

THIS DOCUMENT IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION. If you are in any doubt as to the action you should take, you are recommended to seek your own financial advice from your stockbroker, bank manager, solicitor, accountant, fund manager or other appropriate independent financial adviser authorised under the Financial Services and Markets Act 2000 if you are resident in the United Kingdom or, if not, from another appropriately authorised independent financial adviser.

If you have sold or otherwise transferred all of your Ordinary Shares in the Company you should pass this document, together with the accompanying documents, as soon as possible, to the purchaser or transferee or to the bank, stockbroker or other agent through whom the sale or transfer was effected for transmission to the purchaser or transferee. However, these documents should not be forwarded or transmitted in or into any jurisdiction in which such act would constitute a violation of the relevant laws and restrictions of such jurisdiction. Persons into whose possession this document and any accompanying documents should come should inform themselves about and observe any such laws and restrictions. If you have sold only part of your holding of Ordinary Shares, you should retain these documents and consult the bank, stockbroker or other agent through whom the sale was effected.

Application has been made to the UK Listing Authority for the New Interserve Shares proposed to be issued in connection with the Scheme to be admitted to the Official List, and will be made to the London Stock Exchange for the New Interserve Shares to be admitted to trading on the London Stock Exchange's main market for listed securities. It is expected that Admission to the Official List and the London Stock Exchange will become effective, and that dealings in the New Interserve Shares will commence, on, or shortly after, the Effective Date which, subject to the satisfaction of certain conditions, including the sanction of the Scheme by the Court, is expected to be 20 July 2006.

INTERSERVE PLC

(Company No. 00088456)

ACQUISITION OF MACLELLAN GROUP PLC

BY MEANS OF A SCHEME OF ARRANGEMENT UNDER SECTION 425 OF THE COMPANIES ACT

CIRCULAR TO SHAREHOLDERS

and

NOTICE OF INTERSERVE PLC EXTRAORDINARY GENERAL MEETING

JPMorgan Cazenove, which is authorised and regulated in the United Kingdom by the FSA, is acting exclusively for Interserve Plc in connection with the Acquisition and will not be responsible to anyone other than Interserve Plc for providing the protections afforded to customers of JPMorgan Cazenove or for providing advice in relation to the Acquisition, the contents of this document or any other matters referred to herein.

This document should be read as a whole and you should not rely solely on any summary financial information in it. Your attention is drawn to the letter from the Chairman of the Company which is set out on pages 5 to 15 of this document in which the Board recommends that you vote in favour of the resolution to be proposed at the Interserve Extraordinary General Meeting referred to below. Your attention is drawn to the risk factors set out in the section headed "Risk Factors" on pages 16 to 21 of this document. This document is being sent to all Shareholders, including any Shareholders not resident in the UK.

Notice of an extraordinary general meeting of the Company to be held at the offices of Deloitte & Touche LLP, Stonecutter Court, 1 Stonecutter Street, London EC4A 4TR at 3.30 p.m. on 15 June 2006, is set out at the end of this document. A form of proxy for use at the Interserve Extraordinary General Meeting is enclosed and, to be valid, should be completed and returned as soon as possible, but in any event so as to be received by the registrars of the Company, Capita Registrars, Corporate Actions, The Registry, 34 Beckenham Road, Beckenham, Kent, BR3 4TU no later than 3.30 p.m. (London time) on 13 June 2006. Whether or not you intend to be present at the Interserve Extraordinary General Meeting, please complete and return the form of proxy.

The New Interserve Shares will not be, and are not required to be, registered with the SEC under the Securities Act in reliance upon the exemption from registration requirements of the Securities Act provided by Section 3(a)(10) of that act. The SEC has not approved or disapproved the New Interserve Shares or passed an opinion on the adequacy of this document. Any representation to the contrary is a criminal offence in the United States.

If you have any questions about the procedures for the Interserve Extraordinary General Meeting, or the return of the form of proxy please contact the registrars of the Company, Capita Registrars, on 0870 162 3121 (+44 (0) 208 639 2157 from outside the UK) during the hours of 9.30 a.m. to 5.30 p.m., Monday to Friday (excluding bank holidays). The helpline will not be able to provide advice on the merits of the Acquisition nor can it give any financial or tax advice.

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EXPECTED TIMETABLE OF KEY EVENTS

<i>Action to be Taken</i>	<i>Time</i>
Latest time for receipt of forms of proxy for Interserve Extraordinary General Meeting	3.30 p.m. on 13 June 2006
Interserve Extraordinary General Meeting	3.30 p.m. on 15 June 2006
Voting Record Time	6.00 p.m. on 20 June 2006 ¹
Preference Share Class Meeting	10.30 a.m. on 22 June 2006
Preference Share Court Meeting	10.45 a.m. on 22 June 2006
Ordinary Share Court Meeting	11.00 a.m. on 22 June 2006
MacLellan Extraordinary General Meeting	11.15 a.m. on 22 June 2006 ²
Court Hearing Date (to sanction the Scheme and to confirm the Capital Reduction)	10.30 a.m. on 19 July 2006
Anticipated Effective Date of the Acquisition	20 July 2006 ³
Anticipated date for cancellation of listing of MacLellan Shares 2006	8.30 a.m. on 20 July
Issue of new Interserve Shares	20 July 2006 ³
Commencement of dealings on the London Stock Exchange of New Interserve Shares	8.00 a.m. on 20 July 2006 ³
Latest date for despatch of cheques in respect of cash consideration or settlement of cash consideration and New Interserve Shares through CREST (as appropriate) and statements of entitlement to or share certificates in relation to New Interserve Shares (as appropriate) and issue of Loan Notes	3 August 2006

Times

All references to time in this document are to London time, unless otherwise stated.

Forward Looking Statements

This document contains certain forward-looking statements with respect to the financial condition, results of operations and business of MacLellan, the MacLellan Group, Interserve and the Interserve Group and certain plans and objectives of the Directors with respect thereto. These forward-looking statements can be identified by the fact that they do not relate only to historical or current facts. Forward-looking statements often use words such as “anticipate”, “target”, “expect”, “estimate”, “consider”, “intend”, “plan”, “goal”, “believe”, “will”, “may”, “should”, “would”, “could” or other words of similar meaning. These statements are based on assumptions and assessments made by the Directors in the light of their experience and their perception of historical trends, current conditions, expected future development and other factors they believe appropriate. By their nature, forward-looking statements involve risk and uncertainty, and the factors described in the context of such forward-looking statements in this document could cause actual results and developments to differ materially from those expressed in or implied by such forward-looking statements. The forward-looking statements contained in this document speak only as of the date of this document and

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- ¹ If any of the Meetings is adjourned, the Voting Record Time of each such adjourned Meeting will be 6:00 p.m. on the second day before the date fixed by the adjourned Meeting.
 - ² The MacLellan Extraordinary General Meeting will commence at 11:15 a.m. on 22 June 2006 or as soon thereafter as the other Meetings have been concluded or adjourned.
 - ³ These dates are indicative only and will depend, inter alia, on the date upon which the Conditions are either satisfied or waived and the dates upon which the Court sanctions the Scheme and confirms the associated reduction of capital and the Scheme Court Order sanctioning the Scheme and the Reduction Court Order confirming the Capital Reduction are delivered to the Registrar of Companies and, in respect of the Capital Reduction is registered by the Registrar of Companies.

Interserve undertakes no duty to and will not necessarily update any of them in light of new information or future events.

Should one or more of these risks or uncertainties materialise, or should underlying assumptions prove incorrect, actual results may vary materially from those described herein. Interserve assumes no obligation to update or correct the information contained in this document, subject to any requirement to update or correct the information under the Listing Rules.

Interserve cannot give any assurance that the Acquisition will be completed.

The statement above does not seek to qualify the working capital statement given at paragraph 11 of Part VII of this document.

PART I

LETTER FROM THE CHAIRMAN OF INTERSERVE

(Incorporated and registered in England and Wales under the Companies Act 1985 with registered number 00088456)

Directors:

Lord Blackwell (*Chairman*)
Adrian Ringrose (*Chief Executive*)
Timothy Jones (*Finance Director*)
Stewart Hagerty (*Executive Director*)
John Vyse (*Executive Director*)
Patrick Balfour (*Senior Independent Non-Executive Director*)
Leslie Cullen (*Non-Executive Director*)
Nicholas Keegan (*Non-Executive Director*)
David Trapnell (*Non-Executive Director*)

Registered and Head Office:

Interserve House
Ruscombe Park
Twyford
Reading
RG10 9JU

0118 932 0123

30 May 2006

To: Interserve Shareholders and, for information purposes only, to the holders of options under Interserve Share Schemes

Dear Shareholder,

Acquisition of MacLellan Group Plc

1. Introduction

On 2 May 2006 the Board and the MacLellan Board announced that they had reached agreement on the terms of a recommended proposal whereby Interserve will acquire, for cash (with a Loan Note Alternative) and shares, the entire issued and to be issued share capital of MacLellan and acquire, for cash, the entire issued convertible preference share capital of MacLellan. Under the terms, Interserve will pay approximately £85 million in cash and will issue up to 9,949,855 New Interserve Shares with an aggregate value of approximately £41 million for the entire issued and unissued share capital of MacLellan⁴. Accordingly, MacLellan Shareholders and holders of options under the MacLellan Share Schemes will receive pursuant to the Acquisition cash (subject to reduction as a result of elections for the Loan Note Alternative) and New Interserve Shares with an aggregate value of approximately £126 million⁴.

The Acquisition is to be implemented by means of a scheme of arrangement under Section 425 of the Companies Act and is unanimously recommended by the MacLellan Board.

Due to its size, the Acquisition requires the approval of Interserve Shareholders at the Interserve Extraordinary General Meeting to be held at Deloitte & Touche LLP, Stonecutter Court, 1 Stonecutter Street, London EC4A 4TR on 15 June 2006 at 3.30 p.m. The Board considers that the Resolutions are in the best interests of the Company and unanimously recommends that Interserve Shareholders vote in favour of the Resolutions as the Directors intend to do in respect of their beneficial interests in the Company.

I am writing to give you further details of the Acquisition, including the background to and reasons for it, to explain why your Board considers it to be in the best interests of Interserve and to seek your consent to the Resolutions.

⁴ Assuming that each of (i) the Convertible Preference Shareholder(s) and (ii) the holders of options under the MacLellan Share Schemes exercise their rights (to the fullest extent possible) in a way that maximises the aggregate value that they receive pursuant to the Acquisition based on the Closing Price of an Interserve Share of 408 pence on 26 May 2006, being the latest practicable date prior to the publication of this document.

2. Summary terms of the Acquisition

The Acquisition will be effected by means of a scheme of arrangement between MacLellan and the MacLellan Shareholders under section 425 of the Companies Act. The Scheme is subject to the Conditions and further terms set out in Part IV of this document.

If the Acquisition proceeds, MacLellan Shareholders will be entitled to receive:

for every 1 MacLellan Share 0.0943 New Interserve Shares and 80 pence in cash

and so on in proportion for any other number of MacLellan Shares held save that fractions of New Interserve Shares will not be allotted or issued to persons pursuant to the Scheme but will instead be dealt with in the manner described in paragraph 13 of this letter. Based on the Closing Price of an Interserve Share on 28 April 2006 of 382 pence, being the last Business Day immediately prior to the Announcement, this entitlement represents approximately 36 pence in New Interserve Shares plus 80 pence in cash and values each MacLellan Share at approximately 116 pence and the existing issued ordinary share capital of MacLellan at approximately £116 million. MacLellan Shareholders (other than certain Overseas Persons) will be entitled to elect to receive Loan Notes instead of cash for some or all of the cash consideration to which they will be entitled under the Acquisition.

Under the terms of the Acquisition, the Convertible Preference Shareholder will be entitled to receive for every 1 Convertible Preference Share 40.6 pence in cash reflecting the value of the conversion rights attributable to the Convertible Preference Shares to convert into MacLellan Ordinary Shares on the basis of 35 MacLellan Ordinary Shares for every 100 Convertible Preference Shares. If the Convertible Preference Shareholder elects to convert its shares into MacLellan Ordinary Shares prior to the Voting Record Time then the Convertible Preference Shares will become MacLellan Shares with the entitlements set out above.

At the MacLellan AGM on 3 May 2006 MacLellan obtained the approval of the MacLellan Shareholders to adjourn the resolution to approve the payment of the final dividend of 1.25 pence per share that had been proposed for the year ended 31 December 2005 which was expected to be paid on 3 July 2006. No further dividend will be paid or declared and the MacLellan Directors will not reconvene the meeting to consider the adjourned dividend resolution unless the Acquisition does not complete. In the event that any dividend is declared or paid by MacLellan after the date of the Announcement and Interserve proceeds with the Acquisition, the cash element of the consideration payable to the MacLellan Shareholders by Interserve under the Acquisition shall be reduced by an equal amount and there shall be no corresponding increase in the amount of consideration payable by Interserve by way of the issue of New Interserve Shares or Loan Notes.

Neither the MacLellan Shareholders (nor the Convertible Preference Shareholder in the event that it elects to convert its Convertible Preference Shares into MacLellan Shares prior to the Voting Record Time) will be entitled to Interserve's final dividend of 10.1 pence per share for the year ended 31 December 2005.

A Mix and Match Facility will be available to MacLellan Shareholders pursuant to which MacLellan Shareholders may, subject to availability, elect to vary the proportions in which they receive New Interserve Shares and cash (with a Loan Note Alternative) in respect of their holdings of MacLellan Shares.

Assuming a maximum number of 9,949,855 New Interserve Shares will be issued pursuant to the Acquisition, MacLellan Shareholders will hold Interserve Shares representing approximately 8 per cent. of the Enlarged Interserve Group. In addition, MacLellan Shareholders will also have received a total cash consideration in aggregate (subject to reduction as a result of elections for the Loan Note Alternative) of approximately £85 million.⁵

The value of the Acquisition of the MacLellan Shares represents a premium of approximately:

- 11 per cent. over the Closing Price of a MacLellan Share of 104.5 pence on 21 March 2006, being the last Business Day before the announcement that MacLellan had received an initial approach for the Company; and

⁵ Assuming that each of (i) the Convertible Preference Shareholder(s) and (ii) the holders of options under the MacLellan Share Schemes exercise their rights (to the fullest extent possible) in a way that maximises the aggregate value that they receive pursuant to the Acquisition based on the Closing Price of an Interserve Share of 408 pence on 26 May 2006, being the latest practicable date prior to the publication of this document.

- 36 per cent. over the average Closing Price of a MacLellan Share of 85.6 pence for the three months before 22 March 2006, being the Business Day of the announcement that MacLellan had received an initial approach for the Company.⁶

The Acquisition will not proceed if, after the date of the Announcement and before the MacLellan Extraordinary General Meeting, the Acquisition is referred to the Competition Commission. The Acquisition will also not proceed if the Scheme does not become Effective by 11 September 2006 or such later date as MacLellan and Interserve may agree and the Court may approve.

Further information on the principal terms of the Acquisition is set out in Part III of this document.

3. Background to, and reasons for, the Acquisition

The Directors consider that the Acquisition will create value for Interserve Shareholders through the combination of two companies with a strong strategic fit and complementary skills and market strengths, particularly in facilities management. The Enlarged Interserve Group will have a greater scale and a broader range of skills and capabilities, strengthening its integrated services offering across the UK facilities management market.

The Board believes that MacLellan represents an attractive opportunity, consistent with Interserve's strategy to grow its business, particularly in the facilities management sector.

The Board believes that MacLellan has attractive growth prospects, good visibility of forward revenues, a high quality customer base that includes leading companies such as Sainsbury's, Tesco, PruPim and Mapeley and that following the Acquisition it will provide the Enlarged Interserve Group with potential to benefit from margin uplift by reducing overheads and improving operational efficiency.

The Board believes that there is a strong strategic and operational fit between MacLellan and its existing facilities services business.

The Board believes that the Acquisition will assist with the development of Interserve's product offering, in particular enabling:

- a material expansion of Interserve's outsourcing businesses, increasing the proportion of revenues from these activities from approximately 49 per cent. to approximately 58 per cent.;
- a more even balance between the public and private sectors with non-public sector business increasing from approximately 30 per cent. to approximately 40 per cent. by revenue; and
- Interserve to leverage growth from an increasingly diverse customer base supported by a forward order book that is increased by approximately £500 million to approximately £5.3 billion.

The Board is confident that Interserve will be able to integrate MacLellan successfully, especially in the light of the compatibility of MacLellan's operations and complementary fit with Interserve's existing outsourcing businesses.

The Acquisition is expected to be earnings enhancing for Interserve in 2007, being the first full year following completion of the Acquisition.⁷

⁶ The Announcement provided that the Acquisition would be conditional upon the Scheme becoming Effective by a date falling 120 days after the date on which the Scheme Document is posted (or such later date as Interserve and MacLellan may agree and (if required) the Court may allow) ("Drop Dead Date"). Notwithstanding the date of posting of the Scheme Document, Interserve and MacLellan have agreed, with the consent of the Panel, to the Drop Dead Date becoming 11 September 2006 (the "Revised Drop Dead Date") (or such later date as Interserve and MacLellan may agree and (if required) the Court may allow). The Revised Drop Dead Date is the day before the date on which Interserve intends to announce its interim results for the 6 months ended 30 June 2006 and any interim dividend for the financial period to 31 December 2006. This Revised Drop Dead Date ensures that, unless Interserve and MacLellan agree otherwise with the consent of the Court as appropriate, the Scheme cannot become Effective at a time after the declaration of, or record date for the payment of, the interim dividend for the financial year ending 31 December 2006.

⁷ A statement that the Acquisition will be earnings enhancing in 2007 does not constitute a profit forecast and should not be interpreted to mean that earnings for 2007 or any subsequent financial period would necessarily match or be greater than those for any preceding financial period. Earnings means earnings calculated by reference to Interserve's Group profit, net of tax and minorities but before amortisation of intangible assets.

Over recent years, Interserve's strategy has been focused on the development of the Interserve Group into one of Britain's leading facilities management services providers, a position which the Directors consider offers the Interserve Group attractive growth opportunities and good visibility of earnings. Revenue (net of works bills) from its facilities management business has grown organically from £278 million in 2002 to £383 million in 2005, particularly through major contract wins in the defence, education and health sectors such as the Army Training Estate, South East Regional Prime, Telford & Wrekin schools and Newcastle Hospitals.

Growth in public sector outsourcing is expected to continue and the Directors consider that the Interserve Group is well placed to take advantage of this, as exemplified by the Interserve Group's recent success in securing a seven year contract to provide facilities management services to the London Borough of Croydon, with an anticipated contract value of £60 million and recent selection as preferred bidder for the £100 million MoD Cyprus prime Contract. This will be supplemented by the approximately £100 million of public sector order book of MacLellan.

The Board believes that the breadth and depth of MacLellan's penetration into the private sector through its long term customer relationships and its ability to fulfil complex customer demands will enhance the continuing development and success of the Enlarged Interserve Group by building upon the approximately £800 million Interserve private sector order book.

Interserve's Industrial Services and Project Services divisions will continue to offer the Enlarged Interserve Group complementary opportunities in other areas of the building and maintenance markets. Equipment Services is expected to continue to contribute significant levels of earnings and to develop the Enlarged Interserve Group's international expansion.

Your attention is drawn to the section headed "Risk Factors" in Part II of this document.

4. Information on MacLellan

MacLellan is a provider of integrated services facilities and support services in the UK with revenue of more than £230 million and over 13,500 employees. MacLellan offers customers integrated facilities services, technical services, health and safety services, security services, office support services, cleaning services and catering services.

Over recent years, MacLellan's strategy has been to maximise its position in the market for outsourced business services and seek to establish long term managed services contracts with its customers and the broadening of its customer base through controlled diversification within its chosen sectors.

For the year ended 31 December 2005 MacLellan's turnover from continuing operations increased by 22.3 per cent. to £232.7 million, profit before taxation increased by 100 per cent. to £7.0 million, net cash inflow from operating activities increased by 17.9 per cent. to £9.9 million and as at 31 December 2005 MacLellan had total assets on its balance sheet of £120.3 million.

The financial information set out in the above paragraph is based on the audited financial information of MacLellan for the years ended 31 December 2003, 31 December 2004 and 31 December 2005 as prepared under IFRS and set out in Part B of Part V of this document.

The previously published audited financial information prepared by MacLellan Group was prepared under UK GAAP. The financial information on MacLellan Group which is shown in Part V of this document has been prepared under IFRS and includes certain adjustments to the historic UK GAAP numbers.

5. Information on Interserve

Interserve is a FTSE 250 support service group with revenue of more than £1.22 billion and employing approximately 12,000 employees worldwide. Interserve creates, operates and maintains amenities and infrastructure for both the public and private sectors, including hospitals, schools, utilities and commercial and industrial production facilities.

Over recent years, Interserve's strategy has been focused on the development of the Interserve Group into one of Britain's leading facilities management services providers, a position which the Board considers

offers the Interserve Group attractive growth opportunities and good visibility of earnings. Interserve has five principal trading activities:

- Facilities Services, which provides outsourced support services to public and private sector organisations through facilities management contracts. Services include, amongst others, mechanical and electrical maintenance, energy monitoring, estates management, security, cleaning and catering, waste management. Facilities Services operates primarily in the health, education, defence, commercial and local authority housing sectors;
- Industrial Services, which focuses mainly on the process and power industries. Clients are primarily in the petrochemical, pharmaceutical, power, gas, and manufacturing sectors. Services include facilities management, industrial access, industrial cleaning and painting, insulation, mechanical and electrical maintenance, asbestos solutions, electrical control and instrumentation and pipework fabrication;
- Project Services, which provides services in the design, construction and maintenance of buildings and infrastructure. It focuses on framework agreements, PFI projects and long-term maintenance contracts and operates across a variety of sectors including education, health, prisons, water, transport infrastructure and commercial;
- Equipment Services, which designs and supplies specialised formwork, falsework, shoring and access equipment on a hire and sale basis; and
- PFI Investments, which co-ordinates Interserve's PFI and PPP activities, identifies suitable target projects, selects potential bid partners and works closely with Interserve's other divisions to put together the bids. Once projects are won it also manages Interserve's PFI equity investments.

6. Integration plan for the combination of Interserve and MacLellan

It is intended that MacLellan will be fully integrated into Interserve's management and control systems. However, due to the complementary nature of the businesses, the Directors anticipate that MacLellan will initially operate within the Enlarged Interserve Group alongside existing Interserve businesses with close liaison with respect to cross selling and other revenue enhancing opportunities. Separate market-facing identity and branding will be retained where this is held to have a recognisable value in its particular market.

The Directors intend to carry out an operational review in the period following the Acquisition in order to identify opportunities for functional alignment and overhead costs savings. In particular, Interserve will assess how best to integrate the head office and back office functions of MacLellan during the period following the Acquisition.

Management and employees

If the Acquisition becomes Effective, MacLellan's current Chief Executive, John Foley, and Finance Director, Stephen Shipley, will step down from the management of MacLellan but will assist the Enlarged Interserve Group with the integration of the combined businesses for a period of three months following the Effective Date. The Chief Executive and Finance Director will be compensated under the terms of their existing contractual entitlements. As at the date of this document no offer of appointment to the Enlarged Interserve Group Board has been made to any director or employee of MacLellan.

The Directors recognise the importance of the skills and experience of the existing employees of MacLellan and believe that opportunities for them will be enhanced in the event that the Acquisition becomes Effective. In particular, Interserve has advised the MacLellan Directors that the strategic plans for MacLellan, set out in this paragraph 6 and in paragraph 3 above, are not expected to have a material impact on employment or the locations of MacLellan's places of business and are not expected to result in any material changes in the conditions of employment for MacLellan Group employees.

The Directors consider that there are four employees of MacLellan who are important to the running of the MacLellan businesses, John Ellis (Managing Director of MacLellan International Limited), Jonathon Levine (Managing Director of First Security Limited), Michael Crump (Managing Director of MacLellan Attlaw

Security Limited) and Paul Teasdale (Managing Director of TASS (Europe) Limited). The Directors intend that these individuals remain employed by the Enlarged Interserve Group after the Effective Date.

On the Acquisition becoming Effective, the accrued employment rights, including pension rights, of all management and employees of the MacLellan Group will be fully safeguarded. As a result of the Acquisition, an obligation on the part of MacLellan to make payments to MacLellan's executive directors and senior management under the terms of a bonus scheme will be triggered. The final allocation of payments under this bonus scheme has yet to be determined by the remuneration committee of MacLellan. The aggregate amount of the payments under such bonus scheme will be £1.5 million.

7. Financial effects on Interserve

The Acquisition is expected to be earnings enhancing for Interserve in 2007 being the first full year following completion of the Acquisition.⁸

The Acquisition is also to make a positive contribution to the Interserve Group's cash flow, providing opportunities for investment in growth in the businesses.

An unaudited proforma financial statement showing the impact of the Acquisition on the assets and liabilities of the Interserve Group is set out in Part VI of this document.

8. Mix and Match Facility

MacLellan Shareholders, (other than certain Overseas Persons) are also being offered the opportunity under the Mix and Match Facility to elect subject to availability to vary the proportions of cash consideration and New Interserve Shares they receive in respect of their holding of MacLellan Shares on the basis of 0.0943 of a New Interserve Share for every 36.0226 pence in cash, subject to equal and opposite elections being made by other MacLellan Shareholders. However, the total number of New Interserve Shares to be issued and the maximum aggregate amount of cash and/or Loan Notes to be paid under the Acquisition will not be varied as a result of elections under the Mix and Match Facility. Accordingly, satisfaction of elections made by MacLellan Shareholders under the Mix and Match Facility will depend on the extent to which other MacLellan Shareholders make off-setting elections. To the extent that elections for New Interserve Shares or cash consideration cannot be satisfied in full, they will be scaled down on a *pro rata* basis.

9. Loan Note Alternative

Save as stated below, the MacLellan Shareholders (other than certain Overseas Persons) are also being offered the opportunity under the Loan Note Alternative to elect to receive Loan Notes to be issued by Interserve instead of some or all of the cash consideration to which they would otherwise be entitled under the Scheme including any additional cash consideration to which they become entitled as result of an election under the Mix and Match Facility. The Loan Note Alternative is being made available on the basis of £1 nominal value of Loan Notes for every £1 of cash consideration.

The Loan Notes, which will be governed by English law, will be an unsecured obligation of Interserve and will be issued, credited as fully paid, in amounts and integral multiples of £1 nominal value. All fractional entitlements to the Loan Notes will be disregarded and will be settled in cash. No application will be made for the Loan Notes to be issued or dealt in on any stock exchange and they will not be transferable.

⁸ A statement that the Acquisition will be earnings enhancing in 2007 does not constitute a profit forecast and should not be interpreted to mean that earnings for 2007 or any subsequent financial period would necessarily match or be greater than those for any preceding financial period. Earnings means earnings calculated by reference to Interserve Group's profit, net of tax and minorities but before amortisation of intangible assets.

The Loan Notes will bear interest at 0.75 per cent. below sterling LIBOR for a period equal, or as nearly as possible equal, to the relevant interest period. Interest will be payable by half yearly instalments in arrear (less any tax) on 30 June and 31 December in each year. The first payment of interest will be made on 31 December 2006. On that date, interest will be paid in respect of the period from (and including) the date of issue of the relevant Loan Notes to (but excluding) that date. The Loan Notes will be redeemable in whole or in part for cash at the option of the noteholders on 30 June 2007 and subsequently semi-annually on 30 June and 31 December in each year. If not previously redeemed, the final redemption date will be the fifth anniversary of the date on which the Loan Notes are issued.

Unless Interserve decides otherwise, no Loan Notes will be issued unless, on or before the Effective Date, valid elections have been received in respect of at least £2 million in nominal value of Loan Notes. If insufficient elections are received, MacLellan Shareholders electing for the Loan Note Alternative will instead receive cash in accordance with the terms of the Scheme. If at any time after 30 June 2007 the outstanding nominal amount of Loan Notes equals or is less than £200,000 then Interserve will be entitled to redeem all of the then outstanding Loan Notes.

10. Financing

Interserve has arranged a new multi-currency revolving credit facility amounting to £225,000,000 with HSBC Bank Plc and The Royal Bank of Scotland Plc. These new debt financing facilities are to be used to finance the Acquisition and the working capital needs of the Enlarged Interserve Group. Further details of these financing arrangements are set out in paragraph 8.1(b) of Part VII of this document.

11. Implementation Deed and Inducement Fee Arrangements

Interserve and MacLellan have entered into the Implementation Deed which governs their relationship during the period until the Acquisition becomes Effective or lapses. Amongst other things, the parties have agreed to co-operate with regard to the process of implementing the Acquisition. The Implementation Deed will terminate (without prejudice to any obligation on MacLellan to pay the break fee (see below)) in certain circumstances, including if the Acquisition lapses or if the Scheme or the Acquisition is not approved at the Meetings or the Interserve Extraordinary General Meeting (as appropriate).

The Implementation Deed also provides for MacLellan to pay Interserve a break fee (inclusive of value added tax) of an amount equal to 1 per cent. of the value of MacLellan calculated by reference to the terms of the Acquisition as at the date of the Announcement in certain circumstances including if (i) a third party announces that it is considering making a Competing Proposal before the Acquisition lapses or is withdrawn and thereafter such or any other Competing Proposal completes or becomes effective or is declared unconditional in all respects; or (ii) the MacLellan Board at any time withdraws or adversely modifies or qualifies its unanimous recommendation of the Acquisition or determines not to implement the Acquisition and the Scheme does not subsequently become Effective in accordance with its terms; or (iii) the Acquisition is not approved at the Meetings.

12. The New Interserve Shares

The New Interserve Shares to be issued pursuant to the Acquisition will be ordinary shares of 10 pence each in the capital of Interserve. The New Interserve Shares will be issued credited as fully paid and will rank *pari passu* in all respects with the existing Interserve Shares except that they will not be entitled to Interserve's final dividend of 10.1 pence per share for the year ended 31 December 2005. The New Interserve Shares will be issued in registered form and will be capable of being held in both certificated and uncertificated form.

13. Fractional Entitlements

As fractions of New Interserve Shares will not be allotted or issued to persons pursuant to the Scheme, fractional entitlements to New Interserve Shares will be aggregated and sold in the market and the net proceeds of sale will be distributed *pro rata* to persons entitled thereto. However, individual fractional entitlements to amounts of less than £3 will not be paid to persons who would otherwise be entitled thereto under the Scheme but will be retained for the benefit of the Enlarged Interserve Group.

14. Dividend Policy

Following the Acquisition becoming Effective, Interserve intends to maintain its existing dividend policy of delivering real increases in the annual payout whilst seeking to strengthen both cash and earnings cover.

15. MacLellan Share Schemes

The Acquisition will extend to all MacLellan Shares issued or unconditionally allotted upon the exercise of options under the MacLellan Share Schemes before the Scheme becomes Effective. An offer will be made to participants in the MacLellan Share Schemes to include a cash cancellation offer comprising 116 pence less the relevant exercise price for every option share.

16. Pensions

Interserve has a net pensions deficit assessed at £132.6m under IAS 19 as at 31 December 2005. Interserve is currently in discussions with the trustee to the pension scheme to determine the triennial valuation as at the same date. Based on the outcome of this valuation, the level of cash contributions made into the scheme will be reassessed and are likely to increase. The Directors anticipate that this process will be concluded in time for the announcement of interim results in September 2006.

The provision of retirement benefits within MacLellan is substantially through defined contribution arrangements. MacLellan had a net scheme liability on its defined benefit scheme of £25,000 as measured under IAS19 as at 31 December 2005.

Interserve have received assurances from MacLellan that since the year end, MacLellan have substantially addressed their pension deficit by making a payment into the MacLellan pension scheme of £24,458.

17. Settlement, listing and dealing of New Interserve Shares

Application will be made to the London Stock Exchange for the New Interserve Shares to be admitted to trading on its market for listed securities and has been made to the UK Listing Authority for the New Interserve Shares to be admitted to the Official List. It is expected that listing will become effective, and that unconditional dealings in the New Interserve Shares will commence on 20 July 2006.

18. Implementation of the Scheme and cancellation of admission to trading

It is currently intended that the Acquisition will be effected by means of a scheme of arrangement between MacLellan and Scheme Shareholders under section 425 of the Companies Act. The procedure involves an application by MacLellan to the Court to sanction the Scheme and confirm the cancellation of all the existing Scheme Shares and the Convertible Preference Shares (other than any MacLellan Shares and Convertible Preference Shares already beneficially held by the Interserve Group (if any)). In consideration for the cancellation of their MacLellan Shares, MacLellan Shareholders, who are Scheme Shareholders, will receive cash and New Interserve Shares as outlined in paragraph 2 above and the Convertible Preference Shareholder will receive cash as outlined in paragraph 2 above.

The Acquisition is conditional upon, amongst other things,

- the approval of the Scheme and related resolutions by the requisite majorities of MacLellan Shareholders at the applicable Meetings;
- the sanction of the Scheme and the confirmation of the associated Capital Reduction by the Court at the Court Hearings; and
- the approval of the Acquisition by the Interserve Shareholders at the Interserve Extraordinary General Meeting.

Pursuant to the articles of association of MacLellan, the Scheme will also be subject to approval by the Convertible Preference Shareholder of an extraordinary resolution approving the Scheme at a meeting of the holder(s) of the Convertible Preference Shares or to receiving written consent to the Scheme (in the latter scenario, the consent in writing of holder(s) of not less than three-quarters of the issued Convertible

Preference Shares would be required). If so directed by the Court, the consent of the Convertible Preference Shareholder to the Scheme may also be required at a court-convened meeting of the Convertible Preference Shareholder.

If the Scheme becomes Effective, it will be binding on all Scheme Shareholders irrespective of whether or not they attend or vote in favour of the Scheme at the applicable Meetings. Prior to the Scheme becoming Effective, application will be made to the London Stock Exchange for the MacLellan Shares to be cancelled from admission to trading on its market for AIM Securities. It is expected that this will take effect on the Effective Date.

Following implementation of the Scheme, MacLellan will become a wholly-owned subsidiary of Interserve.

19. Current Trading, Trends and Prospects

Over recent years, Interserve's strategy has been focused on the development of the Interserve Group into one of Britain's leading facilities management services providers, a position which the Interserve Board considers offers the Interserve Group attractive growth opportunities and good visibility of earnings.

In the year to 31 December 2005 as reported under IFRS, Interserve had revenue (net of works bills) of £1.2 billion, profit before tax of £47.9 million and as at 31 December 2005 had net assets of £120.1 million.

In the Annual Report and Accounts of Interserve for the period ended 31 December 2005, the Chairman of Interserve stated that:

"In the light of the earnings progress made in 2005, together with favourable trading conditions, particularly in our Middle Eastern markets, the Board remains confident of the Group's encouraging prospects for continued growth. We have excellent forward visibility, in both workload and opportunities, are well positioned in our markets and have skilled management in place with a clear strategic plan and a determination to succeed."

At Interserve's annual general meeting on 17 May 2006 the Chairman of Interserve made the following statement:

"At this, my first Interserve Annual General Meeting, I am pleased to report that the Interserve Group continues to make good progress and that overall trading remains healthy.

Facilities Services and Project Services each continue to perform well, with further momentum and growth being created through winning new business and in growing existing client relationships. Equipment Services has also had an encouraging start following last year's record performance. Industrial Services' performance is, as previously highlighted, being adversely impacted in the short-term as we continue to reposition the business.

The Board believes that the recommended acquisition of MacLellan Group Plc will add further impetus to our activities in the highly attractive UK outsourcing market by extending our market reach and generating further long-term client development opportunities."

There has been no change to the trading position, trends and prospects of Interserve between the date of the above statements and the date of this document. Accordingly, and as at the date of this document and conditionally upon completion of the Acquisition, the Directors view the Enlarged Interserve Group's prospects for 2006 with confidence.

20. Irrevocable undertakings

MacLellan Directors who also hold Scheme Shares have irrevocably undertaken to vote such Scheme Shares (in aggregate, 926,307 MacLellan Shares, representing approximately 0.93 per cent. of the existing issued ordinary share capital of MacLellan) together with any further MacLellan Shares to which they may become entitled prior to the Meetings in favour of the Acquisition and the Scheme at the applicable Meetings. Such MacLellan Directors have also undertaken that, if following the Announcement, Interserve decides to implement the Acquisition by means of a Takeover Offer instead of by way of the Scheme, that such MacLellan Directors shall accept such a Takeover Offer in respect of their Scheme Shares.

Irrevocable undertakings to vote in favour of the Scheme at the applicable Meetings have also been received from AXA Framlington Investment Management Limited in respect of 6,748,734 MacLellan Shares, from

Seraffina Holdings Limited in respect of 6,000,000 MacLellan Shares and from Southwind Limited in respect of 950,000 MacLellan Shares.

Accordingly, Interserve has received irrevocable undertakings on the terms set out above in respect of, in aggregate, 14,625,041 MacLellan Shares, representing approximately 14.7 per cent. of MacLellan's existing ordinary issued share capital.

Letters of intent indicating an intention to vote in favour of the Scheme at the applicable Meetings have been received from Morley Fund Management Limited in respect of approximately 8,169,299 MacLellan Shares and Canada Life Limited in respect of approximately 4,098,333 MacLellan Shares together representing approximately 12.3 per cent. of MacLellan's existing ordinary issued share capital.⁹

Accordingly, irrevocable undertakings to vote in favour of the Acquisition and letters of intent indicating an intention to vote in favour of the Acquisition at the applicable Meetings have been received in respect of 26,892,673 MacLellan Shares representing approximately 26.9 per cent. of MacLellan's existing ordinary issued share capital.⁹

In addition, a letter of intent indicating an intention to vote in favour of the Scheme has been received from the Convertible Preference Shareholder in respect of the Convertible Preference Shares.

