



Work Group plc

Interim report for the 6 month period
ended 30 June 2006

work



Contents

Directors and advisers	below
Headlines	1
Chairman's review	2
Operating review	3
Independent review report	5
Consolidated profit and loss account	6
Consolidated balance sheet	7
Consolidated cash flow statement	8
Notes to the interim report	9–13

Directors and advisers

Directors

Simon Howard
Michael Warren
Steve Halford
Mark Phillips (*resigned 02/02/06*)
Steve Bodger (*appointed 02/02/06*)
Keith Cameron (*appointed 02/02/06*)

Secretary

Michael Warren

Registered Office

Saffron House
6-10 Kirby Street
London EC1N 8EQ

Solicitors

Laytons
Carmelite
50 Victoria Embankment
London EC4Y 0LS

Registered Auditors

PricewaterhouseCoopers LLP
1 Embankment Place
London WC2N 6RH

Bankers

Barclays Bank plc
1 Churchill Place
London E14 5HP

Nominated Adviser and

Nominated Broker
Altium Capital Limited
30 St James's Square
London SW1Y 4AL

Registrars

Computershare
PO Box 82
The Pavilions
Bridgwater Road
Bristol BS99 7NH



Headlines

Financial

- Gross profit up to £6.5m (2005: £4.0m)
- Operating profit before goodwill amortisation (EBITA) up to £1.1m (2005: £0.5m)
- Operating profit up to £0.9m (2005: £0.4m)
- Profit before tax up to £0.8m (2005: £0.3m)
- Diluted EPS up to 2.1p (2005: 1.2p)
- Strong cash flow with cash at period end of £1.1m

Business

- Strong profit contribution from Armstrong Craven, acquired in October 2005
- Operating profit increases in all three divisions
- Continuing successful migration of Adcomms income from advertising to fee-based services
- Successful flotation on AIM in March 2006
- Increasing joint-selling across the Group

About Work Group

Work Group offers a range of bespoke resourcing solutions aiming to enable employers to recruit and retain staff more effectively, thereby reducing their traditional reliance on third parties such as head-hunters and recruitment firms. Central to Work Group's approach is the concept of 'direct resourcing' – the establishment and maintenance of a direct relationship between employer and prospective employee. Direct

resourcing provides an efficient and cost effective alternative to traditional third party based recruitment strategies and is a growing trend among UK employers.

Work Group currently operates through three trading divisions; Advertising and Communications ('Adcomms'), Managed Resourcing, and Executive Research.

Chairman's review

This is our first report since admission to AIM in March 2006 and we are delighted that the Group continues to make real progress.

During the first half of the current year we have maintained positive growth, both in gross profit and margins, across all three operating divisions. Last year's acquisition of Armstrong Craven has proved a particular success and has materially strengthened our 'direct resourcing' positioning within the recruitment services market. In the Work Adcomms and Managed Resourcing businesses the positive trend away from lower margin media-based income has continued, with a 32% rise in fee-based activities over the same period last year.

We remain actively engaged in identifying potential further acquisitions, as part of our strategy to construct a group of direct resourcing interests. We will continue to be highly selective and are confident that our acquisition strategy will be able to enhance both our direct resourcing capability as well as earnings for shareholders.

At the time of our IPO we outlined our view that employers would increasingly be seeking greater efficiencies from their recruitment budgets and that as a consequence of this, they would be seeking to reduce their dependence on third party recruiters – i.e. employment and recruitment agencies.

We continue to see an acceleration of this trend as it becomes an explicit target of an increasing number of employers. As a result, our volume of web-based work continues to increase – in particular the creation of websites which enable employers to harness better the recruitment benefits of the internet.

Within executive search we witness similar concerns from employers to contain their recruitment costs, and this has been a significant driver in the 23% growth in gross profit on a pro forma basis (assuming the acquisition of Armstrong Craven on 1 January 2005).

