings Limited, are held indirectly.

12. STOCKS

	2003 £'000	2004 £'000	2005 £'000
Work in progress	<u>1,768</u>	<u>1,141</u>	<u>1,754</u>

13. DEBTORS

	2003 £'000	2004 £'000	2005 £'000
Trade debtors	29,979	31,854	33,149
Other debtors	62	71	134
Prepayments and accrued income	<u>7,836</u>	<u>10,177</u>	<u>13,364</u>
	<u>37,877</u>	<u>42,102</u>	<u>46,647</u>

All amounts fall due within one year.

14. CASH AT BANK AND IN HAND

	2003 £'000	2004 £'000	2005 £'000
Cash	58	1,478	570
Amounts held on treasury deposits	<u>–</u>	<u>–</u>	<u>1,839</u>
	<u>58</u>	<u>1,478</u>	<u>2,409</u>

The £1,839,000 (2004: £nil, 2003: £nil) of cash held on treasury deposits is held as a guarantee against loan notes.

15. CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR

	2003 £'000	2004 £'000	2005 £'000
Bank loans and overdrafts	21,912	25,157	22,667
Obligations under finance leases and hire purchase contracts	228	160	111
Trade creditors	2,378	1,995	2,638
Taxation and social security	2,668	2,531	2,509
Corporation tax	668	618	849
Other creditors	3,558	5,062	6,909
Accruals and deferred income	4,410	5,326	8,109
Other loans	–	–	1,839
Proposed dividend	<u>1</u>	<u>2</u>	<u>–</u>
	<u>35,823</u>	<u>40,851</u>	<u>45,631</u>

Bank loans and overdrafts include an amount at 31 December 2005 of £19,283,000, (2004: £21,463,000, 2003: £19,418,000) in respect of amounts secured on the trade debtors of the Group.

16. CREDITORS: AMOUNTS FALLING DUE AFTER MORE THAN ONE YEAR

	2003 £'000	2004 £'000	2005 £'000
Bank loans and overdrafts	5,318	2,902	18,792
Obligations under finance leases and hire purchase contracts	218	74	90
Other loans	28,400	28,400	14,750
Preference shares	55	55	–
	<u>33,991</u>	<u>31,431</u>	<u>33,632</u>

Preferred ordinary shares

Preferred ordinary shareholders are entitled to a fixed cumulative dividend of 9 pence per share. From 2002 they are also entitled to a fixed percentage of profits as detailed in the Articles of Association.

Each preferred ordinary share has voting rights of one vote per share, each equivalent to the voting rights of the A and B ordinary shares.

On winding up the preferred ordinary shares rank in priority to any other class of share for payment of accrued dividends and the issue price of the share.

Debt can be analysed as falling due:

	2003 £'000	2004 £'000	2005 £'000
In one year or less, or on demand			
Bank loans and overdrafts	2,416	3,666	3,091
Other loans	–	–	1,839
Preference shares	55	55	–
Between one and two years			
Bank loans	2,420	2,940	2,858
Other loans	–	4,260	1,575
Between two and five years			
Bank loans	2,898	–	12,212
Other loans	28,400	24,102	13,175
Over five years			
Bank loans	–	–	3,722
	<u>36,189</u>	<u>35,023</u>	<u>38,472</u>

Excluding FRS 4 adjustments of £620,000 at 31 December 2005 (2004: £182,000, 2003: £84,000), the Group had a liability of £22,500,000 at 31 December 2005 (2004: £6,750,000, 2003: £8,000,000) in respect of bank loans. The loans are repayable by regular instalments in accordance with an agreed schedule by 2011. The bank loans in place in 2003 and 2004 were repayable by regular instalments in accordance with an agreed schedule to 2006. These loans were fully repaid in 2005 as part of the acquisition of Morson Holdings Limited by Morson Group PLC. New loans of £22,500,000 were taken out in 2005 as noted above.

Of the bank loans, £15,000,000 (2004: £nil, 2003: £nil) represents a loan at an interest rate (before charges) of 2.25 per cent. above LIBOR and £7,500,000 (2004: £nil, 2003: £nil) represents a loan at an interest rate (before charges) of 2.75 per cent. above LIBOR.

Of the bank loans, £nil (2004: £6,089,000, 2003: £6,089,000) represents loan notes issued at an interest rate (before charges) of 0.5 per cent. below LIBOR. The interest rate on the additional loan balance of £nil, (2004: £6,750,000, 2003: £8,000,000) is 2 per cent. above LIBOR.

The other loans are repayable in accordance with an agreed schedule between 2005 and 2007. £10,500,000 of other loans carries an interest rate of 5 per cent. The remaining £6,089,000 (2004: £17,900,000, 2003: £17,900,000) of the other loans carries an interest rate of 5.5 per cent. (2004: 8 per cent., 2003: 8 per cent.).

16. CREDITORS: AMOUNTS FALLING DUE AFTER MORE THAN ONE YEAR (CONTINUED)

The maturity of obligations under finance lease and hire purchase contracts is as follows:

	2003 £'000	2004 £'000	2005 £'000
Within one year	228	160	111
Within two to five years	218	74	90
	<u>446</u>	<u>234</u>	<u>201</u>

17. PROVISIONS FOR LIABILITIES AND CHARGES

Deferred taxation

	2003 £'000	2004 £'000	2005 £'000
At 1 January	77	114	19
Transfer to/(from) profit and loss	37	(95)	12
At 31 December	<u>114</u>	<u>19</u>	<u>31</u>

The amounts provided for deferred taxation are analysed below:

	2003 £'000	2004 £'000	2005 £'000
Difference between accumulated depreciation and capital allowances	<u>114</u>	<u>19</u>	<u>31</u>

The Group had no unprovided amounts in respect of deferred tax at the year end.

18. CALLED UP SHARE CAPITAL

	2003 £'000	2004 £'000	2005 £'000
Authorised			
<i>Morson Holdings Limited</i>			
30,000 'A' ordinary shares of £1 each	30	30	–
15,000 'B' ordinary shares of £1 each	15	15	–
<i>Morson Group PLC</i>			
1,000,000 ordinary shares of 1p each	–	–	10
Increase in authorised share capital (90,000 ordinary shares of £1 each)	–	–	90
	<u>45</u>	<u>45</u>	<u>100</u>

On 19 September 2005, the Directors passed a written resolution to consolidate the 100 ordinary shares of 1p each in the issued share capital of the company and the 999,900 ordinary shares of 1p each in the authorised but unissued share capital of the company into 10,000 ordinary shares of £1.00 each.

On the same day, the Directors passed a written resolution to increase the authorised share capital from £10,000 to £100,000 by the creation of 90,000 ordinary shares of £1.00 each.

Rights attached to shares

Ordinary shares

The 'A' ordinary and 'B' ordinary shares are equal in all respects as if they constitute one class of shares. Each share has voting rights of one vote.

Upon winding up any declared but unpaid dividends and the issue price of the share is returned to the ordinary shareholder. After this, the ordinary and preferential shares rank equally for any further distribution.

18. CALLED UP SHARE CAPITAL (CONTINUED)

	2003 £'000	2004 £'000	2005 £'000
Allotted, called up and fully paid			
<i>Morson Holdings Limited</i>			
30,000 'A' Ordinary shares of £1 each	30	30	–
15,000 'B' Ordinary shares of £1 each	15	15	–
<i>Morson Group PLC</i>			
1 ordinary share of 1p	–	–	–
Issues of shares	–	–	100
	<u>45</u>	<u>45</u>	<u>100</u>

On 19 September 2005, the company issued 99 ordinary shares of 1p each at par. These were then consolidated into 1 ordinary share of £1 as a result of the resolution noted above.

On 19 September 2005, the company issued 43,250 ordinary shares of £1 at a premium of £26.85, 9,749 ordinary shares of £1 at a premium of £122.56 and 2,000 ordinary shares of £1 at a premium of £44.45.

On 20 September 2005, the company issued 45,000 ordinary shares of £1 each at par.

19. RESERVES

	<i>Profit and loss account</i> £'000	<i>Share premium account</i> £'000	<i>Total</i> £'000
At 1 January 2003	97	–	97
Retained profit for the year	600	–	600
At 31 December 2003	697	–	697
Repurchase of shares	(219)	–	(219)
Retained profit for the year	858	–	858
At 31 December 2004	1,336	–	1,336
Premium on issue of shares	–	2,445	2,445
Retained profit for the year	955	–	955
Elimination of retained profits of Morson Holdings Limited as at 20 September 2005	(2,032)	–	(2,032)
At 31 December 2005	<u>259</u>	<u>2,445</u>	<u>2,704</u>

20. RECONCILIATION OF MOVEMENTS IN EQUITY SHAREHOLDERS' FUNDS

	2003 £'000	2004 £'000	2005 £'000
Opening equity shareholders' funds	142	742	1,381
Profit for the financial year	600	858	964
Repurchase of own shares (see note 21)	–	(219)	–
Conversion of preference shares	–	–	55
Elimination of equity shareholders' funds of Morson Holding Limited as at 20 September 2005	–	–	(2,132)
Equity minority interest	–	–	(9)
Issue of shares	–	–	2,545
Net addition to equity shareholders' funds	600	639	1,423
Closing equity shareholders' funds	<u>742</u>	<u>1,381</u>	<u>2,804</u>

21. EMPLOYEE BENEFIT TRANSACTIONS

During the year ended 31 December 2004, the Employee Benefit Trust purchased 1,500 "B" ordinary shares for the aggregate consideration of £219,000. The cost of these shares has been deducted in arriving at equity shareholders' funds for the year ended 31 December 2004 and 31 December 2005 in accordance with UITF 37.

At 31 December 2005, the Employee Benefit Trust held nil (2004: 1,500, 2003: nil) shares in Morson Holdings Limited. In 2004 these shares represented 1.5 per cent. of the total allotted share capital of that company.

On 20 September 2005, Morson Group PLC acquired the entire issued share capital of Morson Holdings Limited. As part of that transaction 55,000 £1 preferred ordinary shares were acquired directly by Morson Group PLC and 43,500 £1 ordinary shares, all of which belonged to management of the Group, were acquired by Morson Group PLC by issuing an equivalent 43,500 £1 ordinary shares in Morson Group PLC.

Furthermore, the Employee Benefit Trust was issued with 1,500 ordinary shares in Morson Group PLC for £nil consideration in exchange for the 1,500 shares it held in Morson Holdings Limited.

No cost has arisen on the acquisition of these shares by the Employee Benefit Trust therefore no reduction in equity shareholders' funds is required by UITF 37.

22. CONTINGENT LIABILITIES

Contingent liabilities in respect of guarantees and indemnities in the normal course of business totalled £nil at 31 December 2005 (2004: £10,466,500, 2003: £10,466,500).

23. OPERATING LEASE COMMITMENTS

Annual commitments under non-cancellable operating leases are as follows:

	2003		2004		2005	
	<i>Land and Buildings</i>	<i>Other</i>	<i>Land and Buildings</i>	<i>Other</i>	<i>Land and Buildings</i>	<i>Other</i>
	£'000	£'000	£'000	£'000	£'000	£'000
Operating leases which expire:						
Within one year	189	80	165	98	88	100
Within two to five years	89	30	87	32	176	103
Over five years	462	–	410	–	481	–
	<u>740</u>	<u>110</u>	<u>662</u>	<u>130</u>	<u>745</u>	<u>203</u>

There are no capital commitments for the year ended 31 December 2005, 31 December 2004 or 31 December 2003.