The irrevocable undertaking received from AXA Framlington Investment Management Limited will lapse if a third party announces its firm intention to make a competing offer and the value of that competing offer is deemed to be more than 121 pence for every MacLellan Share. The irrevocable undertakings received from Seraffina Holdings Limited and Southwind Limited will lapse if a third party announces its firm intention to make a competing offer and the value of that competing offer is deemed to be more than 127.5 pence for every MacLellan Share.

21. Extraordinary General Meeting

The notice convening the Interserve Extraordinary General Meeting to be held at the offices of Deloitte & Touche LLP, Stonecutter Court, 1 Stonecutter Street, London EC4A 4TR at 3.30 p.m. on 15 June 2006 is set out at the end of this document. The purpose of the meeting is to approve resolutions in connection with the Acquisition, a summary of which is set out below:

Ordinary Resolution – Resolution Number 1

To approve the Acquisition and to authorise the Directors to make such waivers and extensions and non-material amendments and variations to the terms and conditions of the Acquisition and to do all things as it considers necessary or expedient in connection with the Acquisition.

Ordinary Resolution – Resolution Number 2

To authorise the Directors to allot 16,000,000 New Interserve Shares, representing approximately 14 per cent. of Interserve's current issued share capital (excluding treasury shares) as at 26 May 2006, the last practicable date before the publication of this document. There are currently no treasury shares in issue. This resolution will enable the Company to allot sufficient New Interserve shares to satisfy its obligations in connection with the Acquisition and any employee share schemes. This authority replaces the authority granted at the Annual General Meeting of the Company held on 17 May 2006 and will expire 15 months from the date of this resolution or, if earlier, at the conclusion of the Annual General Meeting of the Company in 2007, save that the Company may, before such expiry make an offer or agreement which would or might require equity securities to be allotted after such expiry and the Directors may allot equity securities in pursuance of such offer or agreement as if the power conferred thereby had not expired.

⁹ However, MacLellan was notified on 9 May 2006 that Canada Life Limited, which has entered into a letter of intent to vote in favour of the Acquisition at the Court Meeting and the MacLellan Extraordinary General Meeting in respect of 4,098,333 MacLellan Shares, disposed of 2,000,000 MacLellan Shares on 8 May 2006.

22. Action to be taken

You will find enclosed with this document a Form of Proxy for use at the Interserve Extraordinary General Meeting or at any adjournment thereof. You are requested to complete and sign the form of Proxy whether or not you propose to attend the Interserve Extraordinary General Meeting in person in accordance with the instructions printed on it and return it as soon as possible, but in any event so as to be received by the Company's Registrar, Capita Registrars, Corporate Actions, The Registry, 34 Beckenham Road, Beckenham, Kent, BR3 4TU no later than 3.30 p.m. (London time) on 13 June 2006. You may register your proxy electronically in accordance with the instructions on the Form of Proxy.

CREST members may also choose to utilise the CREST electronic proxy appointment service in accordance with the procedures set out in the notice convening the Interserve Extraordinary General Meeting at the end of this document. The lodging of the Form of Proxy (or the electronic appointment of a proxy) will not preclude you from attending and voting at the meeting in person if you so wish.

23. Recommendation

The Board, who have received financial advice from JPMorgan Cazenove, considers that the Resolutions are in the best interests of the Interserve Shareholders as a whole. In providing advice to the Board, JPMorgan Cazenove has taken into account the Board's commercial assessment of the Acquisition.

Accordingly, the Board unanimously recommends that Interserve Shareholders vote in favour of the Resolutions to be put to the Interserve Extraordinary General Meeting as the Directors intend to do in relation to their own individual holdings which amount in total to 200,724 Interserve Shares, representing approximately 0.18 per cent. of the existing issued share capital of Interserve.

Yours faithfully

A handwritten signature in black ink, appearing to read 'Lord Blackwell', written in a cursive style.

Lord Blackwell
Group Chairman

PART II

RISK FACTORS

You should read the whole of this document and not rely solely on the information set out in this section.

A number of factors (risk factors) affect Interserve's, MacLellan's or the Enlarged Interserve Group's operating results, financial condition and trading price. Accordingly, investors should carefully consider the risks and uncertainties contained in this section before making an investment decision. Although this section generally describes the risks in terms of a risk to Interserve or an investment in Interserve shares, these risks are equally relevant to the Enlarged Interserve Group as it will be constituted, assuming completion of the Acquisition.

The risk factors mentioned below are those material risk factors of which the Interserve Directors are aware. However, these should not be regarded as a complete and comprehensive statement of all potential risks and uncertainties. Additional risks and uncertainties that are not presently known to Interserve, or that Interserve currently deems immaterial may also have an adverse effect on Interserve's and, following completion of the Acquisition, the Enlarged Interserve Group's business, financial condition, prospects and share price. However, the risk factors set out below should not be construed as a qualification of the opinion of the Company as to working Capital set out in paragraph 11 of Part VII.

The information given is as of the date of this document, and any forward-looking statements are made subject to the reservations specified under "Forward-Looking Statements" in the preamble to this document.

RISKS RELATING TO THE INTERSERVE GROUP, MACLELLAN GROUP AND THE ENLARGED INTERSERVE GROUP

1. General economic climate

A downturn in the general economic climate within the UK and any consequent effect upon Government policy and spending, private sector investment or interest rates may have an adverse effect on the Enlarged Interserve Group's financial condition and results of operation.

2. Competition from other international, national and local companies

Interserve and MacLellan compete with international, national and local support services and construction companies. The sectors in which Interserve and MacLellan operate are competitive on the basis of both price and service. As a result of this competition, Interserve and MacLellan suffer the risk that they may fail to win new contracts in their chosen growth markets or may fail to win contracts which are sufficiently profitable to maintain and improve the financial condition of Interserve, MacLellan or the Enlarged Interserve Group.

3. Failure to complete or loss of major contracts

The work undertaken and services provided by Interserve and MacLellan can be subject to dispute by customers and clients. Contractual disputes may be prolonged and may be significant in terms of value. Interserve and MacLellan are subject to the risk that payments due under contracts for work undertaken by Interserve and MacLellan may not be recovered in full or will not be recovered at all. In turn, this could have an adverse impact on the future profitability of Interserve, MacLellan or the Enlarged Interserve Group and could damage the reputation of the Enlarged Interserve Group or part thereof, thereby adversely affecting its ability to secure future business, or to secure future business on terms acceptable to it. Even if amounts disputed under a contract are recovered in whole or in part, it remains a risk that the time to recover such amounts will be longer than anticipated and, where payments are delayed, cash flow may be adversely affected, which in turn may adversely affect the financial condition of the business and prospects of Interserve, MacLellan and the Enlarged Interserve Group.

In addition, both Interserve and MacLellan rely on the continued custom of certain major customers for a significant part of their respective revenues. Were any one or more of those key customers to be unable to meet their financial liabilities or to terminate such custom, whether as a result of dispute, customer policy decision, change of control of MacLellan or otherwise, then this would be likely to result in a reduction in both revenue and profits and may adversely affect the financial condition of the Enlarged Interserve Group's business.

4. Senior management and skilled personnel

The success of Interserve's and MacLellan's businesses is dependent on recruiting, retaining, developing motivating and communicating with appropriately skilled, competent people at all levels of their respective organisations. Interserve and MacLellan face competition for personnel from other companies and organisations. The members of the management teams contribute to Interserve's and MacLellan's ability to obtain, generate and manage opportunities. If Interserve or MacLellan are not able successfully to attract, retain and motivate such personnel, they may not be able to maintain their standards of service or continue to grow their businesses as anticipated.

The loss of such personnel, or the inability to attract, retain, motivate and communicate with additional skilled employees required for their activities within an affordable cost base, could have an adverse affect on Interserve's, MacLellan's or the Enlarged Interserve Group's business and prospects.

5. Management of pensions issues

As at 31 December 2005 both Interserve and MacLellan recognised pension deficits on their balance sheets. The respective values of the deficits are highly dependent upon some key assumptions and may vary significantly from year to year. Any future changes in relation to the assumptions underlying the calculations of Interserve's and MacLellan's pension obligations or in the investment performance of the pension schemes or in statute or regulatory requirements may mean that Interserve and MacLellan could be required to increase their contributions into their respective pension schemes and any significant increase in such contributions might therefore negatively impact the financial position of Interserve and MacLellan including their ability to pay dividends.

Interserve has received assurances from MacLellan that since the year end, MacLellan has substantially addressed their pension deficit by making a payment into the MacLellan pension scheme of £24,458.

6. Acquisitions and disposals

The Enlarged Interserve Group may make material acquisitions or disposals in the future. Any future material acquisitions or disposals may significantly affect the Enlarged Interserve Group's operational results. Furthermore, any new acquisitions may divert resources, including the attention of the Enlarged Interserve Group's management team. No assurance can be given that the Enlarged Interserve Group will be able to manage future acquisitions profitably or integrate such acquisitions successfully without substantial costs, delays or other problems being incurred or experienced. In addition, no assurance can be given that any companies or businesses acquired will achieve levels of profitability that will justify the investment the Enlarged Interserve Group makes in them.

The Enlarged Interserve Group's ability to pursue its strategy and expand its business in the future may also be affected if it is unable to identify and consummate acquisitions and integrate them successfully.

The Enlarged Interserve Group may incur liabilities in respect of future disposals, either contractually through the provision of indemnities, representations and warranties, or otherwise.

Over several years, MacLellan has been highly acquisitive and both MacLellan and Interserve have also disposed of a number of businesses. The MacLellan Group may have taken on liabilities through acquisitions and both Interserve and MacLellan may have retained liabilities in respect of businesses sold. If any such liabilities crystallise in the future, this could cause a cash outflow for the Enlarged Interserve Group and consequently have an adverse effect on the Enlarged Interserve Group's financial condition and results of operation.

7. Major incident exposing inadequate internal health and safety regimes

The nature of the businesses conducted by Interserve and MacLellan involves exposure to health and safety risks for both employees and third parties. This requires the adoption and maintenance of rigorous operational and occupational health and safety procedures. This is critical to the success of all areas of their businesses. Any health and safety failure which results in a major or significant health and safety incident is likely to be costly for the relevant business in terms of potential liabilities incurred as a result. Furthermore, such a failure could generate significant adverse publicity and have a negative impact on Interserve's or MacLellan's reputation and their ability to win new business, which in turn would adversely affect the operating, financial and share price performance of the Enlarged Interserve Group.

8. Financial, accounting, management, and other information and support IT systems

The efficient operation and management of the businesses of Interserve and MacLellan, whether in whole or in part, depend on the proper operation and performance of financial, accounting, management and other information and support IT systems (such as payroll management and invoicing). A significant performance failure of any of such systems could lead to loss of control over critical business information and/or systems, (such as contract costs, invoicing or payroll management) resulting in an adverse impact on the ability of the business affected to operate effectively and/or fulfil their contractual obligations which may in turn lead to a loss of custom, revenue, and profitability and the incurring of significant consequential and remedial costs.

9. Terrorist incidents

Interserve, MacLellan and their employees work in various locations where there is a risk of terrorist activity. A major terrorist incident in any of these locations could affect ongoing work on projects carried out there, causing them to be interrupted, delayed or cancelled. Any such interruptions, delays or cancellations would affect future revenue-streams of the Enlarged Interserve Group and could have an adverse impact on the Enlarged Interserve Group's business, operational results or financial condition. A major terrorist incident could also result in a reduced demand for the Enlarged Interserve Group's services if, as a result of such an incident, there is a reduction in new works and projects commissioned in those locations on which the Enlarged Interserve Group might expect to work. Such an incident might also result in the Enlarged Interserve Group reducing its activities in such locations, or possibly withdrawing from a location altogether.

10. Adequacy of funding facilities

Interserve and MacLellan carry out major projects which from time to time require substantial amounts of cash to finance working capital, capital expenditure and, in the case of Interserve, investment in PFI projects. Interserve and MacLellan are therefore required to manage their working capital effectively for each project in order to ensure that they are able to perform their obligations in respect of such projects.

Interserve and MacLellan are at risk if they fail properly to manage their financing requirements in relation to such projects and contracts. If, for any reason, Interserve or MacLellan fail to manage their working capital appropriately, it could result in Interserve or MacLellan or, if the Scheme is effected, the Enlarged Interserve Group, being unable to meet their trading requirements, and ultimately defaulting on their banking covenants. Any default by the Enlarged Interserve Group on its banking covenants could lead to all amounts payable under its banking facilities, together with interest thereon, being repayable on demand or sooner than would otherwise be the case. Any requirement to make early repayment of amounts owed under its facilities in the above mentioned circumstances may have a material and adverse effect on the Enlarged Interserve Group's financial condition and results of operation.

11. Joint ventures and minority stakes

Joint ventures and minority investments that Interserve or the Enlarged Interserve Group hold a stake in may involve special risks associated with the possibility that the Enlarged Interserve Group may not be in a position to fund its share of expenditure and/or that the partners may (i) have economic or business interests or goals that are inconsistent with those of the Enlarged Interserve Group; (ii) take action contrary to the Enlarged Interserve Group's policies or objectives with respect to its investments, for instance by veto of

proposals in respect of the operations; (iii) be unwilling or unable to fulfil their obligations under the venture; or (iv) experience financial or other difficulties.

12. Multi-year and major capital works contracts

Both Interserve and MacLellan undertake multi-year contracts. This exposes the businesses to the risks of:

- (i) increases in costs, including wage inflation, attributable to such contracts beyond those anticipated and provided for within such contracts at the time they are entered into; or
- (ii) being bound to perform an onerous contract as a result of inaccurate pricing by Interserve or MacLellan; or
- (iii) increases in cost that are not met through corresponding attributable increases in revenues from such contracts

unless and to the extent that such increases are taken into account in periodic benchmarking and/or market testing where included in such contracts. Any such losses may affect the Enlarged Interserve Group's future revenues and profitability in the relevant businesses.

Interserve also carries out major capital works contracts with the associated risk that it may be bound to perform such contracts at a loss as a result of additional costs not reimbursed under the contract terms, which losses may affect Interserve's future revenues and the revenues and profitability of the Enlarged Interserve Group.

RISKS OF PFI/PPP BUSINESSES

13. Change of Government policy

Certain of Interserve and MacLellan's businesses are dependent on the current UK Government's policy with regard to expenditure on improving public infrastructure, buildings and services, notably in the education, roads, health, secure establishments and defence sectors. The UK Government may decide in future to change its priorities and programmes, including reducing present or future investment in education, transport, health, secure establishments or defence projects or other areas in which the Enlarged Interserve Group would expect to compete for work. Any reduction in such government investment and funding would be likely to adversely affect the Enlarged Interserve Group's future revenues and profitability in the relevant businesses.

14. Procurement delays

Certain government related projects on which the Enlarged Interserve Group may work may require relevant approvals from Government ministers or senior civil servants. It is possible that, due to difficulties obtaining such approvals, projects might be delayed before procurement has started, during the tender stage or during the period between the appointment of a preferred bidder and the exchange of contracts. These matters are likely to be beyond the control of the Enlarged Interserve Group and any resulting delays could affect future revenue streams of Interserve and have an adverse impact on the Interserve Group's businesses, results, operations and financial condition.

15. PFI/PPP concessions

Interserve regularly enters into PFI/PPP concession contracts, which can last for periods of around 30 years. These contracts typically require the special purpose companies established by Interserve with one or more third parties to provide for the capital replacement of assets at a future determined point in time and such special purpose companies are required to provide within their respective financial models at the time they enter into such contracts an estimate of the costs associated with carrying out such activity. There is a risk that any one or more of such special purpose companies may fail to adequately anticipate at the time they enter into a PFI/PPP concession contract: (a) the costs of carrying out the capital replacement of assets in relation to that contract; or (b) when they will be required to carry out such works. Failure to provide

sufficiently for the costs associated with such works or to anticipate the time when such works will be implemented at the time such contracts are entered into, could lead to the special purpose companies in which Interserve has invested facing significantly greater costs than previously budgeted and this could result in Interserve's business and profitability being adversely affected.

When bidding for PFI/PPP concession contracts Interserve may incur significant costs over the period until financial close of the contract. These costs are typically reimbursed when the PFI/PPP concession contract reaches financial close. Should Interserve be unable to reach financial close on significant PFI/PPP concession contracts in the future, Interserve's future cash flows might be adversely affected, which in turn may adversely affect the Enlarged Interserve Group's financial condition.

RISKS OF THE INTERNATIONAL BUSINESSES

16. Saturation of the market in the Middle East

Interserve currently carries out a significant proportion of its construction work and equipment hire and sale in the Middle East. Whilst this market continues to expand, it may eventually reach the point where demand for the construction of new property and/or infrastructure is exhausted or slows, resulting in a corresponding reduction in demand for construction and related services offered by Interserve. Any such future downturn could have an adverse effect on the future profitability of the Enlarged Interserve Group.

17 Changes in political climate

Some of the regions in which Interserve operates are potentially politically volatile. Changes in political climate in such regions could result in additional costs being incurred in relation to existing contracts and/or impact on the ability of Interserve to realise revenues or margin from such existing contracts or to win new contracts in such regions. This could adversely impact on the Enlarged Interserve Group's future profitability or prospects.

RISKS RELATING TO THE ACQUISITION

18. Acquisition risk

The following risks are in addition to risks relating to MacLellan which would be assumed by the Enlarged Interserve Group on completion of the Acquisition.

The integration process following completion of the Acquisition is expected to be complex. Interserve has, to the extent permitted by the limited due diligence and access to MacLellan management associated with a public acquisition, made plans aimed at ensuring the smooth and efficient integration of the MacLellan operations, and this process is expected to commence immediately following completion of the Acquisition. Successful implementation of this programme will require a significant amount of management time and thus may affect or impair the ability of the management team of the Enlarged Interserve Group to run the business effectively during the period of implementation. If the integration process proved more difficult than anticipated, there is also a risk to the operations of the Enlarged Interserve Group. This integration may take longer than expected, or difficulties relating to the integration, of which the Directors are not yet aware, may arise. In addition, there can be no assurance that the implementation cost of the expected savings programme will not exceed the cost estimated by Interserve. Furthermore, Interserve may not have or be able to retain personnel with the appropriate skill set for the tasks associated with the integration programme. This could adversely affect the implementation of Interserve's plans. In such circumstances, the profitability of the Enlarged Interserve Group might be detrimentally affected, which could have a negative impact on the price of Interserve Shares.

There is a risk that the Enlarged Interserve Group will not realise the revenue enhancing opportunities, through cross selling and other initiatives across the Enlarged Interserve Group, that the Board has anticipated. A failure to achieve such anticipated revenue enhancements could delay or adversely impact on the ability of the Acquisition to become earnings enhancing.

RISKS RELATING TO INTERSERVE SHARES

19. Possible volatility of the price of Interserve Shares

The market price of Interserve Shares could be volatile and subject to significant fluctuations due to a variety of factors, including, in addition to those outlined above, changes in sentiment in the market regarding Interserve Shares (or securities similar to them), any regulatory changes affecting Interserve's operations, variations in Interserve's operating results, business developments of Interserve or its competitors, the operating and share price performance of other companies in the industries and markets in which Interserve operates, or speculation about Interserve's business in the press, media or investment community. Stock markets have from time to time experienced significant price and volume fluctuations that have affected market prices for securities and which may be unrelated to Interserve's operating performance or prospects. Furthermore, Interserve's operating results and prospects from time to time may be below the expectations of market analysts and investors. Any of these events could result in a decline in the market price of Interserve Shares.

20. Investments in listed securities

Prospective investors should be aware that the value of an investment in Interserve may go down as well as up. The market value of Interserve Shares can fluctuate and may not always reflect the underlying asset value or prospects of Interserve.

21. Dividend Payments

The ability of Interserve to pay dividends on Interserve Shares is a function of its profitability and the extent to which, as a matter of law, it has available to it sufficient distributable reserves out of which any proposed dividend may be paid. Interserve's ability to pay dividends is also dependent upon receipt by it of dividends and other distributions from subsidiaries. Interserve can give no assurances that it will be able to pay a dividend going forward.

22. Future Share issues

Save for the proposed issue of New Interserve Shares and issues of shares in connection with the employee share schemes, Interserve has no current plans for an offering of Interserve Shares. However, it is possible that Interserve may decide to offer additional Interserve Shares in the future. An additional offering or significant sales of Interserve Shares by major shareholders could have an adverse affect on the market price of Interserve Shares as a whole.

PART III

PRINCIPAL TERMS OF THE ACQUISITION

1 Summary of the terms of the Acquisition and the Scheme

The Acquisition is to be implemented by means of a scheme of arrangement between MacLellan and the MacLellan Shareholders under section 425 of the Companies Act. The MacLellan Shareholders and the Convertible Preference Shareholder will be sent a circular by MacLellan (the "Scheme Circular") proposing the Scheme and notifying the MacLellan Shareholders of the proposed Court Meetings, Preference Share Class Meeting and the MacLellan Extraordinary General Meeting to consider the Scheme. This Part III summarises the key points set out in the Scheme Circular. The Acquisition constitutes an offer governed by the City Code.

The Acquisition and the Scheme will comply with applicable rules and regulations of the UKLA, the London Stock Exchange and the City Code. The Acquisition will be governed by the laws of England and Wales and will be subject to the jurisdiction of the English courts and to the terms and conditions set out below.

The way in which the consideration for the Acquisition will be satisfied is set out in paragraph 2 of this Part III below.

The Acquisition will not be completed unless all of the Conditions set out in Part IV of this document have been satisfied or, if permitted, waived by Interserve by the opening of business (London time) on the Court Hearing Date, or such later date as Interserve and MacLellan may propose and the Court may approve. These Conditions include the approval of the terms of the Scheme by the requisite majorities at the applicable Meetings, the approval of the Interserve Shareholders at the Interserve Extraordinary General Meeting and the sanction of the Scheme and the confirmation of the associated Capital Reduction by the Court at the Court Hearings. The requisite majorities for the approval of the Shareholders and, where applicable, the Convertible Preference Shareholder are described in paragraph 3(ii) of this Part III. Interserve has agreed to undertake to the Court to be bound by the terms of the Scheme if the Conditions are satisfied or waived.

2 Consideration

Under the terms of the Scheme the consideration for each MacLellan Share is 0.0943 New Interserve Shares valued at approximately 36p (based on the Closing Price of an Interserve Share immediately prior to the Announcement) and 80p in cash (or, at the option of the individual MacLellan Shareholders, but subject to the terms and conditions of the Loan Note Alternative, Loan Notes).

Under the terms of the Scheme, the Convertible Preference Shareholder will be entitled to receive for every 1 Convertible Preference Share 40.6 pence in cash reflecting the value of the conversion rights attributable to the Convertible Preference Shares to convert into MacLellan Ordinary Shares on the basis of 35 MacLellan Ordinary Shares for every 100 Convertible Preference Shares. If the Convertible Preference Shareholder elects to convert his shares into MacLellan Ordinary Shares prior to the Voting Record Time then the Convertible Preference Shares will become MacLellan Shares with the entitlements set out above.

A Mix and Match Facility will be available to MacLellan Shareholders pursuant to which MacLellan Shareholders may, subject to availability, elect to vary the proportions in which they receive New Interserve Shares and cash and/or Loan Notes in respect of their holdings of MacLellan Shares. To the extent that elections for new Interserve Shares and/or cash consideration cannot be satisfied in full they will be scaled down on a *pro rata* basis. Further details of the consideration are set out in Part I of this document.

The New Interserve Shares to be issued pursuant to the Acquisition will be ordinary shares of 10 pence each in the capital of the Company. The new Interserve Shares will be issued credited as fully paid and will rank *pari passu* in all respects with the existing Interserve Shares except that they will not be entitled to Interserve's final dividend of 10.1 pence per share for the year ended 31 December 2005. The New Interserve Shares will be issued in registered form and will be capable of being held in both certificated and uncertificated form. The Directors have indicated that following the Acquisition becoming Effective,

Interserve intends to maintain its existing dividend policy of delivering real increase in the annual payout whilst seeking to strengthen both cash and earnings cover.

The Loan Note Alternative is being made available on the basis of £1 nominal value of Loan Notes for every £1 cash consideration.

The terms of the Proposed Acquisition assume that the final MacLellan dividend of 1.25 pence per share proposed with respect to the issued ordinary share capital of MacLellan for the year ended 31 December 2005 (which was expected to be paid on 3 July 2006) shall not be paid unless the Acquisition does not complete. In the event that any dividend is declared or paid by MacLellan after the date of the Announcement and Interserve proceeds with the Acquisition, the cash element of the consideration payable to the MacLellan Shareholders by Interserve under the terms of the Acquisition shall be reduced by an equal amount and there shall be no corresponding increase in the amount of consideration payable by Interserve by way of the issue of new Interserve Shares or Loan Notes.

3 Structure of the Acquisition and the Scheme

(i) Introduction

The purpose of the Scheme is to provide for Interserve to become the owner of the whole of the issued share capital of MacLellan, to be achieved by (i) the cancellation of the Scheme Shares held by MacLellan Shareholders and the Convertible Preference Shareholder and the application of the reserve arising from such cancellation in paying up in full a number of New MacLellan Shares which is equal in nominal value to the aggregate of Scheme Shares cancelled and issuing the same to Interserve and/or its nominees.

Holders of Scheme Shares will then receive cash (or, at the option of individual MacLellan Shareholders, Loan Notes) and/or New Interserve Shares on the basis set out in paragraph 2 above and the holder(s) of Convertible Preference Shares will receive cash on the basis set out in paragraph 2 above.

To become Effective, the Scheme requires the approval at the Meetings detailed below. The Scheme also requires the passing of the special resolution by Interserve Shareholders set out in the Notice of Extraordinary General Meeting at the end of this document, the sanction of the Scheme and the confirmation of the associated Capital Reduction by the Court at the Court Hearings, and the satisfaction or waiver of the other Conditions set out in Part IV of this document. Upon the Scheme becoming Effective, it will be binding on all Scheme Shareholders, irrespective of whether or not they attended or voted at the Meetings.

(ii) The Meetings in connection with the Scheme

Before the Court's approval by MacLellan Shareholders can be sought to sanction the Scheme, the Scheme will first require approval by holders of the Convertible Preference Shares by extraordinary resolution at the Preference Share Class Meeting; secondly, the Scheme will require approval by the holders of the Convertible Preference Shares at the Preference Share Court Meeting; thirdly, the Scheme will require approval of the holders of the MacLellan Ordinary Shares at the Ordinary Share Court Meeting and fourthly, the Scheme will require the passing of a special resolution by Scheme Shareholders at the MacLellan Extraordinary General Meeting. Scheme Shareholders' entitlement to attend and vote at the Meetings and the number of votes which may be cast at them will be determined by reference to their holding of Scheme Shares as shown in the register of members of MacLellan at the Voting Record Time or, if such Meetings are adjourned, on the register of members 48 hours before the relevant adjourned Meeting.

The Preference Share Class Meeting

A Preference Share Class Meeting will be convened for the Convertible Preference Shareholder for the purpose of considering and, if thought fit, sanctioning the Scheme. The Articles of Association of MacLellan require the consent or sanction of the Convertible Preference Shareholder to the Scheme and provide that consent may be obtained either by the written consent of the members holding not less than three fourths of the issued Convertible Preference Shares or with the sanction of an extraordinary resolution passed at a separate general meeting of such members. Accordingly, unless such written consent is obtained from such members by 22 June 2006 a separate Preference Share Class Meeting of such members will be required in

order to seek their sanction by an extraordinary resolution to the coming into effect of the Scheme. The passing of an extraordinary resolution requires a majority in number of Convertible Preference Shareholder representing not less than 75 per cent. of the votes cast.

The Court Meetings

The Court Meetings have been convened for 10.45 a.m. and 11.00 a.m on 22 June 2006 at the offices of Investec Bank (UK) Limited, 2 Gresham Street, London, EC2V 7QP at the direction of the Court for the purpose of allowing the Shareholders and, where applicable, the Convertible Preference Shareholder to consider and, if thought fit, approve the Scheme.

The approval required at each of the Court Meetings is a majority in number of Scheme Shareholders who vote thereat representing 75 per cent. or more in nominal value of the Scheme Shares, either in person or by proxy, at the Court Meetings.

Scheme Shareholders have the right to raise any objections they may have to the Scheme at the Court Meetings.

The MacLellan Extraordinary General Meeting

In addition to the Court Meetings, the MacLellan Extraordinary General Meeting has been convened for the same date as the Court Meetings at the offices of Investec Bank (UK) Limited, 2 Gresham Street, London, EC2V 7QP at 11.15 a.m. on 22 June 2006 (or, as soon thereafter as the Court Meetings have been concluded (whether at such time so fixed or at any adjournment thereof) to consider and, if thought fit, to pass a special resolution (which requires a vote in favour of not less than 75 per cent. of the votes cast) to approve:

- (i) the Scheme;
- (ii) the reorganisation of the Company's share capital referred to below;
- (iii) the Capital Reduction and the issue of New MacLellan Shares to Interserve provided for in the Scheme; and
- (iv) certain amendments to the Articles in accordance with the Scheme as described below.

It is proposed that the Articles be amended so as to ensure that any MacLellan Shares issued at any time on or after the Voting Record Time but prior to the Reorganisation Record Time, including MacLellan Shares issued pursuant to the exercise of options outstanding under the MacLellan Share Schemes, will be subject to the terms of the Scheme and that any MacLellan Shares issued after the Reorganisation Record Time (which are not subject to the terms of the Scheme) will automatically be acquired by Interserve (or its nominee) for the same consideration as is due under the Scheme, save that the Loan Note Alternative and the Mix and Match Facility will not be available in relation to such acquisition. This amendment will avoid any person (other than Interserve) holding shares in the capital of MacLellan after the Reduction Effective Date.

Voting on the Special Resolutions will be on a show of hands unless a poll is demanded. The Chairman reserves his right to demand that the vote of Scheme Shareholders be held by way of a poll and, in such event, each MacLellan Shareholder present in person or by proxy will be entitled to one vote for every MacLellan Share held and to 35 votes for every 100 Convertible Preference Shares held.

(iii) Share Capital Reorganisation

The Scheme will include a reorganisation of the share capital of MacLellan whereby each of the Scheme Shares other than the Convertible Preference Shares will, in accordance with the terms of the Scheme, (subject to any election made under the Loan Note Alternative or the Mix and Match Facility) each be subdivided and reclassified into 80 A Shares and 36 B Shares. Scheme Shareholders who make an election under the Mix and Match Facility may receive either a further 80 B Shares instead of 80 A shares (where they have made a valid election for New Interserve Shares) or a further 36 A Shares instead of 36 B Shares (where they have made a valid election for cash) in respect of each Scheme Share that is the subject of such election. Scheme Shareholders who make a valid election under the Loan Note Alternative will (subject to

the terms and conditions of the Loan Note Alternative) receive C Shares instead of A Shares in respect of each Scheme Share that is the subject of such election.

The share capital reorganisation will take effect at the Reorganisation Record Time, from which point the A Shares will carry the right to receive the cash consideration payable by Interserve and the B Shares will carry the right to receive the New Interserve Shares and the C Shares will carry the right to receive Loan Notes, or to the extent that the terms and conditions of the Loan Note Alternative are not satisfied, cash. Every 1 A Share shall confer upon the holder thereof the right to receive 1 pence in cash and every 36 B Shares shall confer upon the holder thereof the right to receive 0.0943 of a New Interserve Share and every 1 C Share will carry the right to receive 1 pence in nominal value of Loan Notes, or to the extent that the terms and conditions of the Loan Note Alternative are not satisfied, cash. Following the share capital reorganisation and upon the Capital Reduction becoming effective the A Shares the B Shares and the C Shares and the Convertible Preference Shares will be cancelled and MacLellan Shareholders will be paid cash and/or issued with New Interserve Shares and/or Loan Notes as applicable in proportion to their former holdings of A Shares, B Shares and C Shares and the Convertible Preference Shareholder will be paid cash. No temporary documents of title will be issued to MacLellan Shareholders in respect of the A Shares or the B Shares or the C Shares. If, for any reason, the Capital Reduction does not become effective within 5 business days of the Reorganisation Record Time, or such later time and date as MacLellan and Interserve may agree and the Court may allow, the share capital reorganisation described above will be reversed and Scheme Shareholders will hold such number of MacLellan Shares and Convertible Preference Shares as they held immediately prior to the Reorganisation Record Time.

(iv) The Court Hearings

Under the Companies Act, the Scheme also requires the sanction of the Court. The Court Hearings to sanction the Scheme and to confirm the Capital Reduction are expected to be held on 19 July 2006. Before confirming the reduction of capital involved in the Scheme, the Court will need to be satisfied that the interests of MacLellan's creditors will not be prejudiced thereby. MacLellan has been advised that the Court ought to be satisfied in this regard in relation to the proposal. Interserve has confirmed that it will be represented by counsel at the Court Hearings so as to consent to the Scheme and to undertake to the Court to be bound thereby.

The Scheme will comprise two parts, the first part, which effects the share capital reorganisation referred to above will become effective in accordance with its terms on delivery of an office copy of the Scheme Court Order to the Registrar of Companies. The second part, which completes the Acquisition of MacLellan by Interserve, will become effective in accordance with its terms on the delivery of the Reduction Court Order and an Office Copy thereof and the Minute to the Registrar of Companies, which shall not be less than 48 hours after the first part of the Scheme has become effective. The Court may require a separate hearing to confirm the Capital Reduction which is expected to take place no more than 5 working days after the Scheme Court Hearing.

(v) Modifications to the Scheme

The Scheme contains a provision for MacLellan and Interserve to consent on behalf of all persons affected to any non-material modification of, or addition to, the Scheme or to any condition approved or imposed by the Court. The Court would be unlikely to approve any modification of, or additions to, or impose a condition to the Scheme which might be material to the interests of the Scheme Shareholders unless Scheme Shareholders were informed of any modification, addition or condition. It would be a matter for the Court to decide, in its discretion, whether or not a further meeting of Scheme Shareholders should be held in these circumstances. Similarly, if a modification, addition or condition is put forward which in the opinion of the MacLellan Directors is of such a nature or importance that it requires the consent of Scheme Shareholders to a further meeting, the MacLellan Directors will not take the necessary steps to enable the Scheme to become Effective unless and until such consent is obtained.

(vi) Alternative means of implementing the Acquisition

Interserve has reserved the right, in its sole discretion, to implement the Acquisition by way of a Takeover Offer, in which case additional documents will be despatched to the Shareholders. In such event, such an offer will (unless otherwise agreed) be implemented on the same terms (subject to appropriate amendments, including the inclusion of an acceptance condition set at 90 per cent. of the shares of each class of shares to which such offer relates), so far as applicable as those which would apply to the Scheme.

(vii) Conditions to the Acquisition

The Conditions to the Acquisition are set out in full in Part IV to this document. These include, *inter alia*:

- (1) the Scheme becoming Effective by not later than 11 September 2006 or such later date as MacLellan and Interserve may agree and the Court may approve, failing which the Scheme will never become Effective;
- (2) the approvals required at the Meetings referred to above;
- (3) the sanction of the Scheme and confirmation of the Capital Reduction involved therein by the Court; and
- (4) the other Conditions being satisfied or waived.

4 De-Listing of MacLellan Shares

The last day of dealings in, and for registration of transfers in MacLellan Shares on AIM is expected to be 18 July 2006 (being the Business Day immediately prior to the Effective Date) and no transfers of MacLellan Shares will be registered after 6.00 p.m. on that date.

Prior to the Scheme becoming Effective, application will be made to the London Stock Exchange to cancel trading in MacLellan Shares on AIM. It is expected that this will take place on the Reduction Effective Date. It is proposed that, following the Reduction Effective Date, and after the MacLellan Shares have been cancelled from admission to trading on AIM, MacLellan will be re-registered as a private company.

