Work Group plc

Annual report and accounts 2006

better

Highlights of the year

Strong profit contribution from Armstrong Craven, acquired in October 2005

Good operating profit increases in all three divisions

Earnings enhancing acquisition of The Recruitment Communications Company in November 2006

New US office opening in New York, Q2 2007 supported by existing client contracts

Maiden dividend announced

Financial highlights

	2006	2005
Net fee income (Gross profit)	**£13.6m**	£9.1m
EBITA (Operating profit before goodwill amortisation)	**£2.5m**	£1.4m
Operating Profit	**£2.0m**	£1.1m
Profit after tax	**£1.5m**	£0.8m
Shareholders' funds	**£10.2m**	£2.0m
Diluted earnings per share	**5.9p**	4.3p
Diluted earnings per share before goodwill amortisation	**7.7p**	5.8p
Dividend per share	**0.4p**	Nil

Contents

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.

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

candidates

CIPD Recruitment & retention Survey 2006

Un-filled vacancies and poor quality recruits are a major constraint on any enterprise's ability to compete.

82%

of employers experience recruitment difficulties.

"Armstrong Craven has considerable industry knowledge and has assisted us with many critical and challenging recruitment projects. I am always impressed by their ability to provide flexible, direct search solutions in order to find the very best candidates in the marketplace on an international basis; they are also very cost effective compared to traditional executive search firms."

Dr Nigel Broom
Director, R&D Recruitment
GlaxoSmithKline

GlaxoSmithKline has worked with Armstrong Craven for over five years and during this time the relationship between the two organisations has strengthened considerably. Today they work in partnership across the European R&D organisation.

Work Group's single-minded purpose in all our recruitment activities is to provide employers with innovative and effective alternatives to traditional recruitment methods, thus delivering better motivated and better qualified recruits.

At **Armstrong Craven** we search out candidates from across the globe to fill senior and specialist roles internationally. With a team of 75 people based in Manchester and London we are Europe's leading provider of direct search to employers.

In **Work Resourcing** we design and manage recruitment and assessment processes which identify and select quality candidates. Much of our work is in graduate recruitment, where employers compete to recruit the very best talent to fuel their future growth.

Work is a leader in employer marketing, working with many blue chip clients. Our role is to use the latest techniques to ensure that employers attract the very best candidates who are motivated, informed and keen to develop their careers.

Employers should expect more from recruitment

staff retention

"The internal communications created by Work for Vodafone, have made a significant contribution to improving the effectiveness of our staff retention initiatives. The innovative approach they created has radically changed the way we think about careers at Vodafone."

Andy Hill
Head of Executive Resourcing Development
Vodafone UK

Amongst a wide range of recruitment communications work delivered in 2006 for Vodafone was the creation and execution of an internal marketing programme for careers within Vodafone.

69%

of employers experience retention difficulties.

CIPD Recruitment & retention Survey 2006

The constant turnover of staff – in the private sector this has now hit 22.9% – is a major drain on any enterprise's ability to compete.

Employers should expect more from their recruits

It's all very well recruiting quality talent, but poor induction, limited development opportunities and bad communication can turn even the best recruits into leavers. So across the Group, we work with employers to minimise those risks.

For example, in **Work** we create on-boarding programmes for our clients, ensuring that new joiners are effectively introduced to their new employer and that induction programmes are conducted smoothly.

At **RCC** we have developed culture and values programmes for employers which improve employee engagement, while better internal communication of career opportunities enables more internal movement of staff, which in turn, decreases attrition rates.

In **Work Resourcing** we create assessment programmes to identify outstanding talent, thus ensuring that high fliers can develop their careers within organisations, rather than having to leave.

While at **Armstrong Craven** we have conducted specific assignments where clients target us to recruit 'real achievers' rather than 'candidates already on the market and registered with agencies', because as they put it, 'better recruits stay longer.'

cost-effectiveness

“Our resourcing strategy has two fundamental objectives; to recruit the best talent around the world and to do it as cost-effectively as possible. Through our partnership with Work, we are transforming the way we promote the firm and attract talent, showing that an integrated, global communications strategy can achieve lasting results and drive down costs.”

Jill King
Global Director of Human Resources
Linklaters

Linklaters originally appointed Work in 2004 to promote its graduate programme in the UK. This relationship has since grown and now encompasses careers materials for the firm and the promotion of Linklaters to experienced lawyers around the globe.

66%

of employers say they don’t measure overall recruitment costs.

Recruitment Confidence Index
Cranfield School of Management
Published March 2007

Over £5bn is spent on recruitment agency fees, yet many employers do not measure the effectiveness of their recruitment expenditure. Getting a grip on recruitment costs is a major boost for any enterprise’s competitiveness.

Recruitment is an expensive business for employers, and recruitment costs are coming under greater scrutiny. Fundamental to the recruitment services provided by Work Group is that they represent a cost-effective alternative to traditional recruitment methods.

The direct search services offered by **Armstrong Craven** mean that employers are able to recruit to senior and technical positions for approximately one third of the cost of traditional head-hunting.

The whole purpose of recruitment process outsourcing is to get a firm grip on costs and so **Work Resourcing** is measured day-in and day-out on the cost efficiencies it delivers to its clients. We are also able to add value through better design of recruitment processes.

If employers use the internet effectively they are able to slash their recruitment costs. **Work** builds websites, creates online marketing strategies and delivers recruitment communications programmes which enable employers to deal directly with prospective employees, thus reducing their cost per hire.

Employers should expect more from their budgets

Group at a glance

Work started trading in 2001, and from an original team of 18, the Group has grown to 234 people based in six UK offices.

Our growth has been both organic and acquisitive, having bought Park Human Resources in 2003, Armstrong Craven in 2005 and RCC HR in 2006.

Currently we have three principal reporting divisions: Employer marketing, Recruitment process outsourcing (RPO) and Executive research.

Net fee income	%	£m
Employer marketing	54	7.3
Recruitment process outsourcing	13	1.7
Executive research	33	4.6

Operating profit*	%	£m
Employer marketing	55	1.2
Recruitment process Outsourcing	18	0.4
Executive research	27	0.6

* Before corporate costs

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

Employer marketing

Description
Work develops and delivers candidate attraction strategies and associated services for employers. It helps identify what is different and attractive about their offer and channels clients' expenditure into promoting and supporting their own profile and reputation thus enabling them to reduce their reliance on recruitment agencies.

Services
- Website design and development
- Online marketing
- Graduate marketing
- Press advertising
- Employment research
- Employer branding
- Internal communications

Net fee income
2006 – £7.3m
2005 – £6.6m

Operating profit*
2006 – £1.2m
2005 – £1.0m

Office locations
- London
- Birmingham
- Edinburgh
- Knutsford
- Manchester
- New York (May 2007)

Trading business units
- Work London
- Work Regions
- The Recruitment Communications Company

Number of employees (end 2006)
- 134

Recruitment process outsourcing

Description
Work Resourcing supports employers in all aspects of direct hiring. It designs recruitment and selection processes which help employers manage their recruitment programmes. Having found the right pool of candidates, it ensures they are appropriately screened and assessed.

Services
- Candidate screening and assessment
- Outsourcing provision on or off site
- Assessment design
- Assessment centre management

Net fee income
2006 – £1.7m
2005 – £1.5m

Operating profit*
2006 – £0.4m
2005 – £0.2m

Office locations
- London
- Birmingham
- Edinburgh
- Manchester

Trading business units
- Work Resourcing

Number of employees (end 2006)
- 22

Executive research

Description
Armstrong Craven is Europe's largest executive research company and offers direct executive search. Its researchers identify prospective candidates from its extensive database facilities and match them to employers' briefs. The database also offers a source of competitor and market intelligence.

Services
- Direct executive search
- Market intelligence services
- Candidate referencing
- Candidate database management
- Private Equity director search

Net fee income
2006 – £4.6m
2005 – £1.0m**

Operating profit*
2006 – £0.6m
2005 – £0.1m**

Office locations
- London
- Manchester
- New York (May 2007)

Trading business units
- Armstrong Craven

Number of employees (end 2006)
- 78

* Before corporate costs

** 2005 performance relates to three months' contribution from Armstrong Craven following its acquisition in October 2005

Simon Howard
Chairman

Chairman's statement

Work Group delivered a strong performance in 2006. 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* 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.

