

Talent at work



Why we exist

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

This is why we exist and why we are growing.

What we do

Work Group's single-minded purpose in all our recruitment activities is to provide employers with innovative and effective alternatives to traditional recruitment companies, 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 executive 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 the provision of recruitment back office solutions to major employers, enabling them to compete more effectively for the best talent.

Work Communications 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 and convert them into employees who are motivated, informed and keen to develop their careers.

Where we are going

We are building a company which helps add value in the acquisition, development and engagement of talent – so that employers achieve a better return on their investment in people.

Or put more simply, we want to help more employers find and keep more of the people they need.

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Highlights of the year

Operating profit before exceptional items up 31% to £3.2m (2006: £2.5m) after incurring US start-up costs of £0.3m

Profit before tax up 24% to £3.0m (2006: £2.4m)

US office opening supports substantial increase in US based net fee income

Strong profit delivery from The Recruitment Communications Company Limited ('RCCHR') acquisition and successful integration

69% increase in Employer Marketing operating profit before exceptional items to £2.4m (2006: £1.4m)

Three further global campus marketing contracts won

25% increase in proposed final dividend of 0.5p (2006: 0.4p)

Diluted adjusted EPS (before exceptional items) up 21% to 7.82p (2006: 6.47p)

Financial Highlights


	Year ended 31 December 2007 £m	Year ended 31 December 2006 £m	change %
Gross profit (Net fee income)*	16.1	13.6	19
Operating profit before exceptional items	3.2	2.5	31
Operating profit	2.9	2.5	19
Profit before tax	3.0	2.4	24
Profit after tax	2.0	1.7	21
Diluted earnings per share	7.06p	6.47p	9
Diluted earnings per share adjusted**	7.82p	6.47p	21

* References in the report to 'Net fee income' represent Gross profit

** Adjusted diluted earnings per share is stated before exceptional items. (see note 8)

Every Annual Report includes a worthy plaudit on the importance of the company's people. However, actions speak louder than words, and so the next few pages are devoted to seven of our people describing what they do and why they do it.

That's not to say that we think we're a perfect employer but we do 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 as one of our Independent Directors commented, the culture has a 'quirky and stylish edge'. We will always strive to be a destination employer and always strive to be a better employer – thus practising what we preach.



"If knowledge was truly available, finding the right people for the right role would be easy. Life isn't that simple and in the complex world of business, companies like us unlock the knowledge of others to find the people employers need. Often the solution to a project is like great detective work and, after days of hard graft, lateral thinking and inspired networking, we can 'crack' a search. Most researchers would agree with me in saying that having a search epiphany is the buzz they work for! What really appeals is the diversity of what we do. We searched in over 200 countries last year, dealing with different time-zones, cultures and languages. From a Finance Director in India to a Regional Managing Director in deepest Lancashire, each is a different puzzle that needs solving, and this is why I do this job."

Name Valérie Thibiéroz

Location Manchester, UK

Job title Research team leader,
Industrial practice

Description I manage the Industrial practice at Armstrong Craven; day in day out the team helps clients in key industrial sectors to locate, engage and secure talent. Executive Search is one key application of tapping into our clients' chosen markets, but not the only one. Are their salaries in line with the market place? What can they learn from their competitors' structure? How is their brand perceived by the people they want to attract? By accessing critical information not otherwise available in the public domain, we help employers find the people they need.

“With so many new media and mediums, the recruitment challenge today is increasingly about how to rise above the job posting din and build a strong EVP (employee value proposition). The solution may involve direct sourcing, a blog, a referral program, a website – or mix of tactics. But the key is to get them to all work together so the client benefits with better hires and lower attrition.

At times I view myself as an evangelist for Work in the American wilderness. I’m spreading the word that if you embrace quality, creativity and perspective, you can transform the way you find and keep the people you need. It is a message that is evergreen and even more important when the economy is tough and every employee counts.”

Name Mark Viteznik

Location New York, USA

Job title Country Manager

Description My role is to provide our global accounts with a local service and the American perspective while also bringing new clients into the Work family



"I like talking to people about one of the most important things in their life – their work. I like taking a dry, impenetrable role description and turning it into something meaningful – something that explains why a person might actually want to change their life to do this particular job.

I like it when I feel I've got to the crux of why someone loves what they do. If I can express that – in a way that convinces me – then I can be confident that other people will be convinced. In other words, you've got to believe what you're writing to make other people believe it. Part of this is about talking to your audience in a sensible, human way by not filling their head with corporate jargon or unlikely promises. If you wouldn't say it to one of your friends without cringing, you probably shouldn't write it. If you speak to people how you'd like to be spoken to, they'll be more likely to respond and engage with the employer."

Name Sarah Tierney

Location Manchester, UK

Job title Writer

Description My job is to write materials that sell employers to the people they want to work for them, or to the people who already work for them. These materials could take the form of a website, press ads, newsletters, brochures – we work in all kinds of formats. One of my favourite briefs was to write a recruitment text message. Rather than the traditional 'word count' it had a 'letter count'. I must remember to put that one in my portfolio.



“I joined Work in March 2008. I was attracted by the innovative, ambitious global thinking that runs through the business. Like most people, I used the web as the main resource to find a job, so using technology for our clients as an integrated part of the overall solution is a motivating challenge.”

Name Inderpal Ghataore

Location London, UK

Job title Interactive Developer

Description My role involves handling all things ‘backend’ which includes databases, supporting our online websites and the development of new functionality. I work with our content management system and am constantly researching the latest innovations in the online world.



“What gets me up in the morning is being able to satisfy my love of helping people and solving problems. In my job I get to do both, whether helping find the right person for a role or helping someone find their ideal job. I love being involved in recruitment, it’s such an important issue in a person’s life and a critical need for the employer. Not least because of all the anticipation and opportunities opening up for both parties. But as well as the idealism, I enjoy being part of the practical side of making it all happen.”

Name Sarah Angier

Location Colchester, UK

Job title Service Centre Manager

Description I’m based in the Flexible Operations team that provides high to medium volume recruitment solutions to a large international financial client. My job is to ensure that the agreed solution for the client is continually administered by the team to the agreed process, is of the highest quality, and is well resourced. I work closely with the client to plan any changes to existing services, and scope new projects before rolling them out across the teams.