PART IV

CONDITIONS TO THE PROPOSED ACQUISITION AND THE SCHEME

CONDITIONS AND CERTAIN FURTHER TERMS OF THE ACQUISITION

The Acquisition will be conditional upon the Scheme becoming unconditional and effective by 11 September 2006 or such later date as Interserve and MacLellan may agree and (if required) the Court may allow.¹⁰

Part A: Conditions of the Acquisition

The Acquisition will be subject to the following conditions:

- (a) its approval by a majority in number representing not less than three-fourths in value of the holders of MacLellan Shares who are on the register of members of MacLellan at the Voting Record Time, present and voting, whether in person or by proxy, at the applicable Meetings (or any adjournment thereof);
- (b) the approval of the Scheme by the holder(s) of the Convertible Preference Shares pursuant to the articles of association of MacLellan by means of an extraordinary resolution passed at a meeting of the holder(s) of the Convertible Preference Shares (or any adjournment thereof) or a written resolution signed by the holders of not less than three-quarters of the issued Convertible Preference Shares and, if required by the Court, the approval of the Scheme by the holder(s) of the Convertible Preference Shares at a court-convened meeting of the holder(s) of the Convertible Preference Shares (or any adjournment thereof);
- (c) the special resolution required to approve and implement the Scheme being passed at the MacLellan Extraordinary General Meeting (or any adjournment thereof);
- (d) the sanction (with or without modification (but subject to such modification being acceptable to Interserve and MacLellan)) of the Scheme and the confirmation of the Capital Reduction by the Court, an office copy of the Court Order and of the Minute being delivered for registration to the Registrar of Companies and registration of the Court Order confirming the Capital Reduction and of the Minute with the Registrar of Companies;
- (e) the Admission of the New Interserve Shares becoming Effective or if Interserve and MacLellan so determine and (subject to the consent of the Panel) the UKLA agreeing to admit such shares to the Official List and the London Stock Exchange agreeing to admit such shares to trading subject only to (i) the allotment of such shares and/or (ii) the Scheme becoming Effective;
- (f) the passing at the Interserve Extraordinary General Meeting (or at any adjournment of such a meeting) of such resolution or resolutions as may be necessary or desirable to approve, effect and implement the Acquisition and the acquisition of MacLellan Shares pursuant to the Acquisition or otherwise (as such resolutions may be set out in this document including a resolution or resolutions to increase the share capital of Interserve and authorise the creation and allotment of New Interserve Shares), the making of any offer, proposal or other arrangement to holders of options under the MacLellan Share Schemes and any necessary increases of the authorised share capital of Interserve and allotment and issue of Interserve Shares;

¹⁰ The Announcement provided that the Acquisition would be conditional upon the Scheme becoming Effective by a date falling 120 days after the date on which the Scheme Document is posted (or such later date as Interserve and MacLellan may agree and (if required) the Court may allow) ("Drop Dead Date"). Notwithstanding the date of posting of the Scheme Document, Interserve and MacLellan have agreed, with the consent of the Panel, to the Drop Dead Date becoming 11 September 2006 (the "Revised Drop Dead Date") (or such later date as Interserve and MacLellan may agree and (if required) the Court may allow). The Revised Drop Dead Date is the day before the date on which Interserve intends to announce its interim results for the 6 months ended 30 June 2006 and any interim dividend for the financial period to 31 December 2006. This Revised Drop Dead Date ensures that, unless Interserve and MacLellan agree otherwise with the consent of the Court as appropriate, the Scheme cannot become Effective at a time after the declaration of, or record date for the payment of, the interim dividend for the financial year ending 31 December 2006.

- (g) save as fairly disclosed in writing by MacLellan to Interserve, there being no provision of any agreement, arrangement, licence, permit or other instrument to which any member of the wider MacLellan Group is a party or by or to which any such member or any of its assets may be bound, entitled or subject, which in consequence of the Acquisition or the proposed acquisition of any shares or other securities in MacLellan by the Interserve Group or because of a change in the control or management of MacLellan or otherwise, could or might reasonably be expected to result (in each case to an extent which would be material in the context of the wider MacLellan Group as a whole) in:
- (i) any moneys borrowed by or any other indebtedness (actual or contingent) of, or grant available to any such member, being or becoming repayable or capable of being declared repayable immediately or earlier than their or its stated maturity date or repayment date or the ability of any such member to borrow moneys or incur any indebtedness being withdrawn or inhibited or being capable of becoming or being withdrawn or inhibited;
 - (ii) any such agreement, arrangement, licence, permit or instrument or the rights, liabilities, obligations or interests of any such member thereunder being terminated or modified or affected or any obligation or liability arising or any action being taken thereunder;
 - (iii) any assets or interests of any such member being or falling to be disposed of or charged or any right arising under which any such asset or interest could be required to be disposed of or charged otherwise than in the ordinary course of business;
 - (iv) the creation or enforcement of any mortgage, charge or other security interest over the whole or any part of the business, property or assets of any such member;
 - (v) the rights, liabilities, obligations or interests of any such member in, or the business of any such member with, any person, firm or body (or any arrangement or arrangements relating to any such interest or business) being terminated, adversely modified or affected;
 - (vi) the value of any such member or its financial or trading position or prospects being prejudiced or adversely affected;
 - (vii) any such member ceasing to be able to carry on business under any name under which it presently does so; or
 - (viii) the creation of any liability, actual or contingent, by any such member,

and no event having occurred which, under any provision of any agreement, arrangement, licence, permit or other instrument to which any member of the wider MacLellan Group is a party or by or to which any such member or any of its assets may be bound, entitled or subject, which would result or would reasonably be expected to result in any of the events or circumstances as are referred to in subparagraphs (i) to (viii) of this condition (g) (in each case to an extent which would be material in the context of the wider MacLellan Group as a whole);

- (h) no government or governmental, quasi-governmental, supranational, statutory, regulatory, environmental body, court or trade association in any jurisdiction or any other person or body in any jurisdiction (each a Third Party) having decided to take, institute, implement or threaten any action, proceeding, suit, investigation, enquiry or reference, or enacted, made or proposed any statute, regulation, decision or order, or having taken any other steps which would or might reasonably be expected to:
- (i) require, prevent or delay the divestiture, or alter the terms envisaged for any proposed divestiture by any member of the wider Interserve Group or any member of the wider MacLellan Group of all or any portion of their respective businesses, assets or property or impose any material limitation on the ability of any of them to conduct their respective businesses (or any of them) or to own any of their respective assets or properties or any material part thereof, where this would have a material effect in the context of the wider MacLellan Group as a whole;

- (ii) require, prevent or materially delay the divestiture by any member of the wider Interserve Group of any shares or other securities in MacLellan;
- (iii) impose any limitation on, or result in a material delay in, the ability of any member of the wider Interserve Group directly or indirectly to acquire or to hold or to exercise effectively any rights of ownership in respect of shares or loans or securities convertible into shares or any other securities (or the equivalent) in any member of the wider MacLellan Group or the wider Interserve Group or to exercise management control over any such member;
- (iv) otherwise adversely affect the business, assets, profits or prospects of any member of the wider Interserve Group or of any member of the wider MacLellan Group to an extent which would be material in the context of the wider MacLellan Group as a whole;
- (v) make the Acquisition or its implementation or the acquisition or Acquisition by Interserve or any member of the wider Interserve Group of any shares or other securities in, or control of MacLellan void, illegal, and/or unenforceable under the laws of any jurisdiction, or otherwise, directly or indirectly, restrain, restrict, prohibit, delay or otherwise materially interfere with the same, or impose additional conditions or obligations with respect thereto, or otherwise challenge or materially interfere therewith;
- (vi) require any member of the wider Interserve Group or the wider MacLellan Group to offer to acquire any shares or other securities (or the equivalent) or interest in any member of the wider MacLellan Group or the wider Interserve Group owned by any Third Party;
- (vii) impose any material limitation on the ability of any member of the wider MacLellan Group to co-ordinate its business, or any part of it, with the businesses of any other members; or
- (viii) result in any member of the wider MacLellan Group ceasing to be able to carry on business under any name under which it presently does so,

and all applicable waiting and other time periods during which any such Third Party could institute, implement or threaten any action, proceeding, suit, investigation, enquiry or reference or any other step under the laws of any jurisdiction in respect of the Acquisition or Acquisition of any MacLellan Shares having expired, lapsed or been terminated;

- (i) all necessary filings or applications having been made in connection with the Acquisition and all statutory or regulatory obligations in any jurisdiction having been complied with in connection with the Acquisition or the acquisition by any member of the wider Interserve Group of any shares or other securities in, or control of, MacLellan and all authorisations, orders, recognitions, grants, consents, licences, confirmations, clearances, permissions and approvals (collectively “Consents”) reasonably deemed necessary or for or in respect of the Acquisition or the proposed acquisition of any shares or other securities in, or control of, MacLellan by any member of the wider Interserve Group having been obtained in terms and in a form reasonably satisfactory to Interserve from all appropriate. Third Parties or persons with whom any member of the wider MacLellan Group has entered into contractual arrangements and all such Consents together with all material Consents necessary or appropriate to carry on the business of any member of the wider MacLellan remaining in full force and effect and all filings necessary for such purpose have been made and there being no notice or intimation of any intention to revoke or not to renew any of the same at the time at which the Acquisition becomes Effective and all necessary statutory or regulatory obligations in any jurisdiction having been complied with in all material respects;
- (j) except as disclosed in the MacLellan Annual Report and Accounts or as otherwise publicly announced by MacLellan (*by the delivery of an announcement to a Regulatory Information Service as specified by the AIM Rules*) prior to 28 April 2006, no member of the wider MacLellan Group having, since 31 December 2005:

- (i) save as between MacLellan and wholly-owned subsidiaries of MacLellan or for MacLellan Shares issued pursuant to the exercise of options granted under the MacLellan Share Schemes, issued, authorised or proposed the issue of additional shares of any class;
- (ii) save as between MacLellan and wholly-owned subsidiaries of MacLellan or for the grant of options under the MacLellan Share Schemes, issued or agreed to issue, authorised or proposed the issue of securities convertible into shares of any class or rights, warrants or options to subscribe for, or acquire, any such shares or convertible securities;
- (iii) other than to another member of the MacLellan Group, recommended, declared, paid or made or proposed to recommend, declare, pay or make any bonus in respect of shares, dividend or other distribution whether payable in cash or otherwise, save for the declaration and payment of the proposed MacLellan final dividend of 1.25 pence per share for the year ended 31 December 2005 which was expected to be paid on 3 July 2006 provided that in the event that any dividend is declared or paid by MacLellan after the date of the Announcement and Interserve proceeds with the Acquisition the cash element of the consideration payable by Interserve shall be reduced by an equivalent amount;
- (iv) save for intra-MacLellan Group transactions, merged or demerged with any body corporate or acquired or disposed of or transferred, mortgaged or charged or created any security interest over any assets or any right, title or interest in any asset (including shares and trade investments) or authorised or proposed or announced any intention to propose any merger, demerger, acquisition or disposal, transfer, mortgage, charge or security interest, in each case, other than in the ordinary course of business;
- (v) save for intra-MacLellan Group transactions, made or authorised or proposed or announced an intention to propose any change in its loan capital;
- (vi) issued, authorised or proposed the issue of any debentures or (save for intra-MacLellan Group transactions), save in the ordinary course of business, incurred or increased any indebtedness or become subject to any contingent liability;
- (vii) purchased, redeemed or repaid or announced any proposal to purchase, redeem or repay any of its own shares or other securities or reduced or, save in respect to the matters mentioned in subparagraph (i) above, made any other change to any part of its share capital;
- (viii) implemented, or authorised, proposed or announced its intention to implement, any reconstruction, amalgamation, scheme, commitment or other transaction or arrangement otherwise than in the ordinary course of business or entered into or changed the terms of any contract with any director or senior executive to the extent not fairly disclosed in writing to the Interserve Group prior to 28 April 2006;
- (ix) entered into or varied or authorised, proposed or announced its intention to enter into or vary any contract, transaction or commitment (whether in respect of capital expenditure or otherwise) which is of a long term, onerous or unusual nature or magnitude or which is or could be materially restrictive on the businesses of any member of the Enlarged Interserve Group or which involves or could involve an obligation of such a nature or magnitude or which is other than in the ordinary course of business and in each such case is material in the context of the wider MacLellan Group;
- (x) (other than in respect of a member which is dormant and was solvent at the relevant time) taken any corporate action or had any legal proceedings started or threatened against it (and which in each such case is or are still extant) for its winding-up, dissolution or reorganisation or for the appointment of a receiver, administrative receiver, administrator, trustee or similar officer of all or any of its assets or revenues or any analogous proceedings in any jurisdiction or had any such person appointed;

- (xi) entered into any contract, transaction or arrangement which would be restrictive on the business of any member of the wider MacLellan Group or the Enlarged Interserve Group, to an extent which is material in the context of the wider MacLellan Group other than to a nature and extent which is normal in the context of the business concerned;
 - (xii) waived or compromised any claim which is material in the context of the wider MacLellan Group otherwise than in the ordinary course of business; or
 - (xiii) entered into any contract, commitment, arrangement or agreement otherwise than in the ordinary course of business which is material in the context of the wider MacLellan Group or passed any resolution or made any offer (which remains open for acceptance) with respect to or announced any intention to, or to propose to, effect any of the transactions, matters or events referred to in this condition (j);
- (k) since 31 December 2005 and save as disclosed in the MacLellan Annual Report and Accounts or as otherwise publicly announced by MacLellan (*by the delivery of an announcement to a Regulatory Information Service as specified in the AIM Rules*) prior to 28 April 2006:
- (i) no material adverse change or deterioration having occurred in the business, assets, financial or trading position or profits or prospects of any member of the wider MacLellan Group taken as a whole which is materially adverse in the context of the wider MacLellan Group;
 - (ii) no litigation, arbitration proceedings, prosecution or other legal proceedings to which any member of the wider MacLellan Group is or may become a party (whether as a plaintiff, defendant or otherwise) and no investigation by any Third Party against or in respect of any member of the wider MacLellan Group having been instituted announced or threatened by or against or remaining outstanding in respect of any member of the wider MacLellan Group which in any such case would be reasonably expected to have a material adverse effect on the wider MacLellan Group as a whole;
 - (iii) no contingent or other liability having arisen or become apparent to Interserve which would be likely to adversely affect the wider MacLellan Group; and
 - (iv) no steps having been taken which are likely to result in the withdrawal, cancellation, termination or modification of any licence held by any member of the wider MacLellan Group which is necessary for the proper carrying on of its business where the effect would be materially adverse to the wider MacLellan Group;
- (l) save as disclosed in the MacLellan Annual Report and Accounts or as otherwise publicly announced by MacLellan (*by the delivery of an announcement to a Regulatory Information Service as specified in the AIM Rules*) prior to 28 April 2006 or as otherwise fairly disclosed in writing to Interserve by MacLellan prior to 28 April 2006, Interserve not having discovered:
- (i) that any financial, business or other information concerning the wider MacLellan Group as contained in the information publicly disclosed at any time by or on behalf of any member of the wider MacLellan Group prior to 28 April 2006 is materially misleading, contains a material misrepresentation of fact or omits to state a fact necessary to make that information not materially misleading; or
 - (ii) that any member of the wider MacLellan Group partnership, company or other entity in which any member of the wider MacLellan Group has a significant economic interest and which is not a subsidiary undertaking of MacLellan is subject to any liability (contingent or otherwise) which is material in the context of the wider MacLellan Group; or
 - (iii) any information which affects the import of any information disclosed at any time by or on behalf of any member of the wider MacLellan Group to an extent which is material in the context of the wider MacLellan Group; and
- (m) Interserve not having discovered that:

- (i) any past or present member of the wider MacLellan Group has failed to comply with any and/or all applicable legislation or regulation, of any jurisdiction with regard to the disposal, spillage, release, discharge, leak or emission of any waste or hazardous substance or any substance likely to impair the environment or harm human health or animal health or otherwise relating to environment matters, or that there has otherwise been any such disposal, spillage, release, discharge, leak or emission (whether or not the same constituted a non-compliance by any person with any such legislation or regulations, and wherever the same may have taken place) any of which disposal, spillage, release, discharge, leak or emission would be likely to give rise to any liability (actual or contingent) on the part of any member of the wider MacLellan Group to an extent which is material in the context of the wider MacLellan Group as a whole; or
- (ii) there is, or is likely to be, for that or any other reason whatsoever, any liability (actual or contingent) of any past or present member of the wider MacLellan Group to make good, repair, reinstate or clean up any property or any controlled waters now or previously owned, occupied, operated or made use of or controlled by any such past or present member of the wider MacLellan Group, under any environment legislation, regulation, notice, circular or order of any government, governmental, quasi-governmental, state or local government, supranational, statutory or other regulatory body, agency, court, association or any other person or body in any jurisdiction where the cost is material in the context of the wider MacLellan Group as a whole.

For the purposes of these conditions the “wider MacLellan Group” means MacLellan and its subsidiary undertakings, associated undertakings and any other undertaking in which MacLellan and/or such undertakings (aggregating their interests) have a significant interest and the “wider Interserve Group” means Interserve and its subsidiary undertakings, associated undertakings and any other undertaking in which Interserve and/or such undertakings (aggregating their interests) have a significant interest and for these purposes “subsidiary undertaking”, “associated undertaking” and “undertaking” have the meanings given by the Companies Act, other than paragraph 21 (1)(b) of Schedule 4A to the Companies Act which shall be excluded for this purpose, and “significant interest” means a direct or indirect interest in twenty per cent. or more of the equity share capital (as defined in the Companies Act).

Interserve reserves the right to waive, in whole or in part, all or any of the above conditions, except conditions (a) to (f) inclusive.

If Interserve is required by the Panel to make an offer for MacLellan Shares under the provisions of Rule 9 of the City Code, Interserve may make such alterations to any of the above conditions as are necessary to comply with the provisions of that Rule.

Interserve reserves the right to elect to implement the Acquisition by way of a takeover offer under section 428 of the Companies Act. In such event, the Acquisition will be implemented on the same terms (subject to appropriate non-material amendments including (without limitation) an acceptance condition set at 90 per cent. of the shares to which the Acquisition relates), so far as applicable, as those which would apply to the implementation of the Acquisition by means of the Scheme.

The Acquisition will not proceed if, after the date of the Announcement and before the MacLellan Extraordinary General Meeting, the Acquisition is referred to the Competition Commission and, if the Acquisition is proceeding by way of a Takeover Offer, any Shareholders will cease to be bound by any prior acceptances of such Takeover Offer and, if the Acquisition is proceeding by way of the Scheme, any Scheme Shareholder who has prior to such referral voted in favour of the Scheme (at any of the Meetings) will cease to be bound by such vote.

This Acquisition will be governed by English law and be subject to the jurisdiction of the English courts, to the conditions and further terms set out in the Announcement and in the Scheme Document and the related Form of Election.

Part B: Certain further terms of the Acquisition

Fractions of New Interserve Shares will not be allotted or issued to persons accepting the Scheme. Fractional entitlements to New Interserve Shares will be aggregated and sold in the market and the net proceeds of sale will be distributed *pro rata* to persons entitled thereto. However, individual entitlements to amounts of less than £3 will not be paid to persons otherwise entitled thereto under the terms of the Scheme but will be retained for the benefit of the Enlarged Interserve Group.

If the Acquisition is carried out by way of a Takeover Offer, it will not be made, directly or indirectly, in, into or from, or by the use of mails or any means or instrumentality (including, without limitation telephonically or electronically) of interstate or foreign commerce of, or of any facility of a national, state or other securities exchange of, nor will it be made in, into or from the US, Australia, Canada or Japan and such Takeover Offer will not be capable of acceptance by any such use, means, instrumentality or facility or from within the United States, Canada, Japan or Australia or any other jurisdiction if to do so would constitute a violation of the relevant laws of such jurisdiction.

The New Interserve Shares to be issued pursuant to the Scheme have not been and will not be registered under the US Securities Act nor under any of the relevant securities laws of Canada, Japan or Australia. Accordingly, the New Interserve Shares may not be offered, sold or delivered, directly or indirectly, in the United States, Canada, Japan or Australia nor to any United States person, except pursuant to exemptions from applicable requirements of any such jurisdiction.

The New Interserve Shares will be issued credited as fully paid and will rank *pari passu* in all respects with the existing Interserve Shares. An application has been made to the UK Listing Authority for the New Interserve Shares to be admitted to the Official List and an application will be made to the London Stock Exchange for the New Interserve Shares to be admitted to trading. The MacLellan Shareholders will not be entitled to Interserve's final dividend of 10.1 pence per share for the year ended 31 December 2005.

MacLellan Shares and (where relevant) Convertible Preference Shares to the extent transferred to Interserve will be acquired by Interserve fully paid and free from all liens, equitable interests, charges, encumbrances and other third party rights of any nature whatsoever and together with all rights attaching to them including the rights to receive and return all dividends and distributions (if any) declared, made or payable after the date of the Announcement.

IN THE EVENT THAT ANY DIVIDEND IS DECLARED OR PAID BY MACLELLAN AFTER THE DATE OF THE ANNOUNCEMENT AND INTERSERVE PROCEEDS WITH THE ACQUISITION, THE CASH ELEMENT OF THE CONSIDERATION PAYABLE BY INTERSERVE UNDER THE ACQUISITION SHALL BE REDUCED BY AN EQUAL AMOUNT AND THERE SHALL BE NO CORRESPONDING INCREASE IN THE AMOUNT OF CONSIDERATION PAYABLE BY INTERSERVE BY WAY OF THE ISSUE OF NEW INTERSERVE SHARES OR LOAN NOTES.

PART V

HISTORICAL FINANCIAL INFORMATION ON MACLELLAN GROUP PLC

In this Part V references to the Company, the Group, MacLellan and MacLellan Group refer to MacLellan Group Plc and its subsidiaries (consolidated).

PART A

Accountants' report on the historical financial information in relation to MacLellan Group Plc

PRICEWATERHOUSECOOPERS 

PricewaterhouseCoopers LLP
Cornwall Court
19 Cornwall Street
Birmingham B3 2DT

The Directors
Interserve Plc
Interserve House
Ruscombe Park
Twyford
Reading RG10 9JU

JPMorgan Cazenove Limited
20 Moorgate
London EC2R 6DA

30 May 2006

Dear Sirs

MacLellan Group Plc

We report on the financial information in relation to MacLellan Group Plc set out in Part B of Part V of this circular. This financial information has been prepared for inclusion in the circular to Shareholders dated 30 May 2006 (the "document") of Interserve Plc (the "Company") on the basis of the accounting policies set out in note 1 to the financial information set out in Part B of Part V of the document. This report is required by item 13.5.21 of the Listing Rules and is given for the purpose of complying with that paragraph and for no other purpose.

Responsibilities

The Directors of Interserve Plc are responsible for preparing the financial information on the basis of preparation set out in note 1 to the financial information in Part B of Part V of the document and in accordance with International Financial Reporting Standards.

It is our responsibility to form an opinion on the financial information as to whether the financial information in Part B of Part V of the document gives a true and fair view, for the purposes of the Class 1 circular, 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 MacLellan'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 Class 1 circular dated 30 May 2006, a true and fair view of the state of affairs of MacLellan Group Plc as at the dates stated and of its profits, cash flows and statement of recognised income and expense for the periods then ended in accordance with the basis of preparation set out in note 1 in Part B of Part V of the document and in accordance with International Financial Reporting Standards as described in note 1 in Part B of Part V of the document, and has been prepared in a form that is consistent with the accounting policies adopted in Interserve Plc's latest annual accounts.

Yours faithfully

PricewaterhouseCoopers LLP
Chartered Accountants

PART B

Historical Financial Information in relation to MacLellan Group Plc

The financial information on MacLellan Group Plc in Part B of this Part V does not constitute statutory accounts of MacLellan Group Plc within the meaning of Section 240 of the Companies Act 1985.

Consolidated income statements

For the years ended 31 December

	<i>Notes</i>	<i>2003</i> <i>£million</i>	<i>2004</i> <i>£million</i>	<i>2005</i> <i>£million</i>
Continuing operations				
Revenue	2	153.3	190.2	232.7
Cost of sales		(132.9)	(165.6)	(201.0)
Gross profit		20.4	24.6	31.7
Administrative expenses		(15.9)	(20.4)	(23.3)
Other operating income	2	0.3	0.4	-
Operating profit		4.8	4.6	8.4
Investment revenue	6	0.2	0.1	0.3
Finance costs	7	(0.6)	(1.2)	(1.7)
Profit before tax		4.4	3.5	7.0
Taxation	8	(1.3)	(1.3)	(2.1)
Profit for the year from continuing operations		3.1	2.2	4.9
Discontinued operations				
Profit for the year from discontinued operations	3	0.9	-	-
Profit for the year attributable to equity shareholders		4.0	2.2	4.9
Earnings per share				
Continuing operations				
Basic	10	3.98p	2.56p	4.83p
Diluted	10	3.94p	2.51p	4.73p
Discontinued operations				
Basic	10	1.16p	-	-
Diluted	10	1.14p	-	-
Total				
Basic	10	5.14p	2.56p	4.83p
Diluted	10	5.08p	2.51p	4.73p
Dividends per ordinary share	9	0.50p	0.75p	1.0p
Dividends per preference share	9	0.175p	0.2625p	0.35p

Consolidated statement of recognised income and expense
For the years ended 31 December

	<i>2003</i> <i>£million</i>	<i>2004</i> <i>£million</i>	<i>2005</i> <i>£million</i>
Profit for the financial year	4.0	2.2	4.9
Deferred tax on share based payments	-	(0.1)	0.2
Net (expense)/income recognised directly in equity	<u>-</u>	<u>(0.1)</u>	<u>0.2</u>
Total recognised income for the year	4.0	2.1	5.1
Adoption of IAS 39			
Revaluation of available for sale investments	-	-	0.1
Total recognised income	<u>4.0</u>	<u>2.1</u>	<u>5.2</u>

Consolidated balance sheets

As at 31 December

	Notes	2003 £million	2004 £million	2005 £million
Assets:				
Non-current assets				
Goodwill	11	50.2	66.9	65.4
Other intangible assets	11	1.4	6.1	5.2
Property, plant and equipment	12	6.0	7.5	7.1
Investments	13	1.7	1.9	1.6
Deferred tax assets	14	1.1	-	-
Defined benefit assets	28	0.2	0.3	0.4
		<u>60.6</u>	<u>82.7</u>	<u>79.7</u>
Current assets				
Inventories	15	0.6	0.8	0.5
Trade and other receivables	16	27.5	37.7	36.1
Cash and cash equivalents	17	1.7	2.6	4.0
		<u>29.8</u>	<u>41.1</u>	<u>40.6</u>
Total assets		<u>90.4</u>	<u>123.8</u>	<u>120.3</u>
Liabilities:				
Current liabilities				
Financial liabilities - bank loans and overdrafts	17	(3.8)	(3.9)	(2.9)
Financial liabilities - unsecured loan notes	18	(1.0)	(1.2)	(0.1)
Trade and other payables	20	(25.0)	(38.0)	(36.8)
Current tax liabilities	20	(0.6)	(2.0)	(1.0)
		<u>(30.4)</u>	<u>(45.1)</u>	<u>(40.8)</u>
Net current liabilities		<u>(0.6)</u>	<u>(4.0)</u>	<u>(0.2)</u>
Non-current liabilities				
Financial liabilities - bank loans	17	(2.4)	(9.2)	(7.9)
Trade and other payables	21	(0.6)	(1.2)	(0.7)
Deferred tax liabilities	14	-	(0.4)	(0.1)
Provisions	23	(7.4)	(4.6)	(3.1)
Defined benefit obligations	28	(0.2)	(0.3)	(0.4)
		<u>(10.6)</u>	<u>(15.7)</u>	<u>(12.2)</u>
Total liabilities		<u>(41.0)</u>	<u>(60.8)</u>	<u>(53.0)</u>
Net assets		<u>49.4</u>	<u>63.0</u>	<u>67.3</u>
Shareholders' equity				
Share capital	24	4.5	5.4	5.5
Share premium account	25	37.7	48.8	48.9
Retained earnings	25	7.2	8.8	12.9
Total shareholders' equity		<u>49.4</u>	<u>63.0</u>	<u>67.3</u>

Consolidated cash flow statements

For the years ended 31 December

	<i>Notes</i>	<i>2003</i> <i>£million</i>	<i>2004</i> <i>£million</i>	<i>2005</i> <i>£million</i>
OPERATING ACTIVITIES				
Operating profit - continuing operations		4.8	4.6	8.4
- discontinued operations		0.9	-	-
Adjustments for:				
Amortisation of intangible assets	11	-	0.4	1.0
Depreciation of property, plant and equipment	12	2.0	2.1	2.5
Non-cash charge relating to share based payments		-	0.1	0.1
Operating cash flows before movements in working capital		7.7	7.2	12.0
(Increase)/decrease in inventories	15	(0.2)	(0.2)	0.3
Decrease/(increase) in receivables		0.6	(4.1)	1.6
(Decrease)/increase in payables		(1.6)	6.3	(0.5)
(Decrease)/increase in provisions		-	(0.3)	(0.2)
Cash generated by operations		6.5	8.9	13.2
Income taxes paid		(0.3)	(0.5)	(3.3)
Net cash from operating activities		6.2	8.4	9.9
INVESTING ACTIVITIES				
Interest received	6	0.2	0.1	0.3
Interest paid	7	(0.5)	(1.0)	(1.5)
Proceeds on disposal of property, plant and equipment		-	0.2	0.2
Purchases of property, plant and equipment		(1.1)	(1.9)	(2.4)
Acquisition of subsidiaries net of cash/borrowings acquired (excluding earn out consideration)		(6.6)	(8.9)	-
Acquisition of subsidiaries - earn out consideration paid		-	(0.8)	(0.1)
Available for sale investments		-	-	0.5
Net cash used in investing activities		(8.0)	(12.3)	(3.0)
FINANCING ACTIVITIES				
Dividends paid to equity shareholders	9 / 25	(0.4)	(0.5)	(1.1)
Issue of shares net of costs		-	(0.3)	0.1
Net proceeds from issue of new bank loans		3.6	9.7	2.0
Repayment of borrowings		(3.1)	(2.6)	(4.1)
Repayments of obligations under finance leases		(0.8)	(0.9)	(1.1)
Net cash used in financing activities		(0.7)	5.4	(4.2)
NET (DECREASE)/INCREASE IN CASH AND CASH EQUIVALENTS				
		(2.5)	1.5	2.7
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD				
		2.3	(0.2)	1.3
CASH AND CASH EQUIVALENTS AT END OF PERIOD				
		(0.2)	1.3	4.0
Cash and cash equivalents comprise				
Cash and cash equivalents	17	1.7	2.6	4.0
Bank overdrafts		(1.9)	(1.3)	-
		(0.2)	1.3	4.0

Consolidated cash flow statements (continued)

For the years ended 31 December

	<i>Notes</i>	<i>2003</i> <i>£million</i>	<i>2004</i> <i>£million</i>	<i>2005</i> <i>£million</i>
Reconciliation of net cash flow to movement in net debt				
Net (reduction)/increase in cash and cash equivalents		(2.5)	1.5	2.7
(Increase)/decrease in borrowings		(0.5)	(7.1)	2.1
Repayments of obligations under finance leases		0.8	0.9	1.1
New finance lease agreements		(0.2)	(1.4)	-
Finance leases acquired with subsidiary undertakings	29	(0.1)	(0.2)	-
New loan notes issued on acquisitions		(0.6)	(0.7)	-
Movement in net debt during the period		<u>(3.1)</u>	<u>(7.0)</u>	<u>5.9</u>
Net debt - opening		<u>(4.0)</u>	<u>(7.1)</u>	<u>(14.1)</u>
Net debt - closing		<u>(7.1)</u>	<u>(14.1)</u>	<u>(8.2)</u>

Notes to the financial information

For the years ended 31 December

1A Basis of preparation

This consolidated financial information and the notes to the financial information have been prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Commission for the purposes of the circular to the shareholders of Interserve Plc in connection with the recommended proposals for the acquisition of all of the issued share capital of MacLellan Plc by Interserve Plc.

The IFRSs used in the preparation of this financial information are those International Accounting Standards, International Financial Reporting Standards and related Interpretations (SIC-IFRIC interpretations), subsequent amendments to those standards and related interpretations, that have been endorsed by the European Commission as at 31 December 2005.

The Directors are not aware of any standards or interpretations that are in issue and not yet effective, and as such have not been applied in these accounts, that will have a material impact on the accounts of the Group.

Companies in the consolidated financial information

This consolidated financial information presents the financial records for the three years ended 31 December 2005 of MacLellan Group Plc and its subsidiary undertakings during that period. It is based on the audited UK GAAP consolidated financial statements of MacLellan Group Plc and its subsidiaries for the years ended 31 December 2003, 31 December 2004 and 31 December 2005.

The principal operating companies within the Group during this period are set out in note 32.

All of the above companies, unless otherwise stated, are incorporated, registered and operate in England.

The results of undertakings acquired during the period are included in the consolidated results from the date of acquisition by the Group. Internal transactions within the Group are eliminated on consolidation. All companies within the Group during the period of ownership have operated with coterminous financial year ends.

First time adoption of IFRS

IFRS 1 *First time Adoption of International Financial Reporting Standards* sets out the procedures that the Group must follow when it adopts IFRS for the first time as the basis for preparing its consolidated accounts and notes. These have been applied in preparing this consolidated financial information.

The Group is required to establish its IFRS accounting policies as at 31 December 2005 and, in general, apply these retrospectively to determine the IFRS opening balance sheet at its date of transition which, for the purposes of this financial information, is 1 January 2003.

IFRS 1 provides a number of optional exceptions to this general principle. The most significant of these are set out below, together with a description in each case of the exception adopted by the Group.

1. *Business Combinations that occurred before the opening IFRS balance sheet date (IFRS 3 Business Combinations)*

The Group has elected not to apply IFRS 3 retrospectively to business combinations that took place before the date of transition. As a result, in the opening balance sheet, at 1 January 2003 goodwill arising from past business combinations of £37.2 million remains as stated under UK GAAP at 31 December 2002.

2. *Employee Benefits – actuarial gains and losses (IAS 19 Employee Benefits)*

The Group has elected to recognise all cumulative actuarial gains and losses in relation to employee benefit schemes at the date of transition. The Group has recognised actuarial gains and losses in full in the period

in which they occur in a statement of recognised income and expense in accordance with the amendment to IAS 19.

3. *Share-based Payments (IFRS 2 Share-based Payment)*

The Group has elected to apply IFRS 2 to all relevant share-based payment transactions granted after 7 November 2002.

4. *Financial Instruments (IAS 39 Financial Instruments: Recognition and Measurement and IAS 32 Financial Instruments: Disclosure and Presentation)*

The Group has taken advantage of the exemption in IFRS 1 that enables the Group to only apply these standards from 1 January 2005.

The accounting policies established and applied are those that have been applied by Interserve Plc in its consolidated financial statements for the year ended 31 December 2005.

1B Accounting Policies

The financial information has been prepared on a going concern basis in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union.

MacLellan Group Plc (the Company) is a company incorporated in England under the Companies Act 1985. This financial information is presented in pounds sterling because that is the currency of the primary economic environment in which the Group operates. Foreign operations are included in accordance with the policies set out below.

The information has been prepared on a historical cost basis, except for the revaluation of certain financial instruments.

For the year ended 31 December 2005 the Group adopted IAS 39 "Financial Instruments: Recognition and Measurement" and IAS 32 "Financial Instruments: Disclosure and Presentation". The Group has taken advantage of the exemption in IFRS 1 that enabled the Group to apply these standards from 1 January 2005 - accordingly comparatives are not restated. The effect of adopting IAS 32 and IAS 39, as a result of the fair valuing of certain of the Group's financial assets and derivatives, is to increase shareholders' equity at 1 January 2005 by £0.1 million (net of deferred tax).

The most significant accounting policies adopted by the Directors in preparing this consolidated financial information are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

(a) Basis of consolidation

The Group financial statements incorporate the financial statements of the Company and entities controlled by the Company (its subsidiaries). The results of subsidiaries acquired or disposed of during the year are included from the effective date of acquisition (date that the Group gains control) or until the effective date of disposal (the date that the Group ceases to have control) respectively. Profits arising on trading between Group undertakings are eliminated on consolidation.

(b) Goodwill

Goodwill arising on consolidation represents the excess of the fair value of the purchase consideration over the Group's interest in the fair value of the identifiable separable assets and liabilities of a subsidiary at the date of acquisition. Goodwill is recognised as an asset and reviewed for impairment at least annually. Any impairment is recognised immediately in the income statement and is not subsequently reversed.

On disposal of a subsidiary, associate or jointly controlled entity, the attributable amount of goodwill is included in the determination of the profit or loss on disposal.

Goodwill arising on acquisitions before the date of transition of IFRS (1 January 2003) has been retained at the previous UK GAAP accounts value subject to being tested for impairment at that date. Goodwill written off to reserves under UK GAAP prior to 1998 has not been reinstated and is not included in determining any subsequent profit or loss on disposal.

In respect of business acquisitions that have occurred since the date of transition, goodwill represents the difference between the fair value of the purchase consideration and the fair value of the net identifiable assets acquired.

Negative goodwill arising on an acquisition is recognised directly in the income statement. There is no negative goodwill on acquisitions included in the consolidated financial information.

(c) Other intangible assets

Intangible assets other than goodwill that are acquired by the Group are valued at cost less accumulated amortisation (see below) and impairment losses. Expenditure on internally generated goodwill and brands is recognised in the income statement as incurred.

Amortisation is charged to the income statement on a straight-line basis over the estimated useful economic lives of intangible assets from the date at which they are available for use. The estimated useful lives of assets, as applied in this financial information, are disclosed in note 11.

(d) Foreign currency

Transactions denominated in foreign currency are translated at the rates ruling at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated at the rates ruling at that date. These translation differences are dealt with in the profit for the year.

(e) Revenue recognition

Revenue is recognised when goods and services are provided to customers, or work executed in respect of contracts.

Revenue comprises the fair value of goods and services supplied to external customers and the value of work executed in respect of contracts, excluding VAT. The principal activities are the provision of outsourced support services to public-sector and private-sector clients and the provision of outsourced security, specialist cleaning and maintenance services.

Investment income is recognised on an accruals basis and separately disclosed.

(f) Property, plant and equipment

Tangible fixed assets are shown at cost, being purchase cost together with any incidental costs of acquisition, less accumulated depreciation and any impairment losses. Depreciation is calculated on a straight-line basis at rates appropriate to the expected useful economic lives of the assets to write off the cost of the tangible fixed assets less the estimated residual values of the assets, as follows:

- (i) Depreciation is provided on a straight-line basis at rates ranging between:

Freehold land	not depreciated
Freehold buildings	2% per annum
Leasehold property	over lesser of the period of the lease or 50 years
Plant and equipment	8% to 50% per annum

- (ii) Fixed assets leased under finance leases are capitalised in tangible fixed assets and depreciated over the shorter of the lease term and their expected useful economic lives.

(g) Leases

Arrangements which transfer to the Group substantially all of the risks and rewards of ownership of an asset are accounted for as finance leases. All other leasing arrangements are treated as operating leases.