Good growth across all divisions

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.

* Assuming the acquisition of Armstrong Craven on 1 January 2005 and disregarding the results of The Recruitment Communications Company (RCC) acquired in November 2006.

Growth and value through organic development and strategic acquisition

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 1 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 business 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.

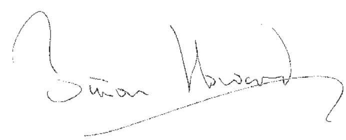
Throughout each of the divisions we have exceptionally experienced management teams, which we continue to strengthen. Towards the end of 2006 a number of key managers were promoted to join the boards and executive teams within each division.

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

We have attracted and retained some of the very best talent

Michael Warren
Group Finance Director

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

	12 months to 31 Dec 2006 £000	**Increase 2006 vs 2005 %**	12 months to 31 Dec 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.

Operating profit grew 80%

Profit margins advanced in all divisions

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 1 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.

Strong balance sheet and cash flow

Group Financial Performance

	12 months to 31 Dec 2006 £000	Increase %	12 months to 31 Dec 2005 £000
Profit before tax	1,910	**129**	834
Profit after tax	1,510	**101**	750
Diluted EPS (pence)	5.87	**36**	4.32

Group
Profit before and after tax is shown in the table above. 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).

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 delivered a strong performance in 2006

Board of Directors

Simon Howard Executive Chairman
Age 51, Simon's career in the recruitment industry stretches back to 1979. He teamed up with Michael Warren in 1988 when he was appointed Managing Director of Barkers Human Resources. In 1995 he led the buy-out of Park HR which was then sold to SHL Group plc in 1997 with Simon becoming an executive director. He left in 1999 and co-founded Work with Michael Warren and Steve Halford in 2000. Simon has written the weekly 'Jobfile' column on employment issues in The Sunday Times since 1995 (over 450 columns to date), and is a regular contributor to magazines and a speaker on recruitment and HR issues.

Michael Warren ACMA Finance Director
Age 47, Michael's finance career started at a number of marketing services companies in both the UK and US, before joining Barkers Human Resources as Finance Director in 1987. In 1988 Simon Howard arrived as Managing Director and both managed an impressive turnaround before leaving in 1994 to pursue the acquisition of Park, an MBI funded by RBDC. Having acquired Park for £4m in 1995 it was sold to SHL Group plc in 1997 for £14.6m. Michael left Park in 1999 and co-founded Work in 2000 with Simon and Steve Halford.

Steve Halford Group Managing Director
Age 51, Steve has worked in the recruitment industry since 1978. In 1991 he joined Barkers Human resources as Regional Managing Director and led the company though a period of significant growth, becoming UK Managing Director in 1994. After five years at the helm he left in 1999 to team up with the other co-founders to form Work in 2000. Since January 2007 Steve has had main board responsibility for the Work Regions and Armstrong Craven divisions and is based in the North West. He is a regular industry commentator and has chaired various industry bodies and panels.

Sue Craven Group Managing Director
Age 45, Sue has worked in the recruitment industry for over 22 years. She started her career at Spencer Stuart as a researcher, leaving there to form Armstrong Craven (AC) in 1990. Initially AC was the out-sourced research arm to executive search firms but increasingly began to work directly for employers. Having built AC into a 70-strong business, Sue sold the company to Work Group in October 2005, and joined the main board with responsibility for Work London, Work Resourcing and the US office in January 2007. Sue has won entrepreneur awards and is actively involved with the CBI, IOD and is a member of the Strategic Board of Manchester: Knowledge Capital.

Steve Bodger FCA Non-executive Director
Age 57, Steve has extensive experience as an executive and non-executive director of public and private companies. He began his career at Price Waterhouse and is a qualified chartered accountant. He subsequently held various executive positions in both public and private companies (including a number of board roles at Transport Development Group plc between 1991 and 1999). More recently as a director of Alchemy Venture Partners he holds a number of non-executive positions in Alchemy portfolio companies. He is currently a non-executive director of Armour Group plc, Wescot Credit Services, Blagden Group, Right4Staff and Jacques Vert plc.

Keith Cameron Non-executive Director
Age 59, Keith has considerable executive and non-executive director experience in both public and private companies. He has spent the vast majority of his career in human resources at a number of multinational companies including Union Carbide Inc., Rank Xerox Inc., Levi Strauss Inc., Dixons Group plc, Storehouse plc and between 1998 and 2001 was Chief Operating Officer of The Burton Group plc/Arcadia Group plc. In 2004 he was persuaded by Stuart Rose to return from retirement to take up the position of HR Director at Marks & Spencer plc. He is currently also the Independent Director of the Barclays Bank Pension Fund, and a Visiting Professor at Cranfield School of Management.

Left to Right
Keith Cameron Non-Executive
Michael Warren Group Finance Director
Sue Craven Group Managing Director
Steve Halford Group Managing Director
Steve Bodger Non-Executive
Simon Howard Chairman

Directors' report for the year ended 31 December 2006

The directors present their report and the audited consolidated financial statements for the year ended 31 December 2006.

Principal activities

The principal activities of the Group during the year were employer marketing, recruitment process outsourcing and executive research services.

Results and review of business

The results for the year are set out in the consolidated profit and loss account. The information that fulfils the requirements of the Business Review regulations of the Companies Act is set out elsewhere in the annual report. Details of the Group's strategy and expected future developments are contained in the Chairman's statement on pages 10 to 12. Details of the financial performance of the group together with analysis using key performance indicators is contained in the Operating review on pages 13 to 15. This information is incorporated in this report by reference.

Dividends

The directors recommend the payment of a dividend of 0.4 pence per share (2005: nil). For further information please refer to note 10.

Change of name

On 17 January 2006 the Company changed its name from Work Communications Limited to Work Group plc, following its re-registration as a public limited company.

Payment of Creditors

The Group pays its media suppliers in accordance with the terms of recognised industry bodies. Other suppliers are paid on terms agreed in advance of supply. Company trade creditors at 31 December 2006 were equivalent to 34 days of purchases (2005: 28 days).

Charitable and political donations

No charitable or political donations were made during the year (2005: nil).

Principal risks and uncertainties

The principal risks and uncertainties facing the Group relate to its continuing relationships with its clients. There is potential for issues to emerge in relation to particular clients which may have an adverse effect on that client's relationship with the company. Clients regularly re-tender projects and contracts and this gives rise to the potential for lost business.

Our people

We attempt to attract and retain some of the very best talent and try to create an environment where talent can thrive. We encourage open communication at all levels. Information relating to the performance and development of the Group is given at both formal and informal meetings. We endeavour to reward people through participation in schemes which are linked to the Group's progress and profitability. In all employment matters the Group maintains a commitment to an equal opportunity policy.

Directors

The directors who served during the year are as set out in the Directors' Remuneration Report.

Financial risk management

For details of the financial risks facing the group, please refer to note 17.

Substantial shareholdings

As at 31 December 2006, in addition to the Directors' shareholdings set out in the Directors' Remuneration Report, the Group had been notified of the following shareholders who held an interest amounting to 3% or more in the ordinary shares of the company:

Shareholder	No. of shares	% of total
Morgan Stanley (MM)	2,580,110	10.1
Penta Capital Partners	2,470,641	9.7
Jon Moulton	2,390,000	9.4
Close Fund Management	2,049,690	8.0
Close Finsbury Asset Management	1,400,000	5.5
UBS Global Asset Management	1,242,236	4.9
Universities Superannuation Scheme	1,219,161	4.8
Aberdeen Asset Management	874,357	3.4
F&C Asset Management	857,037	3.4
Resolution Asset Management	845,758	3.3

Auditors and disclosure of information to auditors

PricewaterhouseCoopers LLP are the auditors of Work Group plc.

For each of the persons who were directors at the time this report was prepared, the following applies:

- so far as the directors are aware, there is no relevant audit information (ie information needed by the company's auditors in connection with preparing their report) of which the company's auditors are unaware; and

- the directors have taken all steps that they ought to have taken as directors in order to make themselves aware of any relevant audit information and to establish that the company's auditors are aware of that information.

