

Work Group plc
Interim report
for the 6 month period
ended 30 June 2009

Work Group plc
Interim report
for the 6 month period ended 30 June 2009
Contents

Headlines	3
Chairman's review	4
Operating review	5 - 6
Consolidated income statement	7
Consolidated statement of comprehensive income.....	8
Consolidated balance sheet	9
Consolidated statement of changes in shareholders' equity	10
Consolidated cash flow statement.....	11
Notes to the interim financial information.....	12- 20

Headlines

Break even before exceptional costs despite weak market

UK business profitable before exceptional costs £0.3m (2008: £1.3m)

Net cash of £1.5m (2008: £0.4m)

Balance sheet remains strong with no debt

Firm action taken to reduce cost base

Net fee income down 32% to £5.43m (2008: £7.99m)*

*References in the report to 'Net fee income' represent Gross Profit

Chairman's review

The key challenge of recession is how to lead and manage a company through a period of significant decline - because it is the decline and consequent adjustment which can be particularly painful within a people business.

As reported in the operating review, headcount has been reduced, salary cuts implemented and offices closed. But despite this, our teams have worked with enormous commitment and to have reached the half year having broken even (before exceptional costs) is a creditable achievement. It is also pleasing to have seen non-UK and Europe income increase and that net cash remained strong throughout the period.

However recessions are not just about challenge, they present opportunities too - not least that change is accelerated. As we have repeatedly stated, we are in the business of changing the way employers recruit and retain talent, and so our task now is to exploit that opportunity.

I do not believe that we will see any significant level of growth return to the market in the foreseeable future and so our challenge is to improve our performance through winning more projects from more clients.

A handwritten signature in black ink, appearing to be 'SH', with a long horizontal stroke extending to the right.

Simon Howard
Chairman

Operating review

During a period of severe economic slowdown the Group achieved a break even position before exceptional costs and generated positive cash flow from operations. At the period end net cash was £1.5m, only marginally down from the year end of £1.6m.

Group net fee income fell by 32% to £5.43m (2008: £7.99m). All service lines and all sectors were impacted by the recession. Although most of our services are not directly related to recruitment volumes, clients cut their budgets available to us due to the magnitude of economic and corporate uncertainty.

Outsourcing and assessment service income (reported in Talent Management) proved the most resilient service line where net fee income fell 15%. The economic slowdown has hastened the decline in advertising income which fell 39%. Across the Group income from fee based services increased to 81% of total income (2008: 79%) and helped improve the gross margin further to 44.6% (2008: 42.6%).

Income from continuing global contracts of £0.53m decreased 42% (2008: £0.92m). However income from outside the UK and Europe increased by 35% to £0.68m (2008: £0.5m).

	6 months to 30 June 2009 £'000	6 months to 30 June 2008 £'000	Change %	Year ended 31 Dec 2008 £'000
Gross profit (net fee income)				
Communications	3,275	4,723	(31)	8,807
Talent Management	2,157	3,265	(34)	6,070
Group gross profit	5,432	7,988	(32)	14,877
Operating profit before exceptional items				
Communications	49	772	(94)	544
Talent Management	121	510	(76)	747
Corporate (non-recharged)	(166)	(277)	40	(236)
Group operating profit before exceptional items	4	1,005	(100)	1,055
Operating (loss)/profit				
Communications	(169)	772	(122)	408
Talent Management	(220)	510	(143)	699
Corporate (non-recharged)	(166)	(277)	40	(236)
Group operating (loss)/profit	(555)	1,005	(155)	871

The Group has reduced its cost base considerably through headcount reductions, property rationalisation and cost re-alignments throughout the business. Total costs in the period of £5.4m (excluding exceptional costs) are 23% less than last year (2008: £7.0m). In the UK the cost reduction has been 27%.

Headcount across the Group has fallen by 30% to 166 (2008: 238) through a combination of natural attrition, voluntary measures and redundancies. Redundancy costs of £0.28m are included in exceptional costs. From 1st April everyone in the Group agreed to a salary cut. Voluntary measures such as sabbaticals were also introduced. These actions have enabled the Group to retain a higher proportion of front line income generators. Of total costs in the period, people costs have risen to 79% (2008: 72%).