24. PENSION SCHEME

The Group contributes to several defined contribution pension schemes. The pension cost for the year represents contributions payable by the Group to the schemes and amounted to £128,000 (2004: £120,000, 2003: £104,000). Contributions of £nil at 31 December 2005 (2004: £nil, 2003: £nil) were payable to the scheme and are included within creditors at each year end.

25. DERIVATIVES AND OTHER FINANCIAL INSTRUMENTS

This note deals with financial assets and liabilities excluding investments in subsidiaries. As permitted by FRS 13 and FRS 25, Derivatives and other financial instruments: Disclosures, short term debtors and creditors have been excluded from the disclosures other than the foreign currency disclosures.

Policy

The Group's financial instruments comprise bank loans, cash and short-term deposits, debtors and creditors, which arise in the normal course of business. It is, and has been throughout the period under review, the Group's policy that no speculative trading in financial instruments shall be undertaken.

The main risks arising from the Group's financial instruments are interest rate risk, liquidity risk and foreign currency risk.

Interest rate risk and liquidity risk

Financial assets comprise cash at bank and in hand. All cash deposits in 2005 are available at a maximum of 1 months notice. There were no cash deposits in 2004 and 2003.

The benchmark for determining interest receivable on floating rate assets is linked to the base rate of the relevant company.

The interest rate profile of the Group's financial liabilities was as follows:

	<i>Total</i> £'000	<i>Floating rate</i> £'000	<i>Fixed rate</i> £'000	<i>Interest free</i> £'000
Sterling				
– preference shares	55	–	55	–
– borrowings	36,134	7,734	28,400	–
– finance leases	446	–	446	–
At 31 December 2003	36,635	7,734	28,901	–
	<i>Total</i> £'000	<i>Floating rate</i> £'000	<i>Fixed rate</i> £'000	<i>Interest free</i> £'000
Sterling				
– preference shares	55	–	55	–
– borrowings	34,968	6,606	28,362	–
– finance leases	234	–	234	–
At 31 December 2004	35,257	6,606	28,651	–
	<i>Total</i> £'000	<i>Floating rate</i> £'000	<i>Fixed rate</i> £'000	<i>Interest free</i> £'000
Sterling				
– borrowings	38,469	21,880	16,589	–
– finance leases	201	–	201	–
At 31 December 2005	38,670	21,880	16,790	–

At 31 December 2003, sterling fixed rate borrowings totalled £446,000 on finance leases at 11.5 per cent. interest for the remaining 34 months. At 31 December 2004, sterling fixed rate borrowings totalled £234,000 on finance leases at 11.6 per cent. interest for the remaining 34 months. At 31 December 2005, sterling fixed rate borrowings totalled £201,000 on finance leases at 11.4 per cent. interest for the remaining 34 months.

25. DERIVATIVES AND OTHER FINANCIAL INSTRUMENTS (CONTINUED)

At 31 December 2003, sterling fixed rate borrowings totalled £28,400,000 on other loans. £10,500,000 of the other loans carries an interest rate of 5 per cent. for the remaining 50 months. The remaining £17,900,000 of the other loan carries interest at a rate of 8 per cent. for the remaining 50 months.

At 31 December 2004, sterling fixed rate borrowings totalled £28,400,000 on other loans. £10,500,000 of the other loans carries an interest rate of 5 per cent. for the remaining 38 months. The remaining £17,900,000 of the other loan carries interest at a rate of 8 per cent. for the remaining 38 months.

At 31 December 2005, sterling fixed rate borrowings totalled £16,589,000 on other loans. £10,500,000 of the other loans carries an interest rate of 5 per cent. for the remaining 26 months. The remaining £6,089,000 of the other loan carries interest at a rate of 5.5 per cent. for the remaining 26 months.

There were no non-sterling fixed rate borrowings at any of these periods.

Interest on preference shares is fixed at 9 per cent. per annum, plus an obligation to a share of net profits (2005: £417,000, 2004: £200,000, 2003: £108,000).

In the years ended December 2003 and December 2004, the interest rate on floating rate financial liabilities is linked to LIBOR of 0.5 per cent. below LIBOR for loan notes and 2 per cent. above LIBOR for remaining loans.

Excluding FRS 4 adjustments of £620,000 at 31 December 2005, the Group had a liability of £22,500,000 in respect of bank loans. £15,000,000 of these loans carry an interest rate (before charges) 2.25 per cent. above LIBOR and the remaining £7,500,000 carry an interest rate (before charges) 2.75 per cent. above LIBOR.

Currency exposures

The main functional currency of the Group is sterling.

Maturity of financial liabilities

The Group's financial liabilities comprise loans and loan notes, finance lease creditors and non-equity shares, totalling £36,635,000 at 31 December 2003, £35,257,000 at 31 December 2004 and £38,670,000 at 31 December 2005. These are further analysed below:

	2003 £'000	2004 £'000	2005 £'000
In one year or less	2,699	3,881	5,038
In more than one year but not more than two years	2,638	7,274	4,450
In more than two years but not more than five years	31,298	24,102	25,460
In more than five years	—	—	3,722
	<u>36,635</u>	<u>35,257</u>	<u>38,670</u>

Included in amounts due in one year or less is £55,000 in respect of non-equity shares for the two years ending 31 December 2004. There are no non-equity shares for the year ending 31 December 2005.

Fair values

The directors consider there to be no material difference between the book value of financial instruments and their fair value at the balance sheet dates.

Market price risk

The principal market price risk comprises interest rate exposure. Group funds are invested in money market cash deposits with the objective of maintaining a balance between accessibility of funds and competitive rates of return.

26. RELATED PARTY TRANSACTIONS

The Group rents offices from Morson International Retirement Benefit Scheme under arms length agreements. The charge in the profit and loss account amounted to £184,000 for the year ended 31 December 2005 (2004: £184,000, 2003: £136,000).

The Group rents a flat which is owned by G A Mason under an arms length agreement. The charge in the profit and loss account for the year ended 31 December 2005 is £15,600 (2004: £15,600, 2003: £15,600).

Morson Human Resources Limited provides services on an arms length basis to LMG Project Services Limited ("LMG") in which a trust of which G A Mason is a beneficiary has a majority shareholding. These services amounted to £1,887,900 in the year ended 31 December 2005 (2004: £1,693,000, 2003: £958,000). At 31 December 2005, Morson Human Resources Limited was owed £168,000 (2004: £279,000, 2003: £357,000) by LMG. In addition, LMG provided consulting services to Morson Human Resources Limited on an arms length basis. These services amounted to £11,000 during 2005 (2004: £nil, 2003: £nil).

The Group rents offices and a flat from G A Mason trading as GGM properties under an arms length agreement. The charge in the profit and loss account for the year amounted to £96,000 (2004: £231,000, 2003: £199,000).

27. ANALYSIS OF CASH FLOWS

(a) Reconciliation of operating profit to net cash flow from operating activities

	<i>Year ended 31 December</i>		
	<i>2003</i>	<i>2004</i>	<i>2005</i>
	<i>£'000</i>	<i>£'000</i>	<i>£'000</i>
Operating profit	5,837	6,299	6,942
Depreciation charge	776	520	491
Amortisation of goodwill	1,810	1,852	2,094
Loss on sale of fixed assets	32	35	8
Increase in debtors	(4,796)	(4,225)	(4,545)
(Increase)/decrease in stocks	(485)	627	(613)
Increase in creditors	2,562	1,503	5,730
Net cash inflow from operating activities	<u>5,736</u>	<u>6,611</u>	<u>10,107</u>

27. ANALYSIS OF CASH FLOWS (continued)

(b) Analysis of cash flows

	Year ended 31 December		
	2003 £'000	2004 £'000	2005 £'000
Returns on investments and servicing of finance			
Interest received	1	2	52
Interest paid	(4,085)	(3,517)	(3,662)
Interest element of finance lease rental payments	(29)	(27)	(22)
Non-equity dividends paid	(113)	(204)	(417)
	<u>(4,226)</u>	<u>(3,746)</u>	<u>(4,049)</u>
Taxation			
UK corporation tax paid	<u>(1,001)</u>	<u>(1,358)</u>	<u>(1,918)</u>
Capital expenditure and financial investment			
Purchase of tangible fixed assets	(668)	(318)	(480)
Sale of tangible fixed assets	61	56	73
	<u>(607)</u>	<u>(262)</u>	<u>(407)</u>
Acquisitions and disposals			
Purchase of subsidiary undertakings	–	(109)	(6,528)
Purchase of own shares	–	(219)	–
	<u>–</u>	<u>(328)</u>	<u>(6,528)</u>
Management of liquid resources			
Treasury deposits	–	–	(1,839)
	<u>–</u>	<u>–</u>	<u>(1,839)</u>
Financing			
Issue of ordinary share capital	–	–	2,545
Repayment of bank loans	(2,000)	(1,250)	(18,561)
New bank loans	–	–	21,830
Capital element of finance lease rental payments	(290)	(242)	(176)
	<u>(2,290)</u>	<u>(1,492)</u>	<u>5,638</u>

27. ANALYSIS OF CASH FLOWS (CONTINUED)

(c) Analysis of net debt

	<i>1 January</i> 2003 £'000	<i>Cash flow</i> £'000	<i>Other</i> <i>non-cash</i> <i>changes</i> £'000	<i>31 December</i> 2003 £'000
Cash at bank and in hand	55	3	–	58
Invoice discounting overdraft	(17,018)	(2,400)	–	(19,418)
Overdrafts	(87)	9	–	(78)
	<u>(17,050)</u>	<u>(2,388)</u>	<u>–</u>	<u>(19,438)</u>
Loans due within one year	(1,916)	2,000	(2,500)	(2,416)
Loans due after more than one year	(36,134)	–	2,416	(33,718)
Finance leases and hire purchase contracts	(429)	290	(307)	(446)
Total	<u>(55,529)</u>	<u>(98)</u>	<u>(391)</u>	<u>(56,018)</u>
	<i>1 January</i> 2004 £'000	<i>Cash flow</i> £'000	<i>Other</i> <i>non-cash</i> <i>changes</i> £'000	<i>31 December</i> 2004 £'000
Cash at bank and in hand	58	1,420	–	1,478
Invoice discounting overdraft	(19,418)	(2,045)	–	(21,463)
Overdrafts	(78)	50	–	(28)
	<u>(19,438)</u>	<u>(575)</u>	<u>–</u>	<u>(20,013)</u>
Loans due within one year	(2,416)	1,250	(2,500)	(3,666)
Loans due after more than one year	(33,718)	–	2,416	(31,302)
Finance leases and hire purchase contracts	(446)	242	(30)	(234)
Total	<u>(56,018)</u>	<u>917</u>	<u>(114)</u>	<u>(55,215)</u>
	<i>1 January</i> 2005 £'000	<i>Cash flow</i> £'000	<i>Other</i> <i>non-cash</i> <i>changes</i> £'000	<i>31 December</i> 2005 £'000
Cash at bank and in hand	1,478	(908)	–	570
Invoice discounting overdraft	(21,463)	2,189	–	(19,274)
Overdrafts	(28)	(277)	–	(305)
	<u>(20,013)</u>	<u>1,004</u>	<u>–</u>	<u>(19,009)</u>
Loans due within one year	(3,666)	628	(50)	(3,088)
Loans due after more than one year	(31,302)	(3,897)	(182)	(35,381)
Finance leases and hire purchase contracts	(234)	176	(143)	(201)
Management of liquid resources	–	1,839	–	1,839
Total	<u>(55,215)</u>	<u>(250)</u>	<u>(375)</u>	<u>(55,840)</u>

28. ULTIMATE CONTROLLING PARTY

On 20 September 2005, the entire share capital of Morson Holdings Limited was acquired by Morson Group PLC, which became the ultimate parent undertaking at this time. Morson Group PLC is a company incorporated and registered in England and Wales. The accounts of this company are available to the public and may be obtained from Companies House.

