

25 March 2009

Work Group plc

Preliminary results for the 12 months ended 31st December 2008

Work Group plc (“Work Group” or the “Company”) announces its preliminary results for the 12 months ended 31st December 2008.

Headlines

- Net fee income of £14.9m (2007: £16.1m) a decrease of 7%
- 23% increase in net fee income from global contracts to £2.5m (2007: £2.0m)
- Cash at year end £1.6m (2007: £1.0m)
- Operating profit before exceptional items £1.1m (2007: £3.2m)
- Operating profit £0.9m (2007: £2.9m)
- Strong balance sheet and zero debt

Commenting, Simon Howard, Executive Chairman said:

“2008 was a tough year, particularly in the second half when Work Group experienced increasingly difficult market conditions. However we entered 2009 with a strong balance sheet and debt-free.

Whilst UK client expenditure declined, expenditure from overseas clients increased to £2.64m (2007: £1.76m). This, together with the fact that 17% of our income was derived from Global contracts in 2008 (2007: 12%), highlights the significance of our Asia Pacific and US Offices.

We continue to monitor costs and income closely. In the first two months of 2009 overall trading has been in line with our expectations.”

www.workgroup.plc.uk

Further enquiries:

Work Group

Simon Howard, Executive Chairman
Michael Warren, Finance Director

Tel: +44 (0)20 7492 0000

Altium

Tim Richardson
Sam Fuller

Tel: +44 (0)20 7484 4040

About Work Group

Work Group is a marketing services company which offers a range of solutions 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 employee engagement and retention of key talent.

Work Group currently operates through two divisions; Communications and Talent Management, providing services from its six locations in the UK and offices in New York and Hong Kong.

Headlines

- Net fee income of £14.9m (2007: £16.1m) a decrease of 7%
- Increase in net fee income from global contracts of 23% to £2.5m (2007: £2.0m)
- Cash at year end of £1.6m (2007: £1.0m)
- Operating profit before exceptional items of £1.1m (2007: £3.2m) a decrease of 66%
- Operating profit of £0.9m (2007: £2.9m)
- Strong balance sheet and zero debt

Financial Highlights

	Year ended 31 December 2008	Year ended 31 December 2007	change
	£m	£m	£m
Gross profit (Net fee income)^	14.9	16.1	(1.2)
Operating profit before exceptional items	1.1	3.2	(2.1)
Operating profit	0.9	2.9	(2.0)
Profit before tax	0.9	3.0	(2.1)
Profit after tax	0.4	2.0	(1.6)
Diluted earnings per share	1.36	7.06p	(5.70)p
Diluted earnings per share adjusted*	1.79	7.82p	(6.03)p

^ References in the report to "Net fee income" represent Gross profit

* Adjusted diluted earnings per share is stated before exceptional items. (see note 5)

Chairman's statement

Chairman's review

Despite the increasingly difficult market conditions we experienced during 2008, we can point to positive developments within the Group which stand us in good stead for what will be a challenging 2009.

We finished 2008 with a strong balance sheet, zero debt and cash at year end of £1.6m (2007: £1.0m), having paid all outstanding deferred considerations. More disappointingly, operating profit before exceptional items declined to £1.1m (2007: £3.2m), while our net fee income of £14.9m (2007: £16.1m) was a decrease of 7% over the previous year.

However there were many positive steps in the development of our client base with 20% of our income coming from new business while 74% of our top 50 clients increased their business with us.

Client expenditure

Despite the slowing market, our clients spent £32.8*m with us in 2008 (£35.0*m, 2007), and while we experienced a decline in UK turnover, our clients increased expenditure in all overseas markets - highlighting the importance of our international operations and their ability to expand our global client base.

2008 Client expenditure* by geographical split			
	2008	2007	Variance
	£'000	£'000	£'000
UK	30,132	33,203	(3,071)
USA & Canada	1,602	1,050	552
Europe	677	672	5
Asia Pacific	357	34	323
UK Media buying contract	2,911	3,947	(1,036)
Total	35,679	38,906	(3,227)
International expenditure	2,636	1,755	881

Our strategy is to gain a larger share of client budgets and in 2008 more than 50 clients spent over £100,000 with us, with just over half buying services from both the Communications and Talent Management divisions. This is an advance on previous years and is an example of the continued opportunity we have to further develop our client base in 2009. This was a major reason for launching the "one work" project which will simplify and strengthen the management of client relationships.