Statement of directors' responsibilities in respect of the Annual Report and the financial statements

The directors are responsible for preparing the Annual Report and the financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law, the directors have elected to prepare the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law). The financial statements are required by law to give a true and fair view of the state of affairs of the company and the group and of the profit or loss of the group for that period.

In preparing those financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable UK Accounting Standard have been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the group will continue in business, in which case there should be supporting assumptions or qualifications as necessary.

The directors confirm that they have complied with the above requirements in preparing the financial statements.

The directors are responsible for keeping proper accounting records that disclose with reasonable accuracy at any time the financial position of the company and the group and to enable them to ensure that the financial statements comply with the Companies Act 1985. They are also responsible for safeguarding the assets of the company and the group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The directors are responsible for the maintenance and integrity of the company's website. Information published on the Internet is accessible in many countries with different legal requirements. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

By order of the Board

M A Warren
Company Secretary
14 March 2007

Corporate governance

Statement of compliance

As an AIM listed company, compliance with the 2003 FRC Combined Code is not required. However, the directors seek to comply with the Combined Code and Code of Best Practice to the extent that it is practicable and appropriate for a group of our size.

Board and board committees

Board members are listed below. Both non-executive directors are considered to be independent.

Board members attended the following meetings:

	Board	Audit	Remuneration
Executive directors			
Simon Howard (Chairman)	11	2	2
Michael Warren (Finance Director)	11	2	–
Steve Halford (Group Managing Director)	10	2	–
Non-executive directors (since AIM listing)			
Steve Bodger	9	2	2
Keith Cameron	9	2	2

The Board determines the overall strategic direction of the Group, oversees the development and control of the Group and reviews financial and operational performance. The Board approves acquisitions, annual budgets and quarterly forecasts and reviews monthly management accounts. Day-to-day and business management control is delegated to the executive directors who are responsible for performance and the implementation of Group policy.

Audit committee

The members of the audit committee are the non-executive directors; Steve Bodger, who chairs the committee, and Keith Cameron. Both non-executive directors are considered to be independent. The auditors and the Finance Director also attend the meetings at the invitation of the Chairman of the committee. All directors attended the two meetings in 2006. The audit committee reviews and approves the annual report and interim statement. It also reviews the Group's internal financial controls, the scope of the audit and the independence and objectivity of the auditors. The auditors have direct access to the chairman of the committee, if required. The audit committee is responsible for recommending the appointment, re-appointment or removal of auditors. The committee is also responsible for monitoring the level of non-audit services provided by the auditors to ensure that objectivity and independence is maintained.

Nominations committee

We do not consider that a nominations committee is necessary in a Group of our size.

Remuneration committee

For details of the remuneration committee, please refer to the Directors' remuneration report.

Internal control

The Board has overall responsibility for internal control systems and the executive directors are charged with implementing and maintaining them.

The Group has a comprehensive system of financial reporting and forecasting profits, cash flows, assets and liabilities. The systems include regular monitoring of cash, monthly reporting of financial results, reviews of forecasts and comparisons with budgets. Budgets and business plans are prepared annually by each division and reviewed by management and the Board. Monthly management meetings are held to monitor performance against budget, progress in implementing planned changes and the operational efficiency of the business.

At present the directors do not consider there is a justifiable need for a dedicated internal audit function given the size of the Group.

Operational risks are identified and assessed by management and any significant risks are reported to the Board. Financial and commercial risks are identified and reviewed by the Board.

The Group's internal control systems are designed to provide directors with reasonable assurance that any problems are identified on a timely basis and dealt with appropriately. The Board considers the internal controls to be effective but no system of internal control can provide absolute assurance against material misstatement or loss.

Relationship with shareholders

It is a high priority for the board to establish relationships with shareholders. The Chairman and Finance Director hold regular briefings with institutional shareholders and investment managers and invitations are afforded to institutional shareholders to attend presentations by directors and senior management twice a year. Feedback from these meetings is given to the other directors. The board welcomes the opportunity to meet individual shareholders at the annual general meeting.

Directors' remuneration report

Unaudited information

Remuneration committee
The members of the remuneration committee are Keith Cameron and Steve Bodger, the independent non-executive directors. Keith Cameron chairs the committee. The remuneration committee agrees with the Board the framework and policy for executive remuneration in the Group and specifically determines the remuneration packages of the executive directors.

Remuneration policy
The aim of the remuneration policy is to provide executive directors with remuneration packages which encourage enhanced performance, are commercially competitive and align the interests of employees with those of shareholders to create value.

Basic salary and benefits
Executive directors' salaries are reviewed annually in January. Executive directors receive a car allowance, medical insurance cover, life assurance cover, permanent health insurance cover and a pension contribution which may be taken as additional salary.

Annual bonus
The executive directors are entitled to a performance related annual bonus determined by the remuneration committee each year. A bonus is earned if the Group achieves financial targets related to profit before tax and earnings per share. A bonus of 30% of salary is awarded on achievement of target rising to a maximum of 50% of salary for levels of over target performance. The bonus is paid in cash and is non-pensionable.

Long term incentives
It is the company's intention to introduce a new share option scheme for senior employees and executive directors during 2007, subject to shareholder approval.

Service contracts
The service contracts of the executive directors are subject to 12 months' notice period.

Non-executive directors
The non-executive directors were appointed on 2 February 2006 with notice periods of three months.

Audited Information

Directors' remuneration

	Salary/Fees £000	Bonus £000	Benefits £000	**Total 2006 £000**	Total 2005 £000
Executive directors					
Simon Howard	132	36	9	**177**	140
Michael Warren	132	36	8	**176**	139
Steve Halford	132	36	9	**177**	140
Sue Craven	–	–	–	**–**	–
Non-executive directors					
Steve Bodger	27	–	–	**27**	–
Keith Cameron	27	–	–	**27**	–
Total	450	108	26	**584**	419

No pension contributions are payable in respect of any of the directors (2005: nil).

Directors and their interests

The directors and their beneficial interests in the ordinary shares of Work Group plc were as follows:

	31 Dec 2006 No.	31 Dec 2005 No.
Simon Howard	**1,700,200**	2,125,250
Michael Warren	**1,700,200**	2,125,250
Steve Halford	**928,000**	928,000
Sue Craven (appointed 1 January 2007)	**425,530**	425,530
Mark Phillips (resigned 2 February 2006)	**–**	–
Steve Bodger (appointed 2 February 2006)	**37,267**	–
Keith Cameron (appointed 2 February 2006)	**31,055**	–

Simon Howard and Michael Warren each sold 425,050 shares on 1 March 2006 on admission to AIM for 80.5p per share. In addition, the directors held the following options to subscribe for additional shares in Work Group plc, at an exercise price of 20p:

	31 Dec 2006 No.	31 Dec 2005 No.
Steve Halford	**170,000**	400,000

Steve Halford exercised 230,000 share options at 20p each on 22 February 2006 which were sold for 80.5p on admission to AIM. The resultant gain on exercise was £139,150.

Share and option holdings as at 31 December 2005 are re-stated above to show the effect of the five for one sub-division of shares which occurred on 2 February 2006 (see note 20).

Independent auditors' report to the members of Work Group plc

We have audited the consolidated and parent company financial statements (the "financial statements") of Work Group plc for the year ended 31 December 2006 which comprise the consolidated profit and loss account, the consolidated and parent company balance sheets, the consolidated cash flow statement and the related notes. These financial statements have been prepared under the accounting policies set out therein. We have also audited the information in the Directors' Remuneration Report that is described as having been audited.

Respective responsibilities of directors and auditors

The directors' responsibilities for preparing the Annual Report, the Directors' Remuneration Report and the financial statements in accordance with applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice) are set out in the Statement of Directors' Responsibilities.

Our responsibility is to audit the financial statements and the part of the Directors' Remuneration Report to be audited in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland). This report, including the opinion, has been prepared for and only for the company's members as a body in accordance with Section 235 of the Companies Act 1985 and for no other purpose. We do not, in giving this opinion, 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.