“Why do I like my job? Well, I get to ask all sorts of people all sorts of questions that aren’t usually polite. Like ‘why do you do what you do?’ ‘what really makes you buzz?’, ‘what are the best things about your job?’ ‘what are the worst?’ , ‘why should someone else join your organisation?’ Then I get to help craft these conversations into communications campaigns that have very real results through working with some of the most creative, innovative and committed people. There’s no feeling like it, that from a brief that you’ve taken, you see a piece of creative that makes the hairs stand up on the back of your neck and clap your hands with excitement. When it’s you that brings all this together to deliver a tangible result for a client – it really makes you proud.”

Name Rebecca Gregory

Location London, UK

Job title Client Leader

Description My role is Client Leader. My job is to help clients think about their strategic objectives, advise on the best and most effective approaches and help them innovate in their market. Then I manage the resources of Work to make this all happen – on time and on budget. The best bit? When you hear the amazing results that we’ve helped them to achieve.

"I'm fascinated by people. Whether it's the delivery driver who gets up at three in the morning so I can get my newspaper on the way to work or the CEO who turns around a failing company, I always wonder what it is that drives them, why they do the job they do, and if they believe it is the right job for them. In a perfect world, everyone would just know what their perfect job was, and be able to both find it and do well at it. But this is an imperfect world, and there are millions of people who have a feeling that what they're doing with 70% of their waking hours isn't what they truly want to be. I do this job because I think we can help those people find the work that really drives them, sometimes in a job or company or career they didn't even know they were looking for. We can help people find the jobs they really want, and companies find the people they really need."

Name David Goodman

Location London, UK

Job title Communications Consultant

Description I'm part of the consulting team at Work. My job is to get up close to our clients and understand their working reality. What are the great things about working there? What are the tough things? What are they like as a group of people? Why do all of them get up in the morning to do this job? Then I work with our creative, web and client service people to create clear articulations of that reality.



Chairman's statement

A net fee income increase of 19% to £16.1m (2006: £13.6m), a 31% rise in operating profit before exceptional items to £3.2m (2006: £2.5m) and 21% growth in adjusted diluted EPS¹, represents another significant performance. Reporting operating profit increased by 19% to £2.9m (2006: £2.5m).

The Group maintained positive growth in both net fee income and margins. This was also the first full year of contribution from RCCHR – an acquisition which has considerably strengthened our position outside London and enabled us to open an integrated North West hub in Autumn 2007. In the Work divisions, the positive trend away from lower margin media-based income has continued, with this now representing just 26.7% of net fee income. However, there will always be a role for media as part of the Group offering and within this there is a continuing rise in the revenue from digital media and other web-based marketing activities.

The market for our services

The war for talent will continue to be a long term focus and challenge for the majority of employers. Two important drivers of this are the changing demographics which are resulting in a shrinking and ageing workforce in many parts of the world², and in the UK an education system which fails to deliver sufficient high-calibre graduates. In both cases, these are long term issues and employers are beginning to realise that endlessly pouring their recruitment budgets into traditional head-hunter and agency fees is not a solution. Consequently we remain firm in our view that employers will continue to explore more efficient and cost-effective resourcing strategies – which in 2007 saw our clients spend £35.0m³ through Group companies.

2007 represented another year of consistent and solid growth for Work Group.

- 1 Adjusted diluted earnings per share is stated before exceptional items
- 2 Marketing talent a strategic priority; Mckinsey & Co. 2008
- 3 Reported turnover of £38.9m adjusted down to remove the effects of a media buying contract

Strategy

Historically, one of the greatest long term strategic challenges for all client companies has been their ability to attract and retain quality customers. However in the twenty first century of equal, and for some businesses of greater, importance will be their ability to attract and retain talent. For many years, companies have invested heavily in the customer relationship and developed many sophisticated techniques to find and keep customers. It is our belief that the same is becoming true for the talent relationship as they place an ever greater emphasis on finding and keeping good people.

The purpose of Work Group is to enable companies to invest in that talent relationship through helping them acquire and develop talent at all levels. We do this through the provision of added-value services, and it is our aim to assist them globally with a presence in every major marketplace across the globe. Already we have a unique breadth of service offering and we are determined to grow our income in each location across all our service lines.

Currently, most consultant-led recruitment provides little more than an assignment-driven service. Work Group rarely competes head to head with other listed recruitment companies, hence, both operationally and in stock market terms, we are a company without established peers.

International development

In 2007 we established our first overseas office in New York. This was driven primarily by our need to service existing clients on existing contracts but also presented an opportunity to grow locally sourced business. The establishment of our New York base was achieved in 2007 primarily through drawing on UK-based resources. Local recruitment has now taken place and we look forward to building a growing presence in the region.

Currently in Asia-Pacific we also provide services to clients as part of their global campus marketing programmes. Recruitment markets in this region are highly competitive and it is clear that with a local base we would have the opportunity to grow existing relationships as well as develop others. We will therefore be opening an office during 2008 established initially with people seconded from our UK operations.

Client spread

An enduring strength of Work Group is our spread of clients across industry sectors. In 2007 the largest sector was Banking & Finance, representing 25% of income, followed by Retail & Leisure 14%, Utilities & Infrastructure 11% and Business & Professional Services on 10%. There is a wide variety of services provided by each of the divisions in each of these sectors thus reinforcing the spread of client activity and income. Our top 50 clients represented 61% of Group income, with our largest client accounting for no more than 5.7%.

Our people

We can only be as good as the talent in our businesses, and as talent is our stock in trade, we are only too aware of the need to attract and retain the very best people.

Throughout the Group we set high standards for our people and we believe our teams represent some of the very best talent. We will always strive to improve our people practices as we need to be a first choice employer where talented people are able to develop their careers. Above all we need to practise what we preach to our clients about getting, growing and retaining talent.

Acquisitions

Our policy is that clearly any acquisition should be earnings-enhancing. Despite identifying and negotiating with a number of targets during 2007, we found in the early part of the year especially, that price expectations for targets had reached unrealistic levels.

The acquisition landscape changed post-August 2007 and we took the strategic decision to withdraw from a number of active discussions. Our current position is that we have a strong balance sheet and the Group is debt-free. We believe this is a particular strength in the current climate.

Management

In November 2007 Steve Halford left the Company, his executive responsibilities having been assumed by Sue Craven and myself earlier in the year. Steve was a fellow founder of the business and early in 2007 told us of his desire to take a career break. While he may have left employment, he remains a committed shareholder and of course we thank him for everything he has contributed since our inception.

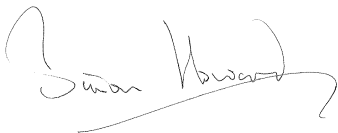
We believe that we have very real management strength in depth and our business leaders and their teams are a key force within the business. Increasingly there are cross-company management initiatives as well as more client referrals between the businesses.