* Reported turnover of £35.7m (2007: £38.9m) adjusted to remove the effects of a UK media buying contract

Chairman's statement (continued)

Client expenditure by sector

We continue to enjoy a broad spread of clients. Finance & Banking is still our largest sector representing 28% of Group income. This 28% was itself broadly spread by activity, with Global clients accounting for 11%, UK-based RPO 10%, Research 5% and UK Communications 2%. The remaining 72% of clients' income was spread over 9 sectors, with the Public and Not-for-profit sector the largest of those at 13%.

We believe this breadth of client sectors to be an important strength - especially in the current market conditions.

Our people

In the current environment it is all the more important (and all the more difficult) for any employer to improve people practices and ensure that talented people are able to develop their careers. That is especially true if, like us, we try to practice what we preach to our clients about getting, growing and retaining talent.

However, despite the fact that our UK headcount continues to shrink, the morale of our teams remains remarkably good and we believe they continue to represent some of the very best talent working in this sector. Consequently their commitment and drive is appreciated more than ever.

Dividend

In light of the prevailing economic conditions, the Board is not recommending a dividend.

Outlook

Our aim is to weather the storm of recession and come out of this having acquired more clients and consequently occupying a stronger market position. Recessions accelerate change and as Work Group's whole raison d'être is to change the way employers recruit, engage and develop their talent, we have a real opportunity to gain market share. Recessions also present opportunities for consolidation, and being debt-free with a strong balance sheet, Work Group is well-positioned to hasten that consolidation.

Throughout 2009 we will monitor closely our performance and currently we are trading in line with our plans.

Simon Howard

Chairman

Operating review

At the half year we were able to report net fee income 2% ahead of the previous year despite seeing some early effects of the weakening economy in project sign off for our executive research services.

September was the first month the economic slowdown made a significant impact on net fee income across the Group. This was followed by a sharper decline in Q4. In the second half year we recorded a 17% fall in net fee income against 2007, £6.88m against £8.27m. The effects were felt through all our service lines with the exception of outsourcing services in Talent Management where income was more resilient.

Total net fee income for the year was £14.9m, down 7% against 2007 (2007: £16.1m).

	Year ended 31 Dec 2008 £'000	Change £'000	Year ended 31 Dec 2007 £'000
Gross profit (net fee income)			
Communications	8,807	(675)	9,482
Talent Management	6,070	(589)	6,659
Group gross profit	14,877	(1,264)	16,141
Operating profit before exceptional items			
Communications	544	(1,685)	2,229
Talent Management	747	(514)	1,261
Corporate (non-recharged)	(236)	34	(270)
Group adjusted profit	1,055	(2,165)	3,220
Operating profit			
Communications	408	(1,533)	1,941
Talent Management	699	(539)	1,238
Corporate (non-recharged)	(236)	34	(270)
Group operating profit	871	(2,038)	2,909

The impact on profit has been more severe. Operating profit before exceptional items was £1.1m against £3.2m in the previous year. Operating profit was £0.9m (2007: £2.9m).

Losses attributable to the overseas offices in New York and Hong Kong totalled £0.5m. These included start up costs in Hong Kong. However, net fee income from global contracts increased by 23% to £2.46m (2007: £2.0m) and net fee income across the Group derived from work billed to the US increased by 22% to £1.1m (2007: £0.9m). Most of the net fee income billed to the US has continued to be delivered from and is recognised in the UK.

Operating review (Continued)

The US office is critical to the winning and retention of global contracts. As well as migrating some of the project delivery from the UK, it remains a goal for the US business to generate sufficient income of its own to become profitable - this proved difficult in 2008 against the economic downturn.

The Hong Kong office opened in July and delivered incremental Group net fee income in its first six months and has won clients new to the Group.

Excluding overseas operations, costs in the UK increased by 1% year on year. However, costs in the UK in the second half year were 7% less than the first half, £6.26m against £6.75m, as actions were taken to reduce the cost base. Year end headcount in the UK had reduced by 12% from the half year position. The impact of all actions taken by the end of the year reduced the cost base of the Group by over £1m year on year.

Exceptional costs of £0.18m incurred in the year were principally redundancy costs.

There has been greater focus on working capital management and this has meant that cash flow has continued to be strong. Net cash at the year end was £1.6m (2007: £1.0m). During the year the deferred consideration relating to the acquisition of The Recruitment Communications Company was fully paid. At the year end the Group is debt free and retains a strong balance sheet.

