

Work Group plc

Interim report for the 6 month period ended 30 June 2007

half year

Talent has become the critical issue for modern businesses and the people who lead them. Success will come to those who know how to attract, select, develop and retain the right people.

This is why we exist and why we are growing.

Our vision is to build a company which adds value in all aspects of talent acquisition and talent development – thus ensuring that employers achieve a better return on their investment in people.

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Put simply, we help employers find
and keep the people they need

Highlights

Good first half performance,
continuing profit growth

Strong profit contribution from
latest acquisition, The Recruitment
Communications Company

39% increase in Employer Marketing
gross profit

US office opened in New York

Two more global employer marketing
contracts won

Financial highlights

6 month period ended	30 June 2007 £m	30 June 2006 £m	Change %
Gross profit	7.9	6.5	22
Operating profit before exceptional items	1.4	1.1	26
Operating profit after exceptional items	1.3	1.1	15
Profit before tax	1.3	1.0	28
Profit after tax	0.9	0.7	20
Diluted earnings per share (pence)	3.21p	3.08p	4
Diluted earnings per share adjusted* (pence)	3.77p	3.08p	22

* Adjusted diluted earnings per share is stated before exceptional items and the equity impact of income tax relief on the exercise of share options (see note 7)

The war for talent continues to be a major challenge for employers

Chairman's review

The first half of 2007 has been a period of further progress for Work Group. With just two of the highlights being operating profit (before exceptional items) up by 26% in comparison to the 6 months ended 30 June 2006 and the opening of our first overseas office in New York. Operating profit grew by 15%. The results for the period were in line with the board's expectations.

Over the period we maintained positive growth, both in gross profit and operating profit margin. Growth has not been even across the divisions - Employer Marketing posted the greatest gross profit growth of 39%. This was considerably helped by the contribution of RCC (acquired in November 2006) but advances in the Work Regions and Work London businesses also helped push operating profit before exceptional items to £1.4m (2006: £1.1m). Operating profit increased to £1.3m (2006: £1.1m).


In Executive Research the growth has been slower, partly due to a more competitive market place and partly as a result of the time investment in establishing the New York office. However, trading showed a more positive trend towards the end of the period and we look forward to a stronger performance in the second half. Recruitment Process Outsourcing (RPO) is our smallest division and recorded a small growth in gross profit (7%) while our investment in sales and business development personnel is reflected in the profits dip to £218,000 (down 12% from £248,000 in 2006).

We continue in our view that employers are increasingly seeking greater efficiencies from their recruitment budgets and that as a consequence, they are seeking to reduce their dependence on third party recruiters – particularly recruitment agencies. This has recently been supported by several reports, particularly one from KPMG highlighting a forecast change in the HR Services market and greater demand for online services provided direct to the employer*.

We remain actively engaged in identifying further potential acquisitions, as part of our strategy to build a group of HR consulting services which help employers to acquire and develop talent. We will continue to be highly selective as we are determined that each acquisition adds to the services we sell to existing customers or brings new customers through consolidation. Consequently we are confident that our acquisition strategy will be able to enhance both our direct resourcing capability as well as earnings for shareholders.

We are pleased with the positive response we received from shareholders to the full year dividend which was approved at the AGM. It is our intention to continue to pay dividends once a year as a full year dividend.

Trading since 30 June has been particularly satisfactory and if the current uncertainty in the financial markets has any direct effects, these have yet to be seen. Indeed, there is every reason to remain confident about our prospects as the Group has such a broad spread of clients and is not reliant on any single sector.



Simon Howard
Chairman

24 September 2007

* **Source**
KPMG: Debunking the myth. A report highlighting the escalating 'War for Talent', causing employers to take a fresh look at recruitment.

Operating Review

The Group has made further advances in the first six months of 2007. Gross profit increased by 22% to £7.9m (2006: £6.5m) and operating profit before exceptional items grew by 26% to £1.4m (2006: £1.1m). Operating profit increased by 15% to £1.3m (2006: £1.1m). Operating profit margin (operating profit before exceptional items divided by gross profit) also improved at Group level to 17.5% (2006: 17.0%) despite the impact of start-up costs in the US.

This is the first reporting period where the financial information has been prepared under International Financial Reporting Standards (IFRS). The principal changes are that goodwill is no longer amortised and income tax relief on the exercise of share options is no longer recognised in the income statement. All prior period comparatives have been restated and more detail on IFRS is given in note 12.

Divisional Financial Performance

	6 months to 30 June 2007 £'000	6 months to 30 June 2006 £'000	Increase %	Year ended 31 Dec 2006 £'000
Gross profit (Net fee income)				
Employer Marketing	4,549	3,263	39	7,317
Recruitment Process Outsourcing	970	907	7	1,712
Executive Research	2,351	2,281	3	4,542
Group gross profit	7,870	6,451	22	13,571
Operating profit before exceptional items (Adjusted profit)				
Employer Marketing	1,018	538	89	1,393
Recruitment Process Outsourcing	218	248	(12)	450
Executive Research	516	503	3	874
US costs	(147)	–	–	–
Corporate costs	(224)	(192)	(17)	(263)
Group adjusted profit	1,381	1,097	26	2,454
Operating profit				
Employer Marketing	924	538	72	1,393
Recruitment Process Outsourcing	218	248	(12)	450
Executive Research	493	503	(2)	874
US costs	(147)	–	–	–
Corporate costs	(224)	(192)	(17)	(263)
Group operating profit	1,264	1,097	15	2,454