As further endorsement of the direct resourcing approach, our divisions are increasingly engaged in cross-selling with more clients buying more services from other parts of the Group. In addition, the divisions are also joint-selling to potential clients, reflecting a growing demand from employers for alternative approaches to the traditional agency route.

The appointment of Steve Bodger and Keith Cameron as Non-Executive Directors at the time of the IPO has considerably strengthened the Board. We enjoy working together as a team and their extensive experience has already brought the Group great benefit.

The Board will always keep the potential for a dividend payment under review, but does not make any recommendation for the period ended 30 June 2006, despite our strong cash position.

We continue to see pleasing trends in our current trading and are confident of our ability to meet expectations for the full year.

Simon Howard
Chairman



Operating review

Divisional financial performance

£'000	6 months to 30 June 2006	6 months to 30 June 2005	Increase	12 months to 31 Dec 2005
Gross profit				
Adcomms	3,263	3,155	3%	6,627
Managed Resourcing	907	795	14%	1,507
Executive Research	2,281	–		97
Group gross profit	6,451	3,950	63%	9,112
Operating profit before goodwill amortisation (EBITA)				
Adcomms	538	449	20%	1,179
Managed Resourcing	248	182	36%	268
Executive Research	503	–		137
Corporate costs	(192)	(110)		(227)
Group EBITA	1,097	521	111%	1,357
Operating profit				
Adcomms	467	376	24%	1,030
Managed Resourcing	228	164	39%	235
Executive Research	362	–		66
Corporate costs	(192)	(110)		(227)
Group operating profit	865	430	101%	1,104

Note: Executive Research profit in 2005 relates to three months' contribution from Armstrong Craven following its acquisition.

We have continued to make solid progress in all aspects of company performance. At Group level, gross profit for the period ended 30 June 2006 increased by 63% to £6.5m (2005: £4.0m) and EBITA by 111% to £1.1m (2005: £0.5m). EBITA margins (EBITA divided by gross profit) improved at Group level to 17.0% (2005: 13.2%) despite increased corporate costs as a result of the admission to AIM.

Within each operating division, there was growth in gross profit and EBITA. Margins also increased, reflecting the benefits of both scale and cost management.

Adcomms

In the Adcomms division, we continue to help clients migrate their spend from advertising to exploit more effective channels to market. This has significantly increased the level of demand for our fee-based services such as web marketing, website design and development, employer branding, employment research and internal communications. In the six months to 30 June 2006 advertising gross profit fell by 15% but fee-based gross profit grew by 49% – with the net effect

being a 3% increase in divisional gross profit. This is a continuing trend which has accelerated in 2006 and underpins our focus on delivering increasing levels of fee-based services.

We are well on course to achieving our internal target of deriving over 80% of Group gross profit from non-media activities by the end of the year. In the first six months of 2006 on a pro forma basis (assuming the acquisition of Armstrong Craven on 1 January 2005) media related income made up 22% of Group gross profit, while gross profit from fee-based activities grew by 32%.

Managed Resourcing

In Managed Resourcing gross profit grew by 14% and EBITA by 36%, reflecting a growing demand for recruitment process outsourcing. Two particularly pleasing trends in the division were the increasing volumes of work from existing Group clients and a high re-appointment rate on outsourced graduate recruitment contracts.

Operating review continued

Group financial performance

£'000	6 months to 30 June 2006	6 months to 30 June 2005	Increase	12 months to 31 Dec 2005
Profit before tax	767	327	135%	835
Profit after tax	513	197	160%	750
EPS diluted (pence)	2.12	1.15	84%	4.32

Executive Research

In Executive Research, on a pro forma basis (assuming the acquisition of Armstrong Craven on 1 January 2005) gross profit increased by 23% and EBITA by 41% representing a sound endorsement of the acquisition. Increasingly employers are recognising the benefits of direct executive search as well as our broader knowledge and information services. In addition, we continue to grow our income in the private equity community through our range of specialist services targeted at this market.