Property costs in the North West have been rationalised through a lease surrender and co-locating Armstrong Craven people in the existing Hale office. These one-off costs totalled £0.28m and are included in exceptional costs.

In total, the cost base in 2009 has been reduced by more than £3.3m.

In the US, from a small base, net fee income has doubled and Hong Kong has generated incremental Group income. The losses from the overseas businesses totalled £0.3m (2008: £0.3m). Investment by necessity has been modest. Before overseas losses, the UK business achieved an operating profit before exceptional items of £0.3m (2008: £1.3m).

Key priorities have been the preservation of cash and the continued focus on working capital management. This has resulted in positive cash generation from operations. A loan of £0.14m was made to the employee benefit trust which purchased shares in the company to be used in the future for employee incentives. With net cash of £1.5m and no debt, the balance sheet remains strong.

Group Financial Performance	6 months to 30 June 2009 £'000	6 months to 30 June 2008 £'000	Change %	Year ended 31 Dec 2008 £'000
Adjusted profit (Operating profit before exceptional items)	4	1,005	(99)	1,055
Operating (loss) /profit	(555)	1,005	(155)	871
(Loss)/profit before tax	(579)	1,011	(157)	873
(Loss)/profit after tax	(499)	723	(169)	411
(Loss)/earnings per share (pence)	(1.74)	2.55	(168)	1.44



Michael Warren
Finance Director

Consolidated income statement for the 6 month period ended 30 June 2009

	Note	Unaudited 6 month period ended 30 June 2009	Unaudited 6 month period ended 30 June 2008	Audited Year ended 31 December 2008
		£'000	£'000	£'000
Revenue	3	12,178	18,731	35,679
Cost of sales		(6,746)	(10,743)	(20,802)
Gross profit		5,432	7,988	14,877
Net operating expenses		(5,987)	(6,983)	(14,006)
Operating (loss)/profit	3	(555)	1,005	871
Operating profit before exceptional items		4	1,005	1,055
Exceptional items		(559)	-	(184)
Finance costs		(27)	(16)	(26)
Finance income		3	22	28
(Loss)/profit before taxation		(579)	1,011	873
Taxation	4	80	(288)	(462)
(Loss)/profit for the period		(499)	723	411
(Loss)/earnings per share (pence)	6	(1.74)	2.55	1.44
Diluted (loss)/earnings per share (pence)	6	(1.74)	2.38	1.36
Dividend paid per share (pence)	5	-	0.5	0.5

The results above are all in respect of continuing operations.

Consolidated statement of comprehensive income for the 6 month period ended 30 June 2009

	Note	Unaudited 6 month period ended 30 June 2009	Unaudited 6 month period ended 30 June 2008	Audited Year ended 31 December 2008
		£'000	£'000	£'000
(Loss)/profit for the period		(499)	723	411
Other comprehensive income				
Currency translation differences		(43)	1	100
Total comprehensive (loss)/profit for the period		(542)	724	511
Total comprehensive (loss)/profit for the period attributable to equity shareholders		(542)	724	511

Consolidated balance sheet as at 30 June 2009

	Note	Unaudited 6 month period ended 30 June 2009	Unaudited 6 month period ended 30 June 2008	Audited Year ended 31 December 2008
		£'000	£'000	£'000
Assets				
Non-current assets				
Goodwill	7	12,197	12,197	12,197
Property, plant & equipment	8	612	769	721
Deferred tax assets		102	212	24
		<u>12,911</u>	<u>13,178</u>	<u>12,942</u>
Current assets				
Inventories		320	496	314
Trade and other receivables		4,551	8,448	4,972
Cash and cash equivalents		1,462	384	1,566
		<u>6,333</u>	<u>9,328</u>	<u>6,852</u>
Liabilities				
Current liabilities				
Trade and other payables		(4,894)	(6,217)	(4,753)
Current tax liabilities		(253)	(1,093)	(265)
		<u>(5,147)</u>	<u>(7,310)</u>	<u>(5,018)</u>
Net current assets		<u>1,186</u>	<u>2,018</u>	<u>1,834</u>
Net assets		<u>14,097</u>	<u>15,196</u>	<u>14,776</u>
Shareholders' equity				
Ordinary share capital	9	572	572	572
Share premium		8,240	8,240	8,240
Other reserves		2,826	2,826	2,826
Shares held by EBT		(136)	-	-
Foreign exchange reserve		57	1	100
Retained earnings		2,538	3,557	3,038
Total shareholders' equity		<u>14,097</u>	<u>15,196</u>	<u>14,776</u>