Dividend

Last year we paid our maiden dividend which reflected good trading results and a strong balance sheet. Again we have delivered an improved trading performance and consequently the Board is recommending a 25% increase in the full year dividend to 0.5p (2006: 0.4p).

Outlook

We have a very focused strategy and firm business plans for 2008 which build on the progress made in 2007. We continue to see satisfactory trends in our current trading and are confident of our ability to deliver a strong performance for the full year.

A handwritten signature in black ink that reads "Simon Howard". The signature is fluid and cursive, with a long horizontal stroke extending to the right.

Simon Howard

Chairman

Operating review

The Group has continued to advance during 2007. Net fee income increased by 19% to £16.1m (2006: £13.6m) and operating profit before exceptional items grew by 31% to £3.2m (2006: £2.5m). Operating profit increased by 19% to £2.9m (2006: £2.5m).

Operating profit before exceptional items of £3.2m represents an operating profit margin of 19.9% (measured against net fee income) up from 18.1% in 2006. Operating profit of £2.9m results in a margin of 18.0% (2006: 18.1%).

In 2007 the Group established its presence in the US and substantially grew its US based net fee income, successfully integrated the RCCHR acquisition and delivered strong organic growth, particularly in the employer marketing division.

This is the first full year reporting period where the financial information has been prepared under International Financial Reporting Standards (IFRS). The principal changes are that goodwill is no longer amortised and corporation tax relief on the exercise of share options is no longer recognised in the income statement. All prior period comparatives have been restated and more detail on IFRS is given in note 28 to the financial statements.

Divisional Financial Performance

	Year ended 31 December 2007 £'000	Increase %	Year ended 31 December 2006 £'000
Gross profit (net fee income)			
Employer marketing	9,482	30	7,317
Recruitment process outsourcing	2,002	17	1,712
Executive research	4,657	3	4,542
Group gross profit	16,141	19	13,571
Operating profit before exceptional items (adjusted profit)			
Employer marketing	2,353	69	1,393
Recruitment process outsourcing	447	(1)	450
Executive research	985	13	874
Work Group Inc	(295)	–	–
Corporate costs	(270)	(3)	(263)
Group adjusted profit	3,220	31	2,454
Operating profit			
Employer marketing	2,065	48	1,393
Recruitment process outsourcing	447	(1)	450
Executive research	962	10	874
Work Group Inc	(295)	–	–
Corporate costs	(270)	(3)	(263)
Group operating profit	2,909	19	2,454

Employer marketing

Net fee income grew by 30% to £9.5m (2006: £7.3m). This was aided by a strong contribution from RCCHR. Organic net fee income growth excluding RCCHR was 11%.

Operating profit before exceptional items increased by 69% to £2.4m (2006: £1.4m). Operating profit grew by 48% to £2.1m (2006: £1.4m). The operating profit margin before exceptional items has surged to 24.8% (2006: 19.0%) as a consequence of an increasing proportion of higher margin fee based work, and the relatively low overheads in the RCCHR business. Margins in this division are peaking.

Our employer marketing services continue to evolve to meet the needs of employers and are focused on talent acquisition. Services include helping employers develop their value proposition to candidates, designing and building websites, developing web and mobile marketing strategies, internal employee communications and the delivery of candidate acquisition strategies.

Net fee income from fee based services grew by 38% (excluding RCCHR) and in total now represents 54% of divisional net fee income. Global campus marketing contracts delivered over £1.5m of net fee income during the year of which over £0.7m was delivered in the US.

Although net fee income is our main Key Performance Indicator (KPI), in the employer marketing division revenue is an indicator of the budgets clients spend. Excluding media buying, revenue was £27.6m (2006: £21.9m).

Exceptional costs of £0.3m, most of which were one-off property related costs, were incurred in fully integrating RCCHR with Work and moving two offices into a larger new one. This was achieved at the beginning of November following the end of the RCCHR earn out period and gives the business a strong regional hub based in the North West. The maximum deferred consideration for RCCHR of £2.0m was settled in January 2008 with the issue of £1.0m of loan notes and £1.0m of new Work shares.

Recruitment process outsourcing (RPO)

Net fee income grew by 17% in 2007 to £2.0m (2006: £1.7m). Operating profit was static at £0.5m due to the investment made in sales and marketing during the year. New business from these activities has been slow to materialise and the sales cycle has been longer than expected. However, the prospect pipeline at the end of 2007 was considerably stronger than at the previous year end.

The division has been successful in growing net fee income from existing clients and extending the reach of recruitment programme management further into organisations. This has enabled operational efficiencies to be achieved through flexible resourcing and the maintenance of a good (but reduced) operating profit margin despite the investment. The operating profit margin was 22.3% (2006: 26.3%).

Executive research

Net fee income grew 3% to £4.7m (2006: £4.5m) and operating profit grew 10% to £1.0m (2006: £0.9m).

This is a solid performance from Armstrong Craven. The market for executive research or direct search has steadily matured leading to a more informed market place and greater competition. Armstrong Craven's services are positioned at the premium end of the market and the focus during the year has been concentrated on winning higher project fees from assignments.

As reported at the Half Year, the final deferred consideration payment of £1.43m has been made to the vendors of Armstrong Craven. Half of this was in the form of loan notes, the other half in new Work Group shares. The total consideration paid for the business was £5.331m.

Work Group Inc

The cost of establishing Work Group Inc (US) in New York was £0.3m. Only minimal net fee income was booked through the office in 2007. However, total Group US net fee income grew to £0.9m (2006: £0.1m), the balance being booked through the UK. Of this, £0.7m was earned from global campus marketing projects in the employer marketing division, the balance was executive research.

Operating review continued

A Head of US Operations based in New York has now been appointed and joined in January 2008. This will greatly enhance our ability to win US based business and actively develop existing US clients. Our progress to date has been cautious. However, we will seek to build resource in the US

if it is economically more effective than recharging higher cost UK based people.

Excluding US start up costs, Group operating profit before exceptional costs was up 43% to £3.5m (2006: £2.5m). Operating profit before US costs was £3.2m (2006: £2.5m).

Group and tax

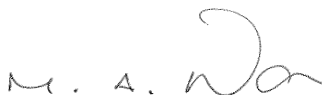
Group Financial Performance	Year ended 31 December 2007 £'000	Increase %	Year ended 31 December 2006 £'000
Operating profit before exceptional costs	3,220	31	2,454
Operating profit	2,909	19	2,454
Profit before tax	2,951	24	2,377
Profit after tax	2,018	21	1,666
Diluted earnings per share	7.06p	9	6.47p
Diluted earnings per share adjusted (see note 8)	7.82p	21	6.47p

Under IFRS a deferred tax asset should be recognised relating to the expected income tax relief available on the future exercise of share options. When share options are actually exercised, the asset is unwound mainly through equity and not the income statement. In comparison to the UK GAAP treatment, the resultant tax charge in the income statement is greater than the actual tax payable in cash terms. The effect is to depress earnings per share.