The directors do not consider there to be an ultimate controlling party of Morson Group PLC because there is no majority shareholder. Prior to 20 September 2005 G A Mason was considered the ultimate controlling party by virtue of his majority shareholding in Morson Holdings Limited.

29. POST BALANCE SHEET EVENTS

On 21 March 2006 the members of the Company passed resolutions to:

- (i) convert the 100,000 authorised and issued ordinary shares of £1 each into 2,000,000 ordinary shares of 5 pence each;
- (ii) increase the authorised share capital from £100,000 to £3 million through the creation of 58,000,000 ordinary shares of 5 pence each;
- (iii) allow an amount of £950,000 from the share premium account to be utilised to enable the directors to make a bonus issue of 19,000,000 5 pence ordinary shares in the proportion of 19 new ordinary shares for every 2 ordinary shares currently held.

On 22 March 2006, Morson Group Limited registered as a public limited company and was renamed Morson Group PLC. The Company is referred to as Morson Group PLC throughout this financial information.

30. BASIS OF AGGREGATION

In accordance with the Annexure, the financial information for Morson Group PLC and Morson Holdings Limited has been presented on a combined basis for the year ended 31 December 2005. In relation to the profits and cash flows, this represents an aggregation of the consolidated results of Morson Holdings Limited and the results of Morson Group PLC as adjusted to incorporate the additional amortisation of goodwill to be charged by the Company to represent a full year's amortisation for the combined companies.

	<i>Year ended 31 December 2005</i>			
	<i>Morson Holdings Consolidated £'000</i>	<i>Morson Group PLC £'000</i>	<i>Adjustments £'000</i>	<i>Aggregated £'000</i>
Profit and loss accounts				
Operating profit	7,066	(63)	(61)	6,942
Net interest payable	(3,463)	(501)	–	(3,964)
Profit on ordinary activities before taxation	3,603	(564)	(61)	2,978
Tax on profit on ordinary activities	(2,161)	564	–	(1,597)
Profit on ordinary activities after taxation	1,442	–	(61)	1,381
Equity minority interests	(9)	–	–	(9)
Dividends	(417)	–	–	(417)
Retained profit for the financial year	1,016	–	(61)	955
Cash flows				
Net cash flow from operating activities	10,199	(92)	–	10,107
Returns on investment and servicing of finance	(3,853)	(196)	–	(4,049)
Taxation	(1,918)	–	–	(1,918)
Capital expenditure	17,155	(17,562)	–	(407)
Acquisitions and disposals	–	(6,528)	–	(6,528)
Equity dividends paid	–	–	–	–
Cash flow before use of liquid resources and financing	21,583	(24,378)	–	(2,795)
Management of liquid resources	(1,839)	–	–	(1,839)
Financing	(18,737)	24,375	–	5,638
Increase/(decrease) in cash in the year	1,007	(3)	–	1,004

PART 4: PRO FORMA FINANCIAL INFORMATION

PRO FORMA PROFIT AND LOSS ACCOUNT AND NET ASSET STATEMENT

The following is an unaudited aggregated pro forma profit and loss account and unaudited pro forma statement of consolidated net assets, which are based on the financial information of Morson Holdings Limited and Morson Group PLC for the year ended 31 December 2005, and have been prepared in accordance with Annex 2 of the Prospectus Directive regulations and the notes set out below. The unaudited aggregated pro forma profit and loss account and statement of consolidated net assets have been prepared to illustrate the effect of the proceeds of the placing on the profit and loss account and net assets of the Group, as if they had occurred on 1 January 2005 and 31 December 2005 respectively.

The unaudited aggregated pro forma profit and loss account and unaudited pro forma statement of consolidated net assets have been prepared for illustrative purposes only and because of its nature, the pro forma financial information addresses a hypothetical situation and, therefore, does not represent the Group's actual financial position or results.

PRO FORMA AGGREGATED PROFIT AND LOSS ACCOUNT

	Year ended 31 December 2005		
	Morson Group PLC ⁽¹⁾ £'000	Pro-forma adjustments ⁽²⁾ £'000	Pro-forma Group £'000
TURNOVER	265,853	–	265,853
Cost of sales	(244,214)	–	(244,214)
GROSS PROFIT	21,639	–	21,639
Net operating expenses	(14,697)	–	(14,697)
TOTAL OPERATING PROFIT	6,942	–	6,942
Net interest payable	(4,381)	2,093	(2,288)
PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION	2,561	2,093	4,654
Tax on profit on ordinary activities	(1,597)	(503)	(2,100)
PROFIT ON ORDINARY ACTIVITIES AFTER TAXATION FOR THE FINANCIAL YEAR	964	1,590	2,554
Equity minority interest	(9)	–	(9)
RETAINED PROFIT FOR THE FINANCIAL YEAR	955	1,590	2,545

Notes:

- (1) The aggregated profit and loss account of Morson Group PLC for the year ended 31 December 2005 has been extracted, without material adjustment, from the financial information for the year ended 31 December 2005 contained in Part 3 of this document. The basis of preparation is set out in note 1 of the financial information.
- (2) The pro forma adjustments represent the elimination of interest costs totalling £2,296,000 (charged on £36.1m of debt to be repaid from the proceeds of the issue and £2.95m of loan notes to be exchanged for equity), the elimination of preference dividends paid of £417,000, the write off of £620,000 deal costs from the management buy out in September 2005 (representing £670,000 of capitalised costs at 31 December 2005 less £50,000 amortised in the period to 31 December 2005) and the tax impact of the allowable adjustments at 30 per cent.
- (3) The pro forma statement does not take into account any additional interest which may have been payable had the current Group structure been in place for the full year to 31 December 2005.

PRO FORMA CONSOLIDATED NET ASSET STATEMENT

	Year ended 31 December 2005		
	Morson Group PLC ⁽¹⁾ £'000	Pro-forma adjustments ⁽²⁾ £'000	Pro-forma Group £'000
FIXED ASSETS			
Intangible assets	29,225	–	29,225
Tangible assets	2,072	–	2,072
	<u>31,297</u>	<u>–</u>	<u>31,297</u>
CURRENT ASSETS			
Stock	1,754	–	1,754
Debtors	46,647	–	46,647
Cash at bank and in hand	2,409	(1,839)	570
	<u>50,810</u>	<u>(1,839)</u>	<u>48,971</u>
CREDITORS: Amounts falling due within one year	<u>(45,631)</u>	<u>4,927</u>	<u>(40,704)</u>
NET CURRENT (LIABILITIES)/ASSETS	<u>5,179</u>	<u>3,088</u>	<u>8,267</u>
TOTAL ASSETS LESS CURRENT LIABILITIES	36,476	3,088	39,564
CREDITORS: Amounts falling due after more than one year	(33,632)	33,542	(90)
PROVISIONS FOR LIABILITIES AND CHARGES	<u>(31)</u>	<u>–</u>	<u>(31)</u>
TOTAL NET ASSETS	<u>2,813</u>	<u>36,630</u>	<u>39,443</u>

Notes:

- (1) The consolidated net assets of Morson Group PLC as at 31 December 2005 have been extracted, without material adjustment, from the financial information for the year ended 31 December 2005 contained in Part 3 of this document.
- (2) The total adjustment to creditors is calculated as follows:

	Total £'000	Split Due within 1 year £'000	Due after more than 1 year £'000
Estimated proceeds from share issue	36,000		
Net cash utilised	1,839		
Estimated transaction fees	(1,700)		
	<u>36,139</u>	5,089	31,050
Net proceeds used to repay existing debt	2,950	–	2,950
Vendor loan notes exchanged for shares	(620)	(162)	(458)
FRS 4 deal costs written-off			
	<u>38,469</u>	<u>4,927</u>	<u>33,542</u>

- (3) The pro forma statement does not take into account trading results since 31 December 2005.

PART 5: ADDITIONAL INFORMATION

1. The Company and the Group

- 1.1 The Company was incorporated under the Act and registered in England and Wales on 26 April 2004 with registered number 5111937 as a private limited company with the name Nosrom Limited. The liability of the members of the Company is limited.
- 1.2 The registered office and principal place of business of the Company is at Stableford Hall, Stableford Avenue, Monton, Eccles, Manchester M30 8AP. Its telephone number is 0161 7071516.
- 1.3 On 9 November 2005 the Company changed its name to Morson Group Limited.
- 1.4 On 22 March 2006 the Company re-registered as a public limited company with the name Morson Group PLC.
- 1.5 The Company's principal objects and activities are to carry on business as a general commercial company. The objects of the Company are set out in full in clause 4 of its Memorandum of Association.
- 1.6 The Company is the holding company of the following subsidiaries (directly or indirectly) all of which (save for Morson LLC Belgrade) were incorporated and registered in England and Wales:
 - 1.6.1 Morson Holdings Limited (Company Number 3845298). Its issued share capital is £100,000 made up of 100,000 ordinary shares of £1 each which are registered in the name of and beneficially owned by the Company;
 - 1.6.2 Morson Human Resources Limited (Company Number 2714555). Its issued share capital is £2 made up of 2 ordinary shares of £1 each which are registered in the name of and beneficially owned by the Company;
 - 1.6.3 Morson Projects Limited (Company Number 1457298). Its issued share capital is £100 made up of 100 ordinary shares of £1 each which are registered in the name of and beneficially owned by the Company;
 - 1.6.4 Morson EBT Trustees Limited (Company Number 524473). Its issued share capital is £1 made up of one ordinary share of £1 which is registered in the name of and beneficially owned by the Company;
 - 1.6.5 Advantage Personnel Services Limited (Company Number 3798910). Its issued share capital is £100 made up of 100 ordinary shares of £1 each which are registered in the name of an beneficially owned by Morson Human Resources Limited;
 - 1.6.6 Gibbs Engineering (Technical Services) Limited (Company Number 2649060). Its issued share capital is £75,100 made up of 100 ordinary shares and 75,000 non-redeemable preference shares all of £1 each which are registered in the name of an beneficially owned by Morson Projects Limited;
 - 1.6.7 Morson LLC Belgrade a company registered in Belgrade, Serbia. Its capital is 500 Euros. Morson Projects Limited is the stakeholder of 255 Euros (being a 51 per cent. stakeholder) and Zoran Rudic is the remaining stakeholder.
- 1.7 The principal legislation under which the Company operates is the Act and the regulations made thereunder.