The capital element of finance leasing commitments is shown as an obligation under finance leases. The lease rentals are treated as consisting of capital and interest elements. The capital element is applied to reduce the outstanding obligation and the interest element is charged to the income statement in proportion to the capital element outstanding.

Costs in respect of operating leases are charged to the income statement as they accrue.

(h) Fixed asset investments

Interests in undertakings are accounted for as investments where, in the opinion of the Directors, the Group does not have at least a significant influence over the financial and operating policy decisions of the investee. The interests in JSMS Group Limited and JSMS Site Management Services Limited are accounted for as investments.

Investments are held at fair value. Income is accounted for on an accruals basis.

(i) Impairment of tangible and intangible assets excluding goodwill

At each balance sheet date the Group reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered impairment loss. Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior years.

(j) Inventories

Inventories are stated at the lower of cost and net realisable value. The cost of inventories is calculated using the weighted average cost method.

Net realisable value represents the estimated selling price less all estimated costs of completion and costs to be incurred in marketing, selling and distribution.

(k) Borrowing costs

Costs incurred in respect of obtaining new debt instruments are capitalised and reported against the respective debt within liabilities, and amortised to the income statement over the expected term of the debt instrument.

All other borrowing costs are recognised in the income statement on an accruals basis using the effective interest method.

(l) Pre-contract costs

Pre-contract costs are recognised as expenses as incurred.

(m) Provisions

Provisions are made for future costs when, in the opinion of the Directors, a material future transfer of economic benefit by the Group will arise as a result of a past action or event.

Provisions are made for onerous contract costs, self insurance liabilities, deferred consideration payable and property dilapidation obligations for the expected costs of settling those obligations. Provisions are discounted, where material.

(n) Pensions

The Group's principal pension scheme is the MacLellan Personal Pension Plan, which is available for all categories of employee within the Integrated Services businesses (subject to eligibility). This defined contribution plan is provided through Scottish Widows and ensures compliance with Stakeholder Pension legislation. The Group also contributes to stand alone money purchase schemes of certain senior employees. The amount recognised in the income statement for defined contribution schemes is equal to the contributions payable to the schemes during the year.

In addition, the Group operates the MacLellan Group 2000 Retirement Benefits Scheme, a funded final salary (defined benefit) scheme. The cost of providing benefits under this scheme, which at 31 December 2005 had 35 active members, is determined using the Projected Unit Credit Method, with actuarial valuations being carried out at each balance sheet date.

Actuarial gains and losses are recognised in full in the period in which they occur. They are recognised outside profit or loss and, if material, presented in the statement of recognised income and expense.

(o) Taxation

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

Deferred tax is provided in full on temporary differences which arise on the difference between the carrying value of an asset or liability and the tax base of the same item except where the temporary difference arises from goodwill or from the acquisition of an asset which does not offset either taxable or accounting income. Deferred tax assets are recognised to the extent that it is regarded as probable they will be realised. Deferred tax assets and liabilities are not discounted and are based on tax rates enacted or substantively enacted by the balance sheet date.

(p) Financial instruments

Available for sale investments

Available for sale financial instruments are stated at fair value, with any resultant gains or loss recognised directly in equity, except for impairment losses. When these investments are derecognised, the cumulative gain or loss previously recognised directly in equity is derecognised in the income statement. When these investments are interest bearing, interest is calculated using the effective interest method and is recognised in the income statement.

Trade receivables

Trade receivables are measured at initial recognition at fair value. Appropriate allowances for estimated irrecoverable amounts are recognised in the income statement where there is objective evidence that the asset is impaired.

Cash and cash equivalents

Cash and cash equivalents comprise cash on hand and demand deposits, and other short-term highly liquid investments that are readily convertible to a known amount of cash and are subject to an insignificant risk of changes in value.

Bank borrowings

Interest-bearing bank loans and overdrafts are recorded at the proceeds received, net of direct issue costs. Finance charges, including premiums payable on settlement or redemption and direct issue costs, are accounted for on an accruals basis in the income statement and are added to the carrying amount of the instrument to the extent that they are not settled in the period in which they arise.

Trade payables

Trade payables are measured at fair value.

Contingent and deferred consideration

Contingent consideration is included in the cost of business combinations at the date of acquisition when its payment is probable and can be measured reliably. Contingent or deferred consideration in the form of shares is held at a fixed value and is included as a liability in the balance sheet. Cash or equity settled deferred consideration is discounted to its present value and the unwinding of the discount is recognised as an interest expense in profit and loss.

Equity instruments

Equity instruments issued by the Company are recorded at the proceeds received, net of direct issue costs.

Derivative financial instruments

Financial assets and financial liabilities are recognised on the Group's balance sheet when the Group becomes a party to the contractual provisions of the instrument.

Transactions in derivative financial instruments are for risk management purposes only. The Group uses derivative financial instruments to hedge its exposure to interest rate risk. To the extent that such instruments are matched to underlying assets or liabilities, they are accounted for using hedge accounting.

Changes in fair value of derivative instruments that do not qualify for hedge accounting, or have not been designated as hedges, are recognised in the income statement as they arise.

Derivatives embedded in other financial instruments or other host contracts are treated as separate derivatives when their economic risks and characteristics are not closely related to those of the host contracts and the host contracts are not carried at fair value.

Gains and losses arising from changes in fair value of available-for-sale financial assets are recognised directly in equity, until the asset is disposed of or is determined to be impaired, at which time the cumulative gain or loss previously recognised in equity is included in the net profit or loss for the period.

Prior to 1 January 2005 financial instruments have been accounted for under UK GAAP, where appropriate, using historic cost. If IAS 32 and IAS 39 had been adopted prior to 1 January 2005 this would have required the fair valuation of financial assets and liabilities.

(q) Share-based payments

The Group has applied the requirements of IFRS 2 Share-based Payments. In accordance with the transitional provisions, IFRS 2 has been applied to all grants of equity instruments after 7 November 2002 that were unvested as of 1 January 2003.

The Group issues equity-settled share-based payments to certain employees. The fair value determined at the grant date is expensed on a straight-line basis over the vesting period, based on the Group's estimate of shares that will eventually vest. Fair value is measured by use of the Black-Scholes model.

(r) Accounting estimates, assumptions and uncertainties

The principal accounting estimates, assumptions and uncertainties employed in the preparation of these pro-forma financial statements are as follows:

- Actuarial assumptions concerning pension obligations (see note 28)
- Earnings, interest and volatility assumptions surrounding share-based payment calculations (see note 27)
- Future taxation payments and receipts, which have been estimated on the basis of the best information available at the balance sheet date
- The discount rate applied to deferred consideration and estimates of future cash flows for impairment testing and valuations is 8.5%

- Revenue recognition - fair value of earned revenue on certain contracts
- Estimates are made in respect of impairment calculations, recovery of trade receivables, provisions for trade receivables and expected insurance, property and onerous contract provisions and costs for property related provisions.

(s) Segmental policy

The Group operates in two business segments and one geographical segment. The primary segmental reporting is by business segment.

2. Income

An analysis of the Group's income for the year is as follows:

	<i>2003</i> <i>£million</i>	<i>2004</i> <i>£million</i>	<i>2005</i> <i>£million</i>
Continuing operations			
Provision of services	153.3	190.2	232.7
Other operating income	0.3	0.4	-
	<u>153.6</u>	<u>190.6</u>	<u>232.7</u>
Discontinued operations			
Settlement of claim	0.9	-	-
	<u>154.5</u>	<u>190.6</u>	<u>232.7</u>

3. Business and geographical segments

Primary reporting format - Business Segments

For management purposes, the Group is currently organised into two operating divisions - Integrated Services, and Security and Specialist Services. These operating divisions are the basis on which the Group reports its primary segment information. In arriving at operating profit, costs are allocated on a segmental basis.

Principal activities are as follows;

Integrated Services

Provision of outsourced support services to public-sector and private-sector clients.

Security and Specialist Services

Provision of outsourced security, specialist cleaning and maintenance services.

Segment information about these businesses is presented below:

<i>Continuing operations</i>	<i>Sales revenue (external)</i>			<i>Result</i>		
	<i>2003 £million</i>	<i>2004 £million</i>	<i>2005 £million</i>	<i>2003 £million</i>	<i>2004 £million</i>	<i>2005 £million</i>
Integrated Services	150.1	159.9	163.9	4.5	2.9	4.7
Security and Specialist Services	3.2	30.3	68.8	-	1.3	3.7
	<u>153.3</u>	<u>190.2</u>	<u>232.7</u>	<u>4.5</u>	<u>4.2</u>	<u>8.4</u>
Other operating income				0.3	0.4	-
Operating profit				4.8	4.6	8.4
Investment revenue				0.2	0.1	0.3
Finance costs				(0.6)	(1.2)	(1.7)
Profit before tax				4.4	3.5	7.0
Taxation				(1.3)	(1.3)	(2.1)
Profit after tax from continuing operations				3.1	2.2	4.9
Discontinued operations*				0.9	-	-
				<u>4.0</u>	<u>2.2</u>	<u>4.9</u>

Inter segment sales are not material and have been excluded from the above figures.

* The £0.9 million credit recognised as discontinued businesses in the year ended 31 December 2003 relates to the settlement of a claim (net of costs of £0.3 million) in respect of a business discontinued in 2002. No businesses were discontinued in 2003, 2004 or 2005.

Other income relates to fees charged to businesses subsequently acquired in the relevant year in respect of services provided. These charges were made to Attlaw Security and Protection Limited (note 29(b)) and TASS Europe Limited (note 29 (d))

	<i>Segment assets</i>			<i>Segment liabilities</i>			<i>Net assets/(liabilities)</i>		
	<i>2003 £million</i>	<i>2004 £million</i>	<i>2005 £million</i>	<i>2003 £million</i>	<i>2004 £million</i>	<i>2005 £million</i>	<i>2003 £million</i>	<i>2004 £million</i>	<i>2005 £million</i>
Integrated Services	68.3	105.5	65.1	(22.3)	(63.0)	(24.0)	46.0	42.5	41.1
Security and Specialist Services	17.5	62.0	45.4	(7.5)	(25.0)	(9.7)	10.0	37.0	35.5
	<u>85.8</u>	<u>167.5</u>	<u>110.5</u>	<u>(29.8)</u>	<u>(88.0)</u>	<u>(33.7)</u>	<u>56.0</u>	<u>79.5</u>	<u>76.6</u>
Taxation - net asset / (liability)							0.5	(2.4)	(1.1)
Net debt							(7.1)	(14.1)	(8.2)
Net assets							<u>49.4</u>	<u>63.0</u>	<u>67.3</u>

	<i>Depreciation and amortisation</i>			<i>Capital additions</i>		
	<i>2003 £million</i>	<i>2004 £million</i>	<i>2005 £million</i>	<i>2003 £million</i>	<i>2004 £million</i>	<i>2005 £million</i>
Integrated Services	(1.9)	(1.8)	(2.1)	1.2	2.9	1.9
Security and Specialist Services	(0.1)	(0.7)	(1.4)	-	0.4	0.4
	<u>(2.0)</u>	<u>(2.5)</u>	<u>(3.5)</u>	<u>1.2</u>	<u>3.3</u>	<u>2.3</u>

Secondary reporting format – Geographical Segments

Integrated Services and Security and Specialist Services are predominantly based in the United Kingdom.

The following table provides an analysis of the Group's sales by geographical market irrespective of the origin of the goods or supply of services:

	<i>Sales revenue by geographical market (external)</i>					<i>Total operating Profit</i>
	<i>2003</i>	<i>2004</i>	<i>2005</i>	<i>2003</i>	<i>2004</i>	<i>2005</i>
	<i>£million</i>	<i>£million</i>	<i>£million</i>	<i>£million</i>	<i>£million</i>	<i>£million</i>
Continuing operations						
United Kingdom & Eire	153.3	190.2	232.7	4.5	4.2	8.4
Other operating income				0.3	0.4	-
				4.8	4.6	8.4
Discontinued operations				0.9	-	-
	<i>Carrying amount of segment assets/ (liabilities)</i>					<i>Additions to property, plant and equipment and intangible assets</i>
	<i>2003</i>	<i>2004</i>	<i>2005</i>	<i>2003</i>	<i>2004</i>	<i>2005</i>
	<i>£million</i>	<i>£million</i>	<i>£million</i>	<i>£million</i>	<i>£million</i>	<i>£million</i>
United Kingdom & Eire	56.0	79.5	76.6	1.3	3.3	2.4
Taxation - net asset/(liability)	0.5	(2.4)	(1.1)			
Net debt	(7.1)	(14.1)	(8.2)			
Net assets	49.4	63.0	67.3			

4. Profit before tax

	<i>2003</i>	<i>2004</i>	<i>2005</i>
	<i>£million</i>	<i>£million</i>	<i>£million</i>
Profit before tax has been arrived at after charging/(crediting):			
Depreciation of property, plant and equipment:			
On owned assets (note 12)	1.5	1.6	1.7
On assets held under finance leases (note 12)	0.5	0.5	0.8
Amortisation of intangibles (note 11)	-	0.4	1.0
Rentals under operating leases:			
Hire of plant and machinery	1.0	0.9	0.8
Property	0.5	0.7	0.7
Other lease rentals	2.1	2.3	2.1
Staff costs (note 5)	101.4	127.3	158.4
Redundancy and rationalisation costs (included within staff costs)	1.0	0.9	-
Auditors' remuneration for audit services (see below)	0.1	0.1	0.1
Contract debt provision and cessation costs *	-	1.6	-
Security industry licensing costs	-	-	0.7

* This item includes £1.25 million in respect of the 2004 contract debt provision referred to in the accounting policy note headed "Contract debt provision - fundamental uncertainty" in the 2004 audited UK GAAP financial statements.

Amounts payable to PricewaterhouseCoopers LLP by the Group in respect of non-audit services were £0.1 million (2003: £0.1 million; 2004: £nil).

A more detailed analysis of auditors' remuneration is provided below:

	2003		2004		2005	
	<i>£million</i>	%	<i>£million</i>	%	<i>£million</i>	%
Audit services						
- statutory audit	0.1	50.0%	0.1	100.0%	0.1	50%
Tax services						
- compliance services	0.1	50.0%	–	0.0%	0.1	50%
	<u>0.2</u>	<u>100.0%</u>	<u>0.1</u>	<u>100.0%</u>	<u>0.2</u>	<u>100.0%</u>

In 2003, fees amounting to £0.3 million (excluding VAT) had been charged by the Group to Attlaw Security & Protection Limited in respect of services provided to Attlaw by the Group in the period prior to legal completion of the acquisition. In 2004, fees amounting to £0.4 million (excluding VAT) had been charged by the Group to TASS (Europe) Limited in respect of services provided to that company by the Group prior to legal completion of the acquisition.

5. Staff costs

The average number of employees, being full time equivalents, within each division during the year, including executive Directors, was:

	2003	2004	2005
	<i>Number</i>	<i>Number</i>	<i>Number</i>
Integrated Services	11,404	11,345	11,057
Security and Specialist Services	100	989	2,250
	<u>11,504</u>	<u>12,334</u>	<u>13,307</u>
	<i>£million</i>	<i>£million</i>	<i>£million</i>
Their aggregate remuneration comprised:			
Wages and salaries	94.5	118.0	146.8
Social security costs	6.2	8.5	10.8
Share-based payments	-	0.1	0.1
Other pension costs (see below)	0.7	0.7	0.7
	<u>101.4</u>	<u>127.3</u>	<u>158.4</u>
Defined benefit schemes:			
Service cost (note 28)	0.1	0.1	0.1
	<u>0.1</u>	<u>0.1</u>	<u>0.1</u>
Other UK - defined contribution	0.6	0.6	0.6
	<u>0.7</u>	<u>0.7</u>	<u>0.7</u>
Other pension costs	0.7	0.7	0.7
	<u>0.7</u>	<u>0.7</u>	<u>0.7</u>

	<i>2003</i> <i>£million</i>	<i>2004</i> <i>£million</i>	<i>2005</i> <i>£million</i>
Directors' remuneration comprised:			
Fees	0.1	0.1	0.1
Salaries and taxable benefits	0.5	0.5	0.6
Bonuses	0.1	0.1	0.1
Pension contribution	-	-	0.1
	<u>0.7</u>	<u>0.7</u>	<u>0.9</u>

The remuneration of the highest paid Director, who receives no pension benefit from the Company, was £292,000 (2003: £267,000; 2004: £277,000). The Company contributes to the personal pension plan of one Director (2003: one; 2004: one) and operates an executive pension plan (money purchase) for one (2003: one; 2004: one) other Director.

The Board considers that the key management personnel of the Group are the executive Directors of MacLellan Group Plc and the managing directors of the Group's principal operating subsidiaries. Further information concerning the remuneration of key management personnel is shown below:

	<i>2003</i> <i>£million</i>	<i>2004</i> <i>£million</i>	<i>2005</i> <i>£million</i>
Fees	0.1	0.1	0.1
Salaries and taxable benefits	0.5	0.6	1.0
Bonuses	0.1	0.1	0.2
Pension contributions	-	-	0.1
	<u>0.7</u>	<u>0.8</u>	<u>1.4</u>

Employer's National Insurance in respect of the Directors is less than £0.1 million in 2003, 2004 and 2005.

The share-based payment charge in respect of the Directors is less than £0.1 million in 2004 and 2005.

6. Investment revenue

	<i>2003</i> <i>£million</i>	<i>2004</i> <i>£million</i>	<i>2005</i> <i>£million</i>
Bank interest	-	-	-
Other interest	0.2	0.1	0.2
Fair value gain on embedded derivative	-	-	0.1
	<u>0.2</u>	<u>0.1</u>	<u>0.3</u>

7. Finance costs

	<i>2003</i> <i>£million</i>	<i>2004</i> <i>£million</i>	<i>2005</i> <i>£million</i>
Bank loans and overdrafts and other loans repayable within 5 years	0.3	0.8	1.3
Other loans	0.1	0.1	0.1
Finance leases	0.1	0.1	0.1
Amortisation of discount of deferred consideration	0.1	0.2	0.2
	<u>0.6</u>	<u>1.2</u>	<u>1.7</u>

8. Income tax expense

	<i>2003</i> <i>£million</i>	<i>2004</i> <i>£million</i>	<i>2005</i> <i>£million</i>
Current tax - UK			
Charge on results for the year	0.9	1.5	2.7
Adjustment in respect of prior years	(0.1)	-	(0.4)
	<u>0.8</u>	<u>1.5</u>	<u>2.3</u>
Deferred tax (note 14)			
Current year	0.5	(0.3)	(0.4)
Adjustment in respect of prior years	-	0.1	0.2
	<u>0.5</u>	<u>(0.2)</u>	<u>(0.2)</u>
Taxation expense for the year	<u>1.3</u>	<u>1.3</u>	<u>2.1</u>

The UK standard rate of corporation tax is 30 per cent.

The total charge for the year can be reconciled to the profit per the income statement as follows:

	<i>£million</i>	<i>2003</i> <i>%</i>	<i>£million</i>	<i>2004</i> <i>%</i>	<i>£million</i>	<i>2005</i> <i>%</i>
Profit before tax	5.3		3.5		7.0	
Tax at the UK corporation tax rate of 30% (2003: 30%; 2004: 30%)	1.6	30.0	1.1	30.0	2.1	30.0
Tax effect of expenses not deductible in determining taxable profit	0.1	1.9	0.1	2.9	0.2	2.9
Other	(0.3)	(5.7)	-	-	-	-
Prior period adjustments:						
- current tax	(0.1)	(1.9)	-	-	(0.4)	(5.7)
- deferred tax	-	-	0.1	2.9	0.2	2.9
Tax expense and effective tax rate for the year	<u>1.3</u>	<u>24.5</u>	<u>1.3</u>	<u>37.1</u>	<u>2.1</u>	<u>30.0</u>

9. Dividends

	<i>2003</i> <i>£million</i>	<i>2004</i> <i>£million</i>	<i>2005</i> <i>£million</i>
Amounts recognised as distributions to equity holders in the period:			
Final dividend for the year ended 31 December 2004 of 1.0p (2002: 0.5p; 2003: 0.75p) per ordinary share	0.4	0.5	1.1
Final dividend for the year ended 31 December 2004 of 0.35p (2002: 0.175p; 2003: 0.2625p) per convertible preference share	-	-	-
	<u>0.4</u>	<u>0.5</u>	<u>1.1</u>

No interim dividend has been declared for 2005. In 2003 and 2004, there were no interim dividends; the final dividends of 1.0p per ordinary share and 0.35p per preference share were approved at the Annual General Meeting held on 5 May 2005 and paid on 4 July 2005 (2003: final dividends of 0.5p per ordinary share and 0.175p per convertible preference share were approved at the Annual General Meeting held on 8 May 2003 and paid on 1 July 2003; 2004: final dividends of 0.75p per ordinary share and 0.2625p per convertible preference share were approved at the Annual General Meeting held on 6 May 2004 and paid on 1 July 2004).

10. Earnings per share

Basic earnings per share is calculated by dividing the profit attributable to equity shareholders of the parent entity by the weighted average number of ordinary shares outstanding during the year.

For diluted earnings per share, the weighted average number of ordinary shares in issue is adjusted to assume conversion of all potential dilutive ordinary shares.

The calculation of the basic and diluted earnings per share is based on the following data:

<i>Earnings</i>	<i>2003</i> <i>£million</i>	<i>2004</i> <i>£million</i>	<i>2005</i> <i>£million</i>
Earnings for the purposes of basic earnings per share being net profit attributable to equity shareholders of the parent company			
- continuing operations	3.1	2.2	4.9
- discontinued operations	0.9	-	-
	<u>4.0</u>	<u>2.2</u>	<u>4.9</u>
 <i>Number of shares</i>	 <i>2003</i> <i>Number</i> <i>'000</i>	 <i>2004</i> <i>Number</i> <i>'000</i>	 <i>2005</i> <i>Number</i> <i>'000</i>
Weighted average number of ordinary shares for the purposes of basic earnings per share	77,810	85,969	101,437
Effect of dilutive potential ordinary shares:			
Contingent consideration	-	714	1,127
Share options	857	858	989
Weighted average number of ordinary shares for the purposes of diluted earnings per share	<u>78,667</u>	<u>87,541</u>	<u>103,553</u>

The weighted average number of shares includes 1,780,000 ordinary shares that would be issued on conversion of the Preference shares into Ordinary shares.

Earnings per share

Continuing operations

Basic	3.98p	2.56p	4.83p
Diluted	3.94p	2.51p	4.73p

Discontinued operations

Basic	1.16p	-	-
Diluted	1.14p	-	-

Total

Basic	5.14p	2.56p	4.83p
Diluted	5.08p	2.51p	4.73p

11. Intangible assets

Goodwill

	<i>£million</i>
Cost and carrying amount	
At 1 January 2003	37.2
Acquisitions (note 29)	13.0
At 31 December 2003	50.2
Acquisitions (note 29)	19.9
Reassessment of contingent consideration payable (note 29)	(3.2)
At 31 December 2004	66.9
Reassessment of contingent consideration payable (note 29)	(1.5)
At 31 December 2005	65.4

Goodwill acquired in a business combination is allocated, at acquisition, to the cash generating units (CGUs) that are expected to benefit from that business combination. The carrying amount of goodwill had been allocated as follows:

	<i>2003</i>	<i>2004</i>	<i>2005</i>
	<i>£million</i>	<i>£million</i>	<i>£million</i>
Integrated Services	37.2	37.2	37.2
Security and Specialist Services	13.0	29.7	28.2
	<u>50.2</u>	<u>66.9</u>	<u>65.4</u>

The Group tests goodwill annually for impairment, or more frequently if there are indications that goodwill might be impaired. There are no impairment provisions held against goodwill.

The recoverable amounts of the CGUs are determined from value in use calculations. The key assumptions for the value in use calculations are those regarding the discount rates, growth rates and margins. Management estimates discount rates using post-tax rates that reflect current market assessments of the time value of money and the risks specific to the CGUs. The growth rates are based on current budgets and forecasts, approved by the Company's Board of Directors, and are extrapolated based on expectations of future changes in the market. The Group produces 2 year plans and after this period annual growth rates of 2% have been applied in perpetuity.

The rate used to discount the future cash flows is based on the Group's weighted average cost of capital (8.5%) as adjusted for the specific risk profile of each acquisition.

Other intangible assets*Acquired intangible assets*

Cost	<i>Computer software £ million</i>	<i>Customer relationships £ million</i>	<i>Total £ million</i>
At 1 January 2003	-	-	-
Acquisitions - through business combinations	-	1.3	1.3
Additions	0.1	-	0.1
At 31 December 2003	0.1	1.3	1.4
Acquisitions - through business combinations	-	5.1	5.1
At 31 December 2004	0.1	6.4	6.5
Additions	0.1	-	0.1
At 31 December 2005	0.2	6.4	6.6

Amortisation and impairment

At 1 January 2003	-	-	-
Charge for the year	-	-	-
At 31 December 2003	-	-	-
Charge for the year	-	(0.4)	(0.4)
At 31 December 2004	-	(0.4)	(0.4)
Charge for the year	(0.1)	(0.9)	(1.0)
At 31 December 2005	(0.1)	(1.3)	(1.4)

Net Book Amount

	<i>Computer software £million</i>	<i>Customer relationships £million</i>	<i>Total £million</i>
At 31 December 2005	0.1	5.1	5.2
At 31 December 2004	0.1	6.0	6.1
At 31 December 2003	0.1	1.3	1.4

Computer software is valued at cost less amortisation. Customer relationships are contractual and have been valued on the basis of future expected cashflows discounted using a discount rate appropriate to the individual risk premia of the acquisitions.

The following useful lives have been determined for the intangible assets acquired:

Computer software	3 years
Customer relationships	5 to 7 years

Computer software is amortised on a straight-line basis over the expected useful life of the asset and the values attributable to customer relationships are amortised on a straight-line basis over the average period assessed for customer relationships.

All amortisation charges have been charged through administrative expenses.

12. Property, plant and equipment

	<i>Land and buildings £million</i>	<i>Plant and equipment £million</i>	<i>Total £million</i>
Cost or Valuation			
At 1 January 2003	1.4	15.7	17.1
Additions	-	1.2	1.2
Businesses acquired	-	0.5	0.5
Disposals	-	-	-
At 31 December 2003	1.4	17.4	18.8
Additions	-	3.3	3.3
Businesses acquired	-	0.5	0.5
Disposals	-	(1.0)	(1.0)
At 31 December 2004	1.4	20.2	21.6
Additions	-	2.3	2.3
Disposals	-	(0.6)	(0.6)
At 31 December 2005	1.4	21.9	23.3
Accumulated Depreciation			
At 1 January 2003	0.1	10.7	10.8
Charge for the year	-	2.0	2.0
Eliminated on disposals	-	-	-
At 31 December 2003	0.1	12.7	12.8
Charge for the year	-	2.1	2.1
Eliminated on disposals	-	(0.8)	(0.8)
At 31 December 2004	0.1	14.0	14.1
Charge for the year	-	2.5	2.5
Eliminated on disposals	-	(0.4)	(0.4)
At 31 December 2005	0.1	16.1	16.2
Net Book Amount			
At 31 December 2005	1.3	5.8	7.1
At 31 December 2004	1.3	6.2	7.5
At 31 December 2003	1.3	4.7	6.0

The carrying amount of the Group's plant and equipment includes an amount of £4.0 million (2003: £2.3 million; 2004: £3.6 million) in respect of assets held under finance leases.

b) Land and buildings

Net book amount of land and buildings

	<i>2003</i> <i>£million</i>	<i>2004</i> <i>£million</i>	<i>2005</i> <i>£million</i>
Freehold:			
Buildings at cost less depreciation	1.3	1.3	1.3
Total	<u>1.3</u>	<u>1.3</u>	<u>1.3</u>

Tangible fixed assets are stated at depreciated historical cost.

c) Future capital expenditure not provided for in the accounts

Contracted	<u>-</u>	<u>0.2</u>	<u>-</u>
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d) Operating leases

At the balance sheet date, the Group had outstanding commitments for future minimum lease payments under non-cancellable operating leases, which fall due as follows:

	<i>2003</i>			<i>2004</i>			<i>2005</i>		
	<i>Land & Buildings</i>	<i>Other</i>	<i>Total</i>	<i>Land & Buildings</i>	<i>Other</i>	<i>Total</i>	<i>Land & Buildings</i>	<i>Other</i>	<i>Total</i>
	<i>£million</i>	<i>£million</i>	<i>£million</i>	<i>£million</i>	<i>£million</i>	<i>£million</i>	<i>£million</i>	<i>£million</i>	<i>£million</i>
Within one year	0.6	0.7	1.3	0.8	0.5	1.3	0.8	0.7	1.5
In the second to fifth years inclusive	2.1	3.3	5.4	2.5	4.4	6.9	2.2	3.0	5.2
After five years	1.5	-	1.5	1.4	-	1.4	1.0	-	1.0
	<u>4.2</u>	<u>4.0</u>	<u>8.2</u>	<u>4.7</u>	<u>4.9</u>	<u>9.6</u>	<u>4.0</u>	<u>3.7</u>	<u>7.7</u>

The majority of leases of land and buildings are subject to rent reviews at periodic intervals of between three and five years.

13. Investments

	<i>2003</i> <i>£million</i>	<i>2004</i> <i>£million</i>	<i>2005</i> <i>£million</i>
At 1 January	1.9	1.7	1.9
Additions	-	0.2	-
Redemptions	(0.2)	-	(0.5)
Revaluation	-	-	0.2
At 31 December	<u>1.7</u>	<u>1.9</u>	<u>1.6</u>

At each year end, the investments include unsecured loan stock and unsecured convertible loan stock in Booth Industries Group plc (Note 17). In addition, investments include shares in JSMS Site Management Services Limited for the year ended 31 December 2003, and in JSMS Group Limited for the years ended 31 December 2004 and 31 December 2005. These interests are accounted for as investments because, in the opinion of the Directors, the Group does not have the power to significantly affect the operating and financial policies of these investee entities.

14. Deferred tax

The following are the major deferred tax assets and (liabilities) recognised by the Group and movements thereon during the current and prior reporting periods.

	<i>Share based payments</i> <i>£million</i>	<i>Intangible assets</i> <i>£million</i>	<i>Other timing differences</i> <i>£million</i>	<i>Losses</i> <i>£million</i>	<i>Accelerated capital allowances</i> <i>£million</i>	<i>Total</i> <i>£million</i>
At 1 January 2003	0.2	-	0.1	0.5	0.7	1.5
(Charge)/credit to income	-	-	(0.1)	(0.5)	0.1	(0.5)
Businesses acquired	-	(0.4)	0.3	0.3	(0.1)	0.1
At 31 December 2003	0.2	(0.4)	0.3	0.3	0.7	1.1
Credit/(charge) to income	-	0.1	0.2	(0.1)	-	0.2
Businesses acquired	-	(1.5)	0.2	-	-	(1.3)
Reclassification	-	-	(0.3)	-	-	(0.3)
Debit to equity	(0.1)	-	-	-	-	(0.1)
At 31 December 2004	0.1	(1.8)	0.4	0.2	0.7	(0.4)
Credit/(charge) to income	-	0.3	(0.1)	(0.1)	0.1	0.2
Credit to equity	0.2	-	-	-	-	0.2
Other	-	-	-	-	(0.1)	(0.1)
At 31 December 2005	0.3	(1.5)	0.3	0.1	0.7	(0.1)

Certain deferred tax assets and liabilities have been offset. The following is the analysis of the deferred tax balances (after offset) for financial reporting purposes:

	<i>2003</i> <i>£million</i>	<i>2004</i> <i>£million</i>	<i>2005</i> <i>£million</i>
Deferred tax liabilities	-	(0.4)	(0.1)
Deferred tax assets	1.1	-	-
	1.1	(0.4)	(0.1)

At the balance sheet date, the aggregate amount of temporary differences associated with trading tax losses carried forward in subsidiaries for which deferred tax assets have not been recognised was £0.4 million (2003: £0.5 million; 2004: £0.4 million). The amount in respect of capital losses was £1.3m (2003: £1.3 million, 2004: £1.3 million). No asset has been recognised in respect of these differences because, in the view of the Directors, their utilisation is, as yet, uncertain.

15. Inventories

	<i>2003</i> <i>£million</i>	<i>2004</i> <i>£million</i>	<i>2005</i> <i>£million</i>
Raw materials and consumables	0.6	0.8	0.5

Inventories are held at cost. The information on the amount of inventories expensed during the year is not available.

16. Trade and other receivables

	<i>2003</i> <i>£million</i>	<i>2004</i> <i>£million</i>	<i>2005</i> <i>£million</i>
Trade debtors	24.6	35.4	34.8
Less: provision for impairment	(0.2)	(1.7)	(1.2)
Trade debtors - net	<u>24.4</u>	<u>33.7</u>	<u>33.6</u>
Other receivables (note 17)	1.4	0.5	0.4
Prepayments and accrued income	1.7	3.5	2.1
	<u>27.5</u>	<u>37.7</u>	<u>36.1</u>
Amounts included above recoverable after more than one year:			
Other receivables	<u>0.8</u>	<u>0.5</u>	<u>0.4</u>

The Directors consider that the carrying amount of trade and other receivables approximates their fair value. Trade debtors in 2004 and 2005 is net of a provision of £1.25 million in respect of a contract debt dispute (see below).

Other receivables include deferred consideration, variable and secured loans and other debtors.

Facilities management services contracts with Lend Lease were terminated at 31 August 2004. Amounts due under the contracts of £1.25 million remain outstanding and are in dispute. The collection of items comprising this debt is being vigorously pursued by the Directors who, having sought legal advice, intend to pursue settlement of the claims in full either by negotiation or litigation. However, in view of the time elapsed and the uncertain time anticipated for resolution, the Directors considered it appropriate to make full provision in the 2004 and 2005 accounts (prepared under generally accepted accounting principles in the UK ("UK GAAP")), with the inclusion of a 'fundamental uncertainty' (as defined in UK SAS 600 "Auditors' Reports on Financial Statements") in the audit opinion for the year ended 31 December 2004, as to the extent of the provision necessary. The provision has been separately disclosed in note 4.

17. Financial instruments

<i>Financial liabilities</i>	<i>2003</i> <i>£million</i>	<i>2004</i> <i>£million</i>	<i>2005</i> <i>£million</i>
Payables due in less than one year			
Bank overdrafts	1.9	1.3	-
Bank loans	1.9	2.6	2.9
Loan notes (note 18)	1.0	1.2	0.1
Finance leases (note 22)	1.0	1.1	0.5
	<u>5.8</u>	<u>6.2</u>	<u>3.5</u>
Payables due in greater than one year			
Bank loans	2.4	9.2	7.9
Finance leases (note 22)	0.6	1.2	0.7
	<u>8.8</u>	<u>16.6</u>	<u>12.1</u>
The borrowings are repayable as follows:			
On demand or within one year	5.8	6.2	3.5
In the second year	1.9	2.9	3.0
In the third to fifth years inclusive	0.6	7.3	5.5
After five years	0.5	0.2	0.1
	<u>8.8</u>	<u>16.6</u>	<u>12.1</u>
Less: Amount due for settlement within 12 months (shown under current liabilities)			
Bank overdrafts and loans	(3.8)	(3.9)	(2.9)
Loan notes (note 18)	(1.0)	(1.2)	(0.1)
Finance leases (note 22)	(1.0)	(1.1)	(0.5)
Amount due for settlement after 12 months	<u>3.0</u>	<u>10.4</u>	<u>8.6</u>

The bank overdraft and loan facilities are secured by fixed and floating charges over certain of the Group's assets. Bank loans are net of issue costs of £0.2 million (2003: £0.1 million; 2004: £0.3 million). The loan notes are guaranteed by the Group's bankers.

The variable rate financial instruments attract interest charges based upon the clearing banks' or Euribor base rates. Fixed rate financial liabilities consist of finance leases with interest based on market rates at their inception.

At 31 December 2005 the Group had undrawn but committed borrowing facilities repayable within one year of £14.5 million (2003: £13.9 million; 2004: £13.3 million). Financial liabilities also include £2.1 million (2003: £3.0 million; 2004: £2.4 million) of earnout consideration that is estimated to be payable in cash and loan notes; no interest arises on this liability.

The Group had an interest rate cap hedging interest rate exposure on £5.0 million at 31 December 2005 (2003: £nil; 2004: £nil). The strike price for the cap has not been triggered, whilst this remains the case fair value adjustments relating to the cap are accounted for through the income statement for 2005. The fair value of this cap at 31 December 2005 was £nil (2003: £nil; 2004: £nil).

<i>Financial assets</i>	2003 <i>£million</i>	2004 <i>£million</i>	2005 <i>£million</i>
Cash	1.7	2.6	4.0
Deferred consideration	0.7	0.5	0.4
Variable loan	0.6	-	-
Secured loan	0.1	-	-
Unlisted investment in quoted company			
– Unsecured loan stock 2003/2006	0.1	0.1	0.1
– Unsecured convertible loan stock 2003/2006	1.6	1.6	1.1
– IAS 39 adjustment to Unsecured convertible loan stock 2003/2006	-	-	0.2
Investment in unquoted companies			
– Ordinary shares	-	0.2	0.2
	<u>4.8</u>	<u>5.0</u>	<u>6.0</u>
Less:			
Financial assets - available for sale investments	(1.7)	(1.9)	(1.6)
Cash and deposits	<u>(1.7)</u>	<u>(2.6)</u>	<u>(4.0)</u>
Trade and other receivables	<u>1.4</u>	<u>0.5</u>	<u>0.4</u>

Financial assets comprise short-term cash deposits, long-term debtors, unlisted investments and cash at bank. Financial liabilities comprise bank borrowings, finance leases, loan notes, long-term creditors and interest rate caps. As permitted by IAS 32, the disclosures below, other than the currency exposure disclosures, exclude all of the Group's short-term receivables and payables.