Group

Across the Group, on a pro forma basis (assuming the acquisition of Armstrong Craven on 1 January 2005), gross profit increased by 12% and EBITA by 24% despite the increase in the corporate cost base as a result of becoming a publicly quoted company.

Profit before and after tax is shown in the table above. The tax charge for the six month period ended 30 June 2006 is based on the expected effective tax rate for the year ended 31 December 2006.

The proceeds of the IPO were principally used to eliminate debt on the balance sheet. Cash flow has continued to be strong during 2006 and contributed significantly to the increase in net cash to £1.1m at 30 June 2006. The company has an agreed credit arrangement with Barclays Bank of £3.0m to facilitate any acquisition activity.

Michael Warren
Group Finance Director



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 2006 which comprises the consolidated profit and loss account, the consolidated balance sheet, the consolidated cash flow statement, the comparative figures 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 and ensuring that the accounting policies and presentation applied to the interim figures are consistent with those applied in preparing the preceding annual accounts except where any changes, and the reasons for them, are disclosed.

This interim report has been prepared in accordance with the basis set out in Note 1.

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 accounting policies and presentation have been consistently applied unless otherwise disclosed. 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 performed in accordance with Auditing Standards 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 meeting its obligations under the AIM rules 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 2006.

PricewaterhouseCoopers LLP
Chartered Accountants
London
19 September 2006

Consolidated profit and loss account for the 6 month period ended 30 June 2006

	Note	Unaudited 6 month period ended 30 June 2006 £	Audited (Restated) 6 month period ended 30 June 2005 £	Audited (Restated) Year ended 31 December 2005 £
Turnover		16,251,736	16,109,661	31,307,973
Cost of sales		(9,800,596)	(12,159,274)	(22,195,873)
Gross profit		6,451,140	3,950,387	9,112,100
Administrative expenses		(5,586,215)	(3,520,394)	(8,008,166)
Operating profit before goodwill amortisation and exceptional items		1,097,210	521,415	1,357,211
Goodwill amortisation		(232,285)	(91,422)	(253,277)
Operating profit		864,925	429,993	1,103,934
Interest receivable and similar income		16,998	1,576	7,840
Interest payable and similar charges		(114,785)	(104,894)	(277,230)
Profit on ordinary activities before taxation		767,138	326,675	834,544
Taxation on profit on ordinary activities	2	(254,130)	(129,910)	(84,476)
Profit for the financial period/year		513,008	196,765	750,068
Earnings per share (pence)	4	2.45	1.41	5.29
Diluted earnings per share (pence)		2.12	1.15	4.32

The results above are all in respect of continuing operations.

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



Consolidated balance sheet as at 30 June 2006

	Note	Unaudited 30 June 2006 £	Audited 30 June 2005 £	Audited 31 December 2005 £
Fixed assets				
Tangible		837,428	672,480	854,942
Intangible		8,411,179	3,215,003	8,643,465
		9,248,607	3,887,483	9,498,407
Current assets				
Stock and work in progress		137,091	50,410	33,358
Debtors		6,068,724	5,193,210	4,751,989
Cash at bank		1,100,684	46,884	60,470
		7,306,499	5,290,504	4,845,817
Creditors: amounts falling due within one year	5	(8,078,975)	(6,590,002)	(7,749,359)
Net current liabilities		(772,476)	(1,299,498)	(2,903,542)
Total assets less current liabilities		8,476,131	2,587,985	6,594,865
Creditors: amounts falling due after more than one year		–	(1,500,000)	(4,488,770)
Provisions for liabilities and charges		(30,992)	(195,666)	(113,112)
Net assets		8,445,139	892,319	1,992,983
Capital and reserves				
Called up share capital	6	477,094	2,793,097	296,331
Share premium account		5,763,474	50,103	–
Special reserve		2,825,806	–	2,825,806
Profit and loss account		(621,235)	(1,950,881)	(1,129,154)
Shareholders' funds	7	8,445,139	892,319	1,992,983