2. Share Capital

2.1 The Company's authorised and issued ordinary share capital, at the date of this document is, and immediately following the Placing (assuming full subscription thereunder) will be, as follows:

	<i>As at the date of this document</i>		<i>Following Admission</i>	
	<i>Nominal Value</i>	<i>Number of Ordinary Shares</i>	<i>Nominal Value</i>	<i>Number of Ordinary Shares</i>
	£		£	
Authorised	3,000,000.00	60,000,000	3,000,000.00	60,000,000
Issued and fully paid	1,050,000.00	21,000,000	2,267,187.50	45,343,750

2.2 At the date of its incorporation, the authorised share capital of the Company was £10,000 divided into 1,000,000 ordinary shares of 1p each of which one subscriber share was in issue, fully paid.

2.3 On 26 April 2004 the subscriber share was transferred to Gerard Anthony Mason.

2.4 On 19 September 2005, 99 ordinary shares of 1p each were issued at par to Gerard Anthony Mason, each 100 ordinary shares of 1p each in the capital of the Company were consolidated into one ordinary share of £1 and the authorised share capital of the Company was increased from £10,000 to £100,000 by the creation of 90,000 ordinary shares of £1 each in the capital of the Company.

2.5 On 19 September 2005, the Company issued 54,999 ordinary shares of £1 each for cash following subscriptions by certain individuals.

2.6 On 20 September 2005 the Company issued 45,000 ordinary shares of £1 each, credited as fully paid, to certain of the shareholders of Morson Holdings Limited by way of consideration for the acquisition from them of certain ordinary shares in Morson Holdings Limited.

2.7 By way of resolutions dated 22 March 2006 the members of the Company resolved that:

2.7.1 each issued and unissued ordinary share of £1 each in the capital of the Company was subdivided into 20 ordinary shares of 5p each;

2.7.2 the authorised share capital of the Company be increased from £100,000 to £3,000,000 by the creation of 58,000,000 ordinary shares of 5p each in the capital of the Company each having the rights and being subject to the restrictions set out in the Articles of Association as adopted by the resolutions;

2.7.3 the Directors were generally and unconditionally authorised (in substitution for the authority conferred on them by the existing Articles of Association of the Company) to exercise all powers of the Company to allot relevant securities (within the meaning of Section 80 Companies Act 1985 (the "Act")) up to an aggregate nominal amount equal to the nominal amount of the authorised but unissued share capital of the Company immediately following the passing of the resolution PROVIDED THAT this authority shall expire (unless previously renewed, varied or revoked by the Company in general meeting) on the date which is five years after the date of passing this resolution, 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 offer or agreement as if the authority conferred hereby had no expired; and

2.7.4 the Directors were empowered pursuant to Section 95 of the Act to allot equity securities (within the meaning of Section 94 of the Act) for cash pursuant to the authority conferred by the resolution referred to at paragraph 2.7.3 of Part 5 above as if Section 89(1) of the Act did not apply to any such allotment, up to a total issued share capital of £2,500,000.

2.8 On 22 March 2006 the sum of £950,000 being part of the share premium account was capitalised and appropriated as capital to the holders of the ordinary shares in paying up 19 Ordinary Shares for each two Ordinary Shares held by such holder.

2.9 The Placing will entail the Company allotting a further 22,500,000 new Ordinary Shares (assuming the Placing is subscribed in full).

2.10 Save as referred to in paragraph 7.11 of this Part 5, no share or loan capital of the Company is under option or has been agreed, conditionally or unconditionally, to be put under option.

3. Directors

3.1 Other than their directorships of the Company, the current directorships and partnerships of the Directors held by them over the previous five years are as follows:

<i>Name</i>	<i>Age</i>	<i>Current</i>	<i>Previous</i>
Directors			
Gerard Anthony Mason	(42)	Morson Projects Limited Morson Holdings Limited Morson Human Resources Limited Morson D.O.O. Serbia Morson (RBS) Limited TCP Management Limited Cunningham Estates Limited Urban Guide Limited Advantage Personnel Services Limited Gibbs Engineering (Technical Services) Limited Morson EBT Trustees Limited Essential Education Limited Essential Hygiene Limited GGM Properties Limited	Morson Europe Limited Morson International plc Expert Systems Design Software Limited Handyarc Limited Cadman Systems Limited
Kevin Patrick Gorton	(42)	Morson Holdings Limited Morson Human Resources Limited Morson Projects Limited	
Paul John Gilmour	(41)	Morson Holdings Limited Morson Human Resources Limited Morson Projects Limited Morson D.O.O. Serbia Advantage Personnel Services Limited Gibbs Engineering (Technical Services) Limited Morson EBT Trustees Limited	Burns-Anderson (Northern) Limited
Gerrard Godfrey Mason	(67)	Morson Holdings Limited Morson (RBS) Limited	The Burns-Anderson Group Plc Morson International plc Burns-Anderson (Northern) Limited Expert Systems Design Software Limited Morson Europe Limited Handyarc Limited Suregain Limited
Karl Upton Monaghan	(43)	Ashling Capital LLP CitiCourt & Co Limited CareTech Holdings PLC FDM Group PLC	Harrogate Management Centre Limited (In Administration) Harrogate Management Limited

<i>Name</i>	<i>Age</i>	<i>Current</i>	<i>Previous</i>
Directors Ian Graham Knight	(54)	QDS Environmental Limited Mouchel Parkman PLC Delta-Simons Environmental Consultants Limited	Yorkshire Water Projects Limited Featurepack Limited White Rose Group Limited Yorkshire Environmental Solutions Ltd Yorkshire Water Estates Limited Yorkshire Water First Finance Limited Keyland Developments Limited Arbre Energy Limited Renewgen Limited Yorkshire Water (Five) Finance Limited Yorkshire Windpower Limited Arbre Farming Limited First Renewables Limited First Renewables (Overseas) Limited Fibrowatt Group Limited Fibrowatt Limited Crossco 2000 Limited Alcontrol GmbH

3.2 The business address of each of the Directors is Stableford Hall, Stableford Avenue, Monton, Eccles, Manchester M30 8AP.

3.3 Save as disclosed below, as at the date of this document none of the Directors has:

3.3.1 any unspent convictions in relation to indictable offences; or

3.3.2 been declared bankrupt or made any individual voluntary arrangement; or

3.3.3 been a director of a company at the time of or within the twelve months preceding any receivership, compulsory liquidation, creditors' voluntary liquidation, administration, voluntary arrangement or any composition or arrangement with creditors generally or any class of creditors; or

3.3.4 been a partner or in a partnership at the time of or within the twelve months preceding the partnership being subject to a compulsory liquidation, administration or partnership voluntary arrangement; or

3.3.5 had any asset subject to receivership or been a partner of any partnership at the time of or within the twelve months preceding any asset of such partnership being subject to a receivership; or

3.3.6 been subject to any public criticism by statutory or regulatory authorities (including recognised professional bodies), nor disqualified by a court from acting as a director of a company or from acting in the management or conduct of the affairs of any company.

3.4 Gerrard Godfrey Mason was a director of The Burns-Anderson Group plc which went into administrative receivership on 14 August 1992. Estimated unsatisfied creditors of the company amounted to £6,130,748, plus a further £2,307,925 in issued and called up share capital. The company was dissolved on 1 May 2001.

Paul John Gilmour and Gerrard Godfrey Mason were directors of Burns-Anderson (Northern) Limited, which went into administrative receivership on 14 August 1992 following the appointment of administrative receivers to its parent company, The Burns-Anderson Group plc (as referred to above). The company was a signatory to a composite guarantee in respect of the Group's borrowing. Estimated unsatisfied creditors of the company amounted to £10,663,843, plus a further £70,400 in issued and called up share capital. The company was dissolved 18 May 2004.

Gerard Anthony Mason and Gerrard Godfrey Mason were directors of Morson International plc which went into Administrative Receivership on 21 August 1992 following the appointment of administrative receivers to its parent company, The Burns-Anderson Group plc (as referred to above). The company was a signatory to a composite guarantee in respect of the Group's borrowing. Estimated unsatisfied creditors of the company amounted to £4,860,275 plus a further £100,000 in issued and called up share capital. The company was dissolved on 1 May 2001.

Karl Monaghan was a director of Harrogate Management Centre Limited which went into administrative receivership on 26 October 2004. Estimated unsatisfied creditors of the company amounted to £3,243,111 plus a further £534,900 in issued and called up share capital.

4. Directors and Other Interests

- 4.1 The interests of the Directors in the share capital of the Company, all of which are beneficial, as notified to the Company pursuant to section 324 or 328 of the Act, as they appear or will appear in the register of directors' interests required pursuant to section 325 of the Act, or which are interests of persons connected with the Directors (within the meaning of section 346 of the Act) as at the date of this document and immediately following Admission (assuming full take-up of the Placing) are and will be as follows:

	<i>As at the date of this document</i>		<i>As at Admission *</i>	
	<i>Number of Ordinary Shares</i>	<i>Percentage of issued Ordinary Share capital</i>	<i>Number of Ordinary Shares</i>	<i>Percentage of issued Ordinary Share capital</i>
Gerard Anthony Mason**	9,062,340	43.15%	10,906,090	24.05%
Kevin Patrick Gorton	630,000	3.00%	630,000	1.39%
Paul John Gilmour	630,000	3.00%	630,000	1.39%
Gerrard Godfrey Mason***	9,062,340	43.15%	9,984,215	22.02%
Karl Upton Monaghan	40,320	0.19%	40,320	0.09%
Ian Graham Knight	nil	nil	nil	nil

* These numbers and percentages are calculated assuming that the Placing is fully taken-up.

** Of these shares included in Gerard Anthony Mason's holding;

A) 1,843,750 are derived from the capitalisation of £2,950,000 of the loan notes referred to below, and

B) 921,875 shares are held by the trustees of a discretionary family trust in which certain members of Gerard Anthony Mason's family (but not Gerard Anthony Mason,) have a beneficial interest.

*** Of these shares included in Gerrard Godfrey Mason's holding, 921,875 are held by the trustees of a discretionary family trust of which Gerrard Godfrey Mason is a trustee.

- 4.2 Save as disclosed above, the Directors are not aware of any interests of persons connected with them which would, if such connected person were a director, be required to be notified to the Company pursuant to section 324 or section 328 of the Act and would be required to be entered in the register of directors' interests pursuant to section 325 of the Act.
- 4.3 The Company is not aware of any person other than the Directors and their immediate families as disclosed in paragraph 4.1 above who is interested (within the meaning given to that expression in Part VII of the Act), directly or indirectly, in 3 per cent. or more of the share capital (as defined in Section 198(2) of the Act) of the Company, or who, directly or indirectly, jointly or severally, exercise or could exercise control over the Company.
- 4.4 None of the Company's major holders of Ordinary Shares listed above has different voting rights from other holders of Ordinary Shares.
- 4.5 Save as shown above, and save for £12,300,000 of loan notes held by Gerard Anthony Mason, which are being repaid out of the proceeds of the Placing, £1,339,000 of loan notes held by Gerard Anthony Mason which are being repaid from the cash resources of the Company, and £2,950,000 of loan notes held by Gerard Anthony Mason which, upon Admission, are being capitalised at the Placing Price as referred to above, none of the Directors has any interest, beneficial or non-beneficial, in the share or loan capital of the Company.

- 4.6 Save as disclosed in this document, no 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 Group and no contract or arrangement exists in which a Director is materially interested and which is significant in relation to the business of the Group.
- 4.7 There are no outstanding loans granted by the Group to any of the Directors, nor are there any guarantees provided by the Group for their benefit.

