

6 March 2007

WORK GROUP PLC
A leading HR consulting services provider

Preliminary Results for the year ended 31 December 2006

Financial highlights

- Net fee income (gross profit) up 49% to £13.6m (2005: £9.1m)
- Operating profit before goodwill amortisation (EBITA) up 81% to £2.5m (2005: £1.4m)
- Profit before tax and goodwill amortisation up 119% to £2.4m (2005: £1.1m)
- Basic EPS up 26% to 6.7p (2005: 5.3p); diluted EPS up 36% to 5.9p (2005: 4.3p)
- Strong balance sheet and cash flow
- Maiden dividend of 0.4p per share proposed
- £6.2m of net proceeds raised on AIM Admission in March 2006

Business highlights

- Strong profit contribution from Armstrong Craven, acquired in October 2005
- Good operating profit increases in all three divisions
- Continuing successful migration of client spend from advertising to fee-based services
- Earnings enhancing acquisition of The Recruitment Communications Company in November 2006
- New office opening in US scheduled for Q2 2007 supported by existing client contracts

Simon Howard, Executive Chairman of Work Group plc, commented:

"2006 was a year of real progress for Work Group. We delivered on organic and acquisitive growth while at the same time strengthening management. We are optimistic for our prospects in 2007 and the decision to declare a maiden dividend is just one indication of our confidence in the performance of the company.

Another is our commitment to open an office in New York in order to fully exploit business wins as well as growing demand from US-based clients. We remain committed to our buy-and-build strategy, and are constantly in dialogue with a range of prospects.

Our job is to help employers win the war for talent and we detect increasing demand for our range of services. We have ambitious plans for 2007 and in the first two months of the year, overall trading has been in line with them and we remain confident of again delivering further profitable growth and reporting further progress in 2007 and beyond."

www.workgroup.plc.uk

Further enquiries:

Work Group

Tel: +44 (0)20 7492 0000

Simon Howard, Executive Chairman

Michael Warren, Finance Director

Fishburn Hedges

Tel: +44 (0)20 7754 3056

Michelle James

Mob: +44 (0)7958 451 446

James Benjamin

Mob: +44 (0)7747 113 930

Andy Berry

Mob: +44 (0)7767 374 421

Altium

Tel: +44 (0)20 7484 4040

Garry Levin

Tim Richardson

About Work Group

Work Group offers a range of HR Consulting Services which enable employers to win the war for talent. It focuses on providing services in "talent acquisition and talent development" which enable employers to more effectively recruit and retain key staff.

Work Group's approach is to help employers reduce their traditional reliance on third-party recruiters such as head-hunters and recruitment firms through helping them establish and maintain a direct relationship between employer and prospective employee. It also helps employers reduce attrition costs through better people development and retention of key talent.

Work Group currently operates through three divisions; Executive Research, Employer Marketing and Recruitment Process Outsourcing and provides services from its seven offices in the UK.

Work Group PLC

Chairman's Statement

Overview

Work Group delivered a strong performance in 2006 with excellent progress being made across all divisions.

We continued to demonstrate our ability to grow our business substantially with net fee income (gross profit) increasing by 49% to £13.6m (2005: £9.1m) and operating profit before goodwill amortisation (EBITA) up 81% to £2.5m (2005: £1.4m). Similarly, operating profit increased 80% to £2.0m (2005: £1.1m). On a pro forma basis (assuming the acquisition of Armstrong Craven on 1 January 2005 and disregarding the results of The Recruitment Communications Company (RCC) acquired in November 2006) EBITA increased by 32% over 2005, emphasising the underlying organic growth potential of the Group.

During the year we maintained good growth across all three operating divisions, achieving increases in both profit and margins. 2006 was the first full year contribution from Armstrong Craven, which we acquired in October 2005. Armstrong Craven is proving to be particularly successful, driven by its compelling direct search proposition. It provides employers with direct access to recruitment researchers and is a direct alternative to executive search - it has materially strengthened our "direct resourcing" offer.