The effective tax charge in the year is 53%. Both the US and Hong Kong are early stage businesses and in the current economic climate the Board is taking a more cautious and longer term view of the timing of future profits. Consequently no deferred tax asset is recognised in relation to the overseas losses. Disregarding this adjustment, the effective tax rate is 31%.

Diluted earnings per share were 1.36p (2007: 7.06p), diluted earnings per share before exceptional costs were 1.79p (2007: 7.82p).

The board is not recommending the payment of a dividend (2007: 0.5p per share)

2009 will be a challenging year. Our objectives are to preserve cash, grow market share and be well positioned for any improvement in market conditions.

Michael Warren
Finance Director
25 March 2009

Consolidated income statement

For the year ended 31 December 2008

	Note	2008 £'000	2007 £'000
Revenue	2	35,679	38,906
Cost of sales		(20,802)	(22,765)
Gross profit (net fee income)		14,877	16,141
Net operating expenses		(14,006)	(13,232)
Operating profit		871	2,909
Operating profit before exceptional items		1,055	3,220
Exceptional items	3	(184)	(311)
Finance costs		(26)	(22)
Finance income		28	64
Profit before taxation		873	2,951
Taxation	4	(462)	(933)
Profit for the year		411	2,018
Earnings per share (pence)	5	1.44	7.64
Diluted earnings per share (pence)	5	1.36	7.06
Dividend paid per share (pence)	6	0.5	0.4

The results above are all in respect of continuing operations.

Balance sheets

As at 31 December 2008

	Note	Group 2008 £'000	Group 2007 £'000	Company 2008 £'000	Company 2007 £'000
Assets					
Non-current assets					
Goodwill		12,197	12,197	4,308	4,308
Property, plant & equipment		721	812	587	668
Investment in subsidiaries		-	-	11,090	10,188
Deferred tax asset		24	252	-	193
		12,942	13,261	15,985	15,357
Current assets					
Inventories & WIP		314	241	312	241
Trade and other receivables		4,972	6,944	4,062	6,015
Cash and cash equivalents		1,566	1,638	1,229	1,626
		6,852	8,823	5,603	7,882
Liabilities					
Current liabilities					
Financial liabilities - borrowings		-	(595)	-	(1,840)
Trade and other payables		(4,753)	(4,973)	(6,861)	(5,732)
Provisions		-	(2,000)	-	(2,000)
Current tax liabilities		(265)	(883)	(184)	(581)
		(5,018)	(8,451)	(7,045)	(10,153)
Net current assets/(liabilities)		1,834	372	(1,442)	(2,271)
Non current liabilities					
Deferred tax liability		-	-	(6)	-
Net assets		14,776	13,633	14,537	13,086
Shareholders' equity					
Ordinary share capital		572	542	572	542
Share premium		8,240	7,261	8,240	7,261
Other reserves		2,826	2,826	2,826	2,826
Foreign exchange reserves		100	-	-	-
Retained earnings		3,038	3,004	2,899	2,457
Total shareholders' equity		14,776	13,633	14,537	13,086

Statements of changes in shareholders' equity

For the year ended 31 December 2008

Group

	Note	Share capital £'000	Share premium £'000	Retained Earnings £'000	Foreign exchange reserves £'000	Special reserve £'000	Total Reserves £'000
1 January 2007		510	6,433	1,077	-	2,826	10,846
Profit for the year		-	-	2,018	-	-	2,018
Value of employee services		-	-	30	-	-	30
Deferred taxation on share options		-	-	(15)	-	-	(15)
Proceeds from shares issued		32	828	-	-	-	860
Dividends paid	6	-	-	(106)	-	-	(106)
At 31 December 2007		542	7,261	3,004	-	2,826	13,633
Profit for the year		-	-	411	-	-	411
Value of employee services		-	-	(32)	-	-	(32)
Deferred taxation on share options		-	-	(202)	-	-	(202)
Proceeds from shares issued		30	979	-	-	-	1,009
Foreign Exchange		-	-	-	100	-	100
Dividends paid	6	-	-	(143)	-	-	(143)
At 31 December 2008		572	8,240	3,038	100	2,826	14,776