Interest is receivable on net cash balances at short-term money market rates.

Bank balances and cash comprise cash held by the Group and short-term bank deposits with an original maturity of three months or less. The carrying amount of these assets approximates their fair value.

The deferred consideration is receivable in ten equal annual instalments commencing 6 January 2006. Interest is receivable after that date on the outstanding balance at progressively increasing rates of 1% to 3% above clearing bank base rate.

The variable loan was secured by a debenture over the assets of the recipient company. It earned interest at a variable rate of clearing bank base rate plus a margin of 2%.

The secured loan earned interest at a variable rate of clearing bank base rate plus a margin of 2%.

On 9 July 2001 the Group sold Jordan Engineering Limited and Jordan Fabrications Limited to Booth Industries Group PLC (“Booth”). The proceeds of the disposal of £2.2 million included shares in Booth (sold in 2002) plus £1.6 million of unsecured convertible loan stock 2003/2006 and £0.1 million of unsecured loan stock 2003/2006 both of which were issued on 19 March 2002. The unsecured convertible loan stock earns interest at a fixed rate of 6%; the unsecured loan stock issued on 19 March 2002 is at a variable rate of clearing bank base rate plus a margin of 0.5% to the second anniversary of the date of issue, increasing to a maximum margin of 4.5% in the fifth year following issue. The unsecured convertible loan stock may convert, at the request of the holder, into ordinary shares in Booth at any time following the second anniversary of the issue at rates ranging between 2.6 and 2.3 ordinary shares per £1 of loan stock or, alternatively, may be redeemed at the request of Booth at any time after the second anniversary of issue at a rate of £1.09 per £1 of principal sum, after the third anniversary at a rate of £1.18 per £1 of principal sum and after the fourth anniversary at a rate of £1.27 per principal sum. Booth redeemed £500,000 of stock at a rate of £1.09 per £1 of principal sum in March 2005 and in March 2006 redeemed a further £500,000 of stock at a rate of £1.18 per £1 of principal sum. The unsecured loan stock is redeemable at par in four equal annual instalments commencing on the second anniversary following issue.

On the adoption of IAS 39 at 1 January 2005 no adjustments have been made to the carrying value of the available for sale assets on the basis that their fair values approximate their carrying value. However, a fair value uplift of £0.1 million was recognised directly in equity in respect of the embedded derivative inherent

in the redemption premium attaching to the convertible loan notes. A further £0.1 million uplift was recognised through the income statement in 2005 as a result of a revision to the estimate of future bid premia receivable. At 31 December 2005 the bid premia receivable on maturity is estimated to be £0.3 million.

Credit Risk

The Group's principal financial assets are bank balances and cash, trade and other receivables and investments, which represent the Group's maximum exposure to credit risk in relation to financial assets.

The Group's credit risk is primarily attributable to its trade receivables. The amounts presented in the balance sheet are net of allowances for doubtful receivables, estimated by the Group's management based on prior experience and their assessment of the current economic environment.

The credit risk on liquid funds and derivative financial instruments is limited because the counterparties are banks with strong credit ratings assigned by international credit rating agencies.

The Group has no significant concentration of credit risk, with exposure spread over a large number of counterparties and customers.

18. Unsecured loan notes

	<i>2003</i> <i>£million</i>	<i>2004</i> <i>£million</i>	<i>2005</i> <i>£million</i>
Floating rate loan notes	<u>1.0</u>	<u>1.2</u>	<u>0.1</u>

The floating rate unsecured loan notes were issued on 15 December 2003 and 5 April 2004 in respect of the acquisition of Attlaw Security & Protection Limited and are redeemable at par by the noteholder giving not less than 30 days prior notice in writing to expire on or before any interest payment date. Unless redeemed earlier, repayment will be made on the third anniversary of issue. Interest is payable half-yearly on the loan notes at 1.0% below 6 month LIBOR.

19. Derivative financial instruments

(a) Currency exposures

Gains and losses relating to monetary assets and liabilities of Group businesses that are not denominated in their functional currency will be recognised in the income statement. The Group companies did not have a material exposure to foreign exchange gains or losses on monetary assets and monetary liabilities denominated in foreign currencies at 31 December 2005.

Gains and losses arising on the re-translation of overseas net assets are recognised directly in equity.

(b) Fair values of financial assets and financial liabilities

Except as noted in note 17 the carrying values of financial assets and liabilities are not materially different from their fair values. The fair values of financial assets and liabilities have been determined on the basis of future cash inflows or outflows discounted to the balance sheet date, or by reference to quoted share prices where applicable.

(c) Market price and interest rate risk

The Group seeks to control its exposures to changes in interest rates by limiting their impact on the interest charge in the income statement. This is achieved through the use of interest rate caps where appropriate. An instantaneous 1% increase across all relevant interest rates would increase the Group's interest charge by less than 1.0% of consolidated Group profits before tax.

20. Trade and other payables

	2003 £million	2004 £million	2005 £million
Obligations under finance leases (note 22)	1.0	1.1	0.5
Trade payables	6.4	7.6	4.3
Other taxation and social security	6.5	14.0	14.0
Other payables	0.1	0.1	0.2
Accruals and deferred income	11.0	15.2	17.8
	<u>25.0</u>	<u>38.0</u>	<u>36.8</u>
Corporation tax	<u>0.6</u>	<u>2.0</u>	<u>1.0</u>

The Directors consider that the carrying amount of trade payables approximates to their fair value. Amounts owing under finance leases are secured against the assets acquired under these arrangements.

21. Trade and other payables - amounts falling due after more than one year

	2003 £million	2004 £million	2005 £million
Obligations under finance leases (note 22)	<u>0.6</u>	<u>1.2</u>	<u>0.7</u>

22. Obligations under finance leases

	2003 £million	Minimum lease payments 2004 £million	2005 £million	Present value of minimum lease payments 2003 £million	2004 £million	2005 £million
Amounts payable under finance leases:						
Within one year	1.1	1.2	0.6	1.0	1.1	0.5
In the second to fifth years inclusive	0.6	1.3	0.7	0.6	1.2	0.7
	<u>1.7</u>	<u>2.5</u>	<u>1.3</u>	<u>1.6</u>	<u>2.3</u>	<u>1.2</u>
Less: future finance charges	(0.1)	(0.2)	(0.1)	–	–	–
Present value of lease obligations	<u>1.6</u>	<u>2.3</u>	<u>1.2</u>	<u>1.6</u>	<u>2.3</u>	<u>1.2</u>
Less: Amount due for settlement within 12 months (shown under current liabilities)				<u>(1.0)</u>	<u>(1.1)</u>	<u>(0.5)</u>
Amount due for settlement after 12 months				<u>0.6</u>	<u>1.2</u>	<u>0.7</u>

It is the Group's policy to lease certain of its fixtures and equipment under finance leases. The average lease term is 3-4 years. For the year ended 31 December 2005, the average effective borrowing rate was 7.9% (2003: 7.8%; 2004: 8.2%). Interest rates are fixed at the contract date. All leases are on a fixed repayment basis and no arrangements have been entered into for contingent rental payments.

All lease obligations are denominated in sterling. The fair value of the Group's lease obligations approximates their carrying amount.

The Group's obligations under finance leases are secured by the lessors' charges over the leased assets.

23. Provisions

	<i>Deferred consideration £million</i>	<i>Other £million</i>	<i>Total £million</i>
At 1 January 2003	–	–	–
On acquisition	6.7	0.4	7.1
Additional provision in the year	–	0.2	0.2
Reversal of discount of contingent consideration	0.1	–	0.1
At 31 December 2003	6.8	0.6	7.4
On acquisition	2.3	–	2.3
Paid during the year	(2.0)	–	(2.0)
Additional provision in the year	–	0.2	0.2
Utilised in the year	–	(0.3)	(0.3)
Reversal of discount of contingent consideration	0.2	–	0.2
Reduction of provision in the year	(3.2)	–	(3.2)
At 31 December 2004	4.1	0.5	4.6
Paid during the year	(0.1)	–	(0.1)
Utilised in the year	–	(0.2)	(0.2)
Reduction of provision in the year	(1.7)	–	(1.7)
Reversal of discount of contingent consideration	0.2	–	0.2
Additional provision in the year	–	0.3	0.3
At 31 December 2005	2.5	0.6	3.1

In the year ended 31 December 2005 payments made in respect of deferred consideration on acquisitions amounted to £0.05 million (2003: £nil; 2004: £2.0 million).

2005

Under the terms of the agreement for the acquisition of TASS (Europe) Limited, further consideration is payable dependent upon the performance of the business. This further consideration may be satisfied by cash and/or the issue of shares and is payable in 2007.

2004

Under the terms of the agreements for the acquisition of Tasker (U.K.) Limited, Attlaw Security & Protection Limited and of TASS (Europe) Limited, further consideration was payable dependent upon the performance of the businesses. At 31 December 2004 the Directors estimated that £4.6 million of that consideration would be satisfied in shares and / or cash. Under IFRS 3 a discount of £0.5 million has been determined to arrive at a discounted deferred consideration value of £2.3 million in respect of TASS (Europe) Limited. These are expected to be payable up to 2007.

2003

Under the terms of the agreements for the acquisition of Tasker (U.K.) Limited and of Attlaw Security & Protection Limited, further consideration was payable dependent upon the performance of the businesses. At 31 December 2003 the Directors estimated that £7.6 million would be satisfied by cash and/or the issue of shares. Under IFRS 3 a discount of £0.9 million has been determined to arrive at a discounted deferred consideration value of £6.7 million. This is expected to be payable up to 2007.

Other provisions represent onerous contract and self insurance provisions. The liabilities are expected to be substantially settled over the next five years.

24. Share capital

	<i>2003</i> <i>£million</i>	<i>2004</i> <i>£million</i>	<i>2005</i> <i>£million</i>
Authorised:			
130,000,000 ordinary shares of 5p each (2003: 100,000,000 shares of 5p each; 2004: 130,000,000 shares of 5p each)	5.0	6.5	6.5
5,000,000 convertible preference shares of 10p each	0.5	0.5	0.5
	<u>5.5</u>	<u>7.0</u>	<u>7.0</u>
Issued and fully paid:			
99,803,624 ordinary shares of 5p each (2003: 79,286,165 shares of 5p each; 2004: 99,635,115 shares of 5p each)	4.0	4.9	5.0
5,000,000 convertible preference shares of 10p each	0.5	0.5	0.5
	<u>4.5</u>	<u>5.4</u>	<u>5.5</u>

The authorised share capital was increased at the Extraordinary General Meeting held on 18 November 2004 by £1,500,000 to £7,000,000 by the creation of 30,000,000 ordinary shares of 5p each.

Allotments have been made to shareholders of businesses acquired and to employees as follows:

	<i>Number</i>	<i>Price</i>	<i>Consideration</i> <i>£million</i>
Allotted issued and fully paid			
At 1 January 2003	75,817,832		
In connection with the acquisition of Attlaw Security & Protection Limited			
11 December 2003	3,333,333	75p	<u>2.5</u>
As a result of the exercise of options under the Group's share option schemes			
26 June 2003	75,000	50p	
2 October 2003	10,000	50p	
28 October 2003	50,000	50p	
	<u>135,000</u>		<u>0.1</u>
At 31 December 2003	79,286,165		
In connection with the following acquisitions:			
Attlaw Security & Protection Limited - 5 April 2004	1,333,333	75p	
First Security Group Limited - 13 October 2004	16,666,667	60p	
TASS (Europe) Limited - 30 November 2004	2,083,332	66p	
	<u>20,083,332</u>		<u>12.4</u>

As a result of the exercise of options under the Group's share option schemes		
8 January 2004	75,000	50p
3 September 2004	67,868	58p
14 October 2004	111,042	58p
8 November 2004	2,004	58p
6 December 2004	9,704	58p
	<u>265,618</u>	<u>0.1</u>

At 31 December 2004 99,635,115

As a result of the exercise of options under the Group's share option schemes		
1 March 2005	15,392	58p
19 April 2005	21,507	58p
19 July 2005	4,110	58p
18 October 2005	75,000	69.67p
15 November 2005	52,500	48.5p
	<u>168,509</u>	<u>0.1</u>

At 31 December 2005 99,803,624

Convertible preference shares

The holder of the convertible preference shares is entitled, *pari passu* with the holders of ordinary shares, to share in dividends paid by the Company. In the event of a winding up or other return of capital by the Company, the surplus assets shall be applied first in paying to the holder of the convertible preference shares an amount equal to the issue price of the shares; the balance shall be divided amongst the holders of ordinary shares.

On the basis of their entitlement to dividends and other rights, these shares are regarded as equity shares under IAS 32.

The convertible preference shares are convertible by the shareholder at any time on the basis of 35 ordinary shares of 5p for every 100 convertible preference shares held. Upon conversion, the ordinary shares thereby issued shall rank *pari passu* in all respects and form one class with the existing ordinary shares. The holder is eligible to vote on any resolution which varies the rights of the convertible preference shares.

Share schemes

Options were granted during the year as indicated below. Outstanding options are normally exercisable after the third but before the tenth anniversary of the date of the grant. Outstanding options over shares in the Company at 31 December 2005 were as follows:

	<i>Date of grant</i>	<i>Subscription price per 5p share</i>	<i>Number of employees including directors</i>	<i>Number of shares</i>
(a) Sharesave scheme	July 2001	58.0p	30	207,485
(b) Share option schemes				
Inland Revenue approved schemes	July 2000	50.0p	6	110,000
	September 2001	70.3p	8	143,770
	May 2002	96.83p	12	164,450
			26	418,220
Unapproved schemes	July 1996	57.0p	2	437,500
	March 1999	34.0p	3	525,000
	July 2000	50.0p	3	1,240,000
	September 2001	70.3p	3	66,230
	May 2002	95.67p	12	1,075,550
	April 2004	69.67p	18	1,245,000
			41	4,589,280

Outstanding options over shares in the Company at 31 December 2004 were as follows:

	<i>Date of grant</i>	<i>Subscription price per 5p share</i>	<i>Number of employees including directors</i>	<i>Number of shares</i>
(a) Sharesave scheme	July 2001	58.0p	40	97,130
	July 2001	58.0p	37	232,502
			77	329,632
(b) Share option schemes				
Inland Revenue approved schemes	December 1995	48.5p	1	52,500
	July 2000	50.0p	6	110,000
	August 2001	64.0p	1	46,875
	September 2001	70.3p	9	186,430
	May 2002	96.83p	17	298,370
			34	694,175
Unapproved schemes	July 1996	57.0p	2	437,500
	March 1999	34.0p	3	525,000
	July 2000	50.0p	3	1,240,000
	September 2001	70.3p	4	84,120
	May 2002	95.67p	14	1,238,590
	April 2004	69.67p	23	1,495,000
			49	5,020,210

Outstanding options over shares in the Company at 31 December 2003 were as follows:

	<i>Date of grant</i>	<i>Subscription price per 5p share</i>	<i>Number of employees including directors</i>	<i>Number of shares</i>
(a) Sharesave scheme	July 2001	58.0p	91	306,495
	July 2001	58.0p	46	277,302
			137	583,797
(b) Share option schemes				
Inland Revenue approved schemes	December 1995	48.5p	1	52,500
	July 2000	50.0p	8	170,000
	August 2001	64.0p	1	46,875
	September 2001	70.3p	9	186,430
	May 2002	96.83p	14	442,290
			33	898,095
Unapproved schemes	July 1996	57.0p	2	437,500
	March 1999	34.0p	3	525,000
	July 2000	50.0p	4	1,255,000
	August 2001	64.0p	1	3,125
	September 2001	70.3p	4	84,120
	May 2002	95.67p	19	1,514,670
			33	3,819,415

25. Reconciliation of movements in shareholders' equity

	<i>Share capital £million</i>	<i>Share premium £million</i>	<i>Retained earnings £million</i>	<i>Total £million</i>
Balance at 1 January 2003	4.3	35.3	3.6	43.2
Issue of new ordinary shares	0.2	2.4	–	2.6
Profit for the year	–	–	4.0	4.0
Dividends paid	–	–	(0.4)	(0.4)
Balance at 31 December 2003	4.5	37.7	7.2	49.4
Issue of new ordinary shares *	0.9	11.1	–	12.0
Profit for the year	–	–	2.2	2.2
Dividends paid	–	–	(0.5)	(0.5)
Share based payments**	–	–	(0.1)	(0.1)
Balance at 31 December 2004	5.4	48.8	8.8	63.0
Adoption of IAS 39	–	–	0.1	0.1
Deferred tax on adoption of IAS 39	–	–	–	–
Balance at 1 January 2005	5.4	48.8	8.9	63.1
Issue of new ordinary shares	0.1	0.1	–	0.2
Profit for the year	–	–	4.9	4.9
Dividends paid	–	–	(1.1)	(1.1)
Share based payments**	–	–	0.2	0.2
Balance at 31 December 2005	5.5	48.9	12.9	67.3

* share issue costs of £0.4 million have been charged to share premium account in the year.

** deferred taxation arising in respect of the share options outstanding at the period end and the benefit anticipated upon exercise of those options. At the transition date a deferred tax asset of £0.2 million was identified in respect of existing share options. The corresponding credit was taken direct to retained earnings.

26. Contingent liabilities

In the normal course of business, the Group is involved in disputes and litigation with third parties. Appropriate provision has been made in these accounts for all material liabilities resulting from proceedings that are, in the opinion of the Directors, likely to materialise.

The Group's bankers and insurers have given guarantees to customers amounting to £0.7 million (2003: £0.7 million; 2004: £0.7 million) which relate to the execution of contracts.

The Group has made a number of acquisitions where some of the consideration payable is deferred, dependent upon business performance. Provisions have been made to the extent that, in the opinion of the Directors, amounts will become payable. The directors do not consider that there is any material exposure to unprovided deferred consideration.

27. Share-based payments

Share Option Schemes

The 1998 Share Option Plan provides for a grant price equal to the average mid market closing price on the last dealing date prior to the date of grant. The vesting period is normally three years. If the options remain unexercised after a period of 10 years from the date of grant, the options expire. Furthermore, options lapse inter alia if the employee leaves the Group.

	2003		2004		2005	
	<i>Options</i>	<i>Weighted</i>	<i>Options</i>	<i>Weighted</i>	<i>Options</i>	<i>Weighted</i>
	<i>No</i>	<i>average</i>	<i>No</i>	<i>average</i>	<i>No</i>	<i>average</i>
	<i>No</i>	<i>exercise</i>	<i>No</i>	<i>exercise</i>	<i>No</i>	<i>exercise</i>
	<i>price (in £)</i>	<i>price (in £)</i>	<i>price (in £)</i>	<i>price (in £)</i>	<i>price (in £)</i>	<i>price (in £)</i>
Granted before 7 th November 2002 and hence not included in charge calculations:						
Outstanding at beginning of period	5,820,485	0.6809	5,301,307	0.6798	4,549,017	0.6625
Exercised during the period	(135,000)	0.5000	(265,618)	0.5574	(93,509)	0.5267
Expired during the period	(384,178)	0.7594	(486,672)	0.9089	(485,523)	0.8347
Outstanding at the end of the period	<u>5,301,307</u>	<u>0.6798</u>	<u>4,549,017</u>	<u>0.6624</u>	<u>3,969,985</u>	<u>0.6446</u>
Exercisable at the end of the period	<u>2,440,000</u>	<u>0.4778</u>	<u>2,695,435</u>	<u>0.4993</u>	<u>3,696,270</u>	<u>0.6472</u>
Granted since 7 th November 2002:						
Outstanding at beginning of period	–	–	–	–	1,495,000	0.6967
Granted during the period	–	–	1,520,000	0.6967	–	–
Exercised during the period	–	–	–	–	(75,000)	0.6967
Expired during the period	–	–	(25,000)	0.6967	(175,000)	0.6967
Outstanding at the end of the period	<u>–</u>	<u>–</u>	<u>1,495,000</u>	<u>0.6967</u>	<u>1,245,000</u>	<u>0.6967</u>
Exercisable at the end of the period	<u>–</u>	<u>–</u>	<u>–</u>	<u>–</u>	<u>–</u>	<u>–</u>

The average share price during 2005 was 73.30p (2003: 68.61p; 2004: 70.32p). The outstanding options at the end of the period had exercise prices ranging from 34.0p to 96.83p (2003: 34.0p to 96.83p; 2004: 34.0p to 96.83p) and had a remaining weighted average contractual life of nil year (2003: 2 years; 2004: 2 years).

The inputs into the Black-Scholes model are as follows:

	<i>2003</i>	<i>2004</i>	<i>2005</i>
Weighted average share price	–	69.67p	69.67p
Weighted average exercise price	–	69.67p	69.67p
Expected volatility	–	19.8%	19.8%
Expected life	–	3 years	3 years
Risk free rate	–	4.74%	4.74%
Yield	–	1.1%	1.1%
Number of employees	–	23	18
Number of shares	–	1,495,000	1,245,000
Fair value per option	–	24.67p	24.67p

Expected volatility was determined by calculating the historical volatility of the Group's share price over the previous 3 years. The expected life used in the model has been adjusted, based on management's best estimate, for the effects of non-transferability, exercise restrictions, and behavioural considerations.

28. Retirement benefit schemes

The MacLellan Group originally set up three pension schemes during 2000 for various categories of employee. Each of these schemes had been written under trust and approved under the Income and Corporation Taxes Act 1998.

During 2004, a radical and strategic review of the pension scheme arrangements was carried out. The aim of the review was to enable the Group to consolidate and reduce the number of pension schemes it administered and to provide employees with:

- a national firm of independent financial advisers to work with employees across the UK
- cost effective pension solutions
- easy and clear information to aid membership into a pension scheme with structured individual advice.

Consequently, the MacLellan Personal Pension Plan was introduced for all categories of employee within the Integrated Services business (subject to eligibility). This defined contribution plan is provided through Scottish Widows and ensures compliance with Stakeholder Pension Legislation. In addition, the Group contributes to stand alone money purchase schemes of certain senior employees.

The MacLellan Group 2000 Retirement Benefits Scheme, set up in July 2000, is a funded final salary (defined benefit) scheme ("the Scheme") and offers guaranteed pension benefits based upon salary and service, and broadly matches the Principal Civil Service Pension Scheme. The scheme is offered only to employees joining the Company who are entitled by legislation to receive benefits on this basis. The scheme continues to operate alongside the MacLellan Personal Pension Plan.

Costs are charged to the income statement in the period in which they are incurred and amounted to £0.6 million (2003: £0.6 million; 2004: £0.6 million) in respect of defined contribution schemes and £0.1 million (2003: £0.1 million; 2004: £0.1 million) in respect of the defined benefit scheme. At 31 December 2005 there were outstanding contributions of £0.1 million (2003: £0.1 million; 2004: £0.1 million).

International Accounting Standard 19

Under the provisions of IAS19, the Group is required to give the following information concerning the MacLellan 2000 defined benefit scheme. At 31 December 2005 the scheme had thirty five active members (2003: thirty two; 2004: thirty four) and its assets and liabilities are not material in the context of the Group. However, the information below has been provided for use by readers of this financial information.

The contribution levels are determined by an independent qualified actuary using the projected unit method. The main assumptions used by the actuary for IAS19 purposes at 31 December were as follows:

<i>Assumptions</i>	<i>2003</i>	<i>2004</i>	<i>2005</i>
Retail price inflation	3% pa	3.0% pa	2.8% pa
General salary increases	4% pa	4.0% pa	3.8% pa
Rate of increase in pensions payment	3% pa	3.0% pa	2.8% pa
Revaluation of deferred pensions	3% pa	3.0% pa	2.8% pa
Discount rate	5.25% pa	5.25% pa	4.7% pa

The amount included in the balance sheet arising from the Group's obligations in respect of the MacLellan 2000 defined benefit pension scheme is as follows:

	<i>2003</i>	<i>2004</i>	<i>2005</i>
	<i>£million</i>	<i>£million</i>	<i>£million</i>
Present value of defined benefit obligation	(0.2)	(0.3)	(0.4)
Fair value of scheme assets	0.2	0.3	0.4
Liability recognised in the balance sheet	<u>–</u>	<u>–</u>	<u>–</u>

The amounts recognised in the income statement are as follows:

	<i>2003</i>	<i>2004</i>	<i>2005</i>
	<i>£million</i>	<i>£million</i>	<i>£million</i>
Employer's part of current service cost	0.1	0.1	0.1
Interest cost	–	–	–
Expected return on scheme assets	–	–	–
Total expense recognised in the income statement	<u>0.1</u>	<u>0.1</u>	<u>0.1</u>

The actual return on the scheme assets over each year was less than £0.1 million.

The current allocation of the scheme assets is as follows:

	<i>2003</i>		<i>2004</i>		<i>2005</i>	
	<i>Current Allocation</i>	<i>Fair value £million</i>	<i>Current Allocation</i>	<i>Fair value £million</i>	<i>Current Allocation</i>	<i>Fair value £million</i>
Insurance policies	<u>100%</u>	<u>0.2</u>	<u>100%</u>	<u>0.3</u>	<u>100%</u>	<u>0.4</u>

The scheme assets are invested in Scottish Life insurance policies which had a market value at 31 December 2005 of £0.4 million (2003: £0.2 million; 2004: £0.3 million).

A reconciliation of the present value of the defined benefit obligation is as follows:

	<i>2003</i>	<i>2004</i>	<i>2005</i>
	<i>£million</i>	<i>£million</i>	<i>£million</i>
Opening defined benefit obligation	0.1	0.2	0.3
Employer's part of current service cost	0.1	0.1	0.1
Closing defined benefit obligation	<u>0.2</u>	<u>0.3</u>	<u>0.4</u>

A reconciliation of the fair value of the schemes' assets is as follows:

	<i>2003</i> <i>£million</i>	<i>2004</i> <i>£million</i>	<i>2005</i> <i>£million</i>
Opening fair value of scheme assets	0.1	0.2	0.3
Closing fair value of scheme assets	<u>0.2</u>	<u>0.3</u>	<u>0.4</u>

The Directors have not disclosed information on experience adjustments on the scheme assets and liabilities because the amounts are considered immaterial.

Based on current contribution rates and payroll, the Group would contribute £0.1 million to the defined benefit arrangements during 2006.

29. Acquisitions

The Group purchased two companies during the year ended 31 December 2003 and a further two companies during the year ended 31 December 2004. In all four purchases, 100% of the voting shares were acquired. These acquisitions now comprise the Security and Specialist Services segment.

The net assets of the businesses acquired have been adjusted to bring their accounting policies in line with those adopted by the Group and to state their provisional fair values to recognise recoverability of debtors, accrued expenses and the related tax effect.

All intangible assets (where applicable) were recognised at their respective fair values. The residual excess over the net assets acquired is recognised as goodwill in the financial information.

It is not practicable to determine the pre-acquisition carrying value of the assets and liabilities of each acquired business because those businesses did not apply International Financial Reporting Standards to their underlying accounting records. Therefore, the calculated effects of IFRS transition have been separately analysed within these acquisition notes.

(a) Acquisition of Tasker (U.K.) Limited

On 18 June 2003, the Group acquired the entire issued share capital of Tasker (U.K.) Limited.

	<i>Previous GAAP</i>	<i>IFRS</i>		
	<i>Net assets/ (liabilities) on acquisition £million</i>	<i>Fair value acquired £million</i>	<i>Effect of transition £million</i>	<i>Fair value acquired £million</i>
Tangible fixed assets	0.5	0.4	–	0.4
Stocks	0.1	–	–	–
Debtors	1.2	1.1	–	1.1
Creditors	(0.9)	(1.2)	–	(1.2)
Finance leases	(0.1)	(0.1)	–	(0.1)
Deferred tax	0.3	0.2	–	0.2
Net overdraft balances	(1.5)	(1.5)	–	(1.5)
	<u>(0.4)</u>	<u>(1.1)</u>	<u>–</u>	<u>(1.1)</u>
Goodwill				<u>1.7</u>
Consideration				<u>0.6</u>
				<u> </u>
		<i>IFRS</i>		
	<i>Provisional £million</i>	<i>Discount £million</i>	<i>Revisions £million</i>	<i>Final £million</i>
Satisfied by:				
Earn out consideration				
- shares to be issued or cash	1.5	(0.2)	(1.3)	–
Cash paid	0.5	–	–	0.5
Acquisition expenses	0.1	–	–	0.1
	<u>2.1</u>	<u>(0.2)</u>	<u>(1.3)</u>	<u>0.6</u>
				<u> </u>
		<i>2003</i>	<i>2004</i>	<i>2005</i>
		<i>£million</i>	<i>£million</i>	<i>£million</i>
Fair value acquired		(1.1)	(1.1)	(1.1)
Goodwill		3.0	2.4	1.7
Consideration – including contingent earn out		<u>1.9</u>	<u>1.3</u>	<u>0.6</u>

The changes to the estimated contingent deferred consideration represent the Directors' assessment at each balance sheet date of the amounts that would become payable if the earn out targets were met.

Adjustments between book values and fair values are primarily due to revaluation of fixed assets, additional provisions on stock and debtors, the identification of additional liabilities and related tax adjustments.

No intangible assets have been identified as part of the acquisition of Tasker (U.K.) Limited.

(b) Acquisition of Attlaw Security & Protection Limited

On 15 December 2003 the Group acquired the entire issued share capital of Attlaw Security & Protection Limited.

	<i>Previous GAAP</i>		<i>IFRS</i>	
	<i>Net assets /(liabilities) on acquisition £million</i>	<i>Fair value acquired £million</i>	<i>Effect of transition £million</i>	<i>Fair value acquired £million</i>
Intangible fixed assets	–	–	1.3	1.3
Tangible fixed assets	0.1	0.1	–	0.1
Stocks	–	–	–	–
Debtors	4.4	4.1	–	4.1
Taxation	(0.2)	(0.1)	–	(0.1)
Creditors	(1.8)	(2.3)	–	(2.3)
Finance leases	–	–	–	–
Deferred tax	–	0.3	(0.4)	(0.1)
Net overdraft balances	(2.3)	(2.3)	–	(2.3)
	<u>0.2</u>	<u>(0.2)</u>	<u>0.9</u>	<u>0.7</u>
Goodwill				<u>6.6</u>
Consideration				<u>7.3</u>
		<i>IFRS</i>		
	<i>Provisional £million</i>	<i>Discount £million</i>	<i>Revisions £million</i>	<i>Final £million</i>
Satisfied by:				
Earn out consideration				
- shares to be issued	3.0	(0.3)	(2.7)	–
- cash payable	3.0	(0.3)	(2.7)	–
Shares issued	2.5	–	1.0	3.5
Guaranteed loan notes	0.6	–	–	0.6
Cash paid	1.9	–	1.0	2.9
Acquisition expenses	0.3	–	–	0.3
	<u>11.3</u>	<u>(0.6)</u>	<u>(3.4)</u>	<u>7.3</u>
		<i>2003 £million</i>	<i>2004 £million</i>	<i>2005 £million</i>
Fair value acquired		0.7	0.7	0.7
Goodwill		10.0	7.4	6.6
Consideration – including contingent earn out		<u>10.7</u>	<u>8.1</u>	<u>7.3</u>

The changes to the estimated contingent deferred consideration represent the Director's assessment at each balance sheet date of the amounts that would become payable if the earn out targets were met.

The intangible assets acquired as part of the acquisition of Attlaw Security & Protection Limited have been attributed to contractual customer relationships.

Adjustments between book values and fair values are primarily due to additional provisions on debtors and the identification of additional liabilities.

Earn out consideration amounting to £2 million was paid in 2004 on the achievement of an earn out target. The remaining earn out consideration was revised in 2004 and 2005. No further consideration is payable.

(c) Acquisition of First Security Group Limited

On 14 October 2004, the Group acquired the entire issued share capital of First Security Group Limited.

	<i>Previous GAAP</i>		<i>IFRS</i>	
	<i>Net assets /(liabilities) on acquisition £million</i>	<i>Fair value acquired £million</i>	<i>Effect of transition £million</i>	<i>Fair value acquired £million</i>
Intangible fixed assets	–	–	3.8	3.8
Tangible fixed assets	0.4	0.3	–	0.3
Debtors	6.4	6.2	–	6.2
Cash at bank and in hand	1.5	1.5	–	1.5
Taxation	(1.0)	(0.8)	–	(0.8)
Creditors	(5.4)	(5.8)	–	(5.8)
Deferred tax	–	0.2	(1.1)	(0.9)
Finance leases	(0.1)	(0.1)	–	(0.1)
	<u>1.8</u>	<u>1.5</u>	<u>2.7</u>	<u>4.2</u>
Goodwill				<u>15.6</u>
Consideration				<u>19.8</u>
Satisfied by:				
Shares issued				10.0
Guaranteed loan notes				0.6
Cash paid				3.1
Loans repaid on acquisition				5.6
Acquisition expenses				0.5
				<u>19.8</u>

The intangible assets acquired as part of the acquisition of First Security Group Limited have been attributed to contractual customer relationships.

Adjustments between book values and fair values are primarily due to revaluation of fixed assets, additional provisions on debtors, the identification of additional liabilities and related tax adjustments.

(d) Acquisition of TASS (Europe) Limited

On 30 November 2004, the Group acquired the entire issued share capital of TASS (Europe) Limited.

	<i>Previous GAAP</i>		<i>IFRS</i>	
	<i>Net assets /(liabilities) on acquisition £million</i>	<i>Fair value acquired £million</i>	<i>Effect of transition £million</i>	<i>Fair value acquired £million</i>
Intangible fixed assets	–	–	1.3	1.3
Tangible fixed assets	0.2	0.2	–	0.2
Debtors	0.2	0.2	–	0.2
Cash at bank and in hand	0.7	0.7	–	0.7
Taxation	–	–	–	–
Creditors	(0.6)	(0.6)	–	(0.6)
Deferred tax	–	–	(0.4)	(0.4)
Finance leases	(0.1)	(0.1)	–	(0.1)
	<u>0.4</u>	<u>0.4</u>	<u>0.9</u>	<u>1.3</u>
Goodwill				<u>4.3</u>
Consideration				<u>5.6</u>
			<i>IFRS</i>	
		<i>Provisional £ million</i>	<i>Discount £ million</i>	<i>Final £ million</i>
Satisfied by:				
Earn out consideration				
- shares to be issued		1.4	(0.3)	1.1
- cash payable		1.4	(0.2)	1.2
Shares issued		1.4	–	1.4
Cash paid		1.8	–	1.8
Acquisition expenses		0.1	–	0.1
		<u>6.1</u>	<u>(0.5)</u>	<u>5.6</u>

The intangible assets acquired as part of the acquisition of TASS (Europe) Limited have been attributed to contractual customer relationships.

It is impracticable to provide full year combinations of results for the enlarged group for 2003 and 2004 given that historical information is only available under UK GAAP. In 2003, under UK GAAP, Tasker and Attlaw contributed £0.2 million of operating profit to the Group. In 2004, under UK GAAP, First Security and TASS (Europe) Limited contributed £0.7 million of operating profit to the Group.

The cash movements in respect of the above acquisitions can be summarised as follows:

	<i>Cash paid</i>	<i>Cash at bank and in hand acquired</i>	<i>Borrowings acquired</i>	<i>Loans repaid</i>	<i>Total</i>
	<i>£ million</i>	<i>£ million</i>	<i>£ million</i>	<i>£ million</i>	<i>£ million</i>
<i>2003</i>					
Tasker	(0.6)	–	(1.5)	–	(2.1)
Attlaw	(2.2)	–	(2.3)	–	(4.5)
	<u>(2.8)</u>	<u>–</u>	<u>(3.8)</u>	<u>–</u>	<u>(6.6)</u>
<i>2004</i>					
First Security Group	(3.6)	1.5	–	(5.6)	(7.7)
TASS	(1.9)	0.7	–	–	(1.2)
	<u>(5.5)</u>	<u>2.2</u>	<u>–</u>	<u>(5.6)</u>	<u>(8.9)</u>

30. Related party transactions

Transactions between the Company and its subsidiaries, which are related parties, have been eliminated on consolidation and are not disclosed in this note. Transactions between the Group and Trelawne Services Limited for the services of J R Foley and Coldelm Management Services Limited for the services of G W S Lockyer are disclosed below.

	<i>2003</i>	<i>2004</i>	<i>Purchases of goods and services 2005</i>	<i>2003</i>	<i>2004</i>	<i>Amounts owed to related parties 2005</i>
	<i>£million</i>	<i>£million</i>	<i>£million</i>	<i>£million</i>	<i>£million</i>	<i>£million</i>
Trelawne Services Limited	0.3	0.3	0.3	–	–	–
Coldelm Management Services Limited	–	–	–	–	–	–
	<u>0.3</u>	<u>0.3</u>	<u>0.3</u>	<u>–</u>	<u>–</u>	<u>–</u>

Key management disclosures are shown in note 5.

Sales and purchases of goods and services to related parties were made on normal trading terms.

The amounts outstanding are unsecured and will be settled in cash. No guarantees have been given or received.

In 2003, fees amounting to £0.3 million (excluding VAT) had been charged to Attlaw Security & Protection Limited in respect of services provided to Attlaw by the Group in the period prior to legal completion of the acquisition. In 2004, fees amounting to £0.4 million (excluding VAT) had been charged to TASS (Europe) Limited in respect of services provided to that company by the Group prior to legal completion of the acquisition.