During 2006 we continued to actively move Work Group away from lower margin media-based income and enjoyed a 39% rise in fee based income to £3.2m (2005: £2.3m). We see this trend continuing.

In March 2006 the company listed on AIM. From the net funds raised of £6.2m we were able to repay the debt in the company and strengthen the balance sheet. This gives us greater flexibility to take advantage of acquisition opportunities and support our future growth and development.

The acquisition of RCC in November 2006 added significant critical mass to our regional operations and positions us well for growth in our regional communications business during 2007 as we build a substantial hub operation in the North West.

Our market

The war for talent continues to be a major focus and challenge for the majority of employers. According to research from the CIPD, in 2005 (the latest available data) 82% of employers reported recruitment difficulties, while 69% experienced retention problems. Labour turnover in the private sector also continued to rise: in 2005 it was 22.9%, a level which is widely predicted to rise when 2006 figures are published. Consequently, employers are beginning to realise that continually channelling their recruitment budgets into traditional head-hunter and agency fees serves only to perpetuate the long-standing problem of the 'jobs merry-go-round'.

Strategy

Increasingly, employers are realising that investing in the acquisition and development of talent is a top priority. Work Group creates bespoke and exclusive candidate streams and databases for employers. This delivers both cost and quality benefits and enables employers to utilise more fully the benefits of the internet.

Work Group aims to create growth and value through organic developments as well as through

strategic acquisitions. We remain actively engaged in identifying potential acquisitions, however, we will continue to be highly selective and will only make acquisitions which will enhance both our service range for clients and earnings for shareholders.

Positioning

The Group has a wide range of services which we market under the banner "helping employers find and keep the people they need". We provide HR Consulting Services to our clients in, principally, the "talent acquisition and talent development" sphere, reflecting our role in helping employers face up to and overcome the ever increasing challenges of attracting, developing and retaining talent.

For reporting purposes, we have re-branded two of our three divisions to more accurately reflect their positioning. "Adcomms" has been renamed "Employer Marketing", reflecting the reduced and reducing reliance on advertising and an increasing focus on marketing and communication activities, many of which are web-based. "Managed Resourcing" has been renamed "Recruitment Process Outsourcing (RPO)" as this is increasingly becoming the more widely accepted generic term for these activities. "Executive Research" remains unchanged.

These changes to terminology do not in any way reflect a change of direction but reflect a desire to describe more accurately the nature of our activities and emphasise the scope of the opportunities we continue to exploit.

In summary, there are three streams of income or divisions referred to above. We have a management structure that is organised into four operating units (Executive Research, RPO, Work London and Work Regions) which essentially splits Employer Marketing between Work London and Work Regions.

Our clients

At the heart of our business are our clients and our people. Across the Group we work for a wide selection of blue chip employers with whom we are building long term, deep relationships, whilst also continuing to win new clients. Our clients tell us that they do not want the traditional recruitment company approach, but prefer instead to work with a partner who will help solve their talent acquisition and retention challenges. Every one of our client service teams is focused on sound account management which is built on an ethos of meeting and exceeding expectations - in short, we deliver. Across the Group in 2006, disregarding the impact of RCC, 82% of net fee income was delivered by existing clients.

During 2006 we had some notable client wins including the employer marketing contract for Network Rail, who will become a top five Group client in 2007, and winning the three year global campus marketing contract for JPMorgan against global competition. We also retained our second largest Group client, the Environment Agency, following a competitive review and were awarded a new four year contract.

We have a wide spread of clients across all sectors and so are not over-reliant on either any single client or any single industry. At the beginning of 2007 we have invested in building our business development resources and each division now has its own dedicated telemarketing and new business teams.

Our people

Ultimately any service business is only as good as its people and, as we are at the forefront of helping employers win the war for talent, we are acutely aware of why it is important, and what it

takes, to be a good employer ourselves.

No employer can ever claim to be perfect, but we believe we have attracted and continue to retain some of the very best talent. We try to create an environment where talent can thrive and will always strive to be a destination employer, thus continuing to attract and develop enthusiastic, committed and hardworking people.