Company

	Note	Share capital £'000	Share premium £'000	Retained earnings £'000	Special reserve £'000	Total Reserves £'000
1 January 2007		510	6,433	1,615	2,826	11,384
Profit for the year		-	-	933	-	933
Value of employee services		-	-	30	-	30
Deferred taxation on share options		-	-	(15)	-	(15)
Proceeds from shares issued		32	828	-	-	860
Dividends paid	6	-	-	(106)	-	(106)
At 31 December 2007		542	7,261	2,457	2,826	13,086
Profit for the year		-	-	819	-	819
Value of employee services		-	-	(32)	-	(32)
Deferred taxation on share options		-	-	(202)	-	(202)
Proceeds from shares issued		30	979	-	-	1,009
Dividends paid	6	-	-	(143)	-	(143)
At 31 December 2008		572	8,240	2,899	2,826	14,537

Cash flow statements

For the year ended 31 December 2008

	Note	Group 2008 £'000	Group 2007 £'000	Company 2008 £'000	Company 2007 £'000
Cash flows from operating activities					
Cash generated from/(absorbed by) operations	7	2,920	1,457	3,452	(325)
Interest paid		(30)	(22)	(30)	(21)
Tax paid		(1,037)	(336)	(722)	-
Net cash inflow/(outflow) from operating activities		1,853	1,099	2,700	(346)
Cash flows from investing activities					
Acquisition of businesses (net of cash acquired)		(1,000)	-	(1,000)	1,375
Interest received		31	64	17	22
Cash received from sale of property, plant and equipment		4	-	4	-
Purchase of property, plant and equipment		(220)	(323)	(133)	(237)
Net cash (used in)/generated from investing activities		(1,185)	(259)	(1,112)	1,160
Cash flows from financing activities					
Net proceeds from issue of ordinary share capital		9	144	9	144
Loan notes repaid		(9)	(728)	(9)	(728)
Dividend paid	6	(143)	(106)	(143)	(106)
Finance lease payments		(2)	(2)	(2)	-
Net cash (outflow)/inflow from financing activities		(145)	(692)	(145)	(690)
Increase in cash and cash equivalents in the year		523	148	1,443	124
Net cash and cash equivalents at start of the year		1,043	895	(214)	(338)
Net cash and cash equivalents at end of the year		1,566	1,043	1,229	(214)

Notes to the financial statements

For the year ended 31 December 2008

1 Basis of preparation

The preliminary results of the Group for the year ended 31 December 2008 were approved by the directors on 25 March 2009. The Annual General Meeting of Work Group plc will be held at Saffron House, 6-10 Kirby Street, London EC1N 8EQ on 16 June 2009.

The financial information has been prepared, in accordance with International Financial Reporting Standards (IFRS) adopted for use in the European Union and those parts of the Companies Act 1985 which are applicable to companies reporting under IFRS.

The financial information in the preliminary announcement does not constitute the Group's statutory accounts for the year ended 31 December 2007 and 2008. Statutory financial statements for 2007, on which the auditors gave an unqualified report pursuant to section 235 of the Companies Act 1985, have been delivered to the Registrar of Companies and those for 2008 will be delivered following the Company's Annual General Meeting.

The financial information has been prepared in sterling, the currency in which the majority of the Group's transactions are denominated, and on the historical cost basis, except for the revaluation of certain financial instruments.

2 Segmental reporting

This is the first period in which the Group reports two segments, Communications and Talent Management. Communications was previously described as Employer Marketing, and Talent Management combines what was previously described as Executive Research and Recruitment Process Outsourcing. These segments better describe the services we deliver as a marketing services company specialising in employer marketing. Accordingly prior period comparatives have been restated for consistency with the new segmental analysis.

Primary reporting format - business segments

At 31 December 2008, the Group was organised into 2 main business segments:

Communications
Talent Management

All assets and liabilities of the Group are allocated to the individual segments.

2008	Communications £'000	Talent Management £'000	Corporate £'000	Group £'000
Revenue	28,340	7,378	(39)	35,679
Operating profit/(loss) (segment result)	408	699	(236)	871
Finance cost	-	-	(26)	(26)
Finance income	-	-	28	28
Profit before tax	408	699	(234)	873
Income taxes	-	-	(462)	(462)
Profit for the year	408	699	(696)	411
Segment assets	15,023	9,417	(4,646)	19,794
Segment liabilities	(6,527)	(2,092)	3,601	(5,018)
Net Assets	8,496	7,325	(1,045)	14,776
Depreciation	(178)	(134)	-	(312)
Capital expenditure	(140)	(80)	-	(220)
Exceptional items	(136)	(48)	-	(184)

Notes to the financial statements (continued)