31. Explanation of transition to IFRS

The following disclosures are required in the year of transition. The last financial statements under UK GAAP were for the year ended 31 December 2005 and the date of transition to IFRS for this financial information is 1 January 2003.

Reconciliation of equity at 1 January 2003 (date of transition to IFRS)

Note	UK GAAP	Effect of transition to IFRS				IFRS
	reanalysed £million i	IFRS 2 £million ii	IAS 19 £million iii	IAS 10 £million iv	Reclass £million v	£million
Goodwill	37.2					37.2
Other intangible assets	–					–
Property, plant and equipment	6.3					6.3
Investments	1.9					1.9
Deferred tax asset	1.3	0.2				1.5
Defined benefit assets	–		0.1			0.1
Total non-current assets	46.7	0.2	0.1			47.0
Inventories	0.4					0.4
Trade and other receivables	22.8					22.8
Cash and deposits	2.3					2.3
Total current assets	25.5					25.5
Total assets	72.2	0.2	0.1			72.5
Trade and other payables	(24.1)			0.4		(23.7)
Bank loans and overdrafts	(1.3)					(1.3)
Unsecured loan notes	(1.0)					(1.0)
Current tax liability	–					–
Total current liabilities	(26.4)			0.4		(26.0)
Net current liabilities	(0.9)			0.4		(0.5)
Bank loans	(1.9)					(1.9)
Trade and other payables	(1.3)					(1.3)
Defined benefit liabilities	–		(0.1)			(0.1)
Total non-current liabilities	(3.2)		(0.1)			(3.3)
Total liabilities	(29.6)		(0.1)	0.4		(29.3)
Total assets less total liabilities	42.6	0.2	–	0.4	–	43.2
Share capital	4.3					4.3
Share premium account	35.3					35.3
Other reserve	0.2				(0.2)	–
Retained earnings	2.8	0.2		0.4	0.2	3.6
Total shareholders' equity	42.6	0.2	–	0.4	–	43.2

Notes to the reconciliation of equity at 1 January 2003

- (i) The UK GAAP reanalysis relates to the reclassification of the historic UK GAAP numbers to correspond to IFRS GAAP headings.
- (ii) As required by IFRS 2, Share-Based Payments and IAS 12, Income Taxes, a deferred tax asset of £0.2 million has been recognised for the future tax benefit of outstanding share options resulting in an increase in Group net assets of £0.2 million.
- (iii) The Group has adopted IAS 19, Employee Benefits, in respect of its defined benefit pension schemes. The balance sheet impact of the implementation of this standard is to recognise a pension asset of £0.1 million and a pension liability of £0.1 million in the Group's IFRS balance sheet as at 1 January 2003. There is no impact on Group net assets.
- (iv) As required by IAS 10, Events after the Balance Sheet Date, the dividend for 2002 is debited to the reserves in the year in which it was approved and paid, namely 2003. The impact is to increase Group net assets by £0.4 million.
- (v) Other reserves of £0.2 million have been reclassified as retained earnings which do not impact on Group net assets.

Reconciliation of profit for the year ended 31 December 2003

Note	UK GAAP	Effect of transition to IFRS			IFRS
	£million	IFRS 3 £million	IFRS 3 £million	Reclass £million	£million
		i	ii	iii	
Revenue – continuing operations	153.3				153.3
Cost of sales	(132.9)				(132.9)
Gross profit	20.4				20.4
Administrative expenses	(17.1)	2.1		(0.9)	(15.9)
Other operating income	0.3				0.3
Operating profit	3.6	2.1		(0.9)	4.8
Investment revenue	0.2				0.2
Finance costs	(0.5)		(0.1)		(0.6)
Profit before tax	3.3	2.1	(0.1)	(0.9)	4.4
Tax expense	(1.3)				(1.3)
Net profit – continuing operations	2.0	2.1	(0.1)	(0.9)	3.1
Discontinued operations	–			0.9	0.9
	2.0	2.1	(0.1)	–	4.0

Notes to the reconciliation of profit for the year ended 31 December 2003

- (i) IFRS 3, Business Combinations, no longer permits the amortisation of goodwill. Instead goodwill is carried at cost and is subject to regular impairment reviews.

The Group has chosen, under the transitional arrangements of IFRS 1, to apply IFRS 3 prospectively from the transition date. Hence all prior business combination accounting is frozen at the transition date and the value of goodwill is frozen at 1 January 2003 and amortisation previously reported under UK GAAP for 2003 is reversed for IFRS statements. IFRS 3 requires intangible assets to be recognised on acquisition which has resulted in a reclassification of goodwill to other intangible assets. Other intangible assets are amortised and the impact in 2003 is a reduction in the net amortisation charge of £2.1 million.

- (ii) IFRS 3 requires deferred consideration arising on acquisitions to be discounted. In 2003 the unwinding of the discounts has resulted in an income statement charge of £0.1 million which has been shown in finance costs.
- (iii) The reclassification relates to the separate presentation of the results of continuing and discontinued operations as required under IFRS.

Reconciliation of equity at 31 December 2003

Note	UK GAAP		Effect of transition to IFRS							IFRS
	reanalysed	UK GAAP adjustment	IFRS 2	IFRS 3	IFRS 3	IAS 10	IAS 38	IAS 19	Reclass	IFRS
	£million	£million	£million	£million	£million	£ million	£million	£million	£million	£million
	i	ii	iii	iv	v	vi	vii	viii	ix	
Goodwill	49.6	(0.2)		1.7	(0.9)					50.2
Other intangible assets	–			1.3			0.1			1.4
Property, plant and equipment	6.1						(0.1)			6.0
Investments	1.7									1.7
Deferred tax asset	1.0		0.2	(0.1)						1.1
Defined benefit assets	–							0.2		0.2
Total non-current assets	58.4	(0.2)	0.2	2.9	(0.9)	–	–	0.2	–	60.6
Inventories	0.6									0.6
Trade and other receivables	27.7		–	(0.2)						27.5
Cash and deposits	1.7									1.7
Total current assets	30.0	–	–	(0.2)	–	–	–	–	–	29.8
Total assets	88.4	(0.2)	0.2	2.7	(0.9)	–	–	0.2	–	90.4
Trade and other payables	(25.8)	0.2				0.6				(25.0)
Bank loans and overdrafts	(3.8)									(3.8)
Unsecured loan notes	(1.0)									(1.0)
Current tax liability	(0.6)									(0.6)
Total current liabilities	(31.2)	0.2	–	–	–	0.6	–	–	–	(30.4)
Net current liabilities	(1.2)	0.2	–	(0.2)	–	0.6	–	–	–	(0.6)
Bank loans	(2.4)									(2.4)
Trade and other payables	(0.6)									(0.6)
Provisions	(3.0)			(0.6)	0.8				(4.6)	(7.4)
Defined benefit liabilities	–							(0.2)		(0.2)
Total non-current liabilities	(6.0)	–	–	(0.6)	0.8	–	–	(0.2)	(4.6)	(10.6)
Total liabilities	(37.2)	0.2	–	(0.6)	0.8	0.6	–	(0.2)	(4.6)	(41.0)
Total assets less total liabilities	51.2	–	0.2	2.1	(0.1)	0.6	–	–	(4.6)	49.4
Share capital	4.5									4.5
Ordinary shares to be issued	4.6								(4.6)	–
Share premium account	37.7									37.7
Retained earnings	4.4		0.2	2.1	(0.1)	0.6				7.2
Total shareholders' equity	51.2	–	0.2	2.1	(0.1)	0.6	–	–	(4.6)	49.4

Notes to the reconciliation of equity at 31 December 2003

- (i) The UK GAAP reanalysis relates to the reclassification of the historic UK GAAP numbers to correspond to IFRS GAAP headings.
- (ii) Reflects adjustments of costs incurred previously charged against pre-acquisition provisions.
- (iii) As required by IFRS 2, Share-Based Payments and IAS 12, Income Taxes, a deferred tax asset of £0.2 million has been recognised for the future tax benefit of outstanding share options resulting in an increase in Group net assets of £0.2 million.
- (iv) IFRS 3 no longer permits the amortisation of goodwill. Instead goodwill is carried at cost and is subject to regular impairment reviews.

The Group has chosen, under the transitional arrangements of IFRS 1, to apply IFRS 3 prospectively from the transition date. Hence all prior business combination accounting is frozen at the transition date and the value of goodwill is frozen at 1 January 2003 and amortisation previously reported under UK GAAP for 2003 is reversed for IFRS statements. IFRS 3 requires intangible assets to be recognised on acquisition which has resulted in a reclassification of goodwill to other intangible assets. Other intangible assets are amortised and the impact in 2003 is a reduction in the net amortisation charge of £2.1 million.

- (v) IFRS 3 requires deferred consideration arising on acquisitions to be discounted. In 2003 the unwinding of the discounts has resulted in an income statement charge of £0.1 million which has been shown in finance costs. In addition, ordinary shares to be issued have been reclassified as long term provisions (see note ix, below). The net impact has been to reduce goodwill by £0.9 million and increase long term provisions by £0.8 million, reducing Group net assets by £0.1 million.
- (vi) As required by IAS 10, Events after the Balance Sheet Date, the dividend for 2003 is debited to the reserves in the year in which it was approved and paid, namely 2004. The impact is to increase Group net assets by £0.6 million.
- (vii) As required by IAS 38, purchased software development of £0.1 million has been reclassified from property, plant and equipment to other intangible assets. There is no net impact on the Group net assets.
- (viii) The Group has adopted IAS 19, Employee Benefits, in respect of its defined benefit pension schemes. The balance sheet impact of the implementation of this standard is to recognise a pension asset of £0.2 million and a pension liability of £0.2 million in the Group's IFRS balance sheet as at 31 December 2003. There is no impact on Group net assets.
- (ix) The ordinary shares to be issued in respect of contingent consideration for acquisitions have been reclassified as contingent consideration under provisions (note 23).

Reconciliation of profit for the year ended 31 December 2004

Note	UK GAAP	Effect of transition to IFRS			IFRS
	£million	IFRS 2 £million (i)	IFRS 3 £million (ii)	IFRS 3 £million (iii)	£million
Revenue	190.2				190.2
Cost of sales	(165.6)				(165.6)
Gross profit	24.6				24.6
Administrative expenses	(22.7)	(0.1)	2.4		(20.4)
Other operating income	0.4				0.4
Operating profit	2.3	(0.1)	2.4		4.6
Investment revenue	0.1				0.1
Finance costs	(1.0)			(0.2)	(1.2)
Profit before tax	1.4	(0.1)	2.4	(0.2)	3.5
Tax expense	(1.4)		0.1	–	(1.3)
Net profit/(loss)	–	(0.1)	2.5	(0.2)	2.2

Notes to the reconciliation of profit for the year ended 31 December 2004

- (i) As required by IFRS 2, Share-Based Payments, a charge of £0.1 million has been made to profit from operations recognising the fair value of outstanding share options granted since 7th November 2002 resulting in an increase in Group net assets of £0.1 million. The fair value has been calculated using the Black-Scholes options valuation model and is charged to income over the relevant vesting periods, adjusted to reflect actual and expected levels of vesting.
- (ii) IFRS 3 no longer permits the amortisation of goodwill. Instead goodwill is carried at cost and is subject to regular impairment reviews.

The Group has chosen, under the transitional arrangements of IFRS 1, to apply IFRS 3 prospectively from the transition date. Hence all prior business combination accounting is frozen at the transition date and the value of goodwill is frozen at 1 January 2003 and amortisation previously reported under UK GAAP for 2004 is reversed for IFRS statements. The impact in 2004 is a reduction in the amortisation charge of £2.4 million. There is an associated deferred tax credit of £0.1 million in relation to the amortisation of the intangible assets.

- (iii) IFRS 3 requires deferred consideration arising on acquisitions to be discounted. In 2004 the unwinding of the discounts has resulted in an income statement charge of £0.2 million which has been shown in finance costs.

Reconciliation of equity at 31 December 2004

Note	UK GAAP		IFRS 2	Effect of transition to IFRS				Reclass	IFRS
	reanalysed	UK GAAP adjustment		IFRS 3	IFRS 3	IAS 19	IAS 38		
	£million	£million	£million	£million	£million	£ million	£million	£million	£million
	i	ii	iii	iv	v	vi	vii	viii	
Goodwill	68.5	(0.9)		0.3	(1.0)				66.9
Other intangible assets	–			6.0			0.1		6.1
Property, plant and equipment	7.6						(0.1)		7.5
Investments	1.9								1.9
Deferred tax asset	1.3		0.1	(1.8)				0.4	–
Defined benefit assets	–					0.3			0.3
Total non-current assets	79.3	(0.9)	0.1	4.5	(1.0)	0.3	–	0.4	82.7
Inventories	0.8								0.8
Trade and other receivables	37.7								37.7
Cash and deposits	2.6								2.6
Total current assets	41.1	–	–	–	–	–	–	–	41.1
Total assets	120.4	(0.9)	0.1	4.5	(1.0)	0.3	–	0.4	123.8
Trade and other payables	(38.9)	0.9							(38.0)
Bank loans and overdrafts	(3.9)								(3.9)
Unsecured loan notes	(1.2)								(1.2)
Current tax liability	(2.0)								(2.0)
Total current liabilities	(46.0)	0.9	–	–	–	–	–	–	(45.1)
Net current liabilities	(4.9)	0.9	–	–	–	–	–	–	(4.0)
Bank loans	(9.2)								(9.2)
Trade and other payables	(1.2)								(1.2)
Deferred tax liabilities	–							(0.4)	(0.4)
Provisions	(2.9)				0.7			(2.4)	(4.6)
Defined benefit liabilities	–					(0.3)			(0.3)
Total non-current liabilities	(13.3)	–	–	–	0.7	(0.3)	–	(2.8)	(15.7)
Total liabilities	(59.3)	0.9	–	–	0.7	(0.3)	–	(2.8)	(60.8)
Total assets less total liabilities	61.1	–	0.1	4.5	(0.3)	–	–	(2.4)	63.0
Share capital	5.4								5.4
Ordinary shares to be issued	2.4							(2.4)	–
Share premium account	48.8								48.8
Retained earnings	4.5		0.1	4.5	(0.3)				8.8
Total shareholders' equity	61.1	–	0.1	4.5	(0.3)	–	–	(2.4)	63.0

Notes to the reconciliation of equity at 31 December 2004

- (i) The UK GAAP reanalysis relates to the reclassification of the historic UK GAAP numbers to correspond to IFRS GAAP headings.
- (ii) Reflects adjustment of costs incurred previously charged against pre-acquisition provisions.
- (iii) As required by IFRS 2, Share-Based Payments and IAS 12, Income Taxes, a deferred tax asset of £0.1 million has been recognised for the future tax benefit of outstanding share options resulting in an increase in Group net assets of £0.1 million.
- (iv) IFRS 3 no longer permits the amortisation of goodwill. Instead goodwill is carried at cost and is subject to regular impairment reviews.

The Group has chosen, under the transitional arrangements of IFRS 1, to apply IFRS 3 prospectively from the transition date. Hence all prior business combination accounting is frozen at the transition date and the value of goodwill is frozen at 1 January 2003 and amortisation previously reported under UK GAAP for 2004 is reversed for IFRS statements. IFRS 3 requires intangible assets to be recognised on acquisition which has resulted in a reclassification of goodwill to other intangible

assets. Other intangible assets are amortised and the impact in 2004 is a reduction in the net amortisation charge of £2.4 million. There is an accumulated increase to net assets of £4.5 million.

- (v) IFRS 3 requires deferred consideration arising on acquisitions to be discounted. In 2004 the unwinding of the discounts has resulted in an income statement account charge of £0.1 million which has been shown in finance costs. In addition, ordinary shares to be issued have been reclassified as long term provisions (see note viii, below). The cumulative effect of the adjustments since transition have been to reduce goodwill by £1.0 million and increase long term provisions by £2.4 million, reducing Group net assets by £2.7 million.
- (vi) The Group has adopted IAS 19, Employee Benefits, in respect of its defined benefit pension schemes. The cumulative effect of the implementation of this standard is to recognise a pension asset of £0.3 million and a pension liability of £0.3 million in the Group's IFRS balance sheet as at 31 December 2004. There is no impact on Group net assets.
- (vii) As required by IAS 38, purchased software development brought forward from 2003 of £0.1 million has been reclassified from property, plant and equipment to other intangible assets. There is no net impact on the Group net assets.
- (viii) The ordinary shares to be issued in respect of contingent consideration for acquisitions have been reclassified as contingent consideration under provisions.

Reconciliation of profit for the year ended 31 December 2005

Note	UK GAAP		Effect of transition to IFRS				IFRS
	UK GAAP	UK GAAP	IFRS 2	IFRS 3	IFRS 3	IAS 39	
	adjustment	adjustment					
	£million	£million	£million	£million	£million	£million	£million
		i	ii	iii	iv	v	
Revenue	232.7						232.7
Cost of sales	(201.0)						(201.0)
Gross profit	31.7						31.7
Administrative expenses	(25.4)	(0.7)	(0.1)	2.9			(23.3)
Other operating income	–						–
Operating profit	6.3	(0.7)	(0.1)	2.9			8.4
Investment revenue	0.2					0.1	0.3
Finance costs	(1.5)				(0.2)		(1.7)
Profit before tax	5.0	(0.7)	(0.1)	2.9	(0.2)	0.1	7.0
Tax expense	(2.6)	0.2		0.3			(2.1)
Net profit/(loss)	2.4	(0.5)	(0.1)	3.2	(0.2)	0.1	4.9

Notes to the reconciliation of profit for the year ended 31 December 2005

- (i) Reflects adjustment of costs incurred previously charged against pre-acquisition provisions.
- (ii) As required by IFRS 2, Share-Based Payments, a charge of £0.1 million has been made to profit from operations recognising the fair value of outstanding share options granted since 7th November 2002. The fair value has been calculated using the Black-Scholes options valuation model and is charged to income over the relevant vesting periods, adjusted to reflect actual and expected levels of vesting. There is no impact on net assets as a result of this charge.
- (iii) IFRS 3 no longer permits the amortisation of goodwill. Instead goodwill is carried at cost and is subject to regular impairment reviews.

The Group has chosen, under the transitional arrangements of IFRS 1, to apply IFRS 3 prospectively from the transition date. Hence all prior business combination accounting is frozen at the transition date and the value of goodwill is frozen at 1 January 2003 and amortisation previously reported under UK GAAP for 2005 is reversed for IFRS statements. The impact in 2005 is a reduction in the

amortisation charge of £2.2 million. There is an associated deferred tax credit of £0.3 million in relation to the amortisation of the intangible assets.

- (iv) IFRS 3 requires deferred consideration arising on acquisitions to be discounted. In 2005 the unwinding of the discounts has resulted in an income statement charge of £0.2 million which has been shown in finance costs.
- (v) As required by IAS 39, Financial Instruments, financial assets are recognised at their fair value with movements taken through the profit and loss account. In the year ended 31 December 2005 investment revenue of £0.1 million has been recognised. The associated tax impact is not material.

As permitted by IFRS 1 the Group has decided to apply UK GAAP in the comparative information in relation to financial instruments within the scope of IAS 32 and IAS 39. Had the comparative information been prepared in full compliance with IAS 32 and IAS 39, the fair value of available-for-sale-assets would have been recognised, increasing the Group's net assets.

Reconciliation of equity at 31 December 2005

Note	UK GAAP		Effect of transition to IFRS							IFRS
	reanalysed	UK GAAP adjustment	IFRS 2	IFRS 3	IFRS 3	IAS 19	IAS 38	IAS 39	Reclass	IFRS
	£million	£million	£million	£million	£million	£ million	£million	£million	£million	£million
	<i>i</i>	<i>ii</i>	<i>iii</i>	<i>iv</i>	<i>v</i>	<i>vi</i>	<i>vii</i>	<i>viii</i>	<i>ix</i>	
Goodwill	64.3	(2.4)		4.4	(0.9)					65.4
Other intangible assets	–			5.1			0.1			5.2
Property, plant and equipment	7.2						(0.1)			7.1
Investments	1.4							0.2		1.6
Deferred tax asset	0.9	0.2	0.3	(1.5)					0.1	–
Defined benefit assets	–					0.4				0.4
Total non-current assets	73.8	(2.2)	0.3	8.0	(0.9)	0.4	–	0.2	0.1	79.7
Inventories	0.5									0.5
Trade and other receivables	36.1									36.1
Cash and deposits	4.0									4.0
Total current assets	40.6	–	–	–	–	–	–	–	–	40.6
Total assets	114.4	(2.2)	0.3	8.0	(0.9)	0.4	–	0.2	0.1	120.3
Trade and other payables	(36.8)	0.2		(0.2)						(36.8)
Bank loans and overdrafts	(2.9)									(2.9)
Unsecured loan notes	(0.1)									(0.1)
Current tax liability	(1.0)									(1.0)
Total current liabilities	(40.8)	0.2	–	(0.2)	–	–	–	–	–	(40.8)
Net current liabilities	(0.2)	0.2	–	(0.2)	–	–	–	–	–	(0.2)
Bank loans	(7.9)									(7.9)
Trade and other payables	(0.7)									(0.7)
Deferred tax liabilities	–								(0.1)	(0.1)
Provisions	(2.7)	0.7			0.2				(1.3)	(3.1)
Defined benefit obligations	–					(0.4)				(0.4)
Total non-current liabilities	(11.3)	0.7	–	–	0.2	(0.4)	–	–	(1.4)	(12.2)
Total liabilities	(52.1)	0.9	–	(0.2)	0.2	(0.4)	–	–	(1.4)	(53.0)
Total assets less total liabilities	62.3	(1.3)	0.3	7.8	(0.7)	–	–	0.2	(1.3)	67.3
Share capital	5.5									5.5
Ordinary shares to be issued	2.1	(0.8)							(1.3)	–
Share premium account	48.9									48.9
Retained earnings	5.8	(0.5)	0.3	7.8	(0.7)			0.2		12.9
Total equity	62.3	(1.3)	0.3	7.8	(0.7)	–	–	0.2	(1.3)	67.3

Notes to the reconciliation of equity at 31 December 2005

- (i) The UK GAAP reanalysis relates to the reclassification of the historic UK GAAP numbers to correspond to IFRS GAAP headings.
- (ii) Reflects adjustment of costs incurred previously charged against pre-acquisition provisions and adjustment of contingent consideration.
- (iii) As required by IFRS 2, Share-Based Payments and IAS 12, Income Taxes, a deferred tax asset of £0.3 million has been recognised for the future tax benefit of outstanding share options resulting in an increase in Group net assets of £0.3 million.
- (iv) IFRS 3 no longer permits the amortisation of goodwill. Instead goodwill is carried at cost and is subject to regular impairment reviews.

The Group has chosen, under the transitional arrangements of IFRS 1, to apply IFRS 3 prospectively from the transition date. Hence all prior business combination accounting is frozen at the transition date and the value of goodwill is frozen at 1 January 2003 and amortisation previously reported under UK GAAP for 2005 is reversed for IFRS statements. IFRS 3 requires intangible assets to be recognised on acquisition which has resulted in a reclassification of goodwill to other intangible assets. Other intangible assets are amortised and the impact in 2005 is a reduction in the net amortisation charge of £2.2 million. There is an associated deferred tax credit of £0.3 million in relation to the amortisation of the intangible assets. There is an accumulated increase to total intangible assets of £5.1 million, net of deferred tax of £1.5 million.

- (v) IFRS 3 requires deferred consideration arising on acquisitions to be discounted. In 2005 the unwinding of the discounts has resulted in an income statement charge of £0.2 million which has been shown in finance costs. In addition, ordinary shares to be issued have been reclassified as long term provisions. The net impact has been to reduce goodwill by £0.9 million, and increase long term provisions by £1.7 million, reducing Group net assets by £2.8 million.
- (vi) The Group has adopted IAS 19, Employee Benefits, in respect of its defined benefit pension schemes. The balance sheet impact of the implementation of this standard is to recognise a pension asset of £0.4 million and a pension liability of £0.4 million in the Group's IFRS balance sheet as at 31 December 2005. There is no impact on Group net assets.
- (vii) As required by IAS 38, purchased software development of £0.1 million (£0.2 million cumulative since transition) has been reclassified from property, plant and equipment to other intangible assets and amortisation of £0.1 million has been reclassified from accumulated depreciation of property, plant and equipment. There is no net impact on the Group net assets.
- (viii) The adoption of IAS 39 as at 1 January 2005 resulted in an uplift to investments of £0.1 million to recognise the fair value on transition of an embedded derivative inherent in the redemption premium on unsecured convertible loan notes. This uplift has been taken directly to reserves. During the year a further uplift of £0.1m was recognised through the income statement.
- (ix) The ordinary shares to be issued in respect of contingent consideration for acquisitions have been reclassified as contingent consideration under provisions.

32. Subsidiaries

The subsidiary undertakings of MacLellan Group Plc, which are incorporated in Great Britain and registered in England and Wales, are as follows:

TRADING

MacLellan International Limited	First Security (Guards) Limited*
MacLellan International Airport Services Limited*	MacLellan Attlaw Security Limited
MacLellan Limited*	SSD UK Limited*
MacLellan Management Services Limited	TASS (Europe) Limited
One Real Estate Services Limited*	

DORMANT

Alpha Excellence Limited	ITECS Limited *
Baker Blythe & Company Limited*	Janitoria Limited*
Bateman's Cleaning Services Limited*	Jordec Management Services Limited
Bateman's Glass Cleaning Limited*	MacLellan Facilities Management Limited
Broadreach Food Hygiene Services Limited*	MacLellan Integrated Services Limited
Broadreach Group Limited	MacLellan Specialist Services Limited
Broadreach Leisure Support Services Limited*	MacLellan Ventures Limited
Broadreach Retail Services Limited*	Norman White (City) Limited
City & Provincial Cleaning Services Limited*	Quadro Specialist Cleaning Services Limited*
Excellence Limited	Ramoneur Cleaning and Support Services Limited*
Excellence Support Services Limited*	Skycaps Limited*
First Security Group Limited	SSD Group Limited
Industrial Services International Limited*	The Ramoneur Company Limited*
Isovel Limited*	Two Flags Connect Business Services Limited*
Isovel Services Limited	Unique Cleaning Services Limited*

Unless otherwise stated, MacLellan Group Plc owns directly or indirectly 100% of the voting and equity shares in each of the subsidiaries and all subsidiary undertakings are included in the consolidated Group accounts. The share capital of the companies marked * are held through subsidiary undertakings. The Company owns 100% of the non-voting equity share capital of Broadreach Group Limited; the fixed rate preference voting share capital is registered in the name of the MacLellan Group Plc Employee Share Trust.

PART VI

UNAUDITED PRO-FORMA STATEMENT ON THE IMPACT OF THE ACQUISITION ON THE ASSETS AND LIABILITIES OF THE INTERSERVE GROUP

Unaudited Proforma Financial Information

The unaudited pro forma statement of net assets set out below has been prepared to illustrate the impact of the Acquisition on the assets and liabilities of the Interserve Group as if it had occurred as at 31 December 2005. It has been prepared for illustrative purposes only and, because of its nature, addresses a hypothetical situation and therefore does not represent the Enlarged Group's actual financial position or results.

<i>Notes</i>	<i>Adjustments</i>				<i>Enlarged Interserve Group Pro forma net assets</i>
	<i>Interserve</i>	<i>MacLellan</i>	<i>New finance</i>	<i>Acquisition accounting</i>	
	<i>1</i>	<i>2</i>	<i>4</i>	<i>5</i>	
	<i>£m</i>	<i>£m</i>	<i>£m</i>	<i>£m</i>	<i>£m</i>
Non-current assets					
Intangible assets	154.3	70.6	–	53.2	278.1
Property, plant and equipment	102.7	7.1	–	–	109.8
Interests in joint ventures and associates	60.0	–	–	–	60.0
Investments	–	1.6	–	–	1.6
Deferred tax asset	30.4	–	–	–	30.4
Defined benefit assets	–	0.4	–	–	0.4
	<u>347.4</u>	<u>79.7</u>	<u>–</u>	<u>53.2</u>	<u>480.3</u>
Current assets					
Inventories	15.0	0.5	–	–	15.5
Trade and other receivables	274.5	36.1	–	–	310.6
Cash and deposits	39.3	4.0	84.5	(84.5)	43.3
	<u>328.8</u>	<u>40.6</u>	<u>84.5</u>	<u>(84.5)</u>	<u>369.4</u>
Current liabilities					
Bank overdrafts and loans	(11.6)	(2.9)	–	–	(14.5)
Unsecured loan notes	(2.2)	(0.1)	–	–	(2.3)
Trade and other payables	(338.8)	(37.8)	–	–	(376.6)
	<u>(352.6)</u>	<u>(40.8)</u>	<u>–</u>	<u>–</u>	<u>(393.4)</u>
Net current (liabilities)/assets	<u>(23.8)</u>	<u>(0.2)</u>	<u>84.5</u>	<u>(84.5)</u>	<u>(24.0)</u>
Total assets less current liabilities	<u>323.6</u>	<u>79.5</u>	<u>84.5</u>	<u>(31.3)</u>	<u>456.3</u>
Non-current liabilities					
Bank loans	(43.1)	(7.9)	(84.5)	–	(135.5)
Trade and other payables	(9.8)	(0.7)	–	–	(10.5)
Deferred tax liabilities	–	(0.1)	–	–	(0.1)
Long-term provisions	(18.0)	(3.1)	–	–	(21.1)
Retirement benefit obligation	(132.6)	(0.4)	–	–	(133.0)
	<u>(203.5)</u>	<u>(12.2)</u>	<u>(84.5)</u>	<u>–</u>	<u>(300.2)</u>
Net assets	<u>120.1</u>	<u>67.3</u>	<u>–</u>	<u>(31.3)</u>	<u>156.1</u>

Notes

- (1) The information in respect of the Interserve Group has been extracted without material adjustment from the audited financial statements of the Interserve Group for the year ended 31 December 2005.
- (2) The information in respect of the MacLellan Group has been extracted without material adjustment from the historical financial information set out in Part V.
- (3) No account has been taken of changes in trading or other transactions of the Interserve Group or of MacLellan since 31 December 2005 (the dates to which Interserve's and MacLellan's latest financial information were prepared).

The unaudited pro forma statement of combined net assets of the Enlarged Interserve Group does not constitute financial statements within the meaning of Section 240 of the Companies Act.

The net asset values have been adjusted as discussed in the notes below.

- (4) The adjustment to cash and borrowings greater than one year represents the impact of the drawdown of the Acquisition funding required to settle the cash element of the Acquisition.

The adjustment to cash comprises:

Consideration – cash	80.0
Interserve's transaction expenses	4.5
	<hr/>
Total cash outflow	84.5

- (5) The adjustment reflects the Acquisition. The Acquisition has been accounted for using the acquisition method of accounting. The excess of consideration over the book value of the assets acquired has been taken to intangible assets including goodwill.

The adjustment to intangible fixed assets comprises the provisional goodwill arising of the Acquisition, as follows:

Consideration – cash	80	
Consideration – shares	36	
Transaction expenses	4.5	
	<hr/>	
		120.5
Net assets acquired		(67.3)
		<hr/>
Intangible assets (including goodwill) arising		53.2

The above table takes account of consideration relating to MacLellan's issued ordinary share capital and the Interserve share price as at the date of the Announcement.

The overall effect on net assets is as follows:

Intangible assets arising	53.2
Cash consideration funded by new facilities (see note 4)	(84.5)
	<hr/>
Impact on net assets	(31.3)

The Board of Directors
Interserve Plc
Interserve House
Ruscombe Park
Twyford
Reading
Berkshire. RG10 9JU

JPMorgan Cazenove Limited
20 Moorgate
London
EC2R 6DA

30 May 2006

Dear Sirs,

Interserve Plc (the “Company”)

We report on the pro forma financial information (the “Pro forma financial information”) set out in Part VI of the Class 1 circular dated 30 May 2006 (the “Circular”), which has been prepared on the basis described in notes 1 to 5, for illustrative purposes only, to provide information about how the transaction might have affected the financial information presented on the basis of the accounting policies adopted by the Company in preparing the financial statements for the period ended 31 December 2005. This report is required by Annex II item 7 in Appendix 3 to the Prospectus Rules as applied by Listing Rule 13.5.31R and is given for the purpose of complying with that requirement and for no other purpose.

Responsibilities

It is the responsibility of the directors of the Company (the “Directors”) to prepare the Pro forma financial information in accordance with Annex I item 20.2 in Appendix 3 to the Prospectus Rules.

It is our responsibility to form an opinion, as required by Annex II item 7 in Appendix 3 to the Prospectus Rules, as to the proper compilation of the Pro forma financial information and to report that opinion to you.

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

Basis of Opinion

We conducted our work in accordance with the Standards for Investment Reporting issued by the Auditing Practices Board in the United Kingdom. The work that we performed for the purpose of making this report, which involved no independent examination of any of the underlying financial information, consisted primarily of comparing the unadjusted financial information with the source documents, considering the evidence supporting the adjustments and discussing the Pro forma financial information with the Directors.

We planned and performed our work so as to obtain the information and explanations we considered necessary in order to provide us with reasonable assurance that the Pro forma financial information has been properly compiled on the basis stated and that such basis is consistent with the accounting policies of the Company.

Our work has not been carried out in accordance with auditing or other standards and practices generally accepted in jurisdictions outside the United Kingdom, including the United States of America, and accordingly should not be relied upon as if it had been carried out in accordance with those standards or practices.

Opinion

In our opinion:

- (a) the Pro forma financial information has been properly compiled on the basis stated; and
- (b) such basis is consistent with the accounting policies of the Company.

Yours faithfully

Deloitte & Touche LLP
Chartered Accountants

Deloitte & Touche LLP is the United Kingdom member firm of Deloitte Touche Tohmatsu (“DTT”), a Swiss Verein whose member firms are separate and independent legal entities. Neither DTT nor any of its member firms has any liability for each other’s acts or omissions. Services are provided by member firms or their subsidiaries and not by DTT.

PART VII

ADDITIONAL INFORMATION

1 Responsibility Statement

The Directors accept responsibility 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.

2 Directors and Senior Managers

The names of the Directors and members of the senior management team and their principal functions are as follows:

<i>Name</i>	<i>Position</i>
Executive Directors:	
Adrian Ringrose	Chief Executive
Timothy Jones	Group Finance Director
Stewart Hagerty	Executive Director
John Vyse	Executive Director
Non-Executive Directors:	
Lord Blackwell	Chairman
Leslie Cullen	Non-Executive Director
Nicholas Keegan	Non-Executive Director
David Trapnell	Non-Executive Director
Patrick Balfour	Senior Independent Non-Executive Director
Senior Managers:	
Steven Dance	Managing Director Equipment Services Division
Bruce Melizan	Managing Director Facilities Services Division
Trevor Bradbury	Group Secretary

3 Directors' and Senior Managers' Interests in Share Capital and Share Options

As at 26 May 2006 (being the latest practicable date prior to the publication of this document), and immediately following Admission, the interests of the Senior Managers, Directors and their respective families (all of which are beneficial unless otherwise stated) which:

- (a) have been notified to Interserve pursuant to section 324 or 328 of the Companies Act 1985 (as amended); or
- (b) are required to be entered in the register maintained by Interserve under section 325 of the Companies Act 1985 (as amended); or
- (c) are interests of a connected person of a Director or Senior Manager which would, if the connected person were a Director or Senior Manager, be required to be disclosed under paragraph (a) or (b) above and the existence of which is known to or could with reasonable diligence be ascertained by the Directors,

are as follows:

Shares and Option Plan

Interests as at 26 May 2006 (being the latest practicable date prior to the publication of this document)

<i>Name</i>	<i>Ordinary Shares of 10p each</i>	<i>Percentage of Interserve's issued share capital</i>	<i>Options over Ordinary Shares of 10p each</i>	<i>Exercise price pence</i>	<i>Exercise period</i>
G P Balfour	2,000	0.002	–	–	–
Lord Blackwell	3,000	0.003	–	–	–
L G Cullen	2,000	0.002	–	–	–
S B Hagerty	71,164	0.062	91,330	346.00	14.06.03 – 13.06.07
			8,670	346.00	14.06.03 – 13.06.10
			30,000	542.50	26.03.04 – 25.03.08
			45,000	566.50	19.03.05 – 18.03.09
			139,000	253.25	26.05.07 – 25.05.14
			107,144	359.33	14.03.08 – 13.03.15
T C Jones	21,310	0.019	11,846	253.25	26.05.07 – 25.05.14
			156,154	253.25	26.05.07 – 25.05.14
			126,068	359.33	14.03.08 – 13.03.15
N F Keegan	2,000	0.002	–	–	–
A M Ringrose	63,234	0.055	24,471	542.50	26.03.04 – 25.03.08
			5,529	542.50	26.03.04 – 25.03.11
			45,000	566.50	19.03.05 – 18.03.09
			200,000	205.83	23.04.06 – 22.04.13
			200,000	253.25	26.05.07 – 25.05.14
			150,280	359.33	14.03.08 – 13.03.15
D A Trapnell	2,000	0.002	–	–	–
J H Vyse	34,016	0.030	15,000	346.00	14.06.03 – 13.06.07
			30,000	542.50	26.03.04 – 25.03.08
			5,295	566.50	19.03.05 – 18.03.12
			39,705	566.50	19.03.05 – 18.03.09
			139,000	253.25	26.05.07 – 25.05.14
			112,710	359.33	14.03.08 – 13.03.15
S Dance			9,259	324.00	09.12.07 – 08.12.14
			40,741	324.00	09.12.07 – 08.12.14
			83,489	359.33	14.03.08 – 13.03.15
B A Melizan			11,846	253.25	26.05.07 – 25.05.14
			63,154	253.25	26.05.07 – 25.05.14
			75,140	359.33	14.03.08 – 13.03.15
T Bradbury	5,311	0.005	14,150	212.00	07.10.01 – 06.10.08
			25,000	346.00	14.06.03 – 13.06.07
			20,000	542.50	26.03.04 – 25.03.08
			15,000	566.50	19.03.05 – 18.03.09
			75,000	253.25	26.05.07 – 25.05.14
			61,225	359.33	14.03.08 – 13.03.15

Interests immediately following Admission

<i>Name</i>	<i>Percentage of issued share capital</i>		<i>Options over Ordinary Shares</i>		<i>Exercise price pence</i>	<i>Exercise period</i>
	<i>Ordinary Shares of 10p each</i>	<i>of Enlarged Interserve Group¹¹</i>	<i>Ordinary Shares of 10p each</i>			
G P Balfour	2,000	0.002	–	–	–	–
Lord Blackwell	3,000	0.002	–	–	–	–
L G Cullen	2,000	0.002	–	–	–	–
S B Hagerty	71,164	0.058	91,330	346.00	14.06.03 – 13.06.07	
			8,670	346.00	14.06.03 – 13.06.10	
			30,000	542.50	26.03.04 – 25.03.08	
			45,000	566.50	19.03.05 – 18.03.09	
			139,000	253.25	26.05.07 – 25.05.14	
			107,144	359.33	14.03.08 – 13.03.15	
T C Jones	21,310	0.017	11,846	253.25	26.05.07 – 25.05.14	
			156,154	253.25	26.05.07 – 25.05.14	
			126,068	359.33	14.03.08 – 13.03.15	
N F Keegan	2,000	0.002	–	–	–	–
A M Ringrose	63,234	0.051	24,471	542.50	26.03.04 – 25.03.08	
			5,529	542.50	26.03.04 – 25.03.11	
			45,000	566.50	19.03.05 – 18.03.09	
			200,000	205.83	23.04.06 – 22.04.13	
			200,000	253.25	26.05.07 – 25.05.14	
			150,280	359.33	14.03.08 – 13.03.15	
D A Trapnell	2,000	0.002	–	–	–	–
J H Vyse	34,016	0.028	15,000	346.00	14.06.03 – 13.06.07	
			30,000	542.50	26.03.04 – 25.03.08	
			5,295	566.50	19.03.05 – 18.03.12	
			39,705	566.50	19.03.05 – 18.03.09	
			139,000	253.25	26.05.07 – 25.05.14	
			112,710	359.33	14.03.08 – 13.03.15	
S Dance	–	–	9,259	324.00	09.12.07 – 08.12.14	
			40,741	324.00	09.12.07 – 08.12.14	
			83,489	359.33	14.03.08 – 13.03.15	
B A Melizan	–	–	11,846	253.25	26.05.07 – 25.05.14	
			63,154	253.25	26.05.07 – 25.05.14	
			75,140	359.33	14.03.08 – 13.03.15	
T Bradbury	5,311	0.004	14,150	212.00	07.10.01 – 06.10.08	
			25,000	346.00	14.06.03 – 13.06.07	
			20,000	542.50	26.03.04 – 25.03.08	
			15,000	566.50	19.03.05 – 18.03.09	
			75,000	253.25	26.05.07 – 25.05.14	
			61,225	359.33	14.03.08 – 13.03.15	

11 Percentage calculated on the basis that no options are exercised under the MacLellan Share Scheme and that the Convertible Preference Shareholder does not opt to convert its shares to MacLellan Ordinary Shares pursuant to the Scheme as at the date of this document and that the awards under the Interserve 2003 Share Matching Plan have not been exercised.