5. Directors' Service Contracts

- 5.1 The Company has entered into service agreements with each of its three executive directors.
- 5.2 Details of these service agreements are set out below:

<i>Director</i>	<i>Date of Agreement</i>	<i>Position</i>	<i>Notice</i>	<i>Annual salary and other benefits</i>
Gerard Anthony Mason	21 March 2006	Chief Executive	12 months	£128,499; discretionary bonus; pension contributions of £72,000 pa; private medical expenses insurance; provision of motor car and fuel; mobile telephone; death in service cover of 2.5x salary
Kevin Patrick Gorton	21 March 2006	Managing Director	12 months	£100,000; discretionary bonus; pension contributions of 7.5% of salary; private medical expenses insurance; £7,800 pa car allowance; mobile telephone; death in service cover of 2x salary
Paul John Gilmour	21 March 2006	Finance Director	12 months	£100,000; discretionary bonus; pension contributions of 7.5% of salary; private medical expenses insurance; £7,800 pa car allowance; mobile telephone; death in service cover of 2x salary

- 5.3 Each of the non-executive directors entered into letters of appointment relating to their office holdings as follows:

<i>Name</i>	<i>Date of Letter of Appointment</i>	<i>Annual Fee</i>	<i>Notice required to terminate</i>
Gerrard Godfrey Mason	27 February 2006	£25,000	three months
Karl Upton Monaghan	15 December 2005	£25,000	three months
Ian Graham Knight	28 February 2006	£25,000	three months

- 5.4 Save that each Director is entitled to payment in lieu of notice, there are no benefits upon termination of employment to members of administrative, management or supervisory bodies' service contracts with the Company of any of its subsidiaries.
- 5.5 The aggregate remuneration payable (and benefits in kind to be granted) to the Directors in (i) the financial year to 31 December 2005 was £652,000 (including annual discretionary bonuses of £167,000); and (ii) the current financial year ending 31 December 2006 under the arrangements in force at the date of this document is estimated to be £530,000 (excluding discretionary bonuses).

6. Related Party Transactions

- 6.1 Morson International provides personnel, on an arm's length basis to LMG Project Services Limited a company in which a trust of which Gerard Anthony Mason is a beneficiary holds 51 per cent. of the entire issued share capital. In the financial year to 31 December 2005 the turnover

derived from the provision of personnel to LMG Project Services Limited was £1.9 million representing approximately 0.75 per cent. of the turnover of the Group for that period. LMG Project Services Limited provide rail consultancy services to MI.

- 6.2 Morson Human Resources Limited is the tenant under a lease of premises at Ground Floor 113 Southwark Street, London SE1 and 2 and 4 Burrill Street, London SE1 0JF. The Landlord of the premises is GGM Properties Limited a company wholly owned by Gerard Anthony Mason. The lease is for a term of 20 years from 1 June 2003 and a rent of £70,000 per annum with a rent review each 4 years from 1 June 2003.
- 6.3 Morson Human Resources Limited is the tenant under a lease for premises at Stableford Hall, Stableford Avenue, Monton, Eccles which is used for offices. The Landlords are Gerrard Godfrey Mason and The Santhouse Pensioner Trust Company Limited as the trustees of the Morson International Retirement Benefit Scheme. The term of the lease is 20 years from 23 August 1991 and the rent passing is £156,400, with a rent review at 23 August 1996, 2001 and 2006.
- 6.4 Morson Projects Limited is a tenant under a lease of premises at Darwen House, Liverpool Road, Irlam which are used for offices. The Landlord is Gerard Anthony Mason (trading as GGM Properties). The term of the lease is 20 years from 1 July 2000 and the rent is £140,000 per annum with rent reviews every 3 years.
- 6.5 Morson Projects Limited is a tenant under a lease of premises at Clarendon Business Centre, Clarendon Road, Eccles, Manchester which is used for offices. The Landlord is the trustees of the Morson International Retirement Benefit Scheme. The term of the lease is 5 years from the 1 September 2001 at a current rent of £27,600 per annum with a rent review every 3 years.
- 6.6 Morson Human Resources Limited is a tenant under a lease of premises at Flat 50 Butlers Wharf/ Anchor Brewhouse, Shad Thames, London. The Landlord is Gerard Anthony Mason. The Lease is an Assured Shorthold Tenancy which is determinable by the Landlord upon giving 2 months notice and the tenant upon giving one months notice. The rent is £1,300 per month and there are no rent review provisions.

7. Share Options

The Company established on 28 February 2006 two share option schemes (“the Schemes”) in relation to Ordinary Shares, namely the Morson Unapproved Share Option Scheme 2006 (“the Unapproved Scheme”) and the Morson Enterprise Management Incentive Scheme 2006 (“the EMI Scheme”) on the basis set out in this paragraph.

Grants under the scheme may be made by the Company as subscription options or, with the consent of the Remuneration Committee, by an existing shareholder over shares already issued (for example, shares held in the Company’s employee benefit trust).

7.1 Potential grantees

The grant of options to any individual under the Schemes is at the absolute discretion of the Remuneration Committee.

An individual will only be granted options if:

- (a) in the case of the Unapproved Scheme, he is a *bona fide* employee (including an executive director) of the Company who is required to devote substantially the whole of his working time to the Company; and
- (b) in the case of the EMI Scheme, he is a *bona fide* employee (including an executive director, but excluding any person who has a 30 per cent. interest in the Company including the interest of his associates) who works at least 25 hours per week for the Group (or, if less, at least 75 per cent. of his working time).

The total market value (at the date of grant) of shares which are subject to unexercised options under the EMI Scheme may not exceed £3,000,000 at the present time due to Inland Revenue restrictions. However, the Remuneration Committee has power to relax those and the other limitations presently imposed by the legislation relating to Enterprise Management Incentive schemes in the event of any future changes in the law permitting this.

7.2 *Life of the Schemes*

Options may be granted at any time in the five year period beginning with the date of adoption of the Schemes provided that no grant may be made at any time when it would cause any person to be in breach of any applicable rules relating to share dealings by directors and employees.

7.3 *Individual limits on number of options*

There are limits on the number of share options that may be granted to any individual as follows:

- (a) in the case of the Unapproved Scheme, the grant of options is limited so that an individual will not be granted subscription options if the total market value of the Ordinary Shares comprised in those options at the time of the proposed grant, when added to the total market value (at the date of grant) of Ordinary Shares under options already granted to him in that year under the Unapproved Scheme and any other share option scheme established by the Company would exceed four times his current actual annual remuneration;
- (b) under the EMI Scheme, the grant of options is limited so that an individual will not be granted options if the total market value of the Ordinary Shares comprised in those options at the time of the proposed grant, when added to the total market value (at the date of grant) of Ordinary Shares under unexercised options already granted to him under the EMI Scheme would exceed £100,000.

7.4 *Aggregate limits on number of options*

The maximum number of Ordinary Shares which may be issued on the exercise of options in total under the EMI Scheme may not exceed 10 per cent. of the issued Ordinary Share capital of the Company for the time being during the 10 years from the date of adoption of the scheme.

The maximum number of Ordinary Shares which may be issued on the exercise of options under the Unapproved Scheme may not exceed 10 per cent. of the issued Ordinary Share capital of the Company for time being during the 10 years from the date of adoption of the scheme.

The maximum number of Ordinary Shares which may be issued on the exercise of options in total under the EMI Scheme and the Unapproved Scheme may not in aggregate exceed 15 per cent. of the issued Ordinary Share Capital of the Company for the time being during the 10 years from the date of adoption of the schemes.

7.5 *Exercise Price*

The price at which options may be exercised will be set by the Remuneration Committee at the date of grant but in the case of subscription options, will not be less than the nominal value of the Ordinary Shares.

7.6 *Conditions of Exercise*

Objective conditions may be imposed by the Remuneration Committee that have to be complied with before options may be exercised.

7.7 *Timing of Exercise*

Unless the Remuneration Committee specifies when granting any options an earlier exercise date (and other than in the case of a takeover or demerger or similar event) an option will be exercisable by the holder (in relation to both Schemes) at any time between the third and tenth anniversaries of the date of the grant. If an optionholder leaves employment exercise of any outstanding options is at the Remuneration Committee's discretion. Any option not so exercised will lapse.

7.8 *Status of options*

All options are non-transferable. Ordinary Shares issued following exercise of any option will rank *pari passu* with the Ordinary Shares then in issue, save as regards any rights attaching to Ordinary Shares by reference to a record date prior to the date of exercise of the option. Options may be exercised in whole or in part subject to a minimum number of options that may be exercised at any one time.

7.9 *Adjustment of options*

The Remuneration Committee may adjust (subject to confirmation in writing by the auditors for the time being that such adjustment is fair and reasonable in their opinion) the number of shares under option and available for option and/or the option price to take account of any shares issued by the Company (other than as consideration for an acquisition) and/or any capitalisation, consolidation, sub-division or reduction of the capital of the Company.

7.10 *Amendment of schemes*

The Schemes may be amended by the Remuneration Committee but to the extent that any amendment would be advantageous in relation to certain rights of eligible employees or option holders the consent of the Company in general meeting is required.

The rules of the Schemes make detailed provision for the exercise and/or exchange of options in the event of a takeover or reverse takeover of the Company.

The Schemes require optionholders to be responsible for any employer's national insurance contributions otherwise payable by the Company on the grant and/or exercise and/or disposal of any options and to indemnify the Company against any income tax due in such circumstances.

7.11 *Current Options*

It is proposed to make grants of options on Admission to two directors of the Company, Paul Gilmour and Kevin Gorton. Each will be granted options over Ordinary Shares having a value of £200,000, calculated on the basis of the closing price on the day of Admission (which will also be the price payable on the exercise of the options). One half of the options will be granted under the EMI Scheme and one half under the Unapproved Scheme. Exercise of the options will be subject to the satisfaction of performance conditions the details of which (and the dates of exercise) will be settled by the Remuneration Committee.

On 1 March 2006 Morson EBT Trustees Limited, in its capacity as trustee of the Morson Employee Benefit Trust, granted options in favour of three senior employees of the Group over the entirety of the 1,500 existing Ordinary Shares of the Company registered in its name. These options were granted under the terms of the EMI Scheme. In each case the options are exercisable at zero cost and are exercisable as to one half on the first anniversary of Admission and as to the remaining half on the second anniversary of Admission.

8. Accounting

The Company's accounting reference date is 31 December each year. The Company's first accounting reference period ended on 31 December 2005.

9. Registered Office and Premises

The registered office and principal place of business of the Company is Stableford Hall, Stableford Avenue, Monton, Eccles, Manchester M30 8AP.

10. Taxation

The following paragraphs, which are intended as a general guide based on current legislation and HM Revenue & Customs practice as at the date of this document, summarise advice received by the Directors about the UK tax position of shareholders who are resident or ordinarily resident in the United Kingdom for tax purposes and who beneficially hold their shares as investments (otherwise than under an individual savings account ("ISA")). Any shareholder who is in doubt as to their tax position, or who is subject to tax in a jurisdiction other than the United Kingdom, is strongly recommended to consult their professional advisers.

Taxation of dividends

Under current UK taxation legislation, no tax is withheld at source from dividend payments made by the Company.