Employer Marketing

The contribution from the acquisition of RCC completed in November last year has been very positive. Total employer marketing gross profit increased by 39% to £4.5m (2006: £3.3m) and operating profit before exceptional items increased by 89% to £1.0m (2006: £0.5m). Operating profit increased by 71% to £0.9m (2006: £0.5m). Excluding RCC, gross profit grew by 4% and operating profit before exceptional items increased by 24%. It is particularly pleasing that during a period of change for the business, which has included the early stages of the integration of RCC, operating profit margin has grown to 22.4% (2006: 16.5%).

The transition from a transactional advertising business to a fee based HR consulting services organisation continues. These services are focused on talent acquisition and include website design and development, employer branding, campus marketing and the delivery of candidate attraction services and strategies. Excluding RCC, gross profit from these fee based services grew by 31% and, including RCC, now accounts for half of employer marketing gross profit. This positioning has helped us to win global contracts from major employers including Credit Suisse and BP. By the end of the year, fee based services will form the dominant income stream in the employer marketing division.

Operating review continued

Following a review of RCC's profit contribution, provision has now been made for the maximum deferred consideration for RCC of £2.0m payable in April 2008.

Recruitment Process Outsourcing (RPO)

Although gross profit increased by 7% to £1.0m (2006: £0.9m) operating profit declined by 12% due to the investment made in sales and business development resource to grow this division more rapidly. The cross selling opportunities are considerable as during the six months ended 30 June 2007 only 24% of the Group's top 50 clients used the RPO service.

Executive Research

Progress at Armstrong Craven, our executive research business, has been slower than planned. Gross profit grew 3% to £2.4m (2006: £2.3m) and was particularly affected by the impact of a quiet Easter period. Operating profit before exceptional items also grew by 3% to £0.5m (2006: £0.5m).

Management attention is clearly focused on growing the volume of assignments in the second half year.

The final deferred consideration payment of £1.43m has now been made to the vendors

Group Financial Performance

	6 months to 30 June 2007 £'000	6 months to 30 June 2006 £'000	Increase %	Year ended 31 Dec 2006 £'000
Adjusted profit (Operating profit before exceptional items)	1,381	1,097	26	2,454
Operating profit	1,264	1,097	15	2,454
Profit before tax	1,280	999	28	2,377
Profit after tax	897	745	20	1,795
Diluted EPS (pence)	3.21p	3.08p	4	6.97p
Adjusted diluted EPS (pence)	3.77p	3.08p	22	7.68p

The Group profit before and after tax is shown in the table above.

Under IFRS, and IAS12 in particular, a deferred tax asset must be recognised relating to the expected income tax relief available on the future exercise of share options. When share options are actually exercised, the asset is unwound mainly through equity and not the income statement. In comparison to the UK GAAP treatment, the resultant tax charge in the income statement is greater than the actual tax payable in cash terms. Consequently diluted EPS grew by 4% to 3.21p (2006: 3.08p) whereas Adjusted diluted EPS, which removes the impact of this change, grew 22% to 3.77p (2006: 3.08p).

of Armstrong Craven. Half of this was in the form of loan notes, the other half in Work Group shares. The total consideration paid for the business was £5.331m.

US

Work Group Inc was established in New York to service existing contracts and to generate new business from a US base. Although still in start-up phase, initial feedback has been positive to our service offering. The pace of investment will be closely monitored but efficiencies can be achieved by hiring US personnel to deliver local service needs which are currently undertaken by London based people.

The cost of establishing the office was £0.2m in the first half of the year.

Excluding the start-up costs associated with the US, Group operating profit before exceptional items was up 39% to £1.5m (2006: £1.1m).

Group

Exceptional costs of £0.1m were incurred during the period relating to one-off integration costs of RCC and Group services which will lead to future savings. Further exceptional costs will be incurred in the latter part of the year as we co-locate the RCC business with Work Manchester.

The net cash position at 30 June 2007 was £0.5m after an outflow of £0.4m from 31 December 2006. This outflow included a dividend payment of £0.1m. As noted in the Chairman's statement, it is not the intention to pay an interim dividend.

The balance sheet remains strong with debt capacity available for future acquisitions.



Michael Warren
Group Finance Director

24 September 2007

Independent review report to Work Group plc

Introduction

We have been instructed by the company to review the financial information for the six months ended 30 June 2007 which comprises the consolidated interim balance sheet as at 30 June 2007 and the related consolidated statements of income, cash flows and changes in shareholders' equity for the six months then ended and the related notes. We have read the other information contained in the interim report and considered whether it contains any apparent misstatements or material inconsistencies with the financial information.

Directors' responsibilities

The interim report, including the financial information contained therein, is the responsibility of, and has been approved by the directors. The directors are responsible for preparing the interim report in accordance with the AIM Rules for Companies which require that the financial information must be presented in a form consistent with that which will be adopted in the company's annual financial statements.