We report to you our opinion as to whether the financial statements give a true and fair view and whether the financial statements and the part of the Directors' Remuneration Report to be audited have been properly prepared in accordance with the Companies Act 1985. We also report to you whether in our opinion the information given in the Directors' Report is consistent with the financial statements. In addition we report to you if, in our opinion, the company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and other transactions is not disclosed.

We read other information contained in the Annual Report and consider whether it is consistent with the audited financial statements. The other information comprises only the Group at a glance, the Chairman's Statement, the Operating Review, the Corporate Governance Statement, the Directors' report and the unaudited part of the Directors' Remuneration Report. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. Our responsibilities do not extend to any other information.

Basis of audit opinion

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements and the part of the Directors' Remuneration Report to be audited. It also includes an assessment of the significant estimates and judgments made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the group's and company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements and the part of the Directors' Remuneration Report to be audited are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements and the part of the Directors' Remuneration Report to be audited.

Opinion

In our opinion:

- the financial statements give a true and fair view, in accordance with United Kingdom Generally Accepted Accounting Practice, of the state of the group's and the parent company's affairs as at 31 December 2006 and of the group's profit and cash flows for the year then ended;

- the financial statements and the part of the Directors' Remuneration Report to be audited have been properly prepared in accordance with the Companies Act 1985; and

- the information given in the Directors' Report is consistent with the financial statements.

PricewaterhouseCoopers LLP
Chartered Accountants and Registered Auditors
London
16 March 2007

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

	Note	Year ended 31 Dec 2006 £000	(Restated – see note 1) Year ended 31 Dec 2005 £000
Turnover			
– continuing operations		**32,635**	31,308
– acquisitions		**512**	–
Turnover	1,2	**33,147**	31,308
Cost of sales		**(19,576)**	(22,196)
Gross profit	3	**13,571**	9,112
Administrative expenses	3	**(11,584)**	(8,008)
Operating profit before goodwill amortisation		**2,454**	1,357
Goodwill amortisation		**(467)**	(253)
Operating profit			
– continuing operations	3	**1,975**	1,104
– acquisitions	3	**12**	–
Operating profit	6	**1,987**	1,104
Interest receivable and similar income		**53**	7
Interest payable and similar charges	5	**(130)**	(277)
Profit on ordinary activities before taxation		**1,910**	834
Taxation on profit on ordinary activities	7	**(400)**	(84)
Profit for the financial year	22	**1,510**	750
Earnings per share (pence)	9	**6.67**	5.29
Diluted earnings per share (pence)	9	**5.87**	4.32

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.

Consolidated balance sheet
as at 31 December 2006

	Note	31 Dec 2006 £000	31 Dec 2005 £000
Fixed assets			
Intangible	11	**10,984**	8,643
Tangible	12	**856**	855
		11,840	9,498
Current assets			
Stock and work in progress	14	**95**	33
Debtors	15	**6,112**	4,753
Cash at bank		**1,274**	60
		7,481	4,846
Creditors: amounts falling due within one year	16	**(7,918)**	(7,749)
Net current liabilities		**(437)**	(2,903)
Total assets less current liabilities		**11,403**	6,595
Creditors: amounts falling due after more than one year	17	**(1,250)**	(4,489)
Provisions for liabilities and charges	19	**–**	(113)
Net assets		**10,153**	1,993
Capital and reserves			
Called up share capital	20	**510**	296
Special reserve	22	**2,826**	2,826
Share premium account	22	**6,433**	–
Profit and loss account	22	**384**	(1,129)
Shareholders' funds	23	**10,153**	1,993

The financial statements, which comprise the consolidated profit and loss account, the consolidated and company balance sheets, the consolidated cash flow statement and the related notes, were approved by the board of directors on 14 March 2007 and were signed by:

Simon Howard
Chairman

Michael Warren
Finance Director

Company balance sheet
as at 31 December 2006

	Note	31 Dec 2006 £000	31 Dec 2005 £000
Fixed assets			
Intangible	11	**4,055**	4,308
Tangible	12	**621**	654
Investments	13	**9,442**	6,009
		14,118	10,971
Current assets			
Stock and work in progress	14	**95**	33
Debtors	15	**4,053**	3,786
Cash at bank		**41**	59
		4,189	3,878
Creditors: amounts falling due within one year	16	**(6,152)**	(7,110)
Net current liabilities		**(1,966)**	(3,232)
Total assets less current liabilities		**12,152**	7,739
Creditors: amounts falling due after more than one year	17	**(1,250)**	(4,484)
Provisions for liabilities and charges	19	**–**	(113)
Net assets		**10,905**	3,142
Capital and reserves			
Called up share capital	20	**510**	296
Special reserve	22	**2,826**	2,826
Share premium account	22	**6,433**	–
Profit and loss account	22	**1,136**	20
Shareholders' funds	23	**10,905**	3,142

Consolidated cash flow statement
for the year ended 31 December 2006

	Note	**Year ended 31 Dec 2006 £000**	Year ended 31 Dec 2005 £000
Net cash inflow from operating activities	25	**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		**(114)**	(170)
Corporation tax paid		**(65)**	–
Capital expenditure			
Purchase of tangible fixed assets		**(254)**	(176)
Net cash outflow from capital expenditure		**(254)**	(176)
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		**(1,742)**	(3,236)
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		**1,057**	1,089
Increase/(decrease) in cash in the year	26	**1,000**	(156)

Notes to the financial statements
for the year ended 31 December 2006

1 Principal accounting policies

The financial statements have been prepared in accordance with applicable Accounting Standards in the United Kingdom and the Companies Act 1985. A summary of the more important accounting policies, which have been applied consistently, except as noted under 'new accounting standards,' is set out below.

Basis of preparation
The financial statements are prepared in accordance with the historical cost convention.

Basis of consolidation
The group financial statements comprise a consolidation of the audited financial statements of the holding company and its subsidiary undertakings, all of which have prepared their financial statements to 31 December 2006. The results and net assets of subsidiary undertakings acquired are included in the consolidated profit and loss account and consolidated balance sheet using the acquisition method of accounting from the effective date that control passes.

New accounting standards
FRS 20 'Share based payment' applies for accounting periods beginning on or after 1 January 2006 and has been adopted in these 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. Please refer to note 21.

Turnover and gross profit
Turnover, 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. Turnover from executive research services is recognised as contract activity progresses and the right to consideration is earned.

Unbilled turnover on client assignments is included as accrued income within debtors. Where individual on account billings exceed revenue recognised on client assignments, the excess is classified as deferred income within creditors.

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 profit and loss account 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.

Tangible fixed assets
The cost of tangible fixed assets is their purchase cost, together with any incidental costs of acquisition. Depreciation is calculated so as to write off the cost of tangible fixed assets, 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 and software	33%
Fixtures and fittings	20%
Leasehold improvements	over the term of the lease
Motor vehicles	25%

Goodwill
Goodwill is stated at cost less accumulated amortisation and any impairment in value. Cost represents the difference between the fair value of the consideration paid on acquisition of a business and the fair value of the separable net assets acquired. Amortisation is calculated to write off the cost of goodwill to the profit and loss account on a straight-line basis over its estimated useful life of 20 years.

Impairment of fixed assets
A review of impairment of fixed assets is carried out if events or changes in circumstances indicate that the carrying amount of the fixed assets may not be recoverable. Impairment reviews comprise a comparison of the carrying amount of the fixed 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 fixed asset is impaired and an impairment loss is recognised in the profit and loss account.

Deferred taxation
Deferred tax is recognised in respect of all timing differences that have originated but not reversed at the balance sheet date where there is an obligation to pay more tax in the future or a right to pay less tax in the future.

Deferred tax assets are recognised only when, on the basis of all available evidence, it can be regarded as more likely than not that there will be available taxable profits against which the future reversal of the underlying timing differences can be offset. Deferred tax assets and liabilities are not discounted.

Investments
Investments in subsidiary undertakings are stated at cost less provision for any impairment in value.

Stocks and work in progress
Stocks are valued at the lower of cost and net realisable value. Work in progress represents unbilled costs incurred in respect of sales 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 tangible fixed assets at their fair value. The capital element of the future payments is treated as a liability and the interest is charged to the profit and loss account 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 profit and loss account 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 taken into account arriving at the operating profit.