Diluted earnings per share have also been adjusted for exceptional items. Full details are given in note 8. The adjusted diluted earnings per share show an increase of 21% over 2006.

The Group net cash position at the year end was £1.0m (2006 £0.9m). During the year £0.7m of loan notes were redeemed and the dividend payment totalled £0.1m. The balance sheet remains strong with debt capacity.

The board is recommending a dividend for the full year of 0.5p per share (2006:0.4p), an increase of 25%. The dividend will be payable on 16 June 2008 to shareholders on the register as at 16 May 2008.



Michael Warren
Finance Director

12 March 2008

Board of Directors

Simon Howard

Executive Chairman (52)

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 employments 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

Finance Director (48)

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 they 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.

Sue Craven

Group Managing Director (46)

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

Non-executive Director (58)

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). He is a non-executive director of Armour Group plc and as a director of Alchemy Venture Partners he is Chairman of a number of Alchemy portfolio companies, currently: Airborne Systems, Jacques Vert plc, Right4Staff, Talgentra and Westcot.

Keith Cameron

Non-executive Director (60)

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 the position of HR Director at Marks & Spencer plc. He is currently also the Independent Director of the Barclays Bank Pension Fund, and a non-executive director of the Britannia Building Society.

Directors' report

The directors present their report and the audited consolidated financial statements for the year ended 31 December 2007.

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 income statement. 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 page 10–12. Details of the financial performance of the Group are contained in the Operating Review on pages 13–15. This information is incorporated in this report by reference.

Dividends

The directors recommend the payment of a dividend of 0.5p (2006: 0.4p). See note 9.

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 2007 were equivalent to 37 days of purchases (2006: 34 days).

Principal risks and uncertainties

The principal risk faced by the Group is the loss of clients. Clients regularly re-tender projects and contracts and this gives rise to the potential for lost business. However, the Group's top ten clients accounted for 31% of the Group's gross profit and the top thirty accounted for 51%. Other risks faced by the Group are the loss of key employees and financial risks as detailed in note 16.

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.

Statement of directors' responsibilities

The directors are responsible for preparing the Annual Report, the directors' remuneration 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 prepared the group and parent company financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union. In preparing these financial statements, the directors have also elected to comply with IFRSs, issued by the International Accounting Standards Board (IASB). 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 company and group for that period.

In preparing these 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 that the financial statements comply with IFRSs as adopted by the European Union and IFRSs issued by IASB
- 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 and the directors' remuneration report comply with the Companies Act 1985 and, as regards the group financial statements, article 4 of the IAS Regulation. 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.

Substantial shareholdings

As at 11 March 2008, 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	Number of shares	% of total
Jon Moulton	2,716,955	9.5
Morgan Stanley (MM)	2,631,610	9.2
Penta Capital Partners	2,470,641	8.6
Close Fund Management	2,050,690	7.2
Simon Howard	1,700,200	5.9
Michael Warren	1,700,200	5.9
Hansa Capital Partners	1,400,000	4.9
UBS Global Asset Management	1,242,236	4.3
Universities Superannuation Scheme	1,219,161	4.3
Steve Halford	1,098,000	3.8
Beverley West	1,054,340	3.7
Derek Wynne	1,054,340	3.7
Sue Craven	917,535	3.2
Aberdeen Asset Management	874,357	3.1


Auditors and disclosure of information to auditors

PricewaterhouseCoopers LLP are the auditors of Work Group plc and a resolution proposing their reappointment will be put forward at the next Annual General Meeting.

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.

By order of the Board

A handwritten signature in black ink, appearing to read 'M. A. Warren', written in a cursive style.

Michael Warren

Company Secretary

12 March 2008

Corporate governance

Statement of compliance

As an AIM listed company, compliance with the 2006 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) (resigned 9 November 2007)	9	2	–
Sue Craven (Group Managing Director) (appointed 1 January 2007)	10	2	–
Non-executive directors			
Steve Bodger	10	2	2
Keith Cameron	11	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. 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 2007. 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 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' qualifying third party indemnity provisions

During the year, no qualifying third party indemnity provision was in force for the benefit of one or more directors of the Group.

Directors' remuneration report

Unaudited Information

Relationship with shareholders

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 non-pensionable.

Long term incentives

A new share option scheme for senior employees and executive directors was approved at the Group's AGM in June 2007. Details of share options granted during the year are given in note 21.

Service contracts

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

Audited Information**Directors' remuneration**

	Salary/Fees £'000	Bonus £'000	Benefits £'000	Pension £'000	Total 2007 £'000	Total 2006 £'000
Executive directors						
Simon Howard	176	–	9	–	185	177
Michael Warren	176	–	8	–	184	176
Steve Halford (resigned 9 November 2007)	191*	–	7	–	198	177
Sue Craven (appointed 1 January 2007)	116	–	6	12	134	–
Non-executive directors						
Steve Bodger	30	–	–	–	30	27
Keith Cameron	30	–	–	–	30	27
Total	719	–	30	12	761	584

No pension contributions are payable in respect of any of the directors except for Sue Craven who has received £11,567 in pension contributions (2006: £Nil).

* During the year, Steve Halford received an ex-gratia payment totalling £56,667, which is included in the salary amount in the above table.

Directors and their interests

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

	31 December 2007 Number	31 December 2006 or date of appointment Number
Simon Howard	1,700,200	1,700,200
Michael Warren	1,700,200	1,700,200
Steve Halford (resigned 9 November 2007)	1,098,000	928,000
Sue Craven (appointed 1 January 2007)	917,535	425,530
Steve Bodger	37,267	37,267
Keith Cameron	31,055	31,055

Details of options over the ordinary shares of the company held by directors are set out below:

	At 1 January 2007	Number granted	At 31 December 2007	Date granted	Exercisable from date	Expiry date
Simon Howard	–	104,142	104,142	1 October 2007	1 October 2010	30 September 2017
Michael Warren	–	104,142	104,142	1 October 2007	1 October 2010	30 September 2017
Sue Craven	–	75,308	75,308	1 October 2007	1 October 2010	30 September 2017

The mid-market share price at 31 December 2007 was 69.5p. The highest and lowest prices during the year were 88.5p and 69.5p respectively. The above options carry a nil exercise price.