This interim report has been prepared in accordance with the International Accounting Standard 34, 'Interim financial reporting'. As disclosed in note 2, the next annual financial statements of the company will be prepared in accordance with IFRSs as adopted by the European Union. The accounting policies are consistent with those that the directors intend to use in the next annual financial statements.

Review work performed

We conducted our review in accordance with guidance contained in Bulletin 1999/4 issued by the Auditing Practices Board for use in the United Kingdom. A review consists principally of making enquiries of group management and applying analytical procedures to the financial information and underlying financial data and, based thereon, assessing whether the disclosed accounting policies have been applied. A review excludes audit procedures such as tests of controls and verification of assets, liabilities and transactions. It is substantially less in scope than an audit and therefore provides a lower level of assurance. Accordingly we do not express an audit opinion on the financial information. This report, including the conclusion, has been prepared for and only for the company for the purpose of the AIM rules for Companies and for no other purpose. We do not, in producing this report, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

Review conclusion

On the basis of our review we are not aware of any material modifications that should be made to the financial information as presented for the six months ended 30 June 2007.

PricewaterhouseCoopers LLP

Chartered Accountants
London

24 September 2007

Notes

- a The maintenance and integrity of the Work Group plc website is the responsibility of the directors; the work carried out by the auditors does not involve consideration of these matters and, accordingly, the auditors accept no responsibility for any changes that may have occurred to the interim report since it was initially presented on the website.
- b Legislation in the United Kingdom governing the preparation and dissemination of financial information may differ from legislation in other jurisdictions.

Consolidated income statement

for the 6 month period ended 30 June 2007

	Note	Unaudited 6 month period ended 30 June 2007 £'000	Unaudited 6 month period ended 30 June 2006 £'000	Unaudited Year ended 31 December 2006 £'000
Revenue	3	19,907	16,252	33,147
Cost of sales		(12,037)	(9,801)	(19,576)
Gross profit		7,870	6,451	13,571
Net operating expenses		(6,606)	(5,354)	(11,117)
Operating profit before exceptional items		1,381	1,097	2,454
Exceptional items	4	(117)	–	–
Operating profit	3	1,264	1,097	2,454
Finance costs		(8)	(115)	(130)
Finance income		24	17	53
Profit before taxation		1,280	999	2,377
Taxation	5	(383)	(254)	(582)
Profit for the period attributable to equity shareholders		897	745	1,795
Earnings per share (pence)	7	3.49	3.56	7.93
Diluted earnings per share (pence)	7	3.21	3.08	6.97
Dividend paid per share (pence)		0.4	–	–

The results above are all in respect of continuing operations

Consolidated balance sheet

as at 30 June 2007

	Note	Unaudited 6 month period ended 30 June 2007 £'000	Unaudited 6 month period ended 30 June 2006 £'000	Unaudited Year ended 31 December 2006 £'000
Assets				
Non-current assets				
Goodwill	8	12,167	8,643	11,451
Property, plant & equipment	9	816	838	856
Deferred tax assets		511	829	610
		13,494	10,310	12,917
Current assets				
Inventories		241	137	95
Trade and other receivables		8,325	5,729	5,857
Cash and cash equivalents		1,854	1,101	1,274
		10,420	6,967	7,226
Liabilities				
Current liabilities				
Financial liabilities – borrowings		(1,383)	–	(379)
Trade and other payables		(7,269)	(6,039)	(5,574)
Provisions		(2,000)	(1,830)	(1,465)
Current tax liabilities		(803)	(210)	(500)
		(11,455)	(8,079)	(7,918)
Net current liabilities		(1,035)	(1,112)	(692)
Non current liabilities				
Provisions		–	(31)	(1,250)
		–	(31)	(1,250)
Net assets		12,459	9,167	10,975
Shareholders' equity				
Ordinary share capital	10	535	477	510
Share premium		7,202	5,763	6,433
Other reserves		2,826	2,826	2,826
Retained earnings		1,896	101	1,206
Total shareholders' equity		12,459	9,167	10,975

Consolidated statement of changes in Shareholders' equity

as at 30 June 2007

Unaudited	Note	Share capital £'000	Share premium £'000	Retained earnings £'000	Special reserve £'000	Total Reserves £'000
At 1 January 2006		296	–	(1,129)	2,826	1,993
Profit for the period		–	–	745	–	745
Value of employee services		–	–	(5)	–	(5)
Deferred taxation on share options		–	–	490	–	490
Proceeds from shares issued		181	5,763	–	–	5,944
At 30 June 2006		477	5,763	101	2,826	9,167
Profit for the period		–	–	1,050	–	1,050
Value of employee services		–	–	8	–	8
Deferred taxation on share options		–	–	47	–	47
Proceeds from shares issued		33	670	–	–	703
At 31 December 2006		510	6,433	1,206	2,826	10,975
Profit for the period		–	–	897	–	897
Value of employee services		–	–	(2)	–	(2)
Deferred taxation on share options		–	–	(99)	–	(99)
Proceeds from shares issued	10	25	769	–	–	794
Dividends paid	6	–	–	(106)	–	(106)
At 30 June 2007		535	7,202	1,896	2,826	12,459