Share based payment
The group issues equity-settled, share-based payments, in the form of share options, to certain employees. In accordance with FRS 20, 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 profit and loss account over the vesting period, based on the group's estimate of the number of shares that will eventually vest. The group has taken advantage of the exemption available and has applied the provisions of FRS 20 only to those options granted after 7 November 2002 and which had not vested by 1 January 2005.

Related party transactions
Financial Reporting Standards (FRS) 8 'Related Party Transactions' requires the disclosure of the details of material transactions between the reporting entity and related parties. The Company has taken advantage of exemptions under FRS8 not to disclose transactions between Group companies.

2 Segmental analysis

Turnover is derived from employer marketing, recruitment process outsourcing and executive research.

	Year ended 31 Dec 2006 £000	Year ended 31 Dec 2005 £000
Turnover analysis by destination:		
United Kingdom	**32,048**	30,854
Europe	**894**	315
USA	**149**	93
Rest of World	**56**	46
	33,147	31,308

There is no material difference between Turnover by destination and Turnover by origin.

The Recruitment Communications Company Limited contributed towards the above analysis in 2006 as follows: United Kingdom £512,000.

	Year ended 31 Dec 2006 £000	Year ended 31 Dec 2005 £000
Turnover analysis by business segment:		
Employer Marketing	**25,911**	28,223
Recruitment Process Outsourcing	**2,678**	2,102
Executive Research	**4,558**	983
	33,147	31,308

	Year ended 31 Dec 2006 £000	Year ended 31 Dec 2005 £000
Profit before tax analysis by business segment:		
Employer Marketing	**1,158**	568
Recruitment Process Outsourcing	**398**	132
Executive Research	**617**	135
Corporate costs	**(263)**	–
	1,910	835

The Recruitment Communications Company Limited contributed towards the above analysis in 2006 as follows: Employer Marketing £104,000.

	Year ended 31 Dec 2006 £000	Year ended 31 Dec 2005 £000
Net asset analysis by business segment:		
Employer Marketing	**7,629**	942
Recruitment Process Outsourcing	**1,822**	524
Executive Research	**699**	527
	10,150	1,993

The Recruitment Communications Company Limited contributed towards the above analysis in 2006 as follows: Employer Marketing £715,000.

3 Cost of sales, gross profit and administrative expenses

	Continuing operations – Year ended 31 Dec 2006 £000	Acquired operations – Year ended 31 Dec 2006 £000	**Total continuing operations – Year ended 31 Dec 2006 £000**	(Restated – see note 1) Year ended 31 Dec 2005 £000
Turnover	32,635	512	**33,147**	31,308
Cost of sales	(19,442)	(134)	**(19,576)**	(22,196)
Gross profit	13,193	378	**13,571**	9,112
Administrative expenses	(11,218)	(366)	**(11,584)**	(8,008)
Operating profit	1,975	12	**1,987**	1,104

Acquired operations are in respect of The Recruitment Communications Company Limited and relate to the period from 1 November 2006 to 31 December 2006.

4 Employees

The average weekly number of persons (including executive directors) employed by the group during the year was:

By activity	**Year ended 31 Dec 2006 £000 Number**	Year ended 31 Dec 2005 £000 Number
Client service	**135**	82
Creative & production	**23**	25
Finance, admin & IT	**28**	19
Sales	**9**	4
	195	130

Staff costs (including directors) were as follows:

	Year ended 31 Dec 2006 £000	Year ended 31 Dec 2005 £000
Wages and salaries	**6,841**	4,757
Social security costs	**744**	528
Pension costs	**345**	169
	7,930	5,454

At 31 December 2006, accrued pension contributions of £38,000 (2005: £35,000) were included in creditors.

For further information on Directors' emoluments, please refer to the Directors' remuneration report.

5 Interest payable and similar charges

	Year ended 31 Dec 2006 £000	Year ended 31 Dec 2005 £000
Invoice discounting charges	**–**	29
Bank interest payable	**49**	48
Interest payable on loan stock	**56**	163
Amortisation of issue cost of bank loan	**25**	37
	130	277

6 Operating profit

	Year ended 31 Dec 2006 £000	Year ended 31 Dec 2005 £000
Operating profit is stated after charging/(crediting):		
Depreciation on fixed assets:		
– owned	**302**	191
– held under hire purchase	**14**	3
Loss on disposal of fixed assets	**5**	–
Amortisation of goodwill	**467**	253
Auditors' remuneration		
– fees payable for the audit of the company's annual accounts	**55**	46
– fees for other services pursuant to legislation	**12**	–
– fees for taxation services	**5**	2
Operating lease rentals		
– plant and machinery	**77**	113
– land and buildings	**552**	467
Foreign exchange (gains)/losses	**(23)**	7

Fees in respect of other services totalling £20,000 in connection with the acquisition of The Recruitment Communications Company Limited have been capitalised (see note 13). Fees for other services in connection with the AIM listing totalling £246,000 have been offset against the share premium account as part of the flotation expenses.

7 Taxation on profit on ordinary activities

	Year ended 31 Dec 2006 £000	Year ended 31 Dec 2005 £000
United Kingdom corporation tax at 30% (30%)		
Current	**316**	14
Deferred	**84**	70
	400	84

The tax assessed on the profit for the year differs from the standard rate of corporation tax in the UK (30%). The differences are explained below:

	Year ended 31 Dec 2006 £000	Year ended 31 Dec 2005 £000
Profit on ordinary activities before taxation	**1,910**	834
Profit on ordinary activities multiplied by standard rate of corporation tax in the UK of 30% (2005: 30%)	**573**	250
Effects of:		
Permanent differences	**(228)**	86
Utilisation of brought forward tax losses	**–**	(290)
Accelerated capital allowances	**(29)**	(24)
Tax at marginal rate	**–**	(8)
	316	13

The unprovided deferred tax asset at 31 December 2006 is estimated to be nil (2005: nil). For further detail on deferred taxation, see note 15.

8 Work Group plc profit and loss account

Work Group plc has not presented its own profit and loss account, as permitted by Section 230 of the Companies Act 1985. The amount of the consolidated profit for the financial year dealt with in the financial statements of the holding company is £1,113,000 (2005: £652,000).

9 Earnings per share

	2006 £000	2005 £000
Profit for basic earnings per share	**1,510**	750
Goodwill amortisation	**467**	253
Profit before goodwill amortisation for adjusted earnings per share	**1,977**	1,003

	No. 000	No. 000
Weighted average number of shares	**22,638**	14,166
Dilutive effect of share plans	**3,102**	3,209
Diluted weighted average number of shares	**25,740**	17,375

	pence	pence
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.

As detailed in note 20, 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.

9 Earnings per share continued

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.

10 Dividends

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.

11 Intangible fixed assets

Group	Goodwill £000
Cost	
At 1 January 2006	9,397
Additions (see note 13)	3,173
Adjustment to deferred consideration for Armstrong Craven Limited	(365)
At 31 December 2006	**12,205**
Amortisation	
At 1 January 2006	754
Charge for the year	467
At 31 December 2006	**1,221**
Net book value	
At 31 December 2006	**10,984**
At 31 December 2005	8,643

Goodwill arising on the acquisition of The Resourceful Group Limited, Armstrong Craven Limited and The Recruitment Communications Company Limited is being amortised over 20 years, being the directors' estimate of the useful economic life.

Company	Goodwill £000
Cost	
At 1 January 2006 and 31 December 2006	4,815
Amortisation	
At 1 January 2006	507
Charge for the year	253
At 31 December 2006	**760**
Net book value	
At 31 December 2006	4,055
At 31 December 2005	4,308

Following the hive up in December 2003 of the net assets and trade of Park Human Resources Limited into Work Communications Limited, the cost of the investment in Park Human Resources Limited was transferred to goodwill. The goodwill balance is being amortised over 19 years from the date of transfer, in line with the directors' estimate of the useful economic life noted above.