Share Matching Plan

Interests as at 26 May 2006 (being the latest practicable date prior to the publication of this document)

<i>Name of director</i>	<i>Date of award</i>	<i>Maximum potential number of matching "Free Shares"*</i>	<i>Mid-market price on award date</i>	<i>Exercise period</i>
S B Hagerty	08.04.05	13,970	349.50	08.04.08 – 07.10.08
T C Jones	08.04.05	16,437	349.50	08.04.08 – 07.10.08
A M Ringrose	08.04.05	19,594	349.50	08.04.08 – 07.10.08
J H Vyse	08.04.05	14,695	349.50	08.04.08 – 07.10.08

*The number of matching "Free Shares" is the maximum (a match of 1:1) that could be receivable by the executive if certain performance conditions are fully met.

The following awards, as detailed in the Accounts, have become exercisable on the dates specified and become due to be satisfied as set out below¹²:

<i>Name of director</i>	<i>Date of award</i>	<i>Number of Investment Shares deemed purchased</i>	<i>Level of match</i>	<i>Number of matching "Free shares"</i>	<i>Exercise period</i>
S B Hagerty	07.04.03	16,750	0.25:1	4,187	07.04.06 – 06.10.06
A M Ringrose	02.04.03	14,854	0.25:1	3,713	02.04.06 – 01.10.06
J H Vyse	02.04.03	16,941	0.25:1	4,235	02.04.06 – 01.10.06

Interests immediately following Admission

<i>Name of director</i>	<i>Date of award</i>	<i>Maximum potential number of matching "Free Shares"*</i>	<i>Mid-market price on award date</i>	<i>Exercise period</i>
S B Hagerty	08.04.05	13,970	349.50	08.04.08 – 07.10.08
T C Jones	08.04.05	16,437	349.50	08.04.08 – 07.10.08
A M Ringrose	08.04.05	19,594	349.50	08.04.08 – 07.10.08
J H Vyse	08.04.05	14,695	349.50	08.04.08 – 07.10.08

*The number of matching "Free Shares" is the maximum (a match of 1:1) that could be receivable by the executive if certain performance conditions are fully met.

¹² Notices of Exercise have been received by Interserve from Adrian Ringrose and John Vyse in respect of the exercise of 3,713 and 4,235 shares respectively under the Share Matching Plan.

4 Substantial and Other Share Interests

As at 26 May 2006 (being the latest practicable date prior to the publication of this document), and immediately following Admission, Interserve had been notified or was aware of the following, direct or indirect, interests in 3 per cent. or more of Interserve's issued share capital (other than in relation to Directors):

Interests as at 26 May 2006 (being the latest practicable date prior to the publication of this document)

<i>Shareholder</i>	<i>Number of Ordinary Shares</i>	<i>Percentage of issued Ordinary Share capital</i>
Henderson Global Investors Limited	10,101,390	8.84
Aviva plc	8,281,534	7.25
Prudential plc (M&G Investment Management Limited)	4,749,580	4.16
Legal & General Investment Management Limited	3,690,897	3.23
Aberforth Smaller Companies Trust plc	3,478,300	3.04

Save as above, Interserve is not aware of any person who, directly or indirectly, is interested, whether directly or indirectly, in 3 per cent. or more of the existing issued ordinary share capital of Interserve.

As at 26 May 2006, being the latest practicable date prior to the publication of this document, and in so far as is known to Interserve, the following persons will, directly or indirectly, be interested in 3 per cent. or more of the issued share capital of Interserve upon completion of the Acquisition and based on the assumptions that, save as follows, the holdings of such persons in Interserve and MacLellan as at 26 May 2006 do not change, the maximum number of 9,949,855 New Interserve Shares are issued in connection with the Acquisition, each MacLellan Shareholder takes up their basic entitlement to New Interserve Shares as a result of the Acquisition and that no other issues of Interserve of MacLellan Shares occur between the date of this document and Completion:

Interests immediately following Admission

<i>Shareholder</i>	<i>Number of Ordinary Shares</i>	<i>Percentage of issued Ordinary Share capital of Enlarged Interserve Groups¹³</i>
Henderson Global Investors Limited	10,101,390	8.17
Aviva plc	8,281,534	6.70
Prudential plc (M&G Investment Management Limited)	4,749,580	3.84
Legal & General Investment Management Limited	3,690,897	2.99
Aberforth Smaller Companies Trust plc	3,478,300	2.81

None of Interserve's Shareholders has or will have different voting rights attached to the shares they hold in Interserve.

5 Related Party Transactions

5.1 Save as disclosed below, there are no related party transactions entered into by Interserve during the financial years ended 31 December 2003, 2004 and 2005 or during the period up to the date of this document.

5.2 During the year 2003, fees were paid by a subsidiary of the Interserve Group. An arrangement was entered into in December 2000 whereby these fees are periodically reimbursed to Interserve. Mr A M Ringrose and Mr C J Groom (a former director of Interserve) were parties to that arrangement and had an interest amounting to approximately £29,400 and £2,354,700 respectively during the year.

¹³ Percentage calculated on the basis that no options are exercised under the MacLellan Share Scheme and that the Convertible Preference Shareholder does not opt to convert its Shares to MacLellan Ordinary Shares pursuant to the Scheme as at the date of this document and that the awards under the Interserve 2003 Share Matching Plan have not been exercised.

- 5.3 Adrian Ringrose was issued with unsecured floating rate loan notes in connection with the acquisition by Interserve of Building & Property (Holdings) Limited in 2000/2001 prior to his appointment as a director of Interserve. He no longer holds any loan notes.
- 5.4 Stewart Hagerty was issued with £2,080,000 worth of unsecured loan notes in connection with the acquisition of Fincham Industrial Services Limited by Bandt Holdings Limited on 2 October 1997 prior to the acquisition of Bandt plc by Interserve. Mr Hagerty's interests in those loan notes was £2,000,000 (31.12.03); £1,080,000 (31.12.04) and £550,000 (31.12.05). The £550,000 balance of the loan notes was redeemed on 7 April 2006.
- 5.5 Leslie Cullen is a trustee of the British Telecom Pension Scheme and Chairman of its audit committee. The British Telecom Pension Scheme has an interest in MacLellan Shares.
- 5.6 Throughout each of the financial years ended 31 December 2003, 31 December 2004 and 31 December 2005, Interserve entered transactions on normal trading terms with related parties concerning sales to joint ventures and PFI special purpose companies, sales to associated undertakings and purchases from associated undertakings.

6 Directors' and Senior Managers' Service Contracts

- 6.1 Adrian Ringrose was appointed as an Executive Director of Interserve from 1 January 2002 and was appointed Chief Executive in July 2003. His service contract provides for a salary of £313,000 per annum. His employment is subject to termination (i) on 12 month's notice in writing by either party; (ii) by Interserve paying the basic annual salary in lieu of notice (save in the case of gross misconduct); or (iii) on his 60th birthday. Adrian Ringrose receives a company car, a mobile telephone, expenses incurred in performance of his duties, 28 days holiday together with 4 working days holiday determined by Interserve in addition to statutory bank holidays, participation in the Interserve Bonus Scheme, Life Insurance (through the Interserve Pension Scheme), Private Health Insurance, BUPA screening, Permanent Health Insurance Scheme and membership of the Interserve Pension Scheme. He is subject to restrictive covenants upon termination of his employment for a period of 12 months in respect of customers and employees of Interserve and competing business. Under a deed of indemnity dated 24 March 2006, Interserve undertakes to indemnify Adrian Ringrose against liability incurred in his capacity as Director. Interserve will loan appropriate funds to Adrian Ringrose for defending criminal or civil proceedings arising after 9 March 2006. The Company has the right to settle third party claims against Adrian Ringrose. Directors' & Officers' Indemnity insurance cover is also maintained. Adrian Ringrose also entered into an agreement in respect of his entitlements under the Interserve Pension Scheme with Interserve (1) and Interserve Trustees Limited (2) on 13 February 2006 which clarifies his pension rights in relation to the recent changes made since 6 April 2006 to the tax regime for pension benefits set out in the Finance Act 2004 as amended by the Finance Act 2005 together with the associated Regulations.
- 6.2 Timothy Charles Jones was appointed as an Executive Director of Interserve and Group Financial Director from 11 August 2003. His service agreement provides for a salary of £255,000 per annum. His employment is subject to termination (i) on 12 month's notice in writing by either party; (ii) by Interserve paying the basic annual salary in lieu of notice (save in the case of gross misconduct); or (iii) on his 60th birthday. Timothy Jones receives a car allowance and fuel, a mobile telephone, expenses incurred in performance of his duties, 28 days holiday together with 4 working days holiday determined by Interserve in addition to statutory bank holidays, participation in the Interserve Bonus Scheme, Life Insurance (through the Interserve Pension Scheme), Permanent Health Insurance, BUPA screening, Private Health Insurance and membership of the Interserve Pension Scheme. He is subject to restrictive covenants upon termination of his employment for a period of 12 months in respect of customers and employees of Interserve and competing business. Under a deed of indemnity dated 24 March 2006, Interserve undertakes to indemnify Timothy Jones against liability incurred in his capacity as Director. Interserve will loan appropriate funds to Timothy Jones for defending criminal or civil proceedings arising after 9 March 2006. Interserve has the right to settle third party claims against the director. Directors' & Officers' Indemnity insurance cover is also maintained.

- 6.3 Stewart Hagerty was appointed as an Executive Director of Interserve with particular responsibility for Industrial Services Operations from 1 January 2002. His service agreement provides for a salary of £211,750 per annum. His employment is subject to termination (i) on 12 month's notice in writing by either party; (ii) by Interserve paying the basic annual salary in lieu of notice (save in the case of gross misconduct); or (iii) on his 60th birthday. Stewart Hagerty receives a car allowance and fuel, a mobile telephone, expenses incurred in performance of his duties, 28 days holiday together with 4 working days holiday determined by Interserve in addition to statutory bank holidays, participation in the Interserve Bonus Scheme, Life Insurance (through the Interserve Pension Scheme), Permanent Health Insurance, BUPA screening, Private Health Insurance and membership of the Interserve Pension Scheme. He is subject to restrictive covenants upon termination of his employment for a period of 12 months in respect of customers and employees of Interserve and competing business. Under a deed of indemnity dated 24 March 2006, Interserve undertakes to indemnify Stewart Hagerty against liability incurred in his capacity as Director. Interserve will loan appropriate funds to Stewart Hagerty for defending criminal or civil proceedings arising after 9 March 2006. Interserve has the right to settle third party claims against him. Directors' & Officers' Indemnity insurance cover is also maintained.
- 6.4 John Vyse was appointed as an Executive Director of Interserve with particular responsibility for Project Services Operations from 1 January 2002. His service agreement provides for a salary of £222,750 per annum. His employment is subject to termination (i) on 12 month's notice in writing by either party; (ii) by Interserve paying the basic annual salary in lieu of notice (save in the case of gross misconduct); or (iii) on his 60th birthday. John Vyse receives a car allowance and fuel, a mobile telephone, expenses incurred in performance of his duties, 28 days holiday together with 4 working days holiday determined by Interserve in addition to statutory bank holidays, participation in the Interserve Bonus Scheme, Life Insurance (through the Interserve Pension Scheme), Permanent Health Insurance, BUPA screening, Private Health Insurance and membership of the Interserve Pension Scheme. He is subject to restrictive covenants upon termination of his employment for a period of 12 months in respect of customers and employees of Interserve and competing business. Under a deed of indemnity dated 24 March 2006, Interserve undertakes to indemnify John Vyse against liability incurred in his capacity as Director. Interserve will loan appropriate funds to John Vyse for defending criminal or civil proceedings arising after 9 March 2006. Interserve has the right to settle third party claims against him. Directors' & Officers' Indemnity insurance cover is also maintained.
- 6.5 Steven Dance was appointed as Divisional Managing Director of RMD Kwikform Limited from 1 June 2004. His service agreement provides for a salary of £165,000 per annum. His employment is subject to termination (i) on 12 month's notice in writing by either party; or (ii) on his 65th birthday or, if he is a member of the Interserve Pension Scheme, the normal retirement age for the Scheme. Steven Dance receives a company car and fuel, a mobile telephone, expenses incurred in performance of his duties, 23 days holiday (increasing after every 5 years of continuous service to a maximum of 26 days) together with 4 working days holiday determined by Interserve in addition to statutory bank holidays, participation in the Divisional Bonus Scheme, Life Insurance (through the Interserve Pension Scheme), Permanent Health Insurance, BUPA screening, Private Health Insurance and membership of the Interserve Pension Scheme. He is subject to restrictive covenants upon termination of his employment for a period of 12 months in respect of customers and employees of Interserve and competing business. Directors' & Officers' Indemnity insurance cover is also maintained.
- 6.6 Bruce Melizan was appointed as Managing Director of Interserve Investments Plc, from 16 March 2004, and as Managing Director of the Facilities Services Division with effect from 5 January 2006. His service agreement provides for a salary of £165,000 per annum. His employment is subject to termination (i) on 12 month's notice in writing by either party (save in the case of gross misconduct; (ii) on his 65th birthday or, if he is a member of the Interserve Pension Scheme, the normal retirement age for the Scheme. Bruce Melizan receives a company car and fuel, a mobile telephone, expenses incurred in performance of his duties, 23 days holiday (increasing after every 5 years of continuous service to a maximum of 26 days) together with 4 working days holiday determined by Interserve in addition to statutory bank holidays, participation in the Group Senior Management Bonus Scheme, Life Insurance (through the Interserve Pension Scheme), Permanent Health Insurance, BUPA

screening, Private Health Insurance and membership of the Interserve Pension Scheme. He is subject to restrictive covenants upon termination of his employment for a period of 12 months in respect of customers and employees of Interserve and competing business. Directors' & Officers' Indemnity insurance cover is also maintained.

- 6.7 Trevor Bradbury was appointed as Group Secretary of Interserve on 7 July 1998. His service agreement provides for a salary of £123,750 per annum. His employment is subject to termination (i) on 12 month's notice in writing by either party; or (ii) on his 62nd birthday. Trevor Bradbury receives a car allowance and fuel, a mobile telephone, expenses incurred in performance of his duties, 23 days holiday together with 7 working days holiday determined by Interserve in addition to statutory bank holidays, participation in the Group Senior Management Bonus Scheme, Life Insurance (through the Interserve Pension Scheme), Permanent Health Insurance, BUPA screening, Private Health Insurance and membership of the Interserve Pension Scheme. He is subject to restrictive covenants upon termination of his employment for a period of 12 months in respect of customers and employees of Interserve and competing business. Directors' & Officers' Indemnity insurance cover is also maintained.

The following Directors have entered into letters of appointment with Interserve in respect of their services as Non-Executive Directors:

- 6.8 Patrick Balfour was appointed as Non-Executive Director of Interserve on 1 January 2003. He was re-appointed for a period of 3 years at the Interserve AGM which took place on 17 May 2005. The appointment is subject to termination by either party, without compensation, on 1 month's notice in writing. The fee payable is currently £48,000 per annum. Interserve will meet the cost of independent legal advice (up to £10,000 per occasion), and out-of-pocket expenses incurred in furtherance of his duties will be reimbursed. Under a deed of indemnity dated 24 March 2006, Interserve undertakes to indemnify Patrick Balfour against liability incurred in his capacity as Director. Interserve will loan appropriate funds to Patrick Balfour for defending criminal or civil proceedings arising after 9 March 2006. Interserve has the right to settle third party claims against him. Directors' & Officers' Indemnity insurance cover is also maintained.
- 6.9 Lord Blackwell was appointed as Non-Executive Director (Chairman Designate) of Interserve on 1 September 2005, and as Chairman with effect from 1 January 2006. He was re-appointed for a period of 3 years, subject to termination by either party, without compensation, on 6 month's notice in writing at the Interserve AGM which took place on 17 May 2006. The fee payable is £100,000 per annum. Interserve will meet the cost of independent legal advice (up to £10,000 per occasion), and out-of-pocket expenses incurred in furtherance of his duties will be reimbursed. Under a deed of indemnity dated 24 March 2006, Interserve undertakes to indemnify Lord Blackwell against liability incurred in his capacity as Director. Interserve will loan appropriate funds to Lord Blackwell for defending criminal or civil proceedings arising after 9 March 2006. Interserve has the right to settle third party claims against him. Directors' & Officers' Indemnity insurance cover is also maintained.
- 6.10 Leslie Cullen was appointed as Non-Executive Director of Interserve on 1 October 2005. He was re-appointed at the Interserve AGM which took place on 17 May 2006 for a period of 3 years, subject to termination by either party, without compensation, on 1 month's notice in writing. The fee payable is currently £33,000 per annum. Interserve will meet the cost of independent legal advice (up to £10,000 per occasion) and out-of-pocket expenses incurred in furtherance of his duties will be reimbursed. Under a deed of indemnity dated 24 March 2006, Interserve undertakes to indemnify Leslie Cullen against liability incurred in his capacity as Director. Interserve will loan appropriate funds to Leslie Cullen for defending criminal or civil proceedings arising after 9 March 2006. Interserve has the right to settle third party claims against him. Directors' & Officers' Indemnity insurance cover is also maintained.
- 6.11 Nicholas Keegan was appointed as a Non-Executive Director of Interserve on 11 July 2003. He was re-appointed for a period of 3 years at the Interserve AGM on 13 May 2004. The appointment expires at the AGM of Interserve in 2007. This is subject to termination by either party, without compensation, on 1 month's notice in writing. The fee payable is currently £38,000 per annum. Interserve will meet

the cost of independent legal advice (up to £10,000 per occasion), and out-of-pocket expenses incurred in furtherance of his duties will be reimbursed. Under a deed of indemnity dated 24 March 2006, Interserve undertakes to indemnify Nicholas Keegan against liability incurred in his capacity as a Director. Interserve will loan appropriate funds to Nicholas Keegan for defending criminal or civil proceedings arising after 9 March 2006. Interserve has the right to settle third party claims against Nicholas Keegan. Directors' & Officers' Indemnity insurance cover is also maintained.

- 6.12 David Trapnell was appointed as a Non-Executive Director of Interserve on 11 July 2003. He was reappointed at the Interserve AGM on 13 May 2004 for a period of 3 years, expiring at the AGM of Interserve in 2007. This is subject to termination by either party, without compensation, on 1 month's notice in writing. The fee payable is currently £36,000 per annum. Interserve will meet the cost of independent legal advice (up to £10,000 per occasion), and out-of-pocket expenses incurred in furtherance of his duties will be reimbursed. Under a deed of indemnity dated 24 March 2006, Interserve undertakes to indemnify David Trapnell against liability incurred in his capacity as a Director. Interserve will loan appropriate funds to David Trapnell for defending criminal or civil proceedings arising after 9 March 2006. Interserve has the right to settle third party claims against David Trapnell. Directors' & Officers' Indemnity insurance cover is also maintained.

7 Corporate Governance

- 7.1 The Directors are committed to achieving and maintaining high standards of corporate governance throughout the Interserve Group and to integrity and high ethical standards in all its business dealings. As at the date of this document, save as detailed in the Corporate Governance section of the Accounts Interserve is in full compliance with the provisions set out in section 1 of the Combined Code on Corporate Governance (July 2003).

7.2 The Directors

Details of: (i) the composition of the Board; (ii) the roles of the Directors; (iii) the Interserve Group's Corporate Governance framework; (iv) the Interserve Group's reporting lines; (v) the Interserve Group's Corporate Social Responsibility policy and practices; and (vi) the independence and appointment of non-executive Directors are set out in Interserve's 2005 Annual Report and Accounts.

7.3 Audit Committee

Current Members

Nicholas Keegan (Chairman)
Patrick Balfour
Leslie Cullen
David Trapnell

Membership

All members of the Audit Committee are independent non-executive Directors.

Role of the Audit Committee

The responsibilities of the Audit Committee include:

- reviewing the integrity of the financial reporting and audit process;
- the provision of an independent overview of risk management and internal control processes;
- the overseeing of relations with the external auditors;
- reviewing the effectiveness of the internal audit function; and
- making appropriate recommendations to the Directors in respect of the above.

The Audit Committee has formal written terms of reference, dealing clearly with its authority and duties, which are reviewed regularly. These can be found on Interserve's website at www.interserveplc.co.uk and are available on request.

7.4 *Remuneration Committee*

Current Members

David Trapnell (Chairman)
Patrick Balfour
Leslie Cullen
Nicholas Keegan

Membership

All members of the Remuneration Committee are independent non-executive directors.

Role of the Remuneration Committee

The Remuneration Committee determines the remuneration of the Group Chairman, the Chief Executive and the senior management team, comprising the executive Directors, the Interserve Group Secretary and the other senior executives below the Directors who report to the Chief Executive and advise the Board accordingly.

The Remuneration Committee has formal written terms of reference which are updated regularly. These can be found on Interserve's website at www.interserveplc.co.uk and are available on request.

7.5 *Nomination Committee*

Members

Lord Blackwell (Chairman)
Patrick Balfour
Leslie Cullen
Nicholas Keegan
Adrian Ringrose
David Trapnell

Role of the Nomination Committee

The role of the Nomination Committee is to consider and review the structure, size, composition and balance of skills, knowledge and experience of the Directors and to make recommendations to the Directors with regard to any changes. The Nomination Committee is also responsible for the supervision of the recruitment process of potential Board appointees and for making recommendations to the Directors concerning the re-appointment of any Director retiring by rotation.

The Nomination Committee has formal written terms of reference which are updated regularly. These can be found on Interserve's website at www.interserveplc.co.uk and are available on request.

8 Material Contracts

8.1 *Interserve Group*

The following are all of the contracts that have been entered into (other than in the ordinary course of business) by members of the Interserve Group (1) within two years immediately preceding the date of this document and are or may be material or (2) at any time and contain an obligation or entitlement of any member of the Interserve Group which is material to the Interserve Group at the date of this document:

- (a) An implementation deed between Interserve and MacLellan was entered into on 2 May 2006, under which each party agreed to co-operate and to take all such steps as are within its power

and are necessary and reasonable to implement the Acquisition. Under the deed, Interserve reserves the right, in its sole discretion, to make a takeover offer to the MacLellan Shareholders instead of a scheme of arrangement, if, for any reason, it elects to do so. MacLellan agreed that the Scheme Circular to the MacLellan Shareholders will incorporate a unanimous recommendation of the MacLellan Shareholders to vote in favour of the Scheme, except to the extent that the MacLellan Directors have determined, acting reasonably and in good faith, that such recommendation should not be given or should be withdrawn, modified or qualified to comply with their fiduciary duties or modified due to the requirements of Rule 3.1 of the City Code to make the substance of any independent advice known to MacLellan Shareholders.

Interserve also agreed *inter alia*, to take steps to implement the Acquisition and to be bound by the terms of the Scheme so far as they relate to Interserve.

MacLellan agreed that it shall conduct its business in the ordinary course and shall not, *inter alia*, (i) materially alter the nature or scope of MacLellan's business; (ii) subject to the fiduciary duties of the MacLellan Board, take any action with the intention to, or which the MacLellan Board knew or considered may, materially delay or prejudice the Acquisition; or (iii) subject to the fiduciary duties of the MacLellan Board, knowingly do, or omit to do, any act with the intention of causing any of the Conditions not to be satisfied in a material respect.

A break fee amounting to 1 per cent. of the value of MacLellan calculated by reference to the Terms of the Acquisition as at the date of the Announcement, will be payable to Interserve if the Acquisition is not approved by the MacLellan Shareholders at the Court Meeting or the MacLellan Extraordinary General Meeting or if, between the date of the Announcement of the Acquisition and the date on which the Acquisition lapses or (as applicable) is not approved by the MacLellan Shareholders at the Court Meeting or the MacLellan Extraordinary General Meeting or by the Interserve Shareholders at the Interserve Extraordinary General Meeting:

- (i) the MacLellan Board at any time withdraws, adversely modifies its unanimous recommendation of the Acquisition or determines not to implement the Acquisition by refusing to authorise MacLellan to apply to the Court to convene the Court Meeting or subsequently to post the Scheme Document;
- (ii) any Director of MacLellan fails to comply with the terms of their irrevocable undertaking to Interserve referred to in paragraph 20 of Part I of this document;
- (iii) a third party offer for MacLellan (whether by way of a takeover offer, scheme of arrangement or otherwise) is announced, and subsequently becomes or is declared unconditional in all respects; or
- (iv) the third party offer referred to above, is referred to the competition authorities and lapses, and the relevant third party makes another offer for MacLellan which completes or becomes wholly unconditional.

The obligations under the implementation deed (other than the obligations to pay the break fee), terminate by mutual consent; by notice following material breach; upon the Acquisition (or takeover offer) lapsing or being withdrawn if any competing proposal becomes or is declared wholly or unconditional or completes; if MacLellan Shareholders do not vote to approve the Acquisition at the Court Meeting or do not pass the resolution at the MacLellan Extraordinary General Meeting or if the Interserve Shareholders do not approve the Acquisition; if the Court Order is not granted or the Effective Date has not occurred by 31 August 2006; or if any of the Conditions become incapable of being satisfied or waived by Interserve.

- (b) Interserve has available to it a new multi-currency revolving credit facility amounting to £225,000,000 pursuant to a facility agreement dated 2 May 2006 between Interserve as borrower and HSBC Bank Plc ("HSBC") and The Royal Bank of Scotland Plc ("RBS") as underwriting banks and arrangers (the "**New Facility**").

The New Facility is available from 2 May 2006 up to and including the earlier of (i) 2 April 2011; and (ii) the date upon which the offer by Interserve for the Scheme Shares (made by means of a scheme of arrangement or takeover offer) lapses, terminates or is withdrawn. Drawings may be made in sterling, euro, US Dollar, Australian Dollar or any other currency readily available and freely transferable in the London inter-bank markets as may be agreed.

The interest rate payable in respect of this facility is, at Interserve's option, either (i) the British Bankers' Association settlement rate (or where such rate is unavailable, the average rate quoted by HSBC, RBS and any other banks selected by HSBC ("Reference Banks") to leading banks in the London inter-bank market) or (ii) the annual percentage rate determined by the Banking Federation of the European Union (or where such rate is unavailable, the average rate quoted by Reference Banks to leading banks in the European inter-bank market), for the offering of deposits in the currency in which a drawing is made as of 11am on the relevant date for calculating interest (being, in the case of sterling advances, the day of drawing, in the case of euro advances, two days (during each of which the Trans European Automated Real-Time Gross Settlement Express Transfer System is open for the settlement of payment in euros) before the day of drawing and, in the case of advances in any other currency, two days (during each of which banks are open for general business in London and in the principal financial centre of the country of that currency), before the day of drawing), for such period (being either one, two, three or six months) as may be agreed between Interserve and HSBC, plus mandatory costs (if any) plus a margin of 0.55 per cent. per annum for the period up to 30 June 2006 and thereafter as linked to the ratio at each financial half year and financial year end of Interserve's consolidated total net borrowings to consolidated EBITDA for the preceding twelve month period as follows:

<i>Ratio of consolidated total net borrowings: consolidated EBITDA</i>	<i>Applicable Margin</i>
>2.25 x	0.65 per cent. per annum
1.75 – 2.25 x	0.55 per cent. per annum
1.25 – 1.75 x	0.50 per cent. per annum
<1.25 x	0.45 per cent. per annum

Covenants contained within the facility agreement stipulate a maximum ratio test of total net borrowings to EBITDA, a minimum ratio test of EBITA (including an imputed EBITA for any company (including MacLellan) or its subsidiaries acquired by any member of the group) to consolidated net interest payable and an obligor cover ratio (comprising consolidated gross assets (including goodwill) and turnover) based on the consolidated gross assets (including goodwill) and turnover of the group to net interest payable and an obligor coverage ratio test.

This facility agreement contains indemnities (including an uncapped indemnity given in connection with the Acquisition) and warranties from the borrower, and imposes certain restrictive covenants on the borrower and the group, which in each case, are customary for a facility of this nature. Interserve is also responsible for the lenders' costs and expenses of the New Facility.

The New Facility will, subject to any legal restrictions, be jointly and severally guaranteed by each of Interserve (Defence) Ltd, Interserve (Facilities Management) Ltd, Interserve*fm* Ltd, Interserve Holdings Plc (formerly Tilbury Douglas Investments Plc), Interserve Industrial Services Ltd (formerly United Kingdom Construction and Engineering Company Limited), Interserve Project Services Ltd, Interserve*fm* (Holdings) Ltd, and RMD Kwikform Ltd on drawing. Within three months of the Effective Date the New Facility will, subject to any legal restrictions, also be guaranteed by MacLellan and each of MacLellan's subsidiaries nominated by Interserve.

The facility agreement also contains events of default, which are customary for a facility of this nature, and which give the lenders the right to demand repayment of amounts drawn down under the facility agreement and/or the right to refuse to make an advance.

The obligations on the lenders to make the New Facility available are subject to the satisfaction of various customary conditions precedent including the completion of certain corporate formalities, the provision of evidence that the New Facility will be used to repay the Existing Facility, that the Existing Facility has been cancelled and various documentary conditions precedent relating to the offer.

- (c) A sale and purchase agreement was entered into on 22 March 2006 between Interserve PFI Holdings Limited (the “Seller”) (1) and SMIF UK Limited acting as general partner of Secondary Market Infrastructure Fund UK LP (the “Buyer”) (2). Pursuant to the agreement, the Seller sold 50,000 fully paid “B” Ordinary Shares of £1 each in Community Health Facilities (Holdings) Limited to the Buyer. The consideration paid was £1,627,377.

The sale and purchase agreement contains short form warranties given by the Seller which include standard title and capacity warranties.

- (d) A sale and purchase agreement was entered into on 11 November 2005 between Interserve, Mark Barnett, Peter Barnett, Elizabeth Barton, Susan Barton and Ivor Palmer (the “Sellers”) (1) and BCB (UK) Limited (the “Buyer”) (2). Pursuant to the terms of the agreement, the Sellers sold 208,441 Ordinary Shares of £1 each in B C Barton & Son Limited (the “Company”), 77,790 shares of which were sold by Interserve. The total consideration paid was £1,925,594. Interserve received £707,009.35 in consideration for its shares in the Company. Capacity and title warranties only were given by the Sellers.

- (e) A share sale agreement was entered into on 24 October 2005 between Interserve PFI Holdings 2003 Limited (the “Vendor”) (1) Interserve PFI 2003 Limited (the “Company”) (2) and Interserve PFI Holdings Limited (the “Purchaser”) (3). Pursuant to the terms of the agreement, the Vendor sold 499 Ordinary Shares of £1 each in the Company to the Purchaser. The consideration paid was £5,619,000. Capacity and title warranties only were given by the Vendor.

- (f) A sale and purchase agreement between HSBC Infrastructure Limited (“HSBC”) (1), Interserve PFI Holdings Limited (“Holdings”) (2), Kier Limited (“Kier”) (3) and Secondary Market Infrastructure Fund UK LP (the “Purchaser”) (4) entered into on 30 December 2004.

Under this agreement HSBC, Holdings and Kier (the “Vendors”) all sold shares in Baglan Moor Healthcare Holdings Limited and Baglan Moor Healthcare Property Limited (the “Companies”) to the Purchaser.

The amount of consideration paid to Holdings was £2,246,445 for the shares in Baglan Moor Healthcare Holdings Limited and £25.50 for the shares in Baglan Moor Healthcare Property Limited. On Completion the Purchaser also paid to Holdings part of the £8,250,000 Unsecured Subordinated Loan Stock 2019 created by Baglan Moor Healthcare Holdings Limited pursuant to a deed poll dated 12 May 2000 to the value of £2,038,083 together with all accrued interest due, but unpaid at completion, being £668,848.

The agreement contains short form warranties given by Holdings which include standard title and capacity warranties.

- (g) Interserve and various other group companies have entered into a group cash pooling arrangement with The Royal Bank of Scotland Plc (“RBS”) on 2 June 2004 pursuant to which RBS is contractually permitted to set off, against each other, any credit and debit balances on the various group company accounts held at RBS. RBS also agrees to provide an overdraft facility on the group company accounts, provided that the aggregate net debit balance does not exceed £10 million (and the aggregate gross debit balance does not exceed £125 million). These arrangements are uncommitted and are available until RBS provides notice of its intention to withdraw the facility.

Interest will accrue on the cleared group company accounts in debit at a rate of 1 per cent. per annum above RBS’s fluctuating base rate and on the cleared balance of any group company

accounts in credit up to the aggregate amount of cleared debit balances on the group company accounts at a rate of 1 per cent. per annum above RBS's fluctuating base rate.

- (h) Interserve currently has available a multi-currency revolving credit facility amounting to £165,000,000 pursuant to a facility agreement dated 20 June 2003 between (amongst others) Interserve as borrower and Caylor, HSBC Bank Plc and The Royal Bank of Scotland Plc as underwriting banks and arrangers.

The Existing Facility is available for drawing until 30 November 2010. Drawings may be made in sterling, euro, US Dollar, Australian Dollar or any other currency readily available and freely transferable in the London inter-bank markets may be readily agreed.

The interest rate payable in respect of this facility is, at Interserve's option, either (i) the British Bankers' Association settlement rate (or where such rate is unavailable, the average rate quoted by HSBC, RBS and any other banks selected by HSBC ("Reference Banks") to leading banks in the London inter-bank market) or (ii) the annual percentage rate determined by the Banking Federation of the European Union (or where such rate is unavailable, the average rate quoted by Reference Banks to leading banks in the European inter-bank market), for the offering of deposits in the currency in which a drawing is made as of 11 a.m. on the relevant date for calculating interest (being, in the case of sterling advances, the day of drawing, in the case of euro advances, two days (during each of which the Trans European Automated Real-Time Gross Settlement Express Transfer System is open for the settlement of payment in euros) before the day of drawing and, in the case of advances in any other currency, two days (during each of which banks are open for general business in London and in the principal financial centre of the country of that currency) before the day of drawing), for such period (being either one, two, three or six months) as may be agreed between Interserve and HSBC plus a margin that is linked to the ratio at each financial half year and financial year end of Interserve's consolidated total net borrowings to consolidated EBITDA for the preceding twelve month period as follows:

Ratio of consolidated total net borrowings:

<i>consolidated EBITDA</i>	<i>Applicable Margin</i>
>2.25 x	0.65 per cent. per annum
1.75 – 2.25 x	0.55 per cent. per annum
1.25 – 1.75 x	0.50 per cent. per annum
<1.25 x	0.45 per cent. per annum

Covenants contained within the facility agreement stipulate a maximum ratio test of total net borrowings to EBITDA, a minimum ratio test of EBITA to net interest payable and an obligor coverage ratio test.