For the year ended 31 December 2008

2007 (Restated)	Communications £'000	Talent Management £'000	Corporate £'000	Group £'000
Revenue	31,646	7,335	(75)	38,906
Operating profit/(loss) (segment result)	1,941	1,238	(270)	2,909
Finance cost	-	-	(22)	(22)
Finance income	-	-	64	64
Profit before tax	1,941	1,238	(228)	2,951
Income taxes	-	-	(933)	(933)
Profit for the year	1,941	1,238	(1,161)	2,018
Segment assets	14,951	9,422	(2,289)	22,084
Segment liabilities	(8,131)	(1,564)	1,244	(8,451)
Net Assets	6,820	7,858	(1,045)	13,633
Depreciation	(165)	(144)	-	(309)
Capital expenditure	(202)	(121)	-	(323)
Exceptional items	(288)	(23)	-	(311)

Included in the Corporate segment are consolidation entries that eliminate intercompany transactions, and reclassifications of balances between assets and liabilities.

Secondary format - geographical segments

The Group manages its business segments in the UK, which is the home country of the parent.

The sales analysis in the table below is based on the location of the customer. All significant assets and capital expenditure are located in the UK, which is where all orders are received.

	2008 £000	2007 £000
Revenue		
UK	33,043	37,150
USA	1,602	1,050
Europe	677	672
Rest of world	357	34
	35,679	38,906

3 Exceptional items

The exceptional costs of £184,000 (2007: £311,000) principally relate to redundancies made during the year.

Notes to the financial statements (continued)

For the year ended 31 December 2008

4 Corporation tax

	2008 £'000	2007 £'000
Current tax	435	841
Deferred tax	27	92
	462	933

The United Kingdom corporation tax changed on 1 April 2008 from 30% to 28%. This resulted in an effective corporation tax rate of 28.5% for the period 1 January to 31 December 2008.

The tax assessed on the profit for the year differs from the standard rate of corporation tax in the UK (28.5%). The differences are explained below:

	2008 £'000	2007 £'000
Profit before taxation	873	2,951
Profit on ordinary activities multiplied by standard rate of corporation tax in the UK of 28.5% (2007: 30%)	249	886
Effects of:		
Expenses not deductible for tax purposes	5	1
Deferred tax on trading losses not recognised	130	-
Foreign country tax rate differences	21	-
Adjustments to prior year	57	46
Tax charge	462	933

Notes to the financial statements (continued)

For the year ended 31 December 2008

5 Earnings per share

	2008			2007		
	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	411	28,504	1.44	2,018	26,419	7.64
Effect of dilutive share options	-	1,825	(0.08)	-	2,180	(0.58)
Diluted earnings per share	411	30,329	1.36	2,018	28,599	7.06
Adjusted basic earnings per share	543	28,504	1.90	2,236	26,419	8.46
Effect of dilutive share options	-	1,825	(0.11)	-	2,180	(0.64)
Adjusted diluted earnings per share	543	30,329	1.79	2,236	28,599	7.82

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

	2008 £'000	2007 £'000
Statutory Earnings	411	2,018
Add back exceptional items	184	311
Tax on exceptional items 28.5% (2007 30%)	(52)	(93)
Revised earnings for Adjusted EPS	543	2,236

Adjusted earnings per share excludes the cost of exceptional items less tax at 28.5% (2007: 30%).

Notes to the financial statements (continued)

For the year ended 31 December 2008

6 Dividends

Group and Company	2008 £'000	2007 £'000
2007 Final dividend payment - 0.5 pence per share (2006 0.4 pence per share)	143	106

The proposed dividend for 2008 is nil (2007 pence per share: 0.5p).

7 Reconciliation of operating profit to cash generated from/(absorbed by) operations

	Group 2008 £'000	Group 2007 £'000	Company 2008 £'000	Company 2007 £'000
Profit for the year	411	2,018	819	933
Adjustments:				
Taxation	462	933	323	488
Finance income	(28)	(64)	(51)	(22)
Finance costs	26	22	27	21
Depreciation of plant property and equipment	312	309	211	175
Profit/loss on disposal of plant property and equipment	(3)	58	(1)	28
Share based payments	(32)	30	(32)	30
Increase in inventories	(74)	(146)	(71)	(146)
Increase in trade and other receivables	2,057	(1,086)	1,117	(2,518)
(Decrease)/increase in trade and other payables	(211)	(617)	1,110	686
Cash generated from/(absorbed by) operations	2,920	1,457	3,452	(325)