The financial information which comprises the consolidated profit and loss account, the consolidated balance sheet, the consolidated cash flow statement, the comparative figures and the related notes, was approved by the board of directors on 19 September 2006 and was signed on its behalf by:

Michael Warren
Group Finance Director

Simon Howard
Chairman

Consolidated cash flow statement for the 6 month period ended 30 June 2006

	Note	Unaudited 6 month period ended 30 June 2006 £	Audited 6 month period ended 30 June 2005 £	Audited Year ended 31 December 2005 £
Net cash inflow from operating activities	8	762,800	1,545,659	2,337,405
Returns on investments and servicing of finance				
Interest paid		(322,451)	(121,862)	(175,269)
Interest received		16,998	1,576	5,652
		(305,453)	(120,286)	(169,617)
Corporation tax paid		–	–	–
Capital expenditure				
Purchase of tangible fixed assets		(125,000)	(78,380)	(176,625)
Proceeds from sale of tangible fixed assets		–	–	200
		(125,000)	(78,380)	(176,625)
Acquisitions				
Purchase of subsidiary undertakings		–	–	(2,753,983)
Net cash/(overdraft) acquired with subsidiary		–	–	(203,223)
Acquisition expenses		–	–	(279,264)
		–	–	(3,236,470)
Net cash inflow before financing		332,347	1,346,993	(1,245,307)
Financing				
Invoice discounting advances repaid		–	(1,353,105)	(1,459,139)
Issue of share capital (net of expenses)		5,944,237	–	–
Deferred consideration paid		(400,000)	–	–
Preference shares redeemed		(500,000)	–	–
Loan notes repaid		(1,500,000)	–	–
Expenses of bank loan issue		–	–	(24,915)
Bank loan issued/(repaid)		(2,653,983)	–	2,578,687
Finance lease payments		(18,572)	–	(5,037)
Net cash inflow/(outflow) from financing		871,682	(1,353,105)	1,088,966
Increase/(decrease) in cash in the period/year	9	1,204,029	(6,112)	(156,341)



Notes to the interim report for the 6 month period ended 30 June 2006

1 Basis of preparation

The financial information in this report has been prepared under the historic cost convention and incorporates the consolidated results of Work Group plc and its subsidiary undertakings (together 'the group') for the six month period ended 30 June 2006.

The accounting policies for all periods are in accordance with those set out in the Consolidated financial statements for the year ended 31 December 2005, other than as set out below. The Consolidated financial statements for the year ended 31 December 2005, on which the auditors gave an unqualified opinion, have been delivered to the Registrar of Companies.

FRS 20 'Share based payment' applies for accounting periods beginning on or after 1 January 2006 and has been adopted in this interim report. The impact of the adoption of this standard on the results for the period is a credit to the profit and loss account of £5,089, which has been offset by a corresponding debit to reserves. The adoption of the standard represents a change in accounting policy and the comparative figures have been restated accordingly. Please refer to note 7.

The financial information for the year ended 31 December 2005 is derived from the statutory accounts for that period. The financial information for the six month period ended 30 June 2005 is derived from the audited interim report for that period, on which the auditors gave an unqualified opinion.

The financial information contained in this Interim Statement does not constitute accounts as defined by section 240 of the Companies Act 1985.

2 Taxation on profit on ordinary activities

The tax charge for the six month period ended 30 June 2006 is based on the expected effective tax rate for the year ended 31 December 2006.

3 Dividends

No dividend is proposed.

4 Earnings per share

	Earnings £	Weighted average number of shares '000	Per share amount Pence
Unaudited – Year ended 31 December 2005			
Basic earnings per share	750,068	14,166	5.29
Effect of dilutive share options	–	3,209	(0.97)
Diluted earnings per share	750,068	17,375	4.32
Unaudited – Period ended 30 June 2005			
Basic earnings per share	196,765	13,965	1.41
Effect of dilutive share options	–	3,085	(0.26)
Diluted earnings per share	196,765	17,050	1.15
Unaudited – Period ended 30 June 2006			
Basic earnings per share	513,008	20,938	2.45
Effect of dilutive share options	–	3,283	(0.33)
Diluted earnings per share	513,008	24,221	2.12

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.