Consolidated cash flow statement

for the 6 month period ended 30 June 2007

	Note	Unaudited 6 month period ended 30 June 2007 £'000	Unaudited 6 month period ended 30 June 2006 £'000	Unaudited Year ended 31 December 2006 £'000
Cash flows from operating activities				
Cash (absorbed by)/generated from operations	11	(206)	763	2,118
Interest paid		(2)	(321)	(168)
Tax paid		(81)	–	(65)
Net cash (outflow)/inflow from operating activities		(289)	442	1,885
Cash flows from investing activities				
Acquisition of businesses (net of cash acquired)		–	–	(1,219)
Acquisition expenses		–	–	(123)
Deferred Consideration paid		–	(400)	(400)
Interest received		22	17	54
Purchase of property, plant and equipment	9	(131)	(125)	(254)
Proceeds from sale of property, plant and equipment		5	–	–
Net cash used in investing activities		(104)	(508)	(1,942)
Cash flows from financing activities				
Net proceeds from issue of Ordinary share capital		79	5,944	6,147
Preference shares redeemed		–	(500)	(500)
Loan notes repaid		(4)	(1,500)	(386)
Loan stock repaid		–	–	(1,500)
Repayment of borrowing		–	(2,653)	(2,680)
Dividend paid	6	(106)	–	–
Finance lease payments		–	(19)	(24)
Net cash (outflow)/inflow from financing		(31)	1,272	1,057
(Decrease)/increase in cash in the period/year		(424)	1,206	1,000
Cash and cash equivalents at start of period/year		895	(105)	(105)
Cash and cash equivalents at end of period/year		471	1,101	895

Notes to the financial statements

for the 6 month period ended 30 June 2007

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 figures for the six months ended 30 June 2006 and the year ended 31 December 2006 have been extracted from the unaudited restatement of the group's results from UK GAAP to comply with International Financial Reporting Standards (IFRS).

The UK GAAP financial information for the year ended 31 December 2006 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 2007 and has been prepared in accordance with IAS 34 'Interim financial reports' and with the accounting policies the group expects to adopt in its 2007 annual report. These accounting policies are based on the EU-adopted IFRS and IFRIC interpretations that the group expects to be applicable at that time. The IFRS and IFRIC interpretations that will be applicable at 31 December 2007, 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 2007 annual report and financial statements.

The policies set out below have been consistently applied to all the periods presented.

The consolidated financial statements of Work Group plc were prepared in accordance with UK GAAP until 31 December 2006. Reconciliations and descriptions of the effect of the transition from UK GAAP to IFRS on the group's equity and its net income are provided in Note 12.

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

Critical estimates and judgements

To be able to prepare accounts according to generally accepted accounting principles, management and the Board of directors must make estimates and assumptions that affect the asset and liability items and revenue and expense items recorded in the interim and final accounts as well as other information. These estimates are based on historical experience and various other assumptions that management and the Board believe are reasonable under the circumstances, the results of which form the basis for making judgements about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates under different assumptions or conditions. Areas comprising critical judgement that may significantly impact earnings and financial position are valuations of intangible assets, share based payments and deferred tax.

Basis of consolidation

The group financial statements comprise a consolidation of the financial statements of the holding company and all of its subsidiary undertakings. The results and net assets of subsidiary undertakings acquired are included in the consolidated income statement and consolidated balance sheet using the acquisition method of accounting from the effective date that control passes.

The group has made use of the exemption available under IFRS 1 and not restated any acquisitions made before 1 January 2006.

Revenue and gross profit

Revenue, which is stated net of VAT, represents revenue recognised in respect of employer marketing services together with fees earned from design, assessment and development and other consulting services. Revenue from executive research services is recognised as contract activity progresses and the right to consideration is earned.

Unbilled revenue on client assignments is included as accrued income within trade and other receivables. Where individual on account billings exceed revenue recognised on client assignments, the excess is classified as deferred income within trade and other payables.

Revenue from recruitment advertising (within employer marketing services) is recognised after advertisements have been published and once the right to consideration is established. Revenue from design, assessment and development and other consulting services is recognised as project milestones are completed and the company has the right to consideration for the work performed.

Terms of business with certain clients provide for annual and retrospective rebates dependent on the value of media purchased through the company. Provision is made for these rebates during the contract year based on the maximum anticipated media spend by the client and is reviewed periodically. At the end of the client contract year any over provision of the rebate is written back to cost of sales once the company is satisfied that there is no contractual liability to the client.

Annual retrospective volume rebates are negotiated with certain publications. Estimates are made and reviewed periodically for the total rebate yield based on year to date actual and forecast expenditure by each publication and accrued as a credit to cost of sales.

Media discrepancies arise where there are differences between purchase order values and media invoices. Any debit items arising are investigated and written off to the income statement immediately if deemed irrecoverable. Credit amounts are held for a period of one year, following which they are written back to cost of sales following review.

Property, plant and equipment

The cost of property, plant and equipment is their purchase cost, together with any incidental costs of acquisition. Depreciation is calculated so as to write off the cost of property, plant and equipment, less their estimated residual values, on a straight-line basis over the expected useful economic lives of the assets concerned. The principal annual rates used for this purpose are:

Computer equipment	33%
Fixtures and fittings	20%
Leasehold improvements	over the term of the lease
Motor vehicles	25%

Goodwill

Goodwill is stated at cost less any accumulated impairment losses. Cost represents the difference between the fair value of the consideration paid on acquisition of a business and the fair value of the group's share of the net identifiable assets acquired. As permitted by IFRS 1, goodwill arising on acquisitions prior to 1 January 2006 (the IFRS transition date) has been frozen at its UK GAAP carrying value at that date.