Consolidated statement of changes in Shareholders' equity as at 30 June 2009

Unaudited	Note	Share capital	Share premium	Special reserve	Shares held by EBT	Foreign exchange reserve	Retained earnings	Total reserves
		£'000	£'000	£'000	£'000	£'000	£'000	£'000
At 1 January 2008		542	7,261	2,826	-	-	3,004	13,633
Profit for the period							723	723
Foreign exchange		-	-	-	-	1	-	1
Comprehensive profit for the period		-	-	-	-	1	723	724
Value of employee services		-	-	-	-	-	60	60
Deferred taxation on share options		-	-	-	-	-	(87)	(87)
Ordinary shares issued	9	30	979	-	-	-	-	1,009
Dividends paid	5	-	-	-	-	-	(143)	(143)
At 30 June 2008		572	8,240	2,826	-	1	3,557	15,196
Loss for the period		-	-	-	-	-	(312)	(312)
Foreign exchange		-	-	-	-	99	-	99
Comprehensive (loss)/profit for the period		-	-	-	-	99	(312)	(213)
Value of employee services		-	-	-	-	-	(92)	(92)
Deferred taxation on share options		-	-	-	-	-	(115)	(115)
At 31 December 2008		572	8,240	2,826	-	100	3,038	14,776
Loss for the period		-	-	-	-	-	(499)	(499)
Foreign exchange		-	-	-	-	(43)	-	(43)
Comprehensive (loss) for the period		-	-	-	-	(43)	(499)	(542)
Purchase of ordinary shares in Work Group plc		-	-	-	(136)	-	-	(136)
Value of employee services		-	-	-	-	-	(1)	(1)
At 30 June 2009		572	8,240	2,826	(136)	57	2,538	14,097

Consolidated cash flow statement for the 6 month period ended 30 June 2009

	Note	Unaudited 6 month period ended 30 June 2009 £'000	Unaudited 6 month period ended 30 June 2008 £'000	Audited Year ended 31 December 2008 £'000
Cash flows from operating activities				
Cash generated from operations	10	124	726	2,920
Finance cost paid		(32)	(17)	(30)
Tax paid		(12)	(124)	(1,037)
Net cash inflow from operating activities		80	585	1,853
Cash flows from investing activities				
Deferred consideration paid		-	(1,000)	(1,000)
Finance income received		3	18	31
Purchase of property, plant and equipment	8	(49)	(117)	(220)
Proceeds from sale of property, plant and equipment		-	-	4
Net cash used in investing activities		(46)	(1,099)	(1,185)
Cash flows from financing activities				
Net proceeds from issue of ordinary share capital		-	9	9
Purchase of shares in Work Group plc by EBT		(136)	-	-
Loan notes repaid		-	(9)	(9)
Dividend paid	5	-	(143)	(143)
Finance lease payments		(2)	(2)	(2)
Net cash outflow from financing		(138)	(145)	(145)
(Decrease)/increase in cash in the period/year		(104)	(659)	523
Cash and cash equivalents at start of period/year		1,566	1,043	1,043
Cash and cash equivalents at end of period/year		1,462	384	1,566

Notes to the interim financial information

1 Financial information and presentation

The financial information contained in this Interim Report does not constitute statutory accounts within the meaning of the Companies Act 1985 and has not been audited.

The financial information for the year ended 31 December 2008 is derived from the statutory accounts for that period, which have been filed with the Registrar of Companies and on which the auditors gave an unqualified opinion.