Notes to the interim report *continued*

4 Earnings per share *continued*

As detailed in note 6, 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 six month period ended 30 June 2005 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.

5 Creditors: amounts due within one year

	Unaudited period ended 30 June 2006 £	Audited period ended 30 June 2005 £	Audited year ended 31 December 2005 £
Invoice discounting advances	–	106,064	–
Bank loans and overdrafts	–	–	1,138,900
Preference shares	–	500,000	500,000
Trade creditors	2,933,051	3,708,633	2,285,879
Corporation tax	209,772	638,082	64,668
Other taxation and social security costs	748,618	–	726,141
Other creditors	1,136,235	1,117,125	1,058,396
Deferred contingent consideration	1,830,000	–	400,000
Finance lease agreements	4,787	–	18,572
Loan stock	–	–	500,000
Loan notes	417,684	–	346,017
Accruals and deferred income	798,828	520,128	710,786
	8,078,975	6,590,002	7,749,359

The three year term bank loan from Barclays plc was repaid in March 2006 following the admission to AIM. Interest was chargeable at 2.0625 per cent, above the LIBOR rate.

The overdraft facility bears interest at 1.75 per cent above the Bank of England base rate.

Deferred contingent consideration relates to the acquisition of Armstrong Craven Limited.

Loan notes are repayable on demand and bear interest at a fixed rate of 2 per cent.

Obligations under finance lease arrangements are secured on the assets acquired under these arrangements.

On 6 March 500,000 preference shares of £1 each were redeemed at par by the company.



6 Called up share capital

	Unaudited 30 June 2006 £	Audited 30 June 2005 £	Audited 31 December 2005 £
Authorised			
75,000,000 ordinary shares of 2p each (30 June 2005: 2,447,100 ordinary shares of £1 each; 31 December 2005: 2,447,100 ordinary shares of 10p each)	1,500,000	2,447,100	244,710
1,271,897 cumulative preferred ordinary shares of £1 each (31 December 2005: 10p)	–	1,271,897	127,190
	1,500,000	3,718,997	371,900
Allotted and called up			
23,854,707 ordinary shares of 2p each (30 June 2005: 1,521,200 ordinary shares of £1 each; 31 December 2005: 1,691,414 ordinary share of 10p each)	477,094	1,521,200	169,141
1,271,897 cumulative preferred ordinary shares of £1 each (31 December 2005: 10p)	–	1,271,897	127,190
	477,094	2,793,097	296,331
Allotted, called up and fully paid			
8,457,070 ordinary shares of 2p each (30 June 2005: 1,485,906 ordinary shares of £1 each; 31 December 2005: 1,691,414 ordinary shares of 10p each)	169,141	1,485,906	169,141
Conversion of 1,271,897 cumulative preferred ordinary shares of 10p each to 6,359,485 ordinary shares of 2p each	127,190	–	–
Issue of 342,500 ordinary shares of 2p each on exercise of share options	6,850	–	–
Issue of 8,695,652 ordinary shares of 2p each on admission to AIM 1,271,897 cumulative preferred ordinary shares of 10p each (30 June 2005: £1 each)	173,913	–	–
	–	1,271,897	127,190
	477,094	2,793,097	296,331

On 2 February 2006 all of the issued and unissued ordinary shares of 10p were sub-divided into five ordinary shares of 2p each. On the same date all of the issued cumulative preferred ordinary shares of 10p each were sub-divided into five cumulative ordinary shares of 2p each.

Also on 2 February 2006 the authorised share capital of the company was increased to £1.5million by the creation of 31,405,015 new ordinary shares of 2p each.