Independent auditors' report to the members of Work Group plc

We have audited the group and parent company financial statements (the 'financial statements') of Work Group plc for the year ended 31 December 2007 which comprise the consolidated income statement, the consolidated and parent company balance sheets, the consolidated and parent company statements of changes in equity, the consolidated and parent company cash flow statements and the related notes. These financial statements have been prepared under the accounting policies set out therein.

Respective responsibilities of directors and auditors

The directors' responsibilities for preparing the Annual Report and the financial statements in accordance with applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union are set out in the Statement of directors' responsibilities.

Our responsibility is to audit the financial statements 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 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. The information given in the Directors' report includes that specific information presented in the Operating review that is cross referred from the Results and review of business section of the Directors' report.

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 Highlights, the Chairman's statement, the Operating review, the Board of directors, 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. 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 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.

Opinion

In our opinion:

- the group financial statements give a true and fair view, in accordance with IFRSs as adopted by the European Union, of the state of the group's affairs as at 31 December 2007 and of the group's profit and cash flows for the year then ended;
- the parent company financial statements give a true and fair view, in accordance with IFRSs as adopted by the European Union as applied in accordance with the provisions of the Companies Act 1985, of the state of the parent company's affairs as at 31 December 2007 and cash flows for the year then ended;
- the financial statements 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

12 March 2008

Consolidated income statement

For the year ended 31 December 2007

	Note	2007 £'000	2006 £'000
Revenue	2	38,906	33,147
Cost of sales		(22,765)	(19,576)
Gross profit (net fee income)		16,141	13,571
Net operating expenses		(13,232)	(11,117)
Operating profit		2,909	2,454
Operating profit before exceptional items		3,220	2,454
Exceptional items	4	(311)	–
Finance costs	6	(22)	(130)
Finance income	6	64	53
Profit before taxation		2,951	2,377
Taxation	7	(933)	(711)
Profit for the year		2,018	1,666
Earnings per share (pence)	8	7.64	7.36
Diluted earnings per share (pence)	8	7.06	6.47
Dividend paid per share (pence)	9	0.4	–

The results above are all in respect of continuing operations.

Balance sheets

As at 31 December 2007

	Note	Group 2007 £'000	Group 2006 £'000	Company 2007 £'000	Company 2006 £'000
Assets					
Non-current assets					
Goodwill	10	12,197	11,451	4,308	4,308
Property, plant and equipment	11	812	856	668	621
Investment in subsidiaries	12	–	–	10,188	9,442
Deferred tax asset	13	252	481	193	473
		13,261	12,788	15,357	14,844
Current assets					
Inventories	14	241	95	241	95
Trade and other receivables	15	6,944	5,857	6,015	3,806
Cash and cash equivalents	23	1,638	1,274	1,626	41
		8,823	7,226	7,882	3,942
Liabilities					
Current liabilities					
Financial liabilities – borrowings	23	(595)	(379)	(1,840)	(379)
Trade and other payables	17	(4,973)	(5,574)	(5,732)	(4,308)
Provisions	19	(2,000)	(1,465)	(2,000)	(1,465)
Current tax liabilities		(883)	(500)	(581)	–
		(8,451)	(7,918)	(10,153)	(6,152)
Net current assets/(liabilities)		372	(692)	(2,271)	(2,210)
Non current liabilities					
Provisions	19	–	(1,250)	–	(1,250)
Net assets		13,633	10,846	13,086	11,384
Shareholders' equity					
Ordinary share capital	20	542	510	542	510
Share premium		7,261	6,433	7,261	6,433
Other reserves		2,826	2,826	2,826	2,826
Retained earnings		3,004	1,077	2,457	1,615
Total shareholders' equity		13,633	10,846	13,086	11,384

The financial statements, which comprise the consolidated income statement, the consolidated and company balance sheets, the consolidated and company statement of changes in shareholders' equity, the consolidated and company cash flow statements and the related notes, were approved by the board of directors on 12 March 08 and signed by:

Simon Howard
Chairman

Michael Warren
Finance Director

Statements of changes in shareholders' equity

For the year ended 31 December 2007

Group	Note	Share capital £'000	Share premium £'000	Retained Earnings £'000	Special reserve £'000	Total Reserves £'000
1 January 2006		296	–	(1,129)	2,826	1,993
Profit for the year		–	–	1,666	–	1,666
Value of employee services		–	–	3	–	3
Deferred taxation on share options		–	–	537	–	537
Proceeds from shares issued		214	6,433	–	–	6,647
At 31 December 2006		510	6,433	1,077	2,826	10,846
Profit for the year		–	–	2,018	–	2,018
Value of employee services		–	–	30	–	30
Deferred taxation on share options		–	–	(15)	–	(15)
Proceeds from shares issued		32	828	–	–	860
Dividends paid	9	–	–	(106)	–	(106)
At 31 December 2007		542	7,261	3,004	2,826	13,633

Company	Note	Share capital £'000	Share premium £'000	Retained Earnings £'000	Special reserve £'000	Total Reserves £'000
1 January 2006		296	–	20	2,826	3,142
Profit for the year		–	–	1,055	–	1,055
Value of employee services		–	–	3	–	3
Deferred taxation on share options		–	–	537	–	537
Proceeds from shares issued		214	6,433	–	–	6,647
At 31 December 2006		510	6,433	1,615	2,826	11,384
Profit for the year		–	–	933	–	933
Value of employee services		–	–	30	–	30
Deferred taxation on share options		–	–	(15)	–	(15)
Proceeds from shares issued		32	828	–	–	860
Dividends paid	9	–	–	(106)	–	(106)
At 31 December 2007		542	7,261	2,457	2,826	13,086

Cash flow statement

For the year ended 31 December 2007

	Note	Group 2007 £'000	Group 2006 £'000	Company 2007 £'000	Company 2006 £'000
Cash flows from operating activities					
Cash generated from/ (absorbed by) operations	22	1,457	2,118	(325)	883
Interest paid		(22)	(168)	(21)	105
Tax paid		(336)	(65)	–	–
Net cash inflow/(outflow) from operating activities		1,099	1,885	(346)	988
Cash flows from investing activities					
Acquisition of businesses (net of cash acquired)		–	(1,219)	1,375	(1,925)
Acquisition expenses		–	(123)	–	(123)
Deferred consideration paid		–	(400)	–	(400)
Interest received		64	54	22	45
Purchase of property, plant and equipment		(323)	(254)	(237)	(142)
Net cash (used in)/generated from investing activities		(259)	(1,942)	1,160	(2,545)
Cash flows from financing activities					
Net proceeds from issue of ordinary share capital		144	6,147	144	6,146
Preference shares redeemed		–	(500)	–	(500)
Loan notes repaid		(728)	(386)	(728)	(314)
Loan stock repaid		–	(1,500)	–	(1,500)
Repayment of borrowing		–	(2,680)	–	(1,654)
Dividend paid	9	(106)	–	(106)	–
Finance lease payments		(2)	(24)	–	–
Net cash (outflow)/inflow from financing activities		(692)	1,057	(690)	2,178
Increase in cash and cash equivalents in the year		148	1,000	124	621
Net cash and cash equivalents at start of the year	23	895	(105)	(338)	(960)
Net cash and cash equivalents at end of the year	23	1,043	895	(214)	(338)