2 Principal accounting policies

Basis of preparation

This interim consolidated financial information is for the six months ended 30 June 2009 and has been prepared in accordance with IAS 34 "Interim financial reports" and with the accounting policies set out in the Group's 2008 annual report as amended for new standards effective during the period where relevant. These accounting policies are based on the EU-adopted IFRS and IFRIC interpretations that are applicable at the balance sheet date. IFRS and IFRIC interpretations that will be applicable at 31 December 2009, including those that will be applicable on an optional basis, are not known with certainty at the time of preparing this interim financial information. It is therefore possible that further changes to the accounting policies and the comparative financial information may be required before their publication in the 2009 annual report and financial statements.

This consolidated interim financial information has been prepared under the historical cost convention.

The following new standards and amendments to standards are mandatory for the first time for the financial year beginning 1 January 2009.

IAS 1 (revised), 'Presentation of financial statements'. The revised standard prohibits the presentation of items of income and expense (that is 'non-owner changes in equity') in the statement of changes in equity, requiring 'non-owner changes in equity' to be presented separately from owner changes in equity. All 'non-owner changes in equity' are required to be shown in a performance statement.

Entities can choose whether to present one performance statement (the statement of comprehensive income) or two statements (the income statement and statement of comprehensive income). The Group has elected to present two statements. The interim financial statements have been prepared under the revised disclosure requirements.

IFRS 8, 'Operating segments'. IFRS 8 replaces IAS 14, 'Segment reporting'. It requires a 'management approach' under which segment information is presented on the same basis as that used for internal reporting purposes. The operating segment presentation is the same as that reported in the accounts for the year ended 31 December 2008.

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. The chief operating decision-maker has been identified as the Board.

Goodwill is allocated by management to groups of cash-generating units on a segment level. IFRS 8 has not resulted in any additional goodwill impairment. There has been no impact on the measurement of the Group's assets and liabilities.

The following new standards, amendments to standards and interpretations are mandatory for the first time for the financial year beginning 1 January 2009, but are not currently relevant for the Group.

IFRIC 13, 'Customer loyalty programmes'.

IFRIC 14, IAS 19- 'The limit on a defined benefit asset, minimum funding requirements and their interaction'. This is not relevant to the Group as the Group has no defined benefit pension schemes.

IFRIC 15, 'Agreements for the construction of real estate'.

IFRIC 16, 'Hedges of a net investment in a foreign operation'.

IAS39 (amendment), 'Financial instruments: Recognition and measurement'.

The following new standards, amendments to standards and interpretations have been issued, but are not effective for the financial year beginning 1 January 2009 and have not been early adopted:

IFRS 3 (revised), 'Business combinations' and consequential amendments to IAS 27, 'Consolidated and separate financial statements', IAS 28, 'Investments in associates' and IAS 31, 'Interests in joint ventures', effective prospectively to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after 1 July 2009.

Management is assessing the impact of the new requirements regarding acquisition accounting, consolidation and associates on the Group. The Group does not have any joint ventures.

The revised standard continues to apply to the acquisition method to business combinations, with some significant changes. For example, all payments to purchase a business are to be recorded at fair value at the acquisition date, with contingent payments classified as debt subsequently re-measured through the income statement. There is a choice on an acquisition-by-acquisition basis to measure the minority interest in the acquiree either at fair value or at the minority interest's proportionate share of the acquiree's net assets. All acquisition-related costs should be expensed. The Group will apply IFRS 3 (revised) to all business combinations from 1 January 2010, subject to endorsement by the EU.

IFRC 17, 'Distributions of non-cash assets to owners', effective for annual periods beginning on or after 1 July 2009.

IFRIC 18, 'Transfers of assets from customers', effective for transfers of assets received on or after 1 July 2009. This is not relevant to the Group, as it has not received any assets from customers.

3 Segmental analysis

This is the first period in which the Group has adopted IFRS 8 "Operating Segments". IFRS 8 requires operating segments to be identified on the basis of internal reports which are regularly reviewed by the chief operating decision-maker to allocate resources to the segments and to assess their performance. The chief operating decision-maker has been identified as the Board. The Board considers that there are two operating segments, Communications and Talent Management. Communications represents the employer marketing services offered by the business. Talent Management combines search and intelligence and recruitment process outsourcing. The Board assesses the performance of the operating segments based on net fee income, operating profit before exceptional items and adjusted EBITDA.