An individual shareholder who is resident (for tax purposes) in the United Kingdom and who receives a dividend paid by the Company will currently be entitled to receive a tax credit equal to 1/9th of the cash dividend. The individual will be taxable upon the total of the dividend and the related tax credit (“the gross dividend”) which will be regarded as the top slice of the individual’s income. An individual shareholder who is not liable to income tax at a rate greater than the basic rate (currently 22 per cent.) will pay tax on the gross dividend at the dividend ordinary rate, currently 10 per cent. Accordingly, the tax credit will be treated as satisfying the individual’s liability to income tax in respect of the dividend and there will be no further tax to pay. It should be noted however that there is no right to claim any repayment of the tax credit from the HM Revenue & Customs. To the extent that the gross dividend (taken together with other taxable income) exceeds the individual’s threshold for the higher rate of income tax the individual will, to that extent, pay tax on the gross dividend at the dividend upper rate (currently 32.5 per cent.). Accordingly, a shareholder who is a higher rate tax payer will have further income tax to pay at the rate of 22.5 per cent. on the gross dividend (equivalent to 25 per cent. of the dividend received). Tax credits are generally no longer repayable to shareholders with no income tax liability or whose liability to income tax does not exceed the amount of tax credit.

Subject to exceptions for certain insurance companies and companies which hold shares as trading stock, a shareholder that is a company resident (for tax purposes) in the United Kingdom and that receives a dividend paid by the Company will not be liable to corporation tax or income tax on the dividend.

Trustees who are liable to income tax at the rate applicable to trusts (previously 34 per cent. but increased to 40 per cent. with effect from 6 April 2004) will pay tax on the gross dividend at the dividend trust rate (previously 25 per cent. but increased to 32.5 per cent, with effect from 6 April 2004) against which they can set the tax credit. To the extent that the tax credit exceeds the trustees’ liability to account for income tax the trustees will have no right to claim repayment of the tax credit. Special tax provisions apply where trustees of discretionary trusts receive payment of dividends and substantially make a distribution out of the trust. Trustees who are in any doubt as to their position should consult their own professional advisers immediately.

United Kingdom pension funds and charities are generally exempt from tax on dividends which they receive but are not entitled to claim repayment of the tax credit.

Shareholders who are resident in countries other than the UK may be entitled to repayment of all or a proportion of the tax credit in respect of dividends paid to them. This will depend upon the provisions of the double tax treaty (if any) between the country in which the Shareholder is resident and the United Kingdom. Shareholders not resident in the UK should consult their own tax adviser on the application of such provisions and the procedure for claiming relief.

Taxation on capital gains for shareholders

If a shareholder who is resident or ordinarily resident in the UK for tax purposes disposes of all or any of his or its Placing Shares, he or it may, depending on the shareholder’s particular circumstances, incur a liability to taxation on chargeable gains.

Stamp duty and stamp duty reserve tax (“SDRT”)

No liability to stamp duty or SDRT should arise on the allotment of Placing Shares by the Company under the Placing.

Subsequent sales of Placing Shares inside CREST will generally be liable to SDRT at the rate of 0.5 per cent. of the amount or value of the consideration calculated to the nearest penny. The SDRT is normally settled by CREST, on behalf of the purchaser or transferee, on the same day as the sale, but otherwise is payable on 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.

Subsequent sales of Placing Shares outside CREST will generally be liable to ad valorem stamp duty, at the rate of 0.5 per cent. of the amount or value of the consideration. 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 Placing Shares is not completed by a duly stamped instrument of transfer before the “accountable date” for SDRT purposes, as described above. Stamp duty is normally, and SDRT is always, the liability of the purchaser or transferee of the Placing

Shares. However, where an instrument of transfer which completes an unconditional agreement to transfer shares is duly stamped within six years after the agreement was entered into (or it becomes unconditional) the stamp duty will cancel the SDRT liability and any SDRT paid can be recovered.

The information in this paragraph is intended as a general summary of the UK tax position and should not be construed as constituting advice. Potential investors should obtain advice from their own investment or taxation adviser.

11. Memorandum of Association

The principal objects of the Company are set out in clause 4 of the Company's memorandum of association and are to carry on the business of a general commercial company.

12. Articles of Association

The Articles of Association of the Company contain, *inter alia*, provisions to the following effect:

12.1 Rights attaching to the Ordinary Shares

12.1.1 Voting

Subject to any special terms as to voting upon which any shares may be issued, or may for the time being be held, every member present in person or by proxy at any general meeting shall, upon a show of hands, have one vote and every member present in person or by proxy shall, upon a poll, have one vote for each share held by him. Unless the Board otherwise determines, voting rights may not be exercised by a member who has not paid to the Company all calls and other sums then payable by him in respect of shares in the Company, or by a member who has failed to provide the Company with information which he is required to provide to it under any relevant legislation.

Where there are joint holders of a share, any one of them may vote at any meeting either personally or by proxy in respect of the share as if he were solely entitled to it, but if more than one joint holder is present at a meeting either personally or by proxy, that one of them whose name stands first in the register of members in respect of the share shall alone be entitled to vote in respect of it.

12.1.2 Dividends

Subject to the Act and any special rights attaching to shares (of which there are none at present), the holders of the Ordinary Shares are entitled, proportionately amongst themselves, to the profits of the Company available for distribution and resolved by ordinary resolution to be distributed (up to the amount recommended by the Directors) according to the amounts paid up on the Ordinary Shares held by them. The Directors may pay interim dividends if profits are available for distribution. No dividends payable in respect of an Ordinary Share shall bear interest. The Directors may, if authorised by an ordinary resolution, offer the holders of Ordinary Shares the right to elect to receive further Ordinary Shares, credited as fully paid (or other specific assets) instead of cash in respect of all or part of a dividend ("a scrip dividend"). The Directors may, pursuant to the provisions of the Articles relating to disclosure of interests, withhold dividends or other sums payable in respect of shares which are the subject of a notice under section 212 of the Act and which represent 0.25 per cent. or more in nominal value of the issued shares of their class and in respect of which the required information has not been received by the Company within 14 days of that notice and the member holding those shares may not elect, in the case of a scrip dividend, to receive shares (or other specific assets) instead of that dividend.

The Company or its Directors may fix any date as the record date for a dividend. A dividend unclaimed after a period of 12 years from the date when it became due for payment shall, unless the Directors otherwise resolve, be forfeited and shall revert to the Company.

12.1.3 **Return of Capital**

On a winding-up, subject to any special rights attaching to shares (of which there are none at present), the assets available for distribution shall be divided among the members in proportion to the amounts of capital paid up on the shares held by them respectively. If the Company is wound up (whether the liquidation is voluntary, under supervision or by the court) the liquidator may, with the authority of an extraordinary resolution, divide among the members *in specie* or kind the whole or any part of the assets of the Company and may, for that purpose, value any assets and determine how the division shall be carried out as between the members or different classes of members. The liquidator may, with the same authority, vest any part of the assets in trustees on trusts for the benefit of the members as he with the same authority thinks fit, but no member shall be compelled to accept any shares or other securities on which there is a liability.

12.1.4 **Allotment, Redemption and Pre-emption**

Subject to the provisions of the Act the power of the Company to allot any new shares shall be exercised by the Board. The current unissued share capital of the Company may be issued in accordance with the provisions summarised at paragraph 2.7 of this Part 5.

The Company may by special resolution create and sanction the issue of shares which are, or at the option of the Company or the holder are to be liable, to be redeemed, subject to and in accordance with the provisions of any relevant legislation. There are no pre-emption rights on transfer attaching to the shares in the capital of the Company.

12.1.5 **Alteration of share capital**

The Company may by ordinary resolution increase, consolidate or sub-divide its share capital or cancel any shares which have not, at the date of the ordinary resolution, been taken or agreed to be taken by any person and, subject to the Act, diminish the amount of its capital by the nominal amount of shares so cancelled. The Company may (subject to any conditions and consents required by law) by special resolution reduce its share capital or any capital redemption reserve fund or share premium account in any manner.

12.1.6 **Purchase of Own Shares**

The Company may purchase its own shares (including any redeemable shares) in accordance with the Articles and the Act.

12.2 *Directors*

12.2.1 **Directors' Remuneration**

The remuneration of the Directors for their services as Directors shall be determined by the Board or any committee of the Board formed for the purpose. In addition, the Directors are entitled to be reimbursed for all reasonable expenses incurred in connection with their duties as Directors, including attendance at board meetings and general meetings of the Company. A Director may be appointed by the board to any employment or executive office with the Company for such period (subject to the provisions of any relevant legislation) on such terms and at such remuneration as the Board may determine.

12.2.2 **Retirement of Directors by Rotation**

At every annual general meeting of the Company, one-third of the Directors (or, if their number is not three or a multiple of three, the number nearest to but not more than one third) shall retire from office by rotation. The Directors to retire shall be those of the other Directors who have been longest in office since their appointment or last reappointment but, as between persons who became or were re-appointed Directors on the same day, those to retire shall (unless they otherwise agree among themselves) be determined by lot. The Directors to retire shall be determined (both as to number and identity) by the composition of the board at the date of the notice convening the annual general meeting. A Director shall not be required, or be relieved from the obligation, to retire by reason of a change in the Board after that time but before the close of the meeting.

At the meeting at which a Director retires by rotation, the Company may fill the vacated office. A Director who retires at an annual general meeting may, if willing to act, be reappointed. If he is not re-appointed, he shall retain office until the meeting appoints someone in his place or, if it does not do so, until the end of the meeting.

12.2.3 **Executive Directors**

The Directors may appoint a Director to an executive office in the Company on such terms as the Directors determine. The appointment of a Director to an executive office terminates if he ceases to be a Director, but without prejudice to any claim he has for breach of his contract of employment or service.

12.2.4 **Directors' Interests**

A Director shall not vote nor be counted in a quorum at a meeting in relation to any resolution of the Board concerning any contract, arrangement or other proposal in which he is, to his knowledge, directly or indirectly, materially interested. The prohibition will not apply to the following:

- 12.2.4.1 an arrangement for giving a guarantee, security or indemnity to him in respect of money lent or obligations undertaken by him for the benefit of the Company (or any of its subsidiaries) or in respect of a debt or obligation of the Company (or any of its subsidiaries) for which he has assumed responsibility, in whole or in part, under a guarantee or an indemnity or by the giving of security;
- 12.2.4.2 proposal concerning an offer of securities by the Company (or any of its subsidiary undertakings) in which offer he is or may be entitled to participate as a holder of securities or in the underwriting or sub-underwriting of which he is to participate;
- 12.2.4.3 a proposal concerning another company in which he is not interested, directly or indirectly, in 1 per cent., or more either of any class of its equity share capital or of its voting rights;
- 12.2.4.4 certain arrangements for the benefit of the employees of the Company or any of its subsidiary undertakings which does not award the Director a privilege or benefit not awarded to the employees to whom the arrangement relates; or
- 12.2.4.5 a proposal concerning insurance which the Company proposes to maintain or purchase for the benefit of Directors or for the benefit of persons who include Directors.

Subject to the statutes and provided he has disclosed to the Directors the nature and extent of his interest, a Director may contract with the Company and the contract shall not be avoided on the grounds of his interest or benefit and the Director is not liable to account to the Company for any profit realised as a result of the contract.