At the end of 2006, the team numbered 234 people (2005: 189) working across all functions in our seven UK offices. We are investing in our client-facing and business development teams and are also strengthening our support functions helping to underpin the company's future growth.

US office

During the second quarter of 2007 the Group will be opening an office in New York. This development follows the appointment of Work Group to handle the global campus marketing activities for JPMorgan. More recently we have also won US based work for Chase, the retail banking arm of JPMorgan Chase. In addition, Armstrong Craven has an active client base in the US which we believe we can grow significantly with a local presence. We expect this operation to make a positive bottom line contribution from 2008.

Management

As from 1st January 2007, Sue Craven, the founder and previous Managing Director of Armstrong Craven, was promoted to the main Work Group board in the role of Group Managing Director. Sue is now responsible for the Work London and Work Resourcing businesses units and will oversee the establishment of the US office. Steve Halford, our other Group Managing Director, is responsible for Armstrong Craven, the Work regional offices and RCC. Sue Craven remains a director of Armstrong Craven and continues to provide guidance and advice to this business.

Throughout each of the divisions we have exceptionally experienced management teams, which we continue to strengthen. Towards the end of 2006 a number of key managers were promoted to join the boards and executive teams within each division.

Dividend

As a result of the strong trading performance and sound cash position, demonstrated by these full year results, the Board are proposing a maiden final dividend for the full year of 0.4p per share.

Current trading and outlook

In 2006 Work Group delivered ahead of expectations. We have ambitious plans for 2007 and we look forward to continuing to deliver on our highly focused buy and build strategy. In the first two months of the year, overall trading has been in line with those plans and we remain confident of again delivering further profitable growth and reporting further progress in 2007 and beyond.

Simon Howard
Chairman

Work Group plc Operating Review

The Group made significant advances in gross profit, operating profit before goodwill amortisation (EBITA) and operating profit during the year. Group gross profit grew 49% year on year to £13.6m (2005: £9.1m), EBITA grew 81% to £2.5m (2005: £1.4m) and operating profit grew 80% to £2.0m (2005: £1.1m).

Each operating division grew its gross profit, EBITA and EBITA margin (EBITA divided by gross profit) reflecting the continued benefits of both scale and cost management. EBITA margin improved at Group level to 18.1% (2005: 14.9%) despite increased costs associated with the Company's admission to AIM in March 2006. Similarly, Group operating profit margin improved to 14.6% (2005: 12.1%).

Divisional Financial Performance	Unaudited 12 months to 31 December 2006 £'000	Increase 2006 vs 2005	Audited 12 months to 31 December 2005 £'000
Gross profit (Net fee income)			
Employer Marketing ¹	7,317	10%	6,627
Recruitment Process Outsourcing	1,712	14%	1,507
Executive Research ²	4,542		978
Group gross profit	13,571	49%	9,112
Operating profit before goodwill amortisation (EBITA)			
Employer Marketing ¹	1,393	18%	1,179
Recruitment Process Outsourcing	450	68%	268
Executive Research ²	874		137
Corporate costs	(263)		(227)
Group EBITA	2,454	81%	1,357
Operating profit			
Employer Marketing ¹	1,220	18%	1,030
Recruitment Process Outsourcing	414	76%	235
Executive Research ²	616		66
Corporate costs	(263)		(227)
Group operating profit	1,987	80%	1,104

Notes:

1. Employer Marketing 2006 performance includes two months' contribution from The Recruitment Communications Company following its acquisition in November 2006.

2. Executive Research 2005 performance relates to three months' contribution from Armstrong Craven following its acquisition in October 2005.

Employer Marketing

Employer Marketing gross profit grew 10% and EBITA and operating profit both grew by 18% over 2005.

Our employer marketing services are focused on talent acquisition - we develop and deliver candidate attraction strategies and services for employers. These services are increasingly fee based and include web marketing, website design and development, employer branding, employment research and internal communications. Advertising, both on and off line, still forms an important part of our service but has to compete with a growing range of candidate attraction services and its share of our service offering is declining. Gross profit from advertising fell by 14% against last year but gross profit from fee based services grew 39%. This reflects our strategy of helping employers migrate their spend from traditional advertising to exploit more effective channels to market. The success of this strategy has helped grow the divisional EBITA margin to 19.0% against 17.8% in 2005.