Unaudited 6 month period ended 30 June 2009	Communications	Talent Management	Total continuing operations
	£'000	£'000	£'000
Total revenue	9,431	2,788	12,219
Inter-segment revenue	-	(41)	(41)
Revenue (from external customers)	9,431	2,747	12,178
Net fee income	3,275	2,157	5,432
Operating profit before exceptional items	49	121	170
Adjusted EBITDA (before exceptional items)	132	171	303
Unaudited 6 month period ended 30 June 2008	Communications	Talent Management	Total continuing operations
	£'000	£'000	£'000
Total revenue	14,735	3,996	18,731
Inter-segment revenue	-	-	-
Revenue (from external customers)	14,735	3,996	18,731
Net fee income	4,723	3,265	7,988
Operating profit before exceptional items	772	510	1,282
Adjusted EBITDA (before exceptional items)	862	580	1,442

Audited Year ended 31 December 2008	Communications £'000	Talent Management £'000	Total continuing operations £'000
Total revenue	28,340	7,378	35,718
Inter-segment revenue	(1)	(38)	(39)
Revenue (from external customers)	28,339	7,340	35,679
Net fee income	8,807	6,070	14,877
Operating profit before exceptional items	544	747	1,291
Adjusted EBITDA (before exceptional items)	735	868	1,603

A reconciliation of total adjusted EBITDA to total (loss)/profit before taxation is provided as follows:

	Unaudited 30 June 2009 £'000	Unaudited 30 June 2008 £'000	Audited 31 December 2008 £'000
Adjusted EBITDA for reportable segments	303	1,442	1,603
Corporate overheads	(166)	(277)	(236)
Exceptional items	(559)	-	(184)
Depreciation	(133)	(160)	(312)
Operating (loss)/profit	(555)	1,005	871
Finance income	3	22	28
Finance costs	(27)	(16)	(26)
(Loss)/profit before taxation	(579)	1,011	873

4 Taxation

A deferred tax asset has been recognised for trading losses for the company and its UK subsidiary Armstrong Craven Limited. The deferred tax asset for the six month period ended 30 June 2009 is based on the estimated expected effective tax rate of 28% for the year ended 31 December 2009 (2008 actual rate: 28.5%). No deferred tax asset has been recognised for the trading losses of the foreign subsidiaries.

5 Dividends

	Unaudited Period ended 30 June 2009 £'000	Unaudited Period ended 30 June 2008 £'000	Audited Year ended 31 December 2008 £'000
2008 Final dividend - nil pence per share (2007 final dividend : 0.5 pence per share)	-	143	143

6 Earnings per share

	Unaudited 6 month period ended 30 June 2009			Unaudited 6 month period ended 30 June 2008			Audited Year ended 31 December 2008		
	Losses	Weighted average number of shares	Per share amount	Earnings	Weighted average number of shares	Per share amount	Earnings	Weighted average number of shares	Per share amount
	£'000	'000	Pence	£'000	'000	Pence	£'000	'000	Pence
Basic (losses)/ earnings per share	(499)	28,622	(1.74)	723	28,377	2.55	411	28,504	1.44
Effect of dilutive share options	-	-	-	-	2,015	(0.17)	-	1,825	(0.08)
Diluted (losses)/ earnings per share	(499)	28,622	(1.74)	723	30,392	2.38	411	30,329	1.36
Adjusted basic (losses)/ earnings per share	(20)	28,622	(0.07)	723	28,377	2.55	543	28,504	1.90
Effect of dilutive share options	-	-	-	-	2,015	(0.17)	-	1,825	(0.11)
Adjusted diluted (losses)/ earnings per share	(20)	28,622	(0.07)	723	30,392	2.38	543	30,329	1.79

Basic earnings per share is calculated by dividing the earnings attributable to ordinary shareholders by the weighted average number of ordinary shares in issue during the period.

For diluted earnings per share, the weighted average number of shares is adjusted to reflect the impact of all dilutive potential ordinary shares.