The Directors consider that customer relationships are not separable intangible assets since they attach to the employee base and management of the company acquired and not the company itself. The value assigned to goodwill therefore principally reflects the value of customer relationships, employee base and other non-separable intangible assets.

Other intangible assets

Where material, other intangible assets acquired as part of a business combination are capitalised at fair value at the date of acquisition. Such assets are amortised to their estimated residual values over their expected useful economic lives.

Any acquired software licences which do not form part of the operating software acquired with a piece of hardware are capitalised on the basis of all costs incurred in bringing them into use. These costs are then amortised over their expected useful economic lives.

Impairment of non-current assets

Goodwill is tested annually for impairment, or earlier if circumstances indicate that an impairment may have occurred. The impairment reviews are performed at the cash-generating unit (CGU) level and goodwill is assigned to CGUs for the purpose of such reviews.

At each reporting date, a review for impairment of other non-current assets is carried out to determine if any events or changes in circumstances indicate that the carrying amount of the non-current assets may not be recoverable.

Impairment reviews comprise a comparison of the carrying amount of the non-current asset with its recoverable amount (the higher of the net realisable value and value in use). To the extent that the carrying amount exceeds the recoverable amount, the non-current asset is impaired and an impairment loss is recognised in the income statement.

Trade receivables

Trade receivables are recognised initially at fair value less any provision for impairment. A provision for impairment of trade receivables is established when there is objective evidence that the group will not be able to collect all amounts due according to the original terms of receivables. The amount of the provision is the difference between the asset's carrying amount and the estimated future cash flows. The amount of the provision is recognised in the income statement.

Taxation

Income tax on the profit for the year comprises current and deferred tax. Income tax is recognised in the income statement except to the extent that it relates to items recognised directly in equity, in which case it is recognised in equity. Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted, or substantially enacted, at the balance sheet date, and any adjustment to tax payable in respect of previous years.

As required by IAS 12 (Revised) Deferred taxation is provided using the balance sheet liability method in respect of all temporary differences at the balance sheet date between the tax bases of assets and liabilities and their respective carrying values. Deferred taxation is determined using the tax rates and laws that have been enacted, or substantially enacted, by the balance sheet date and are expected to apply when the related deferred tax asset or liability is realised or settled.

Notes to the financial statements continued

Taxation continued

Deferred tax assets are recognised to the extent that it is probable that future taxable profits will be available against which the temporary differences can be utilised. Deferred tax assets and liabilities are not discounted.

Cash and cash equivalents

Cash and cash equivalents as presented in the balance sheet, consists solely of cash balances. Bank overdrafts that are repayable on demand and form an integral part of the group's cash management are included as a component of cash and cash equivalents for the purpose of the cash flow statement, as permitted by IAS 7.

Inventories and work in progress

Inventories are valued at the lower of cost and net realisable value. Work in progress represents unbilled costs incurred in respect of revenue not recognised and is stated at the lower of cost and net realisable value.

Hire purchase agreements

Assets held under hire purchase agreements are capitalised and disclosed under property, plant and equipment at their fair value. The capital element of the future payments is treated as a liability and the interest is charged to the income statement at a constant periodic rate of charge on the remaining balance of the obligation.

Operating leases

Costs in respect of operating leases are charged on a straight-line basis over the lease term.

Pensions

The group operates a defined contribution scheme, the costs of which are recognised in the income statement in the period in which they relate. The assets of the scheme are held separately from those of the Group in an independent administered scheme.

Foreign currencies

Assets and liabilities in foreign currencies are translated into sterling at the rates of exchange ruling at the balance sheet date. Transactions in foreign currencies are translated into sterling at the rate of exchange ruling at the date of the transaction. Exchange differences are recognised in the income statement as they arise.

Provisions

Provisions are recognised when the group has a present obligation, whether legal or commercial, as a result of a past event, it is probable that an outflow of resources will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation. The group does not discount provisions.

Share based payment

The group issues equity-settled, share-based payments, in the form of share options, to certain employees. In accordance with IFRS 2, such payments are measured at fair value at the date of grant. Fair value is measured using the Black-Scholes pricing model and is expensed on a straight line basis in the income statement over the vesting period, based on the group's estimate of the number of shares that will eventually vest. The group has applied the provisions of IFRS 2 only to those options granted after 7 November 2002 and which had not vested by 1 January 2005.

Dividends

In accordance with IAS 10, dividend distributions to the company's shareholders are recognised as a liability in the financial statements in the period in which the distribution is authorised.