On 22 February 2006 share options were exercised over 230,000 ordinary shares which were consequently issued for cash and all 6,359,485 cumulative preferred ordinary shares were redesignated as ordinary shares.

On 1 March 2006 8,695,652 new ordinary shares of 2p each were issued for cash on admission to AIM.

On 28 March share options were exercised over 112,500 shares which were consequently issued for cash.

Notes to the interim report *continued*

7 Reconciliation of movements in shareholders' funds

	Unaudited 30 June 2006 £	Audited (Restated) 30 June 2005 £	Audited (Restated) 31 December 2005 £
Opening shareholders' funds	1,992,983	695,554	835,073
Issue of new share capital	5,944,237	–	170,214
Share premium on acquisition of Armstrong Craven	–	–	229,786
Share based payment	(5,089)	–	7,842
Profit for the financial period	513,008	196,765	750,068
Closing shareholders' funds	8,445,139	892,319	1,992,983

There is no impact on opening shareholders' funds as at 1 January 2005 from the introduction of FRS 20.

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

	Unaudited 6 month period ended 30 June 2006 £	Audited (Restated) 6 month period ended 30 June 2005 £	Audited (Restated) Year ended 31 December 2005 £
Operating profit	864,925	429,993	1,103,934
Depreciation	139,836	81,392	194,152
Loss on disposal of fixed assets	1,912	–	138
Amortisation of goodwill	232,285	91,422	253,277
Share based payment	(5,089)	–	7,842
(Increase)/decrease in stock and work in progress	(103,733)	11,313	28,365
(Increase)/decrease in debtors	(1,425,633)	(457,967)	1,001,619
Increase/(decrease) in creditors	1,140,417	1,472,060	(86,814)
Decrease in provisions for liabilities and charges	(82,120)	(82,554)	(165,108)
Net cash inflow from operating activities	762,800	1,545,659	2,337,405



9 Reconciliation of net cash inflow to movement in net funds/(debt)

	Unaudited 6 month period ended 30 June 2006 £	Audited 6 month period ended 30 June 2005 £	Audited Year ended 31 December 2005 £
Increase/(decrease) in cash in the period/year	1,204,029	(6,112)	(156,341)
Invoice discounting advances received	–	1,353,105	1,459,139
Loan notes issued	(71,667)	–	(346,017)
Bank loan repaid/(issued)	2,653,983	–	(2,629,068)
Bank loan issued with Armstrong Craven Limited	–	–	(75,926)
Bank loan repaid	–	–	75,926
Finance leases acquired with Armstrong Craven Limited	–	–	(28,396)
Preference share repaid	(500,000)	–	–
Loan stock repaid	(1,500,000)	–	–
Finance leases repaid	18,572	–	5,037
Other non-cash changes	(24,915)	–	–
Net debt at 1 January 2006	(5,101,789)	(2,906,143)	(3,406,143)
Net funds/(debt) at 30 June 2006	678,213	(1,559,150)	(5,101,789)

10 Analysis of changes in net (debt)/funds

	At 1 January 2006 £	Cash flows £	Non-cash movements £	At 30 June 2006 £
Cash at bank	60,470	1,040,214	–	1,100,684
Overdraft	(163,815)	163,815	–	–
	(103,345)	1,204,029	–	1,100,684
Finance leases	(23,359)	18,572	–	(4,787)
Bank loan – due less than one year	(975,085)	1,000,000	(24,915)	–
Bank loan – due within one year	(1,653,983)	1,653,983	–	–
Loan notes	(346,017)	–	(71,667)	(417,684)
Preference shares	(500,000)	500,000	–	–
Loan Stock – due within one year	(500,000)	500,000	–	–
Loan Stock – due within two to five years	(1,000,000)	1,000,000	–	–
Total	(5,101,789)	5,876,584	(96,582)	678,213



Word Group plc Saffron House 6-10 Kirby Street London EC1N 8EQ
t: 020 7492 0000 f: 020 7492 0001 workgroup.plc.uk