Notes to the financial statements

For the year ended 31 December 2007

1 Summary of significant accounting policies

Basis of preparation

The financial statements have been prepared, in accordance with International Financial Reporting Standards (IFRS) adopted for use in the European Union and those parts of the Companies Act 1985 which are applicable to companies reporting under IFRS. The Company's domicile and country of incorporation is England and Wales. The Group has operations in the USA.

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

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

The consolidated financial statements of Work Group plc were prepared in accordance with UK GAAP until 31 December 2006. Reconciliations and descriptions of the effect of the transition from UK GAAP to IFRS on the Group's equity and its net profit are provided in Note 28.

At the date of authorisation of these financial statements, the following Standards and Interpretations which have not been applied in these financial statements were in issue but not yet effective:

IFRS 8, 'Operating Segments', effective for annual periods beginning on or after 1 January 2009, subject to EU endorsement

IFRIC 11, 'IFRS – 2 Group and Treasury Share Transactions', effective for annual periods beginning on or after 1 March 2007

IFRIC 12, 'Service Concession Arrangements', effective for annual periods beginning on or after 1 January 2008

IFRIC 13, 'Customer Loyalty Programmes', effective for annual periods beginning on or after 1 July 2008,

IFRIC 14 – IAS 19, 'The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction', effective for annual periods beginning on or after 1 January 2008

Management do not currently foresee any changes to the group's business segments arising from adoption of IFRS 8, and do not expect IFRIC 11, IFRIC 12, IFRIC 13 or IFRIC 14 to be relevant for the group.

Critical estimates and judgements

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

Basis of consolidation

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

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

Intercompany transactions, balances and unrealised gains on transactions between Group companies are eliminated on consolidation.

Revenue and gross profit

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

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

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

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

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

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

Exceptional items

Exceptional items are those income or costs recognised as one-off or non-recurring in nature, and substantial in size.

Finance income and costs

Finance income and costs are accrued on a timely basis and recognised in the income statement. The value is calculated on amounts outstanding or owing to the Group, and at the effective interest rate applicable.

Property, plant and equipment

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

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

Goodwill

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

Other intangible assets

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

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

Impairment of non-current assets

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

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

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

Trade receivables

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

Taxation

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

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

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

Cash and cash equivalents

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

Inventories and work in progress

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

Hire purchase agreements

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

Operating leases

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

Pensions

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

Foreign currencies

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

Provisions

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

Share based payment

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

Dividends

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

Company reserves

The company's reserves comprise a share premium account, capital redemption reserve and a special capital reserve. None of these reserves is distributable.

Segment reporting

A business segment is a group of assets and operations engaged in providing products or services that are subject to risks and returns that are different from those of other business segments.

A geographical segment is engaged in providing products and services within particular economic environments that are subject to risks and returns that are different from those of segments operating in other economic environments.

2 Segmental reporting

Primary reporting format – business segments

At 31 December 2007, the Group was organised into 4 main business segments:

Employer marketing
Recruitment process outsourcing ('RPO')
Executive research
Work Group Inc

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

	Employer marketing £'000	RPO £'000	Executive research £'000	Work Group Inc £'000	Corporate £'000	Group £'000
2007						
Revenue	31,646	2,651	4,672	12	(75)	38,906
Operating profit/(loss) (segment result)	2,065	447	962	(295)	(270)	2,909
Finance cost					(22)	(22)
Finance income					64	64
Profit before tax						2,951
Income taxes						(933)
Profit for the year						2,018
Segment assets	14,919	1,676	7,715	63	(2,289)	22,084
Segment liabilities	(8,129)	(845)	(717)	(4)	1,244	(8,451)
Depreciation	(164)	(30)	(113)	(2)	–	(309)
Capital expenditure	(198)	(41)	(76)	(8)	–	(323)
Exceptional items	(288)	–	(23)	–	–	(311)
	Employer marketing £'000	RPO £'000	Executive research £'000	Work Group Inc £'000	Corporate £'000	Group £'000
2006						
Revenue	25,911	2,678	4,558	–	–	33,147
Operating profit/(loss) (segment result)	1,393	450	874	–	(263)	2,454
Finance cost					(130)	(130)
Finance income					53	53
Profit before tax						2,377
Income taxes						(711)
Profit for the year						1,666
Segment assets	10,429	2,156	6,715	–	714	20,014
Segment liabilities	(6,867)	(1,422)	(861)	–	(18)	(9,168)
Depreciation	(172)	(32)	(112)	–	–	(316)
Capital expenditure	(130)	(26)	(98)	–	–	(254)
Exceptional items	–	–	–	–	–	–

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

Secondary format – geographical segments

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

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

Revenue

	2007 £000	2006 £000
UK	37,150	32,048
USA	1,050	149
Europe	672	894
Rest of world	34	56
	38,906	33,147

3 Staff costs

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

By activity	2007 Number	2006 Number
Client service	136	135
Creative & production	26	23
Finance, admin, IT & corporate	36	28
Sales	13	9
	211	195

Staff costs (including directors) were as follows:

	2007 £000	2006 £000
Wages and salaries	8,445	6,841
Social security costs	890	744
Pension costs	396	345
Share based payments	30	3
	9,761	7,933

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

Key management remuneration

Key management personnel are identified as the members of the 'Business Leaders Group'. This group comprises the executive directors and the leaders of the operating businesses.

Group	2007 £000	2006 £000
Salaries, including bonus	1,187	931
Benefits	35	32
Pension costs	24	16
Share based payments	19	–
	1,265	979
Company	2007 £000	2006 £000
Salaries, including bonus	985	778
Benefits	34	30
Pension costs	18	5
Share based payments	18	–
	1,055	813

4 Exceptional items

Included in exceptional items incurred during the year were one-off costs associated with the integration of Group services and RCCHR, totalling £205,000 (2006: £Nil); and redundancy costs of £106,000 (2006: £Nil).