12 Tangible fixed assets

Group	Leasehold improvements £000	Fixtures and fittings £000	Computer equipment and software £000	Motor Vehicles £000	Total £000
Cost					
At 1 January 2006	452	266	502	15	1,235
Additions	29	69	156	–	254
Acquisitions	–	20	47	–	67
Disposals	–	–	(118)	–	(118)
At 31 December 2006	**481**	**355**	**587**	**15**	**1,438**
Depreciation					
At 1 January 2006	96	67	215	1	379
Charge for the year	34	81	196	5	316
Disposals	–	–	(113)	–	(113)
At 31 December 2006	**130**	**148**	**298**	**6**	**581**
Net book value					
At 31 December 2006	**351**	**207**	**289**	**9**	**856**
At 31 December 2005	356	199	287	14	855

Included within the net book value is £18,000 (2005: £26,000) relating to assets held under hire purchase arrangements. Accumulated depreciation relating to assets held under hire purchase arrangements is £35,000 (2005: £21,000).

Company	Leasehold improvements £000	Fixtures and fittings £000	Computer equipment and software £000	Total £000
Cost				
At 1 January 2006	452	216	341	1,009
Additions	29	49	63	141
Disposals	–	–	(110)	(110)
At 31 December 2006	**481**	**265**	**294**	**1,040**
Depreciation				
At 1 January 2006	96	63	196	355
Charge for the year	32	57	85	174
Disposals	–	–	(110)	(110)
At 31 December 2006	**128**	**120**	**171**	**419**
Net book value				
At 31 December 2006	**353**	**145**	**123**	**621**
At 31 December 2005	356	153	145	654

13 Investments

Company	Investments in subsidiary undertakings £000
Cost	
As at 1 January 2006	6,009
Additions	3,798
Adjustment to deferred consideration for Armstrong Craven Limited	(365)
At 31 December 2006	**9,442**

Additions relate to the acquisition of The Recruitment Communications Company Limited.

During the year, the Board amended the original deferred consideration agreement in respect of Armstrong Craven Limited, to extend the period to 30 June 2007 and cap the amount payable for the period ended 31 December 2006. Both the participants in the agreement and the maximum consideration payable remain unchanged. The Board considered the agreement provided further incentive to Armstrong Craven management for enhanced performance in 2007 without increasing any liability to the Group or materially changing the agreement.

13 Investments continued

The following companies, incorporated in England and Wales, were subsidiary companies at 31 December 2006:

	Principal activity	Class of equity	Percentage of equity held at 31 Dec 2006
The Resourceful Group Limited	Dormant	Ordinary	100%
Armstrong Craven Associates Limited	Dormant	Ordinary	100%
Park Human Resources Limited	Dormant	Ordinary	100%
Vine Potterton Limited	Dormant	Ordinary	100%
Armstrong Craven Limited	Executive Research	Ordinary	100%
The Recruitment Communications Company Limited	Employer Marketing	Ordinary	100%

On 31 October 2006 the group acquired the entire share capital of The Recruitment Communications Company Limited. The impact of the acquisition on the consolidated balance sheet is set out below:

	Acquired book value at 31 Oct 2006 £000	Fair value Adjustments* £000	Fair value to the group at 31 Oct 2006 £000
Fixed assets	109	(42)	67
Debtors	582	–	582
Cash	706	–	706
Creditors	(730)	–	(730)
Net assets acquired	667	(42)	625
Goodwill (note 11)			3,173
Consideration			**3,798**

* The fair value adjustment was to write down the value of software which had no value to the group.

The fair values (which are the same as book values) contain some provisional amounts which will be finalised during the year ending 31 December 2007.

Consideration satisfied by:	
Cash	1,925
Shares (625,000 shares at market value of 80p per share)	500
Deferred contingent consideration	1,250
Expenses	123
	3,798

Deferred contingent consideration of £1,250,000 is payable in 2008, and is based on management's best estimates of achieving targeted Earnings Before Interest and Tax (EBIT) for the financial years ending 31 October 2006 and 2007.

The results of The Recruitment Communications Company Limited for the year prior to acquisition were as follows:

	Year ended 31 Mar 2006 £000
Turnover	**1,788**
Operating profit	**342**
Profit after taxation	**273**

The results of The Recruitment Communications Company Limited for the period 1 April 2006 to 31 October 2006 were as follows:

	Period ended 31 Oct 2006 £000
Turnover	**1,735**
Operating profit	**348**
Profit after taxation	**258**

14 Stock and work in progress

	31 Dec 2006 Group and Company £000	31 Dec 2005 Group and Company £000
Consumables	**75**	21
Work in progress	**20**	12
	95	33

15 Debtors

	31 Dec 2006 Group £000	**31 Dec 2006 Company £000**	31 Dec 2005 Group £000	31 Dec 2005 Company £000
Trade debtors	**4,874**	**3,049**	3,472	2,654
Other debtors	**305**	**236**	374	319
Prepayments and accrued income	**678**	**501**	568	466
Amounts owed by group undertakings	**–**	**20**	–	–
Deferred tax (see below)	**255**	**247**	339	347
	6,112	**4,053**	4,753	3,786

Other debtors include lease deposits of £298,000 (2005: £298,000) falling due after more than one year.

The deferred tax asset comprises:

	31 Dec 2006 Group £000	**31 Dec 2006 Company £000**	31 Dec 2005 Group £000	31 Dec 2005 Company £000
Short term timing differences	**1**	**1**	–	–
Accelerated capital allowances	**29**	**21**	13	21
Losses	**225**	**225**	326	326
	255	**247**	339	347

Analysis of the movement in the deferred tax asset:

	31 Dec 2006 £000	31 Dec 2005 £000
At 1 January	**339**	415
Acquisitions	**–**	(6)
Profit and loss account (note 7)	**(84)**	(70)
At 31 December	**255**	339

16 Creditors: amounts due within one year

	31 Dec 2006 Group £000	31 Dec 2006 Company £000	31 Dec 2005 Group £000	31 Dec 2005 Company £000
Bank loans and overdrafts	**379**	**379**	1,139	1,019
Preference shares	**–**	**–**	500	500
Trade creditors	**2,651**	**2,274**	2,286	2,149
Corporation tax	**500**	**–**	65	–
Other taxation and social security costs	**802**	**432**	726	525
Other creditors	**1,001**	**966**	1,058	1,061
Deferred contingent consideration	**1,465**	**1,465**	400	400
Finance lease agreements	**3**	**–**	19	–
Loan stock	**–**	**–**	500	500
Loan notes	**32**	**32**	346	346
Accruals and deferred income	**1,085**	**604**	710	610
	7,918	**6,152**	7,749	7,110

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

The three year term bank loan from Barclays plc was repaid in March 2006 on admission to AIM. Interest was charged at 2.0625 per cent, above the LIBOR rate. The bank loan was secured by a fixed charge over the properties of the Group and charges over the shares in all subsidiaries.

The preference shares and loan stock were repaid in March 2006 on admission to AIM.

Deferred contingent consideration relates to the acquisition of Armstrong Craven Limited, see note 13.

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 hire purchase arrangements.

17 Creditors: amounts falling due after more than one year

	31 Dec 2006 Group £000	31 Dec 2006 Company £000	31 Dec 2005 Group £000	31 Dec 2005 Company £000
Loan stock	**–**	**–**	1,000	1,000
Bank loan	**–**	**–**	1,654	1,654
Finance leases	**–**	**–**	5	–
Deferred contingent consideration	**1,250**	**1,250**	1,830	1,830
	1,250	**1,250**	4,489	4,484

The loan stock was repaid in March 2006 on admission to AIM.

Deferred contingent consideration relates to the acquisition of The Recruitment Communications Company Limited, see note 13.

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

18 Financial instruments

The company's financial instruments comprise cash, loan notes and other items such as trade debtors and trade creditors that arise directly from its operations. Further detail is set out below. The main purpose of holding cash is to finance the company's future investments and operations. It is (and has been throughout the years presented) the company's policy that no trading in financial instruments shall be undertaken.

The fair value of financial assets and liabilities is not materially different to their book value. Financial assets and liabilities included in this note exclude short term debtors and creditors.

Risks arising from the Company's financial instruments relating to interest rate, liquidity risks and foreign currency are not considered to be significant. The Board reviews these risks on a regular basis through cash flow and working capital projections. Working capital and capital expenditure requirements are monitored through regular cash flow projections to ensure sufficient funds are available to meet obligations as they fall due. The company uses the overdraft facility to effectively manage its liquidity risk.