The full year on year increase in gross profit of 10% included two months' contribution from the acquisition of RCC. RCC strengthens our regional presence in the North West and offers the opportunity to build a regional hub operation servicing the out of London offices more effectively. Gross profit in the RCC financial statements for the nine months ending 31 December 2006 was £1.6m delivering operating profit of £0.5m.

Recruitment Process Outsourcing (RPO)

Gross profit from RPO grew by 14% reflecting growing demand for both our managed resourcing and assessment and development services. EBITA grew by 68%, operating profit grew by 76% and EBITA margin advanced to 26.3% (2005: 17.8%). Two particularly pleasing trends were the increasing volumes of work from existing Group clients and a high re-appointment rate on outsourced graduate recruitment contracts.

Executive Research

Armstrong Craven, the executive research business, made a strong profit contribution in its first full year as part of Work Group. On a pro forma basis (assuming the acquisition of Armstrong Craven on 1st January 2005) gross profit increased by 21%, EBITA increased by 44% and Operating profit increased by 126%, representing a sound endorsement of the acquisition. Increasingly employers are recognising the benefits of direct executive search as well as our broader market intelligence services.

The Board has amended the original Armstrong Craven acquisition agreement by capping the amount payable for the period ended 31 December 2006 and extending the earn-out period by six months to 30 June 2007. Both the maximum consideration payable under the agreement and the participants remain unchanged. The Board considers that the amended agreement provides further incentive to Armstrong Craven for enhanced performance in 2007 without increasing the overall liability to the Group or materially changing the agreement.

Group

Profit before and after tax is shown in the table below. The tax charge for the year was £0.4m (2005: £0.1m). The effective tax rate of 16.8% on profit before goodwill amortisation is mainly due to tax relief on the exercise of share options by employees. The rate has also benefited from the utilisation of tax losses from previous years. Diluted earnings per share increased 36% to 5.9p (2005: 4.3p).

Group Financial Performance	Unaudited 12 months to 31 December 2006 £'000	Increase	Audited 12 months to 31 December 2005 £'000
Profit before tax	1,910	129%	834
Profit after tax	1,510	101%	750
Diluted EPS (pence)	5.87	36%	4.32

The Group's balance sheet strengthened significantly during the year. At 31 December 2006 net assets were £10.2m (2005: £2.0m). A substantial part of this increase was the consequence of the company's IPO in March 2006 where net placing proceeds of £6.2m were principally used to eliminate debt. The profit contribution of £1.5m has also positively impacted net assets.

Cash flow continued to be strong during 2006 and contributed significantly to the increase in net cash to £0.9m at the year end, after an outflow of £1.7m associated with the RCC acquisition and £0.4m repayment of loan notes. The company has an agreed facility with Barclays Bank of £3.0m to facilitate acquisition activity.

From 1 January 2007 the Group is required to prepare its financial statements in accordance with IFRS. Consequently the first reported results under IFRS will be our interim statement later this year. We have conducted a review of the likely impact of IFRS on the business and our interim statement will include an IFRS to UK GAAP comparison for the year ended 31 December 2006.

The Board is recommending a dividend for the full year of 0.4p per share, which will absorb £102,000 of shareholders' funds. It will be payable on 18 June 2007 to shareholders on the register as at 18 May 2007.