	30 June 2009 £'000	30 June 2008 £'000	31 December 2008 £'000
Statutory (losses)/earnings	(579)	723	411
Add back exceptional items	559	-	184
Tax on exceptional items 28% (2008 28.5%)	-	-	(52)
Adjusted (losses)/earnings	(20)	723	543

Adjusted losses/earnings per share excludes the cost of exceptional items less tax at 28% (2008: 28.5%).

7 Goodwill

	Unaudited 30 June 2009	Unaudited 30 June 2008	Audited 31 December 2008
	£'000	£'000	£'000
At 1 January / 30 June	<u>12,197</u>	<u>12,197</u>	<u>12,197</u>
Net book value At 30 June / 31 December	<u><u>12,197</u></u>	<u><u>12,197</u></u>	<u><u>12,197</u></u>

8 Capital Expenditure

Unaudited	Six months ended 30 June 2009 £'000
Opening net book value at 1 January 2009	721
Additions	49
Exchange differences	(5)
Disposals	(20)
Depreciation	<u>(133)</u>
Closing net book value at 30 June 2009	<u>612</u>
Unaudited	Six months ended 30 June 2008 £'000
Opening net book value at 1 January 2008	812
Additions	117
Disposals	-
Depreciation	<u>(160)</u>
Closing net book value at 30 June 2008	<u>769</u>
Audited	Year ended 31 December 2008 £'000
Opening net book value at 1 January 2008	812
Additions	220
Exchange differences	2
Disposals	(1)
Depreciation	<u>(312)</u>
Closing net book value at 31 December 2008	<u>721</u>

9 Called up share capital

	Unaudited 30 June 2009	Unaudited 30 June 2008	Audited 31 December 2008
	£'000	£'000	£'000
Authorised			
75,000,000 ordinary shares of 2p each	1,500	1,500	1,500
	<u>1,500</u>	<u>1,500</u>	<u>1,500</u>
Allotted, called up and fully paid			
28,622,473 ordinary shares of 2p each (30 June 2008 and 31 December 2008 28,622,473 ordinary shares of 2p each)	572	572	572
	<u>572</u>	<u>572</u>	<u>572</u>

There were no shares issued or share options exercised during the period.

10 Reconciliation of operating (loss)/profit to net cash inflow from operations

	Unaudited 6 month period ended 30 June 2009	Unaudited 6 month period ended 30 June 2008	Audited Year ended 31 December 2008
	£'000	£'000	£'000
Profit attributable to shareholders	(499)	723	411
Adjustments:			
Taxation	(80)	288	462
Finance income	(3)	(22)	(28)
Finance costs	27	16	26
Depreciation of plant property and equipment	133	160	312
Loss on disposal of plant property and equipment	20	-	(3)
Share based payments	(1)	60	(32)
Increase in inventories	(6)	(255)	(74)
Decrease/(increase) in trade and other receivables	339	(1,271)	2,057
Increase/(decrease) in trade and other payables	194	1,027	(211)
Net cash inflow from operations	<u>124</u>	<u>726</u>	<u>2,920</u>

Statement of directors' responsibilities

The directors confirm that this interim report has been prepared in accordance with IAS 34 as adopted by the European Union.

The directors are also responsible for the maintenance and integrity of the Company website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

The directors of Work Group plc are listed in the Work Group plc Annual Report for 31 December 2008. A list of current directors is maintained on the Work Group plc website: www.workgroup.plc.uk.

Principal risks and uncertainties

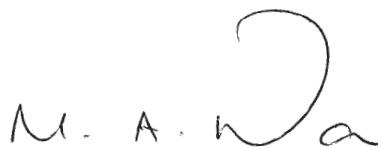
The Board consider the principal risks and uncertainties relating to the Group for the next six months to be the same as detailed in our last Annual Report and Accounts to 31 December 2008. Full details of the risks and uncertainties are detailed in the Directors' report section of those accounts. The principal risks to the business are:

Economic uncertainty
Loss of clients
Loss of key employees
Financial risk

By order of the Board



Simon Howard
Chairman



Michael Warren
Finance Director

22 September 2009

22 September 2009