5 Operating profit

	2007 £'000	2006 £'000
Operating profit is stated after charging/(crediting):		
Depreciation on plant, property and equipment:		
– Owned	301	302
– Leased	8	14
Loss on disposal of plant, property and equipment	58	5
Operating lease rentals:		
– Plant and machinery	60	77
– Land and buildings	639	552
Foreign exchange losses/(gains)	13	(23)
Auditors' remuneration		
– Fees payable to company auditors for the audit of parent company and consolidated accounts	79	55
– Fees payable to the company's auditor and its associates for other services	2	12
Tax services	6	5

6 Finance income and costs

	2007 £'000	2006 £'000
Interest receivable:		
– on bank deposits	64	53
Finance income	64	53
Interest payable:		
– on loan notes	(15)	–
– on bank overdraft	(7)	(49)
– on loan stock	–	(56)
– amortisation of issue cost of loan stock	–	(25)
Finance costs	(22)	(130)

7 Corporation tax

	2007 £'000	2006 £'000
United Kingdom corporation tax at 30% (2006: 30%)		
Current tax	841	316
Deferred tax	92	395
	933	711

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:

	2007 £'000	2006 £'000
Profit before taxation	2,951	2,377
Profit on ordinary activities multiplied by standard rate of corporation tax in the UK of 30% (2006: 30%)	886	713
Effects of:		
Expenses not deductible for tax purposes	1	1
Adjustments to prior year	46	(3)
Tax charge	933	711

8 Earnings per share

	2007			2006		
	Earnings £'000	Weighted average number of shares '000	Per share amount Pence	Earnings £'000	Weighted average number of shares '000	Per share amount pence
Basic earnings per share	2,018	26,419	7.64	1,666	22,638	7.36
Effect of dilutive share options	–	2,180	(0.58)	–	3,102	(0.89)
Diluted earnings per share	2,018	28,599	7.06	1,666	25,740	6.47
Adjusted basic earnings per share	2,236	26,419	8.46	1,666	22,638	7.36
Effect of dilutive share options	–	2,180	(0.64)	–	3,102	(0.89)
Adjusted diluted earnings per share	2,236	28,599	7.82	1,666	25,740	6.47

Basic earnings per share is calculated by dividing the earnings attributable to ordinary shareholders by the weighted average number of ordinary shares in issue during the period.

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

Since 31 December 2007, an additional 1,483,680 shares have been issued as deferred consideration for the acquisition of RCCHR. A further 47,000 shares have been issued upon exercise of employee share options.

Earnings reconciliation

	2007 £'000	2006 £'000
Statutory Earnings	2,018	1,666
Add back exceptional items	311	–
Tax on exceptional items (30%)	(93)	–
Revised earnings for Adjusted EPS	2,236	1,666

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

9 Dividends

Group and Company	2007 £'000	2006 £'000
2006 Final dividend payment – 0.4 pence per share	106	–

The proposed dividend for 2007 is 0.5p per share (2006: 0.4p), which will absorb approximately £143,000 of shareholders' funds and will be paid on 16 June 2008. This is subject to the number of shares listed on the share register as at 16 May 2008.

This dividend has not been provided in the financial statements, in accordance with IAS 10.

10 Goodwill

Group	Total £'000
Cost and carrying amount	
At 1 January 2006	8,643
Additions	3,173
Adjustment to deferred consideration	(365)
At 31 December 2006	11,451
Additions	30
Adjustment to deferred consideration	716
At 31 December 2007	12,197
Company	
Cost and carrying amount	
At 1 January 2006	4,308
At 31 December 2006	4,308
At 31 December 2007	4,308

Goodwill has arisen on acquisition of The Resourceful Group Limited, Park Human Resources Limited, Armstrong Craven Limited and The Recruitment Communications Company Limited.

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

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

The provision for deferred consideration for the acquisition of The Recruitment Communications Company Limited has been increased by £750,000 during the period, based on management estimates of the expected cumulative earnings before interest and tax of the company. In addition, the cost of acquisition has increased by a further amount of £30,000 due to audit and legal fees attributable to the acquisition.

During the year the acquired goodwill was tested for impairment in accordance with IAS 36.

The carrying value is attributed to two cash generating units, namely the consolidated Work Group, £7,076,000, and Armstrong Craven Limited, £5,121,000. The recoverable amount of goodwill is calculated based on discounted cash flow. The key assumptions for the value in use calculations are future projections based on the approved plan for 2008 and the following 5 years at a growth rate of 5%. The long-term growth rate beyond the approved period is expected to be 2.25%.

Management does not currently foresee any change in the key assumptions it has employed when determining the value in use calculations.

The rate used to discount the forecast cash flows is 6.5%, being the Group's weighted average cost of capital.

11 Property, plant and equipment

Group	Leasehold Improvements £'000	Fixtures and Fittings £'000	Computer equipment and software £'000	Motor vehicles £'000	Total £'000
Cost					
At 1 January 2006	452	267	501	15	1,235
Additions	29	68	157	-	254
Acquisitions	-	20	47	-	67
Disposals	-	-	(118)	-	(118)
At 31 December 2006	481	355	587	15	1,438
Additions	52	70	201	-	323
Disposals	(35)	(49)	(147)	(15)	(246)
At 31 December 2007	498	376	641	-	1,515
Accumulated 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	582
Charge for the year	32	86	187	4	309
Disposals	(7)	(40)	(131)	(10)	(188)
At 31 December 2007	155	194	354	-	703
Carrying Amount					
At 31 December 2005	356	200	286	14	856
At 31 December 2006	351	207	289	9	856
At 31 December 2007	343	182	287	-	812

Included within the carrying amount is £10,000 (2006: £18,000) relating to assets held under hire purchase arrangements. Accumulated depreciation relating to assets held under hire purchase arrangements is £43,000 (2006: £35,000).

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
Additions	52	60	125	237
Acquisitions	–	–	23	23
Disposals	(35)	(6)	(21)	(62)
At 31 December 2007	498	319	421	1,238
Accumulated 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
Charge for the year	32	67	76	175
Acquisitions	–	–	10	10
Disposals	(7)	(6)	(21)	(34)
At 31 December 2007	153	181	236	570
Carrying Amount				
At 31 December 2005	356	153	145	654
At 31 December 2006	353	145	123	621
At 31 December 2007	345	138	185	668

Included within the carrying amount is £10,000 (2006: £Nil) relating to assets held under hire purchase arrangements. Accumulated depreciation relating to assets held under hire purchase arrangements is £43,000 (2006: £Nil).