Michael Warren
Group Finance Director

Work Group plc
Consolidated profit and loss account
for the year ended 31 December 2006

	Notes	Unaudited Year ended 31 December 2006 £'000	Audited Year ended 31 December 2005 (Restated - see note 1) £'000
Turnover			
- continuing operations		32,635	31,308
- acquisitions		512	-
Turnover		<u>33,147</u>	<u>31,308</u>
Cost of sales		<u>(19,576)</u>	<u>(22,196)</u>
Gross profit		13,571	9,112
Administrative expenses		(11,584)	(8,008)
Operating profit before goodwill amortisation		2,454	1,357
Goodwill amortisation		(467)	(253)
Operating profit		1,975	1,104
- continuing operations		12	-
- acquisitions		1,987	1,104
Operating profit		<u>1,987</u>	<u>1,104</u>
Interest receivable and similar income		53	7
Interest payable and similar charges		<u>(130)</u>	<u>(277)</u>
Profit on ordinary activities before taxation		<u>1,910</u>	<u>834</u>
Taxation on profit on ordinary activities	2	<u>(400)</u>	<u>(84)</u>
Profit for the financial year		<u><u>1,510</u></u>	<u><u>750</u></u>
Earnings per share (pence)	3	<u>6.67</u>	<u>5.29</u>
Diluted earnings per share (pence)	3	<u>5.87</u>	<u>4.32</u>

There is no difference between the profits on ordinary activities before taxation and the retained profit for the years stated above and their historical cost equivalents.

The group had no gains or losses in the year other than those included in the profits above, therefore no separate statement of total recognised gains and losses has been presented.

Work Group plc
Consolidated balance sheet as at 31 December 2006

	Notes	Unaudited 31 December 2006 £'000	Audited 31 December 2005 £'000
Fixed assets			
Intangible		10,984	8,643
Tangible		<u>856</u>	<u>855</u>
		<u>11,840</u>	<u>9,498</u>
Current assets			
Stock and work in progress		95	33
Debtors		6,112	4,753
Cash at bank		<u>1,274</u>	<u>60</u>
		7,481	4,846
Creditors: amounts falling due within one year		<u>(7,918)</u>	<u>(7,749)</u>
Net current liabilities		<u>(437)</u>	<u>(2,903)</u>
Total assets less current liabilities		11,403	6,595
Creditors: amounts falling due after more than one year		(1,250)	(4,489)
Provisions for liabilities and charges		<u>-</u>	<u>(113)</u>
Net assets		<u>10,153</u>	<u>1,993</u>
Capital and reserves			
Called up share capital		510	296
Special reserve		2,826	2,826
Share premium account		6,433	-
Profit and loss account		<u>384</u>	<u>(1,129)</u>
Shareholders' funds	4	<u>10,153</u>	<u>1,993</u>

Work Group plc
Consolidated cash flow statement
for the year ended 31 December 2006

	Notes	Unaudited Year ended 31 December 2006 £'000	Audited Year ended 31 December 2005 £'000
Net cash inflow from operating activities	5	2,118	2,337
Returns on investments and servicing of finance			
Interest paid		(168)	(175)
Interest received		54	5
Net cash outflow from returns on investment and servicing of finance		<u>(114)</u>	<u>(170)</u>
Corporation tax paid		(65)	-
Capital expenditure			
Purchase of tangible fixed assets		(254)	(176)
Net cash outflow from capital expenditure		<u>(254)</u>	<u>(176)</u>
Acquisitions and disposals			
Purchase of subsidiary undertaking		(1,925)	(2,754)
Cash acquired on purchase of subsidiary		706	(203)
Acquisition expenses		(123)	(279)
Deferred consideration paid		(400)	-
Net cash outflow for acquisitions		<u>(1,742)</u>	<u>(3,236)</u>
Net cash outflow before financing		(57)	(1,245)
Financing			
Issue of Share Capital (net of expenses)		6,147	-
Net (repayment)/receipt of bank loan		(2,680)	2,578
Expenses of loan issue		-	(25)
Loan Notes Repaid		(386)	-
Preference Shares redeemed		(500)	-
Finance lease payments		(24)	(5)
Invoice discounting advances repaid		-	(1,459)
Loan Stock repaid		(1,500)	-
Net cash inflow from financing		<u>1,057</u>	<u>1,089</u>
Increase/(decrease) in cash in the year		<u>1,000</u>	<u>(156)</u>

Notes to the financial information

1 Basis of preparation

The financial information in the preliminary announcement does not constitute the Group's audited accounts for the years ended 31 December 2005 and 2006.