Segmental reporting

The group recognised three business segments for reporting purposes:

Employer Marketing	Development and delivery of candidate attraction services and strategies and internal communications
Recruitment Process Outsourcing	Management and design of employers' recruitment, selection and assessment processes
Executive Research	Direct executive search and market intelligence services

The group also recognises geographical segments as follows:

United Kingdom	USA
Europe	Rest of World

3 Segmental analysis

Primary Segmental analysis – business segments

Unaudited 6 month period ended 30 June 2007	Employer Marketing £'000	Recruitment Process Outsourcing £'000	Executive Research £'000	Corporate £'000	Group £'000
Revenue	16,107	1,441	2,359	–	19,907
Operating profit (segment result)	924	218	493	(371)	1,264
Unaudited 6 month period ended 30 June 2006	Employer Marketing £'000	Recruitment Process Outsourcing £'000	Executive Research £'000	Corporate £'000	Group £'000
Revenue	12,611	1,350	2,291	–	16,252
Operating profit (segment result)	538	248	503	(192)	1,097
Unaudited Year ended 31 December 2006	Employer Marketing £'000	Recruitment Process Outsourcing £'000	Executive Research £'000	Corporate £'000	Group £'000
Revenue	25,911	2,678	4,558	–	33,147
Operating profit (segment result)	1,393	450	874	(263)	2,454

Secondary segmental analysis – geographical segments

Unaudited	6 month period ended 30 June 2007 £'000	6 month period ended 30 June 2006 £'000	Year ended 31 December 2006 £'000
Revenue			
United Kingdom	19,157	15,715	32,048
Europe	410	449	894
USA	306	64	149
Rest of World	34	24	56
Total	19,907	16,252	33,147

4 Exceptional costs

Exceptional costs of £117k were incurred during the period relating to one-off costs associated with the integration of group services and RCC.

5 Taxation

The tax charge for the six month period ended 30 June 2007 is based on the estimated expected effective tax rate for the year ended 31 December 2007.

6 Dividends

	Unaudited Period ended 30 June 2007 £'000	Unaudited Period ended 30 June 2006 £'000	Unaudited Year ended 31 December 2006 £'000
2006 Final dividend – 0.4 pence per share	106	–	–
	106	–	–

Notes to the financial statements continued

7 Earnings per share

	Unaudited 6 month period ended 30 June 2007			Unaudited 6 month period ended 30 June 2006			Unaudited Year ended 31 December 2006		
	Earnings £'000	Weighted average number of shares '000	Per share amount Pence	Earnings £'000	Weighted average number of shares '000	Per share amount Pence	Earnings £'000	Weighted average number of shares '000	Per share amount Pence
Basic earnings per share	897	25,703	3.49	745	20,938	3.56	1,795	22,638	7.93
Effect of dilutive share options	-	2,227	(0.28)	-	3,283	(0.48)	-	3,102	(0.96)
Diluted earnings per share	897	27,930	3.21	745	24,221	3.08	1,795	25,740	6.97
Adjusted basic earnings per share	1,055	25,703	4.10	745	20,938	3.56	1,977	22,638	8.73
Adjusted diluted earnings per share	-	2,227	(0.33)	-	3,283	(0.48)	-	3,102	(1.05)
	1,055	27,930	3.77	745	24,221	3.08	1,977	25,740	7.68

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.

Earnings reconciliation

	Unaudited 6 month period ended 30 June 2007 £'000	Unaudited 6 month period ended 30 June 2006 £'000	Unaudited Year ended 31 December 2006 £'000
Statutory Earnings (2007)	897	745	1,795
Add back exceptional items	117	-	-
Additional tax charge on exceptional items (30%)	(34)	-	-
Actual tax deduction on share options exercised in the period which has been recognised in equity	75	-	182
Revised earnings for Adjusted EPS	1,055	745	1,977

Adjusted earnings per share excludes the cost of exceptional items (less tax at 30%) and the cash impact of the tax savings on share options which have passed through equity.

8 Goodwill

	Unaudited 30 June 2007 £'000	Unaudited 30 June 2006 £'000	Unaudited 31 December 2006 £'000
Cost			
At 1 January	11,451	8,643	8,643
Additions	–	–	3,173
Adjustment to deferred consideration	716	–	(365)
At 30 June	12,167	8,643	11,451
Accumulated impairment			
At 1 January and 30 June/31 December	–	–	–
Net book value			
At 30 June/ 31 December	12,167	8,643	11,451

During the period, the deferred consideration liability in respect of the acquisition of Armstrong Craven Limited was settled in full. The final settlement was £34,000 lower than the provision and this amount has accordingly been released and adjusted in goodwill above.

The provision for deferred consideration for the acquisition of The Recruitment Communications Company Limited has been increased by £750,000 during the period, based on management estimates of the expected cumulative earnings before interest and tax of the company.

9 Capital Expenditure

Unaudited	Six months ended 30 June 2007 £'000
Opening net book value at 1 January 2007	856
Additions	131
Disposals	(7)
Depreciation	(164)
Closing net book value at 30 June 2007	816
	Six months ended 30 June 2006 £'000
Unaudited	
Opening net book value at 1 January 2006	855
Additions	125
Disposals	(2)
Depreciation	(140)
Closing net book value at 30 June 2006	838
	Year ended 31 December 2006 £'000
Unaudited	
Opening net book value at 1 January 2006	855
Additions	254
Acquisitions	67
Disposals	(5)
Depreciation	(316)
Closing net book value at 31 December 2006	856

10 Called up share capital

	Unaudited 30 June 2007 £'000	Unaudited 30 June 2006 £'000	Unaudited 31 December 2006 £'000
Authorised			
75,000,000 ordinary shares of 2p each	1,500	1,500	1,500
	1,500	1,500	1,500
Allotted, called up and fully paid			
26,768,093 ordinary shares of 2p each (30 June 2006 23,854,707 ordinary shares of 2p each; 31 December 2006 25,490,957 ordinary shares of 2p each)	535	477	510
	535	477	510

Share options were exercised during the period, as detailed in the table below. The resultant ordinary shares were issued for cash. In addition, a portion of the deferred consideration for Armstrong Craven Limited was settled by 880,074 ordinary shares in Work Group plc.