Financial assets

The company's financial assets comprise cash at bank and in hand. Interest is received on cash deposits at variable rates based on the relevant bank base rate.

The Work Group plc lease deposit falling due after more than one year of £211,000 is accruing interest. The Armstrong Craven Limited lease deposit falling due after more than one year of £68,000 is accruing interest at the bank base rate.

Foreign currency monetary assets

Group	**31 Dec 2006 £000**	31 Dec 2005 £000
Euros	**–**	91
US Dollar	**–**	63
	–	154

Financial liabilities

Group and Company	**Total £000**	**Floating rate financial liabilities £000**	**Fixed rate financial liabilities £000**	**Financial liabilities on which no interest is paid £000**
Bank overdraft	**379**	**379**	**–**	**–**
Loan stock	**–**	**–**	**–**	**–**
Preference shares	**–**	**–**	**–**	**–**
Onerous lease provision	**–**	**–**	**–**	**–**
Bank loan	**–**	**–**	**–**	**–**
Loan notes	**32**	**–**	**32**	**–**
Finance leases	**–**	**–**	**–**	**–**
At 31 December 2006	**411**	**379**	**32**	**–**

Group and Company	Total £000	Floating rate financial liabilities £000	Fixed rate financial liabilities £000	Financial liabilities on which no interest is paid £000
Bank overdraft	164	164	164	–
Loan stock	1,500	–	1,500	–
Preference shares	500	–	–	500
Onerous lease provision	113	–	–	113
Bank loan	2,629	2,629	–	–
Loan notes	346	–	346	–
Finance leases	23	–	23	–
At 31 December 2005	5,275	2,793	1,869	613

18 Financial instruments continued

Maturity profile of financial liabilities

Group and Company	31 Dec 2006 £000	31 Dec 2005 £000
Due within one year	**411**	2,616
Due within one to two years	**–**	2,005
Due within two to five years	**–**	654
	411	5,275

The following are included in the maturity profile: bank overdraft, preference shares, loan stock, loan notes, bank loan, onerous lease provision and finance leases.

Group and Company	Fixed rate financial liabilities Weighted average interest rate %	Weighted average period for which rate is fixed Years	Financial liabilities on which no interest is paid Weighted average period until maturity Years
Loan stock	**–**	**–**	**–**
Preference shares	**–**	**–**	**–**
Onerous lease provision	**–**	**–**	**–**
Loan notes	**2**	**2**	**–**
Finance leases	**–**	**–**	**–**
At 31 December 2006	**2**	**2**	**–**

Group and Company	Fixed rate financial liabilities Weighted average interest rate %	Weighted average period for which rate is fixed Years	Financial liabilities on which no interest is paid Weighted average period until maturity Years
Loan stock	10.67	2	–
Preference shares	–	–	0.5
Onerous lease provision	–	–	0.67
Loan notes	2	3	–
Finance leases	8.84	0.8	–
At 31 December 2005	9.04	2.17	0.55

Undrawn facilities were as follows:

Group and Company	31 Dec 2006 £000	31 Dec 2005 £000
Bank overdraft	**2,621**	2,836

19 Provisions for liabilities and charges

Group and Company	Onerous lease provision £000
At 1 January 2006	113
Released in the year	(113)
At 31 December 2006	**–**

The onerous lease provision related to the rent shortfall arising from the subletting of the premises at 3 Portland Place, London. The provision expired in September 2006.

20 Called up share capital

	31 Dec 2006 £000	31 Dec 2005 £000
Authorised		
75,000,000 ordinary shares of 2p each; (31 December 2005: 2,447,100 ordinary shares of 10p each)	**1,500**	245
1,271,897 cumulative preferred ordinary shares of 10p each	**–**	127
	1,500	372
Allotted and called up		
25,490,957 ordinary shares of 2p each; (31 December 2005: 1,691,414 ordinary share of 10p each)	**510**	169
1,271,897 cumulative preferred ordinary shares of 10p each	**–**	127
	510	296
Allotted, called up and fully paid		
8,457,070 ordinary shares of 2p each; (31 December 2005: 1,691,414 ordinary shares of 10p each)	**169**	169
Conversion of 1,271,897 cumulative preferred ordinary shares of 10p each to 6,359,485 ordinary shares of 2p each	**127**	–
Issue of 1,353,750 ordinary shares of 2p each on exercise of share options	**27**	–
Issue of 625,000 ordinary shares of 2p each on acquisition of The Recruitment Communications Company Limited	**13**	–
Issue of 8,695,652 ordinary shares of 2p each on admission to AIM	**174**	–
1,271,897 cumulative preferred ordinary shares of 10p each	**–**	127
	510	296

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 each of the 1,271,897 cumulative preferred ordinary shares were redesignated as 5 ordinary shares.

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

After admission to AIM on 1 March 2006 the following ordinary shares were issued during the year.

Date of issue	No. shares	Reason
28 March 2006	112,500	Exercise of options
16 August 2006	25,000	Exercise of options
20 September 2006	300,000	Exercise of options
4 October 2006	56,750	Exercise of options
3 November 2006	625,000	Part consideration for acquisition of The Recruitment Communications Company Limited
16 November 2006	29,500	Exercise of options
18 December 2006	300,000	Exercise of options
19 December 2006	75,000	Exercise of options
20 December 2006	225,000	Exercise of options

20 Called up share capital continued

At 31 December 2006, the following options to subscribe for ordinary shares were in issue:

Date of grant	Exercise price (pence)	Exercise period	Number
20 December 2000	20.00	20/12/2003 – 19/12/2010	900,000
12 June 2001	20.00	12/06/2004 – 11/06/2011	237,500
14 August 2001	20.00	14/08/2004 – 13/08/2011	25,000
13 November 2001	20.00	13/11/2004 – 12/11/2011	40,000
11 June 2002	20.00	11/06/2005 – 10/06/2012	105,000
16 May 2003	20.00	16/05/2006 – 15/05/2013	531,250
1 October 2003	20.00	01/10/2006 – 30/09/2013	210,000
2 April 2004	20.00	02/04/2007 – 01/04/2014	15,000
17 September 2004	20.00	17/09/2007 – 16/09/2014	395,000
16 February 2005	20.00	16/02/2008 – 15/02/2015	70,000
30 June 2005	20.00	30/06/2008 – 29/06/2015	127,500
2 November 2005	20.00	02/11/2008 – 01/11/2015	455,000
Total			**3,112,500**

On 2 February 2006 all of the issued share options with an exercise price of £1 were sub-divided into five share options with an exercise price of 20p, in line with the changes in share capital noted above.

21 Share based payment

The Work Communications Limited 2001 Employees Share Option Scheme (EMI Plan) was introduced in December 2000. Under the EMI Plan the remuneration committee can grant options over shares in the company to employees of the company. At the time of the company's admission to AIM in March 2006 the remuneration committee stated that it did not intend to grant further options pursuant to the EMI Plan. Options were granted at various times between 20 December 2000 and 2 November 2005. Options were granted with a fixed exercise price equal to or greater than the market price of the shares under option at the date of grant. The contractual life of an option is 10 years. Awards under the EMI Plan were generally available for all employees and 134 employees held options at 31 December 2006. Options granted under the EMI Plan become exercisable on the third anniversary of the date of grant provided the employee is still employed in the Group. Options were valued using the Black-Scholes option-pricing model. No performance conditions are attached to the options and therefore none were included in the fair value calculations. The assumptions used in the calculation are as follows:

Grant date	16 Feb 2005	30 June 2005	2 Nov 2005
Share price at grant date	£0.20	£0.20	£0.20
Exercise price	£0.20	£0.20	£0.20
Number of employees	9	15	93
Shares under option	75,000	137,500	475,000
Vesting period (years)	3	3	3
Expected volatility	24%	24%	24%
Option life (years)	10	10	10
Expected life (years)	4	4	4
Risk free rate	4.5%	4.0%	4.4%
Dividend yield	nil	nil	nil
Fair value per option	£0.054	£0.052	£0.054
Possibility of ceasing employment before vesting	30%	30%	30%

Since the company has only recently floated on AIM, the expected volatility is based on historic volatility of similar shares over the last 5 years. The expected life is the average expected period to exercise. The risk free rate of return is the yield on zero-coupon UK government bonds of a free rate consistent with the assumed option life.