The financial information in respect of 2006 is unaudited. Statutory accounts for the year ended 31 December 2005, on which the auditors gave an unqualified report pursuant to section 235 of the Companies Act 1985, have been filed with the Registrar of Companies.

The financial information has been prepared under the historical cost convention and in accordance with applicable Accounting Standards in the United Kingdom and the Companies Act 1985. The accounting policies are the same as those set out in the financial statements for the year ended 31 December 2005 with the exception of share based payments to employees.

FRS 20 "Share based payment" applies for accounting periods beginning on or after 1 January 2006 and has been adopted in the financial statements. The impact of the adoption of this standard on the results for the year is a debit to the profit and loss account of £2,689. The adoption of the standard represents a change in accounting policy and the comparative figures have been restated accordingly. There is no impact on brought forward reserves.

The Annual General meeting of Work Group plc will be held at Saffron House, 6-10 Kirby Street, London EC1N 8EQ on 13 June 2007 at 12.00pm.

2 Taxation on profit on ordinary activities

	Unaudited Year ended 31 December 2006 £'000	Audited Year ended 31 December 2005 £'000
United Kingdom corporation tax at 30% (30%)		
Current	316	14
Deferred	84	70
	<u>400</u>	<u>84</u>

3 Earnings per share

	Unaudited 2006 <u>£'000</u>	Audited 2005 <u>£'000</u>
Profit for basic earnings per share	1,510	750
Goodwill amortisation	467	253
Profit before goodwill amortisation for Adjusted earnings per share	<hr/> 1,977	<hr/> 1,003
	<u>No. '000</u>	<u>No. '000</u>
Weighted average number of shares	22,638	14,166
Dilutive effect of share plans	3,102	3,209
Diluted weighted average number of shares	<hr/> 25,740	<hr/> 17,375
	<u>pence</u>	<u>pence</u>
Basic earnings per share	6.67	5.29
Diluted earnings per share	5.87	4.32
Adjusted basic earnings per share	8.73	7.08
Adjusted diluted earnings per share	7.68	5.77

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.

On 2 February 2006, the existing 10p ordinary shares were subdivided into 2p ordinary shares. The weighted average number of shares for the year ended 31 December 2005 and year ended 31 December 2006 has been adjusted for this change in the nominal value of the share capital and the conversion of cumulative preferred ordinary shares into 2p ordinary shares.

The weighted average number of shares for 2006 also includes the impact of the 8,695,652 new ordinary shares issued on flotation on AIM.

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

Adjusted basic and diluted earnings per share are calculated as above, but use profit before goodwill amortisation as the measure of earnings.

4 Reconciliation of movements in shareholders' funds

	Unaudited 31 December 2006	Audited 31 December 2005 (restated)
	Group £'000	Group £'000
Opening shareholders' funds	1,993	835
Issue of new share capital	6,147	170
Share premium on acquisition of Armstrong Craven Limited	-	230
Share premium on acquisition of Recruitment Communications Company Limited	500	-
Share based payment	3	8
Profit for the financial year	1,510	750
Closing shareholders' funds	10,153	1,993

5 Reconciliation of operating profit to net cash inflow from operating activities

	Unaudited Year ended 31 December 2006 £'000	Audited Year ended 31 December 2005 £'000
Operating profit	1,987	1,104
Depreciation	316	194
Loss on disposal of fixed assets	5	-
Amortisation of goodwill	467	253
Share based payment	3	8
(Increase)/decrease in stock and work in progress	(62)	28
(Increase)/decrease in debtors	(861)	1,002
Increase/(decrease) in creditors	376	(87)
Decrease in provisions	(113)	(165)
Net cash inflow from operating activities	2,118	2,337

6 Dividend

The proposed full year dividend for 2006 is 0.4p per share (2005: Nil), which will absorb £102,000 of shareholders' funds. This dividend has not been provided in the financial statements, in accordance with FRS 21. It will be paid, subject to shareholder approval, on 18 June 2007 to shareholders on the register as at 18 May 2007.