The following ordinary shares were issued during the period:

Date of issue	No. shares	Reason
3 April 2007	105,062	Exercise of options
18 April 2007	108,000	Exercise of options
25 April 2007	880,074	Deferred Consideration for acquisition of Armstrong Craven Limited
11 May 2007	31,500	Exercise of options
19 June 2007	2,500	Exercise of options
25 June 2007	22,500	Exercise of options
26 June 2007	127,500	Exercise of options
Total	1,277,136	

11 Reconciliation of operating profit to net cash (outflow)/ inflow from operations

	Unaudited 6 month period ended 30 June 2007 £'000	Unaudited 6 month period ended 30 June 2006 £'000	Unaudited Year ended 31 December 2006 £'000
Profit attributable to shareholders	897	745	1,795
Adjustments:			
Taxation	383	254	582
Finance income	(24)	(17)	(53)
Finance costs	8	115	130
Depreciation of plant property and equipment	164	140	316
Loss on disposal of plant property and equipment	–	2	5
Share based payments	(2)	(5)	3
Increase in Inventories	(146)	(103)	(62)
Increase in Trade and other receivables	(2,532)	(1,426)	(861)
Increase in Trade and other payables	1,046	1,140	376
Decrease in provisions	–	(82)	(113)
Net cash (outflow)/inflow from operations	(206)	763	2,118

12 Transition to IFRS

i) IFRS 1 – First time adoption of International Accounting Standards

The group prepared its consolidated financial statements under UK Generally Accepted Accounting Principles (UK GAAP) for all reporting periods to 31 December 2006. With effect from 1 January 2007 all companies listed on the Alternative Investment Market (AIM) are required to report in accordance with International Financial Reporting Standards (IFRS). This interim financial information is the group's first published results to be prepared under IFRS and includes comparative IFRS financial information for the six months ended 30 June 2006. The Group will present its first annual report and financial statements under IFRS for the year ended 31 December 2007, which will include comparative IFRS financial information for the year ended 31 December 2006. The Group's IFRS transition date is 1 January 2006, being the first day of the comparative period.

In preparing this interim consolidated financial information in accordance with IFRS 1, the Group has applied the mandatory exemptions and certain of the optional exemptions from full retrospective application of IFRS.

ii) Exemptions from full retrospective application applied by the group

Optional Exemptions

Business combination exemption – The Group has not restated business combinations that took place prior to the 1 January 2006 transition date, as allowed under IFRS 1.

Share-based payment transaction exemption – The Group has applied IFRS 2 only to those options granted after 7 November 2002 but which had not vested by 1 January 2005.

Fair value deemed as cost exemption – the Group has used the cost of all property, plant and equipment as an approximation for the fair value of the assets.

Mandatory Exemption

UK GAAP estimates exemption – As there is no evidence that estimates made under UK GAAP at the transition date were in error, estimates under IFRS are consistent with those original estimates

Reconciliations between IFRS and UK GAAP

The reconciliations set out below show the effect of the transition from UK GAAP to IFRS.

Reconciliations for Equity have been provided as at the following dates:

1 January 2006

30 June 2006

31 December 2006

Reconciliations for Net Income have been provided for the following periods:

Six month period ended 30 June 2006

Year ended 31 December 2006

Notes to the financial statements continued

12 Transition to IFRS continued

Equity as at 1 January 2006

	UK GAAP £'000	Notes	Effect of Transition to IFRS £'000	IFRS £'000
Assets				
Non current assets				
Goodwill	8,643		–	8,643
Property, plant & equipment	855		–	855
Deferred tax assets	–	(a)	339	339
	9,498		339	9,837
Current Assets				
Inventories	33		–	33
Trade and other receivables	4,753	(a)	(339)	4,414
Cash and cash equivalents	60		–	60
	4,846		(339)	4,507
Liabilities				
Current liabilities				
Financial liabilities – borrowings	(1,139)		–	(1,139)
Trade and other payables	(6,545)	(i)	400	(6,145)
Provisions	–	(i)	(400)	(400)
Current tax liabilities	(65)		–	(65)
	(7,749)		–	(7,749)
Net current liabilities	(2,903)		–	(3,242)
Non current liabilities				
Bank loan	(1,654)		–	(1,654)
Loan stock	(1,000)		–	(1,000)
Finance leases	(5)		–	(5)
Trade and other payables	(1,830)	(i)	1,830	–
Provisions	(113)	(i)	(1,830)	(1,943)
	(4,602)		–	(4,602)
Net Assets	1,993		–	1,993
Shareholders' equity				
Ordinary share capital	296		–	296
Other reserves	2,826		–	2,826
Retained earnings	(1,129)		–	(1,129)
Total shareholders' equity	1,993		–	1,993