A reconciliation of option movements over the year to 31 December 2006 is shown below:

Share options	**2006 No. 000**	2005 No. 000
Outstanding at 1 January	**4,615**	4,065
Granted	**–**	688
Exercised	**(1,354)**	–
Lapsed	**(148)**	(138)
Outstanding 31 December	**3,113**	4,615
Exercisable at 31 December	**2,049**	2,620

The weighted average share price for options exercised during the period was 80.3p. The weighted average remaining contractual life of options is 6.2 years and the weighted average expected life is 2.2 years. The exercise price of all options is 20p.

22 Reserves

	Special reserve Group and Company £000	Share premium account Group and Company £000	Profit and loss account Group £000	Profit and loss account Company £000
At 1 January 2006	2,826	–	(1,129)	20
Share premium arising on admission to AIM	–	6,826	–	–
Expenses of share issue	–	(1,124)	–	–
Share premium arising on issue of share options	–	244	–	–
Share premium arising on acquisition of The Recruitment Communications Company Limited	–	487	–	–
Share based payment	–	–	3	3
Profit for the financial year	–	–	1,510	1,113
At 31 December 2006	**2,826**	**6,433**	**384**	**1,136**

There is no impact on opening Shareholders' funds as at 1 January 2005, from the introduction of FRS 20, since the profit and loss account movement is offset by a corresponding movement in the profit and loss reserve. The impact on the results for 2005 was a debit to the profit and loss account of £8,000 and in 2006 a debit of £3,000.

23 Reconciliation of movements in shareholders' funds

	31 Dec 06 Group £000	**31 Dec 06 Company £000**	(Restated) 31 Dec 05 Group £000	(Restated) 31 Dec 05 Company £000
Opening shareholders' funds	**1,993**	**3,142**	835	2,090
Issue of new share capital	**6,147**	**6,147**	170	170
Share premium on acquisition of Armstrong Craven Limited	**–**	**–**	230	230
Share premium on acquisition of The Recruitment Communications Company Limited	**500**	**500**	–	–
Share based payment	**3**	**3**	8	8
Profit for the financial year	**1,510**	**1,113**	750	644
Closing shareholders' funds	**10,153**	**10,905**	1,993	3,142

24 Financial commitments

At 31 December the company had annual commitments under non-cancellable operating leases as follows:

	31 Dec 2006 Group £000	**31 Dec 2006 Company £000**	31 Dec 2005 Group £000	31 Dec 2005 Company £000
Land and buildings				
Expiring within one year	**20**	**20**	3	3
Expiring in two to five years	**77**	**77**	97	97
Expiring after five years	**501**	**359**	526	359
	598	**456**	626	459
Fixtures, fittings and computer equipment				
Expiring within one year	**19**	**16**	10	10
Expiring in two to five years	**30**	**27**	59	59
	49	**43**	69	69
	550	**499**	695	528

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

	Year ended 31 Dec 2006 £000	Year ended 31 Dec 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

Net cash inflow generated from acquisition of The Recruitment Communications Company Limited in the period 1 November 2006 to 31 December 2006 was £75,000.

26 Reconciliation of net cash outflow to movement in net funds/(debt)

	Year ended 31 Dec 2006 £000	Year ended 31 Dec 2005 £000
Increase/(decrease) in cash in the year	**1,000**	(156)
Invoice discounting advances repaid	**–**	1,459
Loan notes issued/(repaid)	**386**	(346)
Preference Shares redeemed	**500**	–
Loan Stock repaid	**1,500**	–
Bank loan issued / repaid	**2,654**	(2,629)
Bank loan acquired	**(26)**	(76)
Bank loan repaid	**26**	76
Finance leases acquired	**(7)**	(28)
Finance leases repaid	**24**	5
Other Non-cash changes	**(97)**	–
Change in net debt	**5,960**	(1,696)
Opening net debt	**(5,102)**	(3,406)
Closing net funds/(debt)	**858**	(5,102)

27 Analysis of changes in net debt

	At 1 Jan 2006 £000	Non cash movements £000	Acquisition (excluding cash and overdraft) £000	Cash flows £000	**At 31 Dec 2006 £000**
Cash at bank	60	–		1,215	**1,275**
Overdraft	(164)	–		(215)	**(379)**
	(104)	–		1,000	**896**
Finance leases	(23)	–	(7)	24	**(6)**
Bank loan					
– due less than one year	(975)	(25)	(26)	1,026	**–**
– due within one year	(1,654)	–	–	1,654	**–**
Loan notes	(346)	(72)	–	386	**(32)**
Preference shares	(500)	–	–	500	**–**
Loan Stock					
– due within one year	(500)	–	–	500	**–**
– due within two to five years	(1,000)	–	–	1,000	**–**
Total	**(5,102)**	**(97)**	**(34)**	**5,384**	**858**

28 Employee benefit trust

The Resourceful Group Ltd Employee Benefit Trust 1995 holds £40,181 (2005: £40,596) in cash offshore for the benefit of employees.

This cash has been recognised in the consolidated and company balance sheets on the basis that Work Group plc is deemed to be the sponsoring employer of the trust. A corresponding liability for payments to be made for the benefit of employees has been recognised in other creditors.

29 Ultimate controlling party

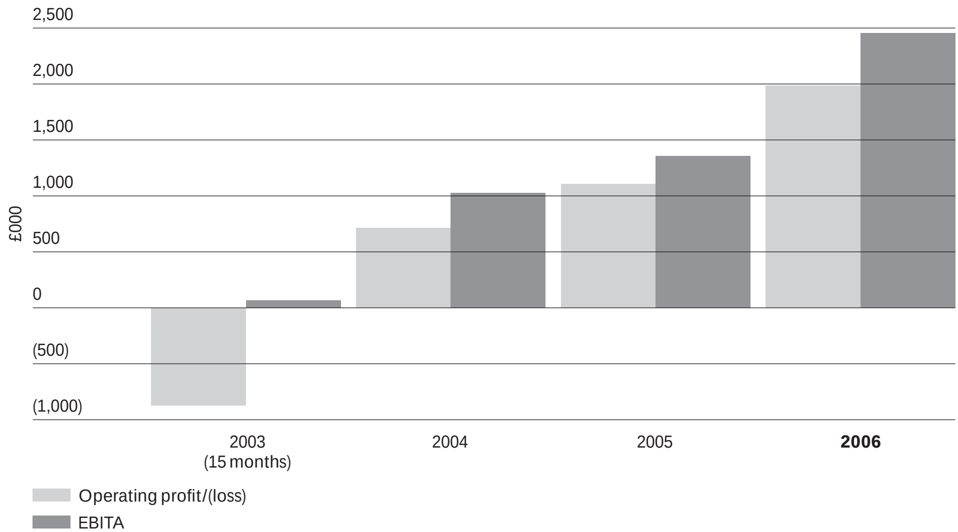
The directors do not consider there to be an ultimate controlling party.

Four year track record

	Restated 2003* £m	Restated 2004 £m	Restated 2005 £m	**2006 £m**
EBITA (Operating profit before goodwill amortisation and exceptional items)	0.070	1.025	1.357	**2.454**
Operating profit/(loss)	(0.871)	0.714	1.104	**1.987**

* 15 month period

EBITA and Operating profit/(loss)



Directors and advisers

Executive Directors
Simon Howard
Michael Warren
Steve Halford
Sue Craven

Non-Executive Directors
Steve Bodger
Keith Cameron

Company 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

Registrars
Computershare Investor Services plc
PO Box 82
The Pavilions
Bristol
BS99 7NH

Nominated Advisor
Altium
30 St James's Square
London
SW1Y 4AL

Designed and produced by Linnett Webb Jenkins Printed by moore

Work Group plc
Saffron House
6 – 10 Kirby Street
London
EC1N 8EQ

Phone 020 7492 0000
Fax 020 7492 0001
www.workgroup.plc.uk

work
G R O U P