12 Investments in subsidiaries

Company	2007 £'000
Cost	
As at 1 January 2006	6,009
Additions	3,798
Adjustment to deferred consideration	(365)
At 31 December 2006	9,442
Additions	30
Adjustment to deferred consideration	716
At 31 December 2007	10,188

	Principal activity	Class of equity	Percentage of equity held at 2007
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	Dormant	Ordinary	100%
Work Group Inc (incorporated in US state of Delaware)	Employer marketing	Ordinary	100%

The additions during the year to investments, amounting to £30,000 (2006: £3,798,000), represents legal and audit fees attributable to the acquisition of RCCHR. The fair value adjustment on the additions was £Nil (2006: £42,000) as the book value of these transactions was not materially different from their fair value. The additions have been settled by cash.

13 Deferred tax

The following are the major deferred tax assets recognised by the Group and company and movements thereon during the current period:

Group	Accelerated capital allowances £'000	Short term differences £'000	Tax losses available £'000	Share Options £'000	Total £'000
At 1 January 2007	29	1	96	355	481
Credited/(charged) to income statement	(40)	1	(52)	–	(91)
Credited/(charged) to equity	–	–	–	(138)	(138)
At 31 December 2007	(11)	2	44	217	252

Company	Accelerated capital allowances £'000	Short term differences £'000	Tax losses available £'000	Share Options £'000	Total £'000
At 1 January 2007	21	1	96	355	473
Credited/(charged) to income statement	(47)	1	(96)	–	(142)
Credited/(charged) to equity	–	–	–	(138)	(138)
At 31 December 2007	(26)	2	–	217	193

14 Inventories

Group and Company	2007 £'000	2006 £'000
Consumables	20	20
Work in Progress	221	75
	241	95

15 Trade and other receivables

	2007 Group £'000	2006 Group £'000	2007 Company £'000	2006 Company £'000
Trade receivables	5,921	4,874	4,831	3,049
Other receivables	291	305	291	236
Prepayments and accrued income	732	678	626	501
Amounts owed to Group undertakings	–	–	267	–
Corporation tax	–	–	–	20
	6,944	5,857	6,015	3,806

16 Financial Instruments

The Group's financial instruments comprise cash, loan notes and other items such as trade and other receivables and trade and other payables that arise directly from its operations. Further detail is set out below. The main purpose of holding cash is to finance the Group's future investments and operations. It is (and has been throughout the years presented) the Group'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.

The Group manages its capital to ensure entities in the Group will be able to continue as a going concern.

The Group monitors and manages the financial risk relating to its operations on a regular basis. These risks include market risk (including foreign currency risk and interest rate risk), credit risk and liquidity risk. Although these risks are not considered to be significant, the Group still engages in regular review of policies and practices to bring these risks down to a minimum:

The Group manages liquidity risk by maintaining adequate reserves as well as the use of an overdraft facility. Monthly cash flow and working capital projections are derived to ensure sufficient funds are available to meet obligations and capital expenditure requirements as they fall due.

Interest rate risk is managed by minimising external debt and periodically reviewing the competitiveness of debt facilities.

The Group's exposure to exchange rate movements has to date been minimal. The Group will continue to review its future exposure and will put in place methods to reduce the exchange rate risk where it sees such methods as beneficial.

The Group has adopted a policy of only dealing with creditworthy counterparties and obtaining sufficient collateral, where appropriate, as a means of mitigating the credit risk.

Trade receivables consist of a large number of customers spread across diverse industries. Ongoing credit evaluation is performed on the financial condition of accounts receivable.

Financial Assets

	2007 Group £'000	2006 Group £'000	2007 Company £'000	2006 Company £'000
Receivables (including cash and cash equivalents)	8,582	7,131	7,641	3,847

The Group's financial assets comprise trade and other receivables and cash at bank and in hand. Interest is received on cash deposits on a Group pooling basis at variable rates based on the relevant base rate. In 2007 this interest rate ranged from 4.25% – 5.25%.

As of 31 December 2007, Group trade receivables of £1,825,000 (2006: £2,144,000) and company trade receivables of £1,443,000 (2006: £1,249,000) were fully performing.

The remaining Group trade receivables of £4,096,000 (2006: £2,730,000) and company trade receivables of £3,388,000 (2006: £1,800,000) were past due but not considered impaired. These relate to a number of independent customers for whom there is no recent history of default. The ageing analysis of these trade receivables is as follows:

Period past due	2007 Group £'000	2006 Group £'000	2007 Company £'000	2006 Company £'000
Up to 3 months	3,292	2,315	2,742	1,570
3 to 6 months	804	415	646	230
	4,096	2,730	3,388	1,800

A provision for the trade receivables is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of the receivables.

At 31 December 2007, trade receivables denominated in foreign currencies accounted for 4% (2006: 2%) of Group trade receivables and 4% (2006: Nil%) of company trade receivables. No interest was accrued for trade and other receivables.

Financial Liabilities

	2007 Group £'000	2006 Group £'000	2007 Company £'000	2006 Company £'000
Amortised cost	614	–	1,859	–

The Group's financial liabilities consist of an overdraft facility and loan notes. Trade and other payables have not been included in this note. A detailed description of these financial liabilities is given below:

Group	Total £'000	Floating rate financial liabilities £'000	Fixed rate financial liabilities £'000
Bank overdraft	595	595	–
Loan notes*	19	–	19
2007	614	595	19

Company	Total £'000	Floating rate financial liabilities £'000	Fixed rate financial liabilities £'000
Bank overdraft	1,840	1,840	–
Loan notes	19	–	19
2007	1,859	1,840	19

Loan notes have been issued to the directors and employees of Armstrong Craven Limited, a related party. All loan notes are repayable upon demand and bear interest at a fixed rate of 2 per cent.

Group and Company	Total £'000	Floating rate financial liabilities £'000	Fixed rate financial liabilities £'000
Bank Overdraft	379	379	–
Loan notes	32	–	32
2006	411	379	32

Maturity profile of financial liabilities

Group	2007 £'000	2006 £'000
Due within one year	614	411
	614	411

Company	2007 £'000	2006 £'000
Due within one year	1,859	411
Due within one or two years	–	–
Due within two to five years	–	–
	1,859	411

* The outstanding loan notes are shown within Trade and other payables on the balance sheet.

The following are included in the maturity profile: bank overdraft and loan notes.

Group and Company	Fixed rate financial liabilities Weighted average interest rate %	Weighted average period for which rate is fixed Years
Loan notes