This facility agreement contains indemnities and warranties from the borrower and imposes certain restrictive covenants on the borrower and the group, which in each case, are customary for a facility of this nature.

The Existing Facility is jointly and severally guaranteed by each of Bandt Holdings Limited, Bandt Limited, Bandt Properties Limited, Building and Property (Holdings) Limited, Climate Services Limited, Interserve Rail Limited (formerly Clough Smith Rail Limited) Communications Installations Technology Limited, Emerio Limited, (formerly Climate Equipment Holdings Limited), Fincham Insulations Limited, FK Multiservices Limited, Hansgross Estates Limited, Interserve Engineering Services Limited (formerly How Engineering Services Limited), How Group Limited, How Investments Limited, Interserve (Defence) Limited, Interserve (Facilities Management) Limited, Interserve *fm* Limited, Interserve Holdings Plc (formerly Tilbury Douglas Investments Plc), Interserve Industrial Services Limited (formerly United Kingdom Construction and Engineering Limited), Interserve Investments plc (formerly Tilbury Securities Plc), Interserve Project Services Limited, Interserve *fm* (Holdings) Limited, Kwikform Holdings Limited, Rapid Metal Developments Limited, RMD Kwikform Limited and West's Group International Plc.

The facility agreement also contains events of default, which are customary for a facility of this nature, and which give the lenders the right to demand repayment of amounts drawn down under the facility agreement and/or the right to refuse to make an advance.

- (i) Interserve and certain of its subsidiaries currently have available the following uncommitted facilities pursuant to a facility letter dated 12 December 2001 between HSBC Bank Plc and Interserve and certain of its subsidiaries (the “**Companies**”) (the “**HSBC Facility**”):

Collective Net Sterling Overdraft	£4,000,000
Multi-Currency Overdraft	£1,000,000
Multi-Currency Dealing Line	£8,000,000
Forward Exchange Contracts and Currency Options	£3,000,000
Engagements	£15,000,000
Foreign Cheques for Negotiation	
Documentary Credits	£1,000,000
Standby Letters of Credit	
Discount of Inland Bills of Exchange	

Interest payable in respect of the Collective Net Sterling Overdraft facility is payable on the aggregate of cleared debit balances of the Companies at the rate of (a) nil per cent. per annum on so much as is covered by cleared credit balances on any sterling current accounts of the Companies; and (b) 1.00 per cent. over HSBC Bank Plc’s base rate as published from time to time on the remainder within the limits expressed above.

Interest is payable on the Multi-Currency Overdraft facility at a rate of 1.5 per cent. per annum over the relevant HSBC currency base rate, as varied from time to time.

Commission in respect of each new non-financial engagement undertaking by HSBC Bank Plc will be charged as follows:

- (i) expiry less than one year - 0.25 per cent. per annum; and
- (ii) expiry more than one year - 0.275 per cent. per annum

The HSBC Facility is secured by unlimited multilateral guarantees from certain group companies.

8.2 *MacLellan Group*

The following are all of the contracts that have been entered into (other than in the ordinary course of business) by members of the MacLellan Group (1) within two years immediately preceding the date of this document and are or may be material or (2) at any time and contain an obligation or entitlement of any member of the MacLellan Group which is material to the MacLellan Group at the date of this document:

- (a) The Implementation Agreement described in paragraphs 8.1(a) above.
- (b) On 11 October 2004 an agreement was entered into between MacLellan and 3i Group Plc and Others to acquire the entire issued share capital of First Security Group Limited. The consideration payable by MacLellan upon completion was approximately £3.6 million payable in cash or loan notes, £10 million of new MacLellan shares (which were placed on behalf of the vendors), and a payment of approximately £1.26 million to reflect the excess of First Security Group Limited’s working capital over its agreed normal level. In addition, approximately £5.6 million was advanced by MacLellan to First Security Group Limited to enable it to discharge existing loan facilities. The acquisition completed on 14 October 2004.
- (c) On 30 November 2004 an agreement was entered into between MacLellan and Paul William Teasdale and Others to acquire the entire issued share capital of TASS (Europe) Limited for an initial consideration of £3.25 million. The initial consideration was satisfied by the issue of

2,083,332 MacLellan Shares in MacLellan and the payment of £1.875 million of cash. Further consideration of up to a maximum of £2.75 million is payable in agreed earnings before interest and taxation targets are exceeded for the financial years ending 31 December 2005 and 2006. The acquisition completed on 30 November 2004.

- (d) MacLellan entered into an acquisition facility agreement with Barclays Bank Plc on 11 October 2004 in the amount of £10,000,000 provided by way of term loan. Barclays further agreed to make available to MacLellan and its subsidiaries a working capital facility comprising overdraft facilities on its standard terms.

The interest rate of the term loan is LIBOR plus 1.5 per cent. per annum.

The loan is to be repaid in capital instalments beginning in October 2005 ending in October 2009.

The term loan has the standard banking representations and warranties relating to status, powers and authorities, binding obligations, contravention, insolvency, no default, litigation, accounts, encumbrances, authorisations, taxes and information.

The term loan also includes standard information undertakings relating to management accounts, audited accounts and operating budgets.

The term loan also contains negative undertakings including a negative pledge and a prohibition on disposal of any assets other than in the ordinary course of business.

There are very specific financial undertakings and financial covenants relating to earnings before interest tax and amortisation to total debt costs, cash flow to total debt and equity service and total debt to earnings before interest tax and amortisation as well as a minimum tangible and acquisition net worth of not less than £60,000,000 at any time.

There are standard events of default including non-payment, breach of representation or warranty, cross default in excess of £100,000, inability to pay debts, insolvency proceedings, change of control, change of management and amendment of articles of association of MacLellan.

The loan is to be secured by guarantees and debentures across the MacLellan Group.

- (e) MacLellan entered into a bond guarantee facility in the amount of up to £50,700 on 8 November 2005 with Barclays Bank Plc.

Barclays has the ability to cancel its commitment to any further obligations at any time. The issue of any bonds, guarantees or indemnities by Barclays under the facility is subject to payment by MacLellan of fees at agreed rates from time to time. The bond facility is on demand. It is secured by guarantees and debentures across the MacLellan Group.

- (f) MacLellan entered into a stand by letter of credit facility in the amount of £940,000 with Barclays Bank Plc on 8 November 2005. The bank may cancel its commitment in relation to the facility at any time. The issue of any standby letter of credit by Barclays under the facility is subject to payment by MacLellan of fees at agreed rates from time to time. The facility is secured by guarantees and debentures across the MacLellan Group.

- (g) MacLellan International Limited entered into an invoice discounting facility with Barclays Bank Plc on 2 December 2005 in the maximum amount of £6.65 million.

The invoice discounting facility contains standard provisions for a facility of its type in relation to the collection of and factoring of debts. Debts sold to Barclays under the terms of the facility are subject to a discount charge of the aggregate of (i) a margin of 1.25 per cent. per annum and (ii) the rate quoted by Barclays from time to time to leading banks in the London inter-banking market for the offering of sterling deposits, together with the cost to Barclays of compliance with any applicable regulatory costs in respect of the debt. The loan contains standard representations relating to incorporation, execution, obligations, consents and also

authorisations and encumbrances. In the event of default there are also standard events of default relating to insolvency, repudiation or breach of any other obligations under the agreement.

- (h) First Security (Guards) Limited entered into sales ledger finance agreement with Barclays Bank Plc on 20 April 2005 in the maximum amount of £4,000,000.

The invoice discounting facility contains standard provisions for a facility of its type in relation to the collection of and factoring of debts. Debts sold to Barclays under the terms of the agreement are subject to a discount of 1.5 per cent. above Barclays' base rate. The loan contains standard representations relating to incorporation, execution, obligations, consents and also authorisations and encumbrances. In the event that any representations are made in relation to the debts that are incorrect it is an event of default and there are also standard events of default relating to insolvency, repudiation or breach of any other obligations under the agreement.

- (i) MacLellan entered into an acquisition facility agreement with Barclays Bank Plc on 11 December 2003 in the amount of £3,100,000 provided by way of term loan.

The purpose of the Facility was to acquire the shares of First Security Group Limited.

Barclays further agreed to make available to MacLellan and its subsidiaries a working capital facility comprising overdraft facilities on its standard terms.

The interest rate of the term loan is LIBOR plus 1.5 per cent. per annum.

The loan is to be repaid in capital instalments beginning in October 2005 ending in October 2009.

The term loan has the standard banking representations and warranties relating to status, powers and authorities, binding obligations, contravention, insolvency, no default, litigation, accounts, encumbrances, authorisations, taxes and information.

The term loan also includes standard information undertakings relating to management accounts, audited accounts and operating budgets.

The term loan also contains negative undertakings including a negative pledge and a prohibition on disposal of any assets other than in the ordinary course of business.

There are very specific financial undertakings and financial covenants relating to earnings before interest tax and amortisation to total debt costs, cash flow to total debt and equity service and total debt to earnings before interest tax and amortisation as well as a minimum tangible and acquisition net worth of not less than £60,000,000 at any time.

There are standard events of default including non-payment, breach of representation or warranty, cross default in excess of £100,000, inability to pay debts, insolvency proceedings, change of control, change of management and amendment of articles of association of MacLellan.

- (j) MacLellan entered into an interest rate hedging agreement on 19 January 2005 with Barclays Bank fixing the rate of interest of the loan set out at (d) above at 5.5 per cent. per annum. The termination date of the cap agreement is 15 October 2007. The swap is governed by the terms of the standard ISDA Master Agreement.

- (k) MacLellan, Alpha Excellence Limited, Broadreach Group Limited, MacLellan Integrated Services Limited, MacLellan Management Services Limited, MacLellan Atlaw Security Limited, SSD UK Limited, Tass Europe Limited and First Security Limited entered into an overdraft facility with Barclays Bank Plc on 8 November 2005. The net limit of the overdraft is £11,000,000 and the gross limit is £16,000,000. Interest is chargeable on the facility at 1.5 per cent. per annum above Barclays' base rate. The facility is repayable on demand. The facility is secured by cross guarantees and debentures across the MacLellan Group.

9 Significant Litigation

9.1 Interserve Group

On 12 May 2006 RMD Kwikform Hong Kong Limited (“RMD”) (a subsidiary of Interserve) received an initial notification from Maeda Hitachi Yokogawa Hsin Chong of Hong Kong (“MHYH”) alleging liability on the part of RMD in respect of losses allegedly suffered as a result of the collapse of an auto-climb formwork system supplied by RMD to MHYH. The amount claimed is HK\$43.3 million (approximately £3.6 million). The claim alleges that the failure of the system was due to faulty equipment whereas RMD’s initial findings are that the failure was due to incorrect operation and overloading of the equipment and accordingly intends to defend any claim vigorously. No proceedings have yet been issued and RMD has notified its insurers. The Directors believe that the claim, if successful, should be covered by insurance and accordingly no provision has been made in RMD’s accounts relating to such alleged liability.

Other than the aforementioned claim, there are no governmental, legal or arbitration proceedings (including any such proceedings which are pending or threatened of which Interserve is aware) during the 12 months preceding the date of this document which may have or have had in the recent past, significant effects on the financial position or profitability of the Interserve Group.

9.2 MacLellan Group

MacLellan International Limited (Claimant) served Particulars of Claim against Blueco Limited (which managed the Bluewater Shopping Centre) and Lend Lease Retail Partnership (which has interests in the Bluewater and Touchwood Shopping Centres) in November 2005.

The claims are for the following amounts:

- (a) £936,289.60 plus interest (at a rate of 8 per cent. per annum) in respect of sums owed under the Bluewater contract;
- (b) £247,549.26 plus interest in respect of sums owed under the Touchwood contract; and
- (c) costs.

The two defendants have filed a defence which includes a counterclaim for £47,732.09. The counterclaim is for compensation for alleged wear and tear of the premises.

Other than the aforementioned claim, there are no governmental, legal or arbitration proceedings, (including any such proceedings which are pending or threatened of which the Company is aware) during the 12 months preceding the date of this document which may have, or have had in the recent past significant effects on the financial position or profitability of the MacLellan Group.

10 Significant Changes in the Enlarged Interserve Group

10.1 Interserve Group

There has been no significant change in the financial or trading position of the Interserve Group since 31 December 2005, being the date to which the Accounts were prepared.

10.2 MacLellan Group

There has been no significant change in the financial or trading position of the MacLellan Group since 31 December 2005, being the date to which the financial information set out in Part V has been drawn up.

11 Working Capital Statement

Interserve is of the opinion that, after taking into account available bank and other facilities and existing cash resources, the Enlarged Interserve Group has sufficient working capital for its present requirements, that is, for at least the next 12 months from the date of this document.

12 Sources and Bases of Information

12.1 In this document, unless otherwise stated or the context otherwise requires, the following sources and bases of information have been used:

- (a) Other than as detailed at (f) below, the financial information relating to Interserve has been extracted without material adjustment from its audited annual accounts for the relevant periods and the interim financial statements for the relevant periods as published by Interserve, all of which are prepared in accordance with UK GAAP or IFRS;
- (b) Other than as detailed at (f) below, the financial information relating to MacLellan has been extracted without material adjustment from the audited financial information on MacLellan for the relevant periods and set out in Part V of this document;
- (c) The value placed on the entire issued ordinary share capital of MacLellan by the Acquisition is based on 99,803,624 MacLellan Shares in issue on 26 May 2006, being the latest practicable date prior to the publication of this document;
- (d) All prices quoted for MacLellan Shares and Interserve Shares are Closing Prices;
- (e) The proportion of the Enlarged Interserve Group represented by MacLellan Shareholders that will hold Interserve Shares is based on 114,231,032 Interserve Shares in issue on 26 May 2006, being the latest practicable date prior to the publication of this document.
- (f) The financial information appearing in the following sections of this document is derived:
 - (a) in relation to the information in paragraph 3 of Part I concerning the balance between the public and private sectors with non-public sector business, from Interserve's own internal assessment of the potential revenue as compared against the revenue figures presented in both the audited statutory accounts for MacLellan and Interserve as at 31 December 2005;
 - (b) in relation to the information in paragraph 3 of Part I concerning the increase in the forward order book, from Interserve's assessment of the value of the order book of MacLellan in addition to the UK future workload value stated in the Interserve Accounts; and
 - (c) in relation to the information in paragraph 5 in Part II on the payment into the MacLellan pension scheme, from MacLellan's internal accounting records,

all of which are unaudited and have not been reported on by an accountant.

13 Miscellaneous

13.1 JPMorgan Cazenove has given and not withdrawn its written consent to the issue of this document with the inclusion of references to its name, in the form and context in which it is included.

13.2 Deloitte & Touche LLP has given and not withdrawn its written consent to the inclusion in this document of its report in the form and context in which it appears.

13.3 PricewaterhouseCoopers LLP of Cornwall Court, 19 Cornwall Street, Birmingham B3 2DT, has given and not withdrawn its written consent to the inclusion in this document of its report in the form and context in which it appears.

13.4 PricewaterhouseCoopers LLP of Donington Court, Pegasus Business Park, Castle Donington, East Midlands DE74 2UZ, authorised and regulated by the FSA, has issued an unqualified audit opinion in respect of the financial statements for MacLellan Group Plc, prepared in accordance with UK GAAP for the financial years ended 31 December 2003, 31 December 2004 and 31 December 2005.

13.5 The following disclosures in paragraph 7 of Part VII are incorporated by reference into this document:

Information	Section of Accounts	Page of Accounts
Confirmation of Interserve's compliance with section 1 of the Combined Code.	Corporate Governance	34
The independence and appointment of non-executive directors.	Corporate Governance	35 and 36

14 Documents available for inspection

Copies of the following documents may be inspected at the offices of Wragge & Co LLP, 3 Waterhouse Square, Holborn, London, EC1N 2SW during usual business hours on any weekday (Saturdays, Sundays and public holidays excepted) up to and including the date of the Interserve Extraordinary General Meeting and will also be available for inspection at the Interserve Extraordinary General Meeting at least 15 minutes prior to and during the Interserve Extraordinary General Meeting:

- (i) this document;
- (ii) the memorandum and articles of association of Interserve;
- (iii) the material contracts referred to in paragraph 8 above;
- (iv) the Directors' and Senior Managers' service contracts referred to in paragraph 6 above;
- (v) the reports from PricewaterhouseCoopers LLP and Deloitte & Touche LLP set out in Part V and VI of this document;
- (vi) the consolidated audited report and accounts of the Interserve Group for each of the financial periods ended 31 December 2003, 2004 and 2005;
- (vii) the consolidated audited report and accounts of the MacLellan Group for each of the financial periods ended 31 December 2003, 2004, and 2005;
- (viii) the consent letters referred to in paragraph 13 above;
- (ix) the Scheme Circular;
- (x) the deeds of irrevocable undertakings from MacLellan Shareholders in relation to the Acquisition; and
- (xi) Part V of this document.

Dated 30 May 2006

DEFINITIONS

“Accounts”	means the consolidated audited accounts of Interserve for the 52 weeks ended on 31 December 2005;
“Acquisition”	means the proposed acquisition of the entire issued and to be issued share capital of MacLellan by Interserve;
“Admission”	means the admission of New Interserve Shares to the Official List in accordance with the Listing Rules and the admission of such shares to trading on the London Stock Exchange’s market for listed securities in accordance with the Admission and Disclosure Standards of the London Stock Exchange;
“AGM”	means Annual General Meeting;
“AIM”	means the AIM, a market operated by the London Stock Exchange;
“AIM Rules”	means the rules for AIM published by the London Stock Exchange governing admission to and the operation of AIM;
“Announcement”	means the announcement in relation to the Acquisition issued by Interserve under Rule 2.5 of the City Code on 2 May 2006;
“A Shares”	means the A shares of 5/116 pence each in the capital of MacLellan arising out of the subdivision and reclassification of the Scheme Shares which are Ordinary Shares;
“associated undertaking”	has the meaning ascribed to it under the Companies Act (other than the meaning in paragraph 20(1)(b) of Schedule 4A, which is excluded);
“Australia”	means the Commonwealth of Australia, its states, territories or possessions and all areas subject to its jurisdiction or any sub-division thereof;
“B Shares”	means the B shares of 5/116 pence each in the capital of MacLellan arising out of the subdivision and reclassification of the Scheme Shares which are Ordinary Shares;
“Board”	means the board of directors of Interserve;
“Business Day” or “business day”	means any day (excluding Saturdays, Sundays or public holidays) on which banks generally open in England and Wales for the transaction of business;
“Canada”	means Canada, its provinces and possessions, territories and all areas subject to its jurisdiction or any political sub-division thereof;
“Capital Reduction”	means the proposed cancellation of the A Shares, B Shares, C Shares and the Convertible Preference Shares (which are Scheme Shares) provided for by the Scheme;
“City Code”	means the City Code on Takeovers and Mergers of the United Kingdom (as issued from time to time by or on behalf of the Panel);
“Closing Price”	means the closing middle market price quotation of a MacLellan Share or an Interserve Share (as the context requires) as derived from the AIM Section of the daily Official List or from the daily Official List (as the context requires);

“Companies Act”	means the Companies Act 1985 (as amended);
“Competing Proposal”	means a proposed offer, merger, acquisition, scheme of arrangement, recapitalisation or other business combination relating to any direct or indirect acquisition of 50 per cent. or more of MacLellan Shares or all or any material part of the business or assets of the MacLellan Group proposed by any third party which is not an associate (as defined in the City Code) of Interserve;
“Conditions”	means the conditions to the Acquisition and the Scheme set out in Part IV of this document and “Condition” means any one of them;
“Convertible Preference Shareholder”	means the holder of Convertible Preference Shares of 10 pence each in the capital of MacLellan;
“Convertible Preference Shares”	means the Convertible Preference Shares of 10p each in the capital of MacLellan;
“Court”	means the High Court of Justice in England and Wales;
“Court Hearing Date”	means the date of the Court Hearing;
“Court Hearings”	means the hearing by the Court of the petition to sanction the Scheme and to confirm the associated Capital Reduction provided for by the Scheme (whether by further hearing or otherwise);
“Court Meetings”	means the Ordinary Share Court Meeting and/or Preference Share Court Meeting (as the context requires);
“Court Order” or “Order”	means the Scheme Court Order and/or the Reduction Court Order;
“CREST”	means the computerised settlement system to facilitate the transfer of title to shares in uncertificated form operated by CrestCo Limited;
“C Shares”	means the C Shares of 5/116 pence each in the capital of MacLellan arising out of the subdivision and reclassification of the Scheme Shares;
“Daily Official List”	means the daily official list of the London Stock Exchange;
“Directors” or “Interserve Directors”	means the directors of Interserve whose names appear in paragraph 2 of Part VII of this document;
“Effective”	means in the context of the Acquisition: <ul style="list-style-type: none"> (i) if the Acquisition is implemented by way of the Scheme, the Scheme having become effective pursuant to its terms; or (ii) if the Acquisition is implemented by way of a Takeover Offer the Takeover Offer having been declared or become unconditional in all respects in accordance with the requirements of the City Code;
“Effective Date”	means the date on which the Acquisition becomes Effective;
“Enlarged Interserve Group”	means the Interserve Group (including after the Acquisition, the MacLellan Group) following the Effective Date;
“Excluded Shares”	means any MacLellan Ordinary Shares or Convertible Preference Shares beneficially owned by Interserve or any subsidiary

	undertaking (as defined in the Companies Act) of Interserve and any unissued shares in the capital of MacLellan;
“Existing Facility”	means the existing multi-currency revolving credit facility of Interserve further particulars of which are set out in paragraph 8.1(h) of Part VII of this document;
“Form of Election”	means the form of election under which MacLellan Shareholders can elect for New Interserve Shares under the Mix and Match Facility and can elect for Loan Notes under the Loan Note Alternative;
“FRS”	means Financial Reporting Standard;
“FSA”	means the UK Financial Services Authority;
“FSMA”	means the Financial Services and Markets Act 2000 (as amended);
“IFRS”	means International Financial Reporting Standards as adopted by the European Commission;
“Implementation Deed”	means the agreement dated 2 May 2006 entered into between Interserve and MacLellan in relation to the Acquisition;
“Interserve EGM Resolutions”	means the ordinary resolutions to be proposed by Interserve at the Interserve Extraordinary General Meeting to approve the Acquisition and matters ancillary thereto;
“Interserve” or “Company”	means Interserve Plc, registered in England and Wales (no. 00088456);
“Interserve Extraordinary General Meeting”	means the extraordinary general meeting of Interserve to consider and, if thought fit, to approve the Interserve EGM Resolutions;
“Interserve Group”	means Interserve and its subsidiary undertakings and, where the context permits, each of them;
“Interserve Share Schemes”	means the Interserve Executive Share Option Scheme (1997 and 2002), the Interserve Share Matching Plan and the Interserve Performance Share Plan;
“Japan”	means Japan, its cities, prefectures, territories and possessions and all areas subject to its jurisdiction or any subdivision thereof;
“JPMorgan Cazenove”	means JPMorgan Cazenove Limited, a private company with limited liability whose registered office is at 20 Moorgate, London EC2R 6DA;
“LIBOR”	means the rate of interest determined by Interserve on the basis of the average (rounded down where necessary to the nearest whole multiple of one-sixteenth of 1.0 per cent.) of the respective rates per annum at which any two London clearing banks selected by Interserve are prepared to offer six month sterling deposits of £2 million to leading banks in London inter-bank market at or about 11.00am (London time) on the first Business Day of the relevant interest period and a certificate in writing, under the hand of a duly authorised official of Interserve, shall be conclusive evidence of that rate;

“Listing Rules”	means the listing rules and regulations of the UK Listing Authority, as amended from time to time, and contained in the UK Listing Authority’s publication of the same name;
“Loan Note Alternative”	means the alternative whereby Scheme Shareholders (other than certain Overseas Persons and the Convertible Preference Shareholder) may elect to receive Loan Notes instead of some or all of the cash consideration to which they would be otherwise entitled under the Acquisition;
“Loan Notes”	means the floating rate unsecured loan notes of Interserve issued pursuant to the Loan Note Alternative;
“London Stock Exchange”	means the London Stock Exchange plc, together with any successors thereto;
“MacLellan ”	means MacLellan Group Plc, registered in England and Wales (no. 02279581);
“MacLellan Annual Report and Accounts”	means the audited annual consolidated financial statements of the MacLellan Group for the financial years ended 31 December 2004 and 31 December 2005;
“MacLellan Board”	means the board of MacLellan Directors;
“MacLellan Directors”	means the directors of MacLellan;
“MacLellan Extraordinary General Meeting”	means the extraordinary general meeting of the Shareholders (and any adjournment thereof), convened in connection with the Acquisition;
“MacLellan Group”	means MacLellan and its subsidiary undertakings and, where the context permits, each of them;
“MacLellan Ordinary Shares”	means the ordinary shares of 5 pence each in the capital of MacLellan and, following the subdivision and reclassification effected by the Scheme, the A, B and C Shares;
“MacLellan Shareholders”	means the holders of MacLellan Shares;
“MacLellan Shares”	means (i) prior to the Reorganisation Record Time, MacLellan Ordinary Shares; and (ii) after the Reorganisation Record Time, the MacLellan Ordinary Shares, A Shares, B Shares and C Shares;
“MacLellan Share Schemes”	means the unapproved Share Option Scheme 1998, the Jordec Plc Share Option Plan 2000, the MacLellan Share Save Scheme 2001 and the Jordec Group Plc Executive Share Option Scheme, and the option agreement dated 10 July 1996 as amended on 9 July 2003 and made between the Company (1) and John Robert Foley and Stephen Robert Shipley respectively (2) MacLellan Share Option Scheme means any one of them;
“Meetings”	means the Preference Share Class Meeting and/or the Preference Share Court Meeting and/or the Ordinary Share Court Meeting and/or the MacLellan Extraordinary General Meeting as the case may be;
“Minute”	the minute (approved by the Court) showing with respect to MacLellan’s share capital, as altered by the Court Order confirming

	the Capital Reduction, the several particulars required by section 138 of the Companies Act;
“Mix and Match Facility”	means the mix and match facility under which MacLellan Shareholders may, subject to availability, elect to vary the proportion of New Interserve Shares and cash they will receive under the Scheme;
“New Interserve Shares”	means the Interserve Shares proposed to be issued credited as fully paid and ranking <i>pari passu</i> with the existing Interserve Shares (save that such shares will not be entitled to Interserve’s final dividend of 10.1 pence per share for the year ended 31 December 2005) pursuant to the Scheme;
“New MacLellan Shares”	means the ordinary shares of 5 pence each in the capital of MacLellan be created and issued fully paid to Interserve pursuant to the Scheme;
“Official List”	means the official list maintained by the UK Listing Authority;
“Ordinary Share Court Meeting”	means the meeting of the holders of the MacLellan Ordinary Shares of 5 pence each in the capital of MacLellan convened pursuant to an order of the Court made under section 425 of the Companies Act for the purposes of considering and, if thought fit, approving (with or without modification) the Scheme (and any adjournment thereof);
“Ordinary Shares” or “Interserve Shares”	means the ordinary shares of 10 pence each in the capital of Interserve;
“Overseas Persons”	means Scheme Shareholders who are resident in, ordinarily resident in, or citizens of, jurisdictions outside the United Kingdom;
“Panel”	means the Panel on Takeovers and Mergers;
“Preference Share Court Meeting”	means the meeting of the holders of Convertible Preference Shares convened pursuant to an order of the Court made under section 425 of the Companies Act for the purposes of considering and, if thought fit, approving (with or without modification) the Scheme (and any adjournment thereof);
“Preference Share Class Meeting”	means the preference share class meeting of the holders of the Convertible Preference Shares to be convened for the purposes of considering and, if thought fit, sanctioning by an extraordinary resolution the Special Resolution and the coming into effect of the Scheme;
“Reduction Court Hearing”	means the hearing by the Court of the petition to confirm the Capital Reduction;
“Reduction Court Order”	means the order of the Court made at the Court Hearing under section 137 of the Companies Act confirming the Capital Reduction;
“Reduction Effective Date”	means the date on which the Capital Reduction provided for by the Scheme becomes effective;
“Registrar of Companies”	means the Registrar of Companies in England and Wales within the meaning of the Companies Act;

“Regulatory Information Service”	means a regulatory information service as defined in schedule 2 to the Listing Rules;
“Reorganisation Record Time”	means 6.00 p.m. on the date on which the Scheme Court Order under section 425 of the Companies Act sanctioning the Scheme is delivered to the Registrar of Companies for Registration;
“Resolutions”	means the resolutions set out in the notice of the Interserve Extraordinary General Meeting at the end of this document;
“Scheme” or “Scheme of Arrangement”	means the proposed scheme of arrangement under section 425 of the Companies Act between MacLellan and the Scheme Shareholders to implement the Acquisition with or without any modification thereof or in addition thereto or condition approved or imposed by the Court and agreed by MacLellan and Interserve;
“Scheme Circular” or “Scheme Document”	means the circular to MacLellan Shareholders and (if applicable) the Convertible Preference Shareholder proposing the Scheme to be posted by MacLellan as soon as is reasonably practicable after the date of this document;
“Scheme Court Hearing”	means the hearing by the Court of the petition to sanction the Scheme;
“Scheme Court Order”	means the order of the Court made at the Court Hearing sanctioning the Scheme under section 425 of the Companies Act;
“Scheme Record Time”	means 6.00 p.m. on the last Business Day immediately prior to the Reduction Effective Date;
“Scheme Shareholder”	means holders of the Scheme Shares as appearing in the register of MacLellan at the Scheme Record Time;
“Scheme Shares”	means the MacLellan Shares and the Convertible Preference Shares: <ul style="list-style-type: none"> (i) in issue at the date of the Scheme Document; (ii) issued after the date of the Scheme Document but before the Voting Record Time; and (iii) issued at or after the Voting Record Time and before the Reorganisation Record Time on terms that the original or any subsequent holders thereof shall be, or shall have agreed in writing by such time to be, bound by the Scheme; (in each case excluding any Excluded Shares) ;
“SEC”	means the US Securities and Exchange Commission;
“Securities Act” or “US Securities Act”	means the United States Securities Act of 1933, as amended;
“Senior Managers”	means the senior management of the Company;
“Shareholders” or “Interserve Shareholders”	means a registered holder of Ordinary Shares or a person entitled to Ordinary Shares by transmission as at the Record Time;
“Special Resolution”	means the special resolution to be proposed by MacLellan at the MacLellan Extraordinary General Meeting in connection with, <i>inter alia</i> , amendments to be made to the Articles of Association of

	MacLellan, the approval of the Scheme and the sanctioning of the related Capital Reduction;
“subsidiary”, “subsidiary undertaking”, “associated undertaking” and “Undertaking”	have the meanings ascribed to them under the Companies Act but for this purpose ignoring paragraph 20(1)(b) of Schedule 4A of the Companies Act;
“Takeover Offer”	means a takeover offer under section 428 of the Companies Act;
“UK GAAP” or “United Kingdom Accounting Standards”	means generally accepted accounting principles in the United Kingdom;
“UK Listing Authority” or “UKLA”	means the Financial Services Authority acting in its capacity as the competent authority for the purposes of Part VI of FSMA; and
“United Kingdom” or “UK”	means the United Kingdom of Great Britain and Northern Ireland.
“US Securities Act”	means the United States Securities Act of 1933 and the rules thereunder;
“US” or “United States”	means the United States of America, its territories and possessions, any State of the United States of America and the District of Columbia and all other areas subject to its jurisdictions;
“Voting Record Time”	means the time fixed by the Court and MacLellan for determining the entitlement to vote, respectively, at the Meetings and as set out in the notices thereof.

Interserve Plc

(Registered in England and Wales with registered number 00088456)

NOTICE OF INTERSERVE EXTRAORDINARY GENERAL MEETING

NOTICE IS HEREBY GIVEN that an Extraordinary General Meeting of the Company will be held at the offices of Deloitte & Touche LLP, Stonecutter Court, 1 Stonecutter Street, London EC4A 4TR at 3.30 p.m. on 15 June 2006 for the purpose of considering and, if thought fit, passing the following resolutions:

Ordinary Resolution – Resolution Number 1

THAT the Acquisition of MacLellan pursuant to a scheme of arrangement under section 425 of the Companies Act 1985 or pursuant to a recommended takeover offer under section 428 of the Companies Act 1985 (if for any reason the Company decides to implement the Acquisition by means of a takeover offer instead of a scheme of arrangement) as described in a circular to the ordinary shareholders of the Company dated 30 May 2006 be and is hereby approved and that the Directors of the Company (or any duly authorised committee thereof) be and are hereby authorised to take all such steps as may be necessary or appropriate in relation thereto and to implement the Acquisition and all documents required in relation to it with such modifications, variations, revisions, waivers or amendments (not being modifications, variations, revisions, waivers or amendments which are of a material nature) as the Directors or any such committee may deem necessary, expedient or appropriate or as the High Court of Justice may require.

Ordinary Resolution – Resolution Number 2

THAT the Directors be and they are hereby generally and unconditionally authorised in accordance with section 80 of the Companies Act 1985 to exercise all powers of the Company to allot relevant securities (as defined in that section) up to a maximum nominal amount of £1,600,000 provided that this authority shall expire 15 months from the date of this resolution or, if earlier, at the conclusion of the Annual General Meeting of the Company in 2007, 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 securities in pursuance of such offer or agreement as if the authority conferred hereby had not expired.

By order of the Directors

T. Bradbury

Company Secretary

30 May 2006

Registered Office:
Interserve House,
Ruscombe Park,
Twyford,
Reading,
Berkshire
RG10 9JU

Notes:**Proxies**

Any member of the Company entitled to attend and vote at the meeting may appoint one or more proxies to attend and, on a poll, vote instead of him or her. A proxy need not be a member of the Company. A form of proxy is enclosed. Completion and submission of an instrument appointing a proxy will not preclude a member from attending and voting in person at the meeting. Subject to the provisions for proxies and corporate representatives, only registered holders of ordinary shares of the Company are entitled to attend and vote at the meeting. The form of proxy should be completed, signed and returned to the registrar of the Company, Capita Registrars, Corporate Actions, The Registry, 34 Beckenham Road, Beckenham, Kent, BR3 4TU in accordance with the instructions on the form of proxy, so as to be received no later than 48 hours before the time fixed for holding the meeting (or any adjourned meeting). You may register your proxy electronically in accordance with the instructions on the form of proxy. An appointment of a proxy submitted in electronic form must be received by the Registrar not later than 48 hours before the time fixed for holding the meeting (or adjourned meeting).

Uncertificated Securities Regulations

The Company, pursuant to Regulation 41 of the Uncertificated Securities Regulations 2001, specifies that only those shareholders registered in the Register of Members of the Company as at 3.30 p.m. on 13 June 2006 shall be entitled to attend or vote at the Interserve Extraordinary General Meeting in respect of the number of shares registered in their name at that time. If the meeting is adjourned, the time by which a person must be entered on the Register of Members in order to have the right to attend or vote at the adjourned meeting is 48 hours before the date and time fixed for the adjourned meeting. Changes to entries in the Register after the relevant time shall be disregarded in determining the rights of any person to attend or vote at the meeting.

CREST

CREST members who wish to appoint a proxy or proxies through the CREST electronic proxy appointment service may do so for the Extraordinary General Meeting to be held on 15 June 2006 and any adjournment(s) thereof by using the procedures described in the CREST Manual. CREST Personal Members or other CREST sponsored members, and those CREST members who have appointed a voting service provider(s), should refer to their CREST sponsor or voting service provider(s), who will be able to take the appropriate action on their behalf.

In order for a proxy appointment or instruction made using the CREST service to be valid, the appropriate CREST message (a "CREST Proxy Instruction") must be properly authenticated in accordance with CRESTCo's specifications and must contain the information required for such instructions, as described in the CREST Manual. The message, regardless of whether it constitutes the appointment of a proxy or an amendment to the instruction given to a previously appointed proxy must, in order to be valid, be transmitted so as to be received by the issuer's agent (ID RA10) by the latest time(s) for receipt of proxy appointments specified in the notice of meeting. For this purpose, the time of receipt will be taken to be the time (as determined by the timestamp applied to the message by the CREST Applications Host) from which the issuer's agent is able to retrieve the message by enquiry to CREST in the manner prescribed by CREST. After this time any change of instructions to proxies appointed through CREST should be communicated to the appointee through other means.

CREST members and, where applicable, their CREST sponsors or voting service providers should note that CRESTCo does not make available special procedures in CREST for any particular messages. Normal system timings and limitations will therefore apply in relation to the input of CREST Proxy Instructions. It is the responsibility of the CREST member concerned to take (or, if the CREST member is a CREST personal member or sponsored member or has appointed a voting service provider(s), to procure that his CREST sponsor or voting service provider(s) take(s)) such action as shall be necessary to ensure that a message is transmitted by means of the CREST system by any particular time. In this connection, CREST members and, where applicable, their CREST sponsors or voting service providers are referred, in particular, to those sections of the CREST Manual concerning practical limitations of the CREST system and timings.

The Company may treat as invalid a CREST Proxy Instruction in the circumstances set out in Regulation 35(5)(a) of the Uncertificated Securities Regulations 2001.