A Director may not vote or be counted in the quorum in relation to a resolution of the Directors or committee of the Directors concerning his own appointment, including the arrangement or variation of the terms or the termination of his own appointment or the appointment of another person to an office in a company in which the Director has a material interest.

Where proposals are under consideration concerning the appointment, including the arrangement or variation of the terms or the termination of the appointment of two or more Directors, a separate resolution may be put in relation to each Director. In each case, each Director (if not otherwise debarred from voting) is entitled to vote in respect of each resolution except that concerning his own appointment.

12.2.5 **Directors Appointments**

Unless otherwise determined by ordinary resolution of the Company the Directors shall be not less than two, but shall be subject to no maximum. A director is not required to hold

any shares in the Company by way of qualification. The Board have power to appoint Directors to the board from time to time up to the maximum number of Directors. A Director may resign his office or be removed by ordinary resolution of the Company before the expiry of his period of office.

12.3 *Transfer of Shares*

Any shares in the Company may be held in uncertificated form and title to shares may be transferred by means of a relevant system. The following provisions apply to uncertificated shares as if the reference therein to the date on which the transfer was lodged with the Company was a reference to the date on which the appropriate instruction was received by or on behalf of the Company in accordance with the facilities and requirements of the relevant system.

The instrument of transfer of a share shall be signed by or on behalf of the transferor (and, in the case of a share which is not fully paid, by or on behalf of the transferee) and the transferor shall be deemed to remain the holder of the share until the name of the transferee is entered in the register in respect thereof. All transfers shall be effected by instrument in writing in the usual common form or any other form which the Directors may approve. The Directors may, in their absolute discretion and without giving any reason, refuse to register the transfer of a share which is not fully paid. The Directors may likewise refuse to register any transfer in favour of more than four persons jointly. The Directors may decline to recognize any instrument of transfer unless it is lodged, duly stamped, with the Company, accompanied by the relevant certificate and such other evidence as the Directors may reasonably require to show the right of the transferor to make the transfer, and unless the instrument is in respect of only one class of share. The Directors may, pursuant to the provisions of the Articles relating to disclosure of interests, refuse to register the transfer of shares which are the subject of a notice under section 212 of the Act and which represent 0.25 per cent. or more in nominal value of the issued shares of their class and in respect of which the required information has not been received by the Company within 14 days of that notice. The Directors may also refuse to register a transfer of uncertificated shares in such other circumstances as may be permitted or required by the relevant system or The Uncertificated Securities Regulations 2001.

12.4 *Variation of Rights*

The rights attaching to the shares in the Company may be varied or abrogated with the consent in writing of the holders of at least three-quarters of the issued shares of the relevant class or with the sanction of an extraordinary resolution passed at a separate general meeting of the holders of the shares of that class.

12.5 *Borrowing Powers*

The Directors may exercise all the powers of the Company to borrow money, and to mortgage or charge all or any part of its undertaking, property and assets (both present and future), including its uncalled capital and, subject to the Act, 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. The Directors shall restrict the borrowings of the Company and exercise all voting and other rights or powers of control exercisable by the Company in relation to its subsidiaries (if any) so as to secure (or, as regards subsidiaries, so far as they can so secure) that the aggregate amount (after adjustments provided for in the Articles) at any one time owing by the Company and all its subsidiaries in respect of monies borrowed and owing to third parties shall not at any time exceed an amount equal to 3 times the amount paid up or credited as paid up on the issued share capital of the Company and the amount standing to the credit of the consolidated reserves of the Company and its subsidiaries and including (without limitation) share premium account, capital redemption reserve and credit balance on profit and loss account but after deducting any debit balance on profit and loss account and subject to such adjustments as are specified in the Articles.

12.6 *Electronic communication*

Any requirement for the Company to send, circulate or despatch notices or documents to its members shall be deemed to have been complied with in relation to any member where the Company and the member have agreed to use electronic communication to send such notices or documents, where the notices or documents are notices or documents to which the agreement

applies and copies of the notices or documents are sent by electronic communication to the address, number or other location notified by the member to the Company for that purpose, or where the Company and the member have agreed to the member having access to notices or documents on a website and the member is notified of the publication of the notices or documents on the website, the address of the website, the place on the website where the notices or documents can be accessed and how they can be accessed and the period of time for which the notices or documents will be available on the website.

The period of time for which the notices or documents must be available on a website must not be less than 21 days from the date of notification or, if later, until the conclusion of any general meeting to which the notices or documents relate. If the notices or documents are published on the website for a part only of this period of time, they will be treated as being published throughout the period if the failure to publish throughout that period is wholly attributable to circumstances which it would not be reasonable to have expected the Company to prevent or avoid.

Where the Company sends notices or documents to shareholders by electronic communication, it must also make the notices or documents available to members in printed form and free of charge on request during normal business hours for a period of not less than 21 days from the date of communication or notification or, if later, until the conclusion of any general meeting to which the notices or documents relate. The printed copies must be made available in sufficient numbers to satisfy demand from its members and be made available at the Company's registered office and also at the offices of any of the Company's paying agents (if any).

12.7 Untraced Members

In certain circumstances the Company is entitled to sell at the best price reasonably obtainable the shares of a member or the shares to which a person is entitled by transmission if, during a period of 12 years, all dividends, warrants and cheques sent in respect of the shares in question have remained uncashed and during such period at least three dividends in respect of the shares in question have been paid. In order to exercise such power the Company must have inserted advertisements in one national daily newspaper and one newspaper circulating in the area in which the registered or last known address of the member in question is located and must not have received any communication that would enable the Company to trace any such member or person entitled by transmission.

12.8 General Meetings

The Board may call an extraordinary general meeting whenever it thinks fit and upon requisition of members in accordance with the Act it is required to convene an extraordinary general meeting for a date not more than 8 weeks after receipt of the requisition at the registered office. If there are not within the UK sufficient members of the Board to convene a general meeting any director may call one.

Subject to the provisions of the Act annual general meetings should be held at such time and place as the Board may determine. An annual general meeting and an extraordinary general meeting called for the passing of a special resolution or resolution appointing a person as a Director shall be called by at least 21 clear days notice in writing. All other extraordinary general meetings shall be called by at least 14 clear days notice in writing. The Notice must specify amongst other things the day, time and place of the meeting and the general nature of the business to be transacted, whether the meeting is an annual general meeting or an extraordinary general meeting, if the meeting is convened to consider a special or extraordinary resolution, the intention to propose the resolution as such and with reasonable prominence that a member entitled to attend and vote is entitled to appoint one or more proxies to attend. Subject to the provisions of the Articles and to any restriction imposed on any shareholder notice shall be given to all members the Directors and the auditors.

13. Material Contracts

Other than as set out below there are no contracts (not being in the ordinary course of business) entered into by the Company or any member of the Group since 27 March 2004 which are or may be material.

- 13.1 A placing agreement dated 27 March 2006 has been entered into between (1) Brewin Dolphin Securities Limited (2) the Directors and (3) the Company pursuant to which (a) Brewin Dolphin has agreed as agent for the Company to seek to procure placees for the Placing Shares at the Placing Price and (b) Brewin Dolphin has agreed to subscribe for any Placing Shares in respect of which it does not obtain subscribers.

The obligations of Brewin Dolphin are conditional upon, *inter alia*, Admission occurring by 8.00 am 30 March 2006 or such later time and/or date as the Company and Brewin Dolphin may agree (but in any event not later than 8.00 am on 13 April 2006).

The Directors and the Company have given certain warranties and the Company and the Executive Directors have given an indemnity to Brewin Dolphin Liability under such warranties and the indemnity is limited in the case of each Director.

The agreement contains termination provisions for the period prior to Admission if, *inter alia*, there has been a material breach of the warranties given by the Directors and the Company to Brewin Dolphin which Brewin Dolphin reasonably considers to be material in the context of the placing or an event of *force majeure* occurs.

Subject to certain exceptions (including a disposal pursuant to a general offer to all the shareholders of the Company) the Directors have agreed not to dispose of any of their ordinary shares without the prior consent of Brewin Dolphin for a period of 12 months following Admission.

The Company has agreed to pay a fee to Brewin Dolphin of (a) £125,000 and (b) a commission of 3 per cent. on the aggregate value at the Placing Price of the new Ordinary Shares.

- 13.2 An agreement dated 27 March 2006 between the Company and Brewin Dolphin appointing Brewin Dolphin as nominated adviser and nominated broker to the Company, terminable on 90 days' notice in writing by either party. Brewin Dolphin will receive a fee of £38,000 per annum plus VAT for its services under this agreement. The agreement provides for certain warranties and an indemnity to be given to Brewin Dolphin and provides, *inter alia*, for the Company and the Directors to comply with the rules of AIM.
- 13.3 A lock in deed dated 27 March 2006 made between each of Derek Cowie, Andrew Fernie, Philip Beardwood, Michael Jones, Steven Seddon and Morson EBT Trustees Limited (the "Management Shareholders") (1), Brewin Dolphin (2) and the Company (3) whereby each of the Management Shareholders agreed, subject to certain exceptions, not to dispose of any interest in the shares held by him or to be held by him upon the exercise of any option, for a period of 12 months from Admission without the prior written consent of Brewin Dolphin and the Company.
- 13.4 By a share sale agreement dated 20 September 2005 (the "BPE SPA") made between Barclays Industrial Development Limited and others ("the Vendors") (1) and the Company (2), the Vendors agreed to sell and the Company agreed to acquire 55,000 cumulative participating preferred ordinary shares of £1.00 each in the capital of MHL for a cash consideration of £6,400,000. The BPE SPA requires the Company to procure that after completion MHL repaid certain Loan Notes in an amount of £17,900,000 (together with accrued interest in the sum of £1,385,600) and that MHL declared and paid dividends totalling £420,020.04 and additionally paid Barclays Private Equity Limited £5,919.10 in respect of accrued monitoring fees. The BPE SPA contains anti embarrassment provisions effective for a period of 13 months following completion of the acquisition which may be triggered in certain circumstances by a change of ownership of MHL. The BPE SPA contains warranties given by the Vendors in connection with their ownership of the shares.
- 13.5 By a share sale agreement dated 20 September 2005 ("the Management SPA") made between G A Mason, K Gorton, P Gilmour and others ("Management") (1) and the Company (2), Management agreed to sell and the Company agreed to acquire 45,000 ordinary shares of £1.00 each in the capital of MHL in consideration for the issue, credited as fully paid of 45,000 ordinary shares of £1.00 each in the capital of the Company at that time representing 45 per cent. of the issued share capital of the Company. The Management SPA contains warranties given by Management in connection with their ownership of the shares.

13.6 By a term facilities agreement dated 19 September 2005 between the Company (1), MHL, MHR and MPL (2) and Barclays Bank plc (3) ("Barclays"), Barclays agreed to make available to the Company a term loan facility in the sum of £15,000,000 ("Facility A") and a further term loan facility in the sum of £7,500,000 ("Facility B") for the purposes of assisting in the financing of the acquisition by the Company of the entire issued share capital of MHL. An arrangement fee of £250,000 was paid on the completion of the acquisition together with a further sum of £260,000 payable on the earlier of 15 November 2005 or the date of any flotation (as defined in the agreement). A monitoring fee of £10,000 per annum is payable by the Company to Barclays quarterly in advance.