12 Transition to IFRS continued

Equity as at 30 June 2006

	UK GAAP £'000	Notes	Effect of Transition to IFRS £'000	IFRS £'000
Assets				
Non current assets				
Goodwill	8,411	(b)	232	8,643
Property, plant & equipment	838		–	838
Deferred tax assets	–	(c), (d)	829	829
	9,249		1,061	10,310
Current Assets				
Inventories	137		–	137
Trade and other receivables	6,068	(d)	(339)	5,729
Cash and cash equivalents	1,101		–	1,101
	7,306		(339)	6,967
Liabilities				
Current liabilities				
Trade and other payables	(7,869)	(i)	1,830	(6,039)
Provisions	–	(i)	(1,830)	(1,830)
Current tax liabilities	(210)		–	(210)
	(8,079)		–	(8,079)
Net current liabilities	(773)		–	(1,112)
Non current liabilities				
Provisions	(31)		–	(31)
	(31)		–	(31)
Net Assets	8,445		722	9,167
Shareholders' equity				
Ordinary share capital	477		–	477
Share premium	5,763		–	5,763
Other reserves	2,826		–	2,826
Retained earnings	(621)	(b), (c)	722	101
Total shareholders' equity	8,445		722	9,167

Notes to the financial statements continued

12 Transition to IFRS continued

Equity as at 31 December 2006

	UK GAAP £'000	Notes	Effect of Transition to IFRS £'000	IFRS £'000
Assets				
Non current assets				
Goodwill	10,984	(e)	467	11,451
Property, plant & equipment	856		–	856
Deferred income tax assets	–	(f),(g)	610	610
	11,840		1,077	12,917
Current Assets				
Inventories	95		–	95
Trade and other receivables	6,112	(g)	(255)	5,857
Cash and cash equivalents	1,274		–	1,274
	7,481		(255)	7,226
Liabilities				
Current liabilities				
Financial liabilities – borrowings	(379)		–	(379)
Trade and other payables	(7,039)	(i)	1,465	(5,574)
Provisions	–	(i)	(1,465)	(1,465)
Current tax liabilities	(500)		–	(500)
	(7,918)		–	(7,918)
Net current liabilities	(437)		–	(692)
Non current liabilities				
Trade and other liabilities	(1,250)	(i)	1,250	–
Provisions	–	(i)	(1,250)	(1,250)
	(1,250)		–	(1,250)
Net Assets	10,153		822	10,975
Shareholders' equity				
Ordinary share capital	510		–	510
Share premium	6,433		–	6,433
Other reserves	2,826		–	2,826
Retained earnings	384	(e),(f)	822	1,206
Total shareholders' equity	10,153		822	10,975

12 Transition to IFRS continued

Income statement as at 30 June 2006

	Notes	UK GAAP £'000	Effect of Transition to IFRS	IFRS £'000
Revenue		16,252	–	16,252
Cost of sales		(9,801)	–	(9,801)
Gross profit		6,451	–	6,451
Net operating expenses	(b)	(5,586)	232	(5,354)
Operating profit		865	232	1,097
Interest payable and other similar charges		(115)	–	(115)
Interest receivable		17	–	17
Profit before taxation		767	232	999
Taxation		(254)	–	(254)
Profit for the period attributable to equity shareholders		513	232	745

Income statement as at 31 December 2006

	Notes	UK GAAP £'000	Effect of Transition to IFRS	IFRS £'000
Revenue		33,147	–	33,147
Cost of sales		(19,576)	–	(19,576)
Gross profit		13,571	–	13,571
Net operating expenses	(e)	(11,584)	467	(11,117)
Operating profit		1,987	467	2,454
Interest payable and other similar charges		(130)	–	(130)
Interest receivable		53	–	53
Profit before taxation		1,910	467	2,377
Taxation	(h)	(400)	(182)	(582)
Profit for the period attributable to equity shareholders		1,510	285	1,795

Explanation of the effect of transition to IFRS

- Reclassification of deferred tax asset from trade and other receivables to non current assets, £339k.
- Reversal of goodwill amortisation calculated under UK GAAP but no longer required under IFRS, £232k.
- Recognition of deferred tax asset on future tax benefit of share options not yet exercised, £490k.
- Reclassification of deferred tax asset from trade and other receivables to non current assets, £339k.
- Reversal of goodwill amortisation calculated under UK GAAP but no longer required under IFRS, £467k.
- Recognition of deferred tax asset on future tax benefit of share options not yet exercised, £355k.
- Reclassification of deferred tax asset from trade and other receivables to non current assets, £255k.
- Tax saving on share options exercised in the period, now shown as a movement in equity in accordance with IAS 12, £182k.
- Reclassification of deferred consideration payable from Trade and other payables to Provisions.

Changes to the cash flow statement

The company cash flow statement prepared under IFRS presents substantially the same information as required under UK GAAP.

Under IFRS only three categories of cash flow activity are required to be reported; operating, investing and financing. There are no material differences between the cash flow statement presented under IFRS and the cash flow statement under UK GAAP.

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