The loan drawn down under Facility A is repayable within five years on certain fixed repayment dates in certain fixed amounts. The loan drawn down under Facility B is repayable within six years as to £3,750,000 on 31 December 2010 and £3,750,000 on 30 June 2011. Interest is payable on the loan at a margin of 2.25 per cent. per annum in respect of Facility A and 2.75 per cent. per annum in respect of Facility B above LIBOR (as defined in the agreement).

The Company may voluntarily prepay (*pro rata* against Facility B and Facility A) the whole or any part of the loan by a minimum amount of £250,000 or, if greater, in integral multiples of £50,000. The agreement contains mandatory prepayment provisions whereby all facilities will be cancelled and all outstanding loans, together with accrued interest, and all other amounts outstanding shall become immediately due and payable in circumstances of a change of control (as defined in the agreement) or in circumstances where there has been a sale of all or substantially all of the assets of the group. Upon the occurrence of any flotation (as defined in the agreement) Barclays may declare that the facilities will be cancelled and all outstanding loans, together with accrued interest and all other amounts owing shall become immediately due and payable.

The facility agreement contains representations, covenants and events of default.

As security for the repayment of the loan, the Company, MHL, MHR and MPL have entered into a fixed and floating charge debenture in favour of Barclays.

13.7 By agreements dated 21 December 1999 and made between Barclays and MHR and between Barclays and MPL, Barclays agreed to purchase debts due to MHR and MPL on the terms set out in those agreements. These agreements have been varied a number of times subsequently by letter and currently the ceiling on these facilities is £40,000,000 allocated £36,000,000 to MHR and £4,000,000 to MPL. In the absence of other rights of termination the agreements are terminable on six calendar months notice which must expire at the end of the calendar month. Barclays may terminate the agreement at any time by written notice following Termination Events including breaches or threatened breaches of the agreement, breaches or threatened breaches of any agreement with Barclays, and applications by any creditor for a garnishee order. The companies pay a discount fee accruing at the rate of 0.85 per cent. above the base rate from time to time of Barclays and additionally a service charge fee which is fixed at £50,000 per annum. The agreements impose a variety of information requirements on MHR and MPL. Amounts advanced to MPL must not represent more than 15 per cent. of amounts advanced to the Group as a whole.

13.8 By an amendment and restatement agreement dated 24 March 2006 and made between the Company (1) the Company, MHL, MHR and MPL (2) and Barclays Bank Plc (3), Barclays consented to Admission, to the issue of the New Ordinary Shares and to the redemption of certain of the Company's loan notes. The agreement provides that within 5 business days of Admission the Company shall, *inter alia*, repay not less than £17,500,000 of principal to Barclays Bank Plc. The Bank has also agreed that with effect from the date of Admission (provided it has received certain documentation) that the term facilities agreement referred to at clause 13.9 above shall be amended and restated to a revolving credit facility of £5,000,000 which is available for general working capital requirements and for certain acquisitions and joint ventures. Following the restatement the interest payable on the amount drawn will be a margin of 1.25 per cent. and Libor (as defined in the agreement). There is additionally an annual fee payable calculated at 0.625 per cent. of the amount available for drawdown under the facility, (whether drawdown or not). The facility as amended and restated contains representations covenants and events of default and requires repayment, *inter alia*, on a change of control of the Company or in circumstances where there has been a sale of all or substantially all of the assets of the Group. The facility will terminate on 24 March 2011.

14. Litigation

Neither the Company nor any subsidiary is engaged in any governmental, legal or arbitration proceedings nor, so far as the Directors are aware, are any such proceedings pending or threatened by or against the Company or any subsidiary which may have or have had in the twelve months preceding the date of this document a significant effect on the Company or any subsidiary's financial position or profitability.

15. Intellectual Property Rights

Other than as set out in this document, there are no patents or intellectual property rights, licenses or particular contracts (whether industrial, commercial or financial) which are material to the Group's business or profitability.

16. Investments

Save as set out in this document there are no investments in progress which are significant and the Company has not made any firm commitments concerning future investments.

17. Working Capital

The Directors are of the opinion having made due and careful enquiry that, taking into account the net proceeds of the Placing and the existing facilities available to the Group, the working capital available to the Group will, from the time the Ordinary Shares are admitted to AIM, be sufficient for its present requirements, that is for at least 12 months from the date of Admission.

18. Employees

The number of employees of the Group as at 31 December 2005 was 314.

19. Corporate Governance

The board of directors fully supports the underlying principles of corporate governance contained in the Combined Code, notwithstanding that it is not required to comply with such recommendations. It will seek to comply with the provisions of the Code, in so far as is practicable and appropriate for a public company of its size and nature, and recognises its overall responsibility for the Company's systems of internal control and for monitoring their effectiveness.

The main features of the Company's corporate governance procedures, which do not constitute full compliance with the Combined Code, are as follows:

The Company intends, following Admission and so far as is practicable and appropriate for a public company of its size, to comply with the principles of the Combined Code on Corporate Governance published in July 2003.

The Company has established an Audit Committee composed of the Non-Executive Directors and chaired by Karl Monaghan. The Audit Committee meets no less than twice each year and is responsible for making recommendations to the Board on the appointment of the auditors and the audit fee, for reviewing the conduct and control of the annual audit and for reviewing the operation of the internal financial controls. It also has responsibility for the proper reporting of the financial performance of the Company and for reviewing financial statements prior to publication.

The Company has established a Remuneration Committee composed of the Non-Executive Directors and chaired by Ian Knight. It reviews the performance of the executive directors and sets the scale and structure of their remuneration and the basis of their service agreements with due regard to the interest of the shareholders. The Remuneration Committee also determines the allocation of share options to employees. It is a rule of the Remuneration Committee that a Director shall not participate in discussions or decisions concerning his/her own remuneration.

20. General Information

- 20.1 The estimated amount of the expenses of the Placing, and Admission which are payable by the Company, is approximately £1.7 million (including VAT). The net proceeds of the Placing available to the Company will be approximately £34.3 million.
- 20.2 Brewin Dolphin Securities Limited, whose registered office is at 5 Giltspur Street, London EC1A 9BD has given and not withdrawn its written consent to the inclusion in this document of references to its name in the form and context in which they appear.
- 20.3 The financial information contained in this document does not constitute full statutory accounts as referred to in section 240 of the Act. A copy of the audited accounts of the Company for the three year period ended 31 December 2005 has been delivered to the Registrar of Company in England and Wales. The auditors report on those accounts was unqualified and did not contain any statement under section 237 of the Act.
- 20.4 This document does not constitute an offer to sell, or the solicitation of an offer to acquire, Ordinary Shares in any jurisdiction where such an offer or solicitation is unlawful and is not for distribution in any jurisdiction in which such distribution is unlawful. The Ordinary Shares have not been, and will not be, registered under the US Securities Act or under the applicable securities laws of any state of the United States, any province or territory of Canada, Japan, South Africa, Australia or the Republic of Ireland and may not be sold, directly or indirectly, within the United States or the Excluded Territories or to any citizen, national or resident of the United States or the Excluded Territories.
- 20.5 Save as disclosed in this document there has been no significant change in the financial or trading position of the Group since 31 December 2005 the date to which the latest published financial statements were made up and the Directors are not aware of any exceptional factors which have influenced the Group's activities.
- 20.6 The Ordinary Shares are in registered form. It is expected that share certificates will be posted to Shareholders at their risk by 14 April 2006. No temporary documents of title will be issued.
- 20.7 No person has in the last twelve months received directly or indirectly or is contractually entitled to receive directly or indirectly, from the Company on or after Admission (excluding professional advisers otherwise disclosed in this document or trade suppliers), any fees, payment or benefit from the Company to the value of £10,000 or more or securities in the Company to such value or entered into any contractual arrangements to receive the same, directly or indirectly, from the Company on or after Admission.
- 20.8 Deloitte & Touche LLP, 201 Deansgate, PO Box 500, Manchester M60 2AT, members of the Institute of Chartered Accountants in England and Wales, are the auditors of the Company and have given and have not withdrawn their written consent to the inclusion in this document of references to their name in the form and context in which it appears and their report in Part 3 of this document and accept responsibility for these reports for the purposes of the AIM Rules.
- 20.9 The Company's tax advisers are Champion Chartered Accountants of 1 Worsley Court, High Street, Worsley, Manchester M28 3NJ.
- 20.10 Of the Placing Price 5p represents the nominal value and 155p represents the premium.
- 20.11 Where information in this document has been sourced from a third party, no facts have been omitted which would render the reproduced information inaccurate or misleading so far as the Company and the Directors are aware or are able to ascertain from information published by that third party.

21. Publication of this document

Copies of this document will be available free of charge to the public at the offices of Brewin Dolphin Securities Limited, 5 Giltspur Street, London EC1A 9BD and at National House, 36 St Ann Street, Manchester M2 7LE from the date of this document until at least one month after Admission.

Dated: 27 March 2006

PART 6: GLOSSARY AND DEFINITIONS

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

“Act”	the Companies Act 1985 (as amended)
“Admission”	the admission of the Existing Shares and the New Ordinary Shares to trading on AIM and such admission becoming effective pursuant to paragraph 6 of the AIM Rules
“AIM”	a market operated by the London Stock Exchange
“AIM Rules”	the rules governing the admission to and operation of AIM published by the London Stock Exchange from time to time
“Articles”	the articles of association of the Company
“Board” or “Directors”	the Directors of the Company as at the date of this document whose names are set out on page 3
“Brewin Dolphin”	Brewin Dolphin Securities Ltd
“Company”	Morson Group PLC, or its businesses as the context requires
“CREST”	the computerised settlement system to facilitate the transfer of title in shares in uncertificated form, operated by CRESTCo Limited
“CREST Regulations”	the uncertificated securities regulations 2001 (as amended)
“Existing Shares”	the 21,000,000 existing Ordinary Shares in issue prior to the Placing
“FSA”	the Financial Services Authority
“Issue Price”	160p per Placing Share
“London Stock Exchange” or “Exchange”	London Stock Exchange plc
“MHL”	Morson Holdings Limited
“MI”	Morson International, the trading name of Morson Human Resources Limited
“Morson” or “Group”	the Company together with its subsidiaries
“MP”	Morson Projects Limited
“New Ordinary Shares”	up to 22,500,000 new Ordinary Shares to be issued pursuant to the Placing
“Official List”	the Official List of the UK Listing Authority
“Ordinary Shares”	ordinary shares of 5p each in the capital of the Company
“Placing”	the conditional placing of the New Ordinary Shares at the Issue Price described in this document, pursuant to the Placing Agreement
“Placing Agreement”	the conditional agreement dated 27 March 2005 between (1) the Company, (2) Brewin Dolphin and (3) the Directors relating to the Placing further details of which are contained in paragraph 13.1 of Part 5 of this document

“Shareholders” or “Members”	holders of Existing Shares
“Share Option Schemes”	the schemes referred to in paragraph 7 of Part 5
“Technical”	in this document, this expression is used to mean, in the context of sectors of the recruitment market, predominantly white collar, skilled engineers and engineering managers, in fields other than construction and information technology
“UK Listing Authority”	the FSA acting in its capacity as the competent authority for the purposes of Part VI of the Financial Services and Markets Act 2000
“UK” or “United Kingdom”	United Kingdom of Great Britain and Northern Ireland
“United States” or “US”	the United States of America, its territories and possessions, any state of the United States and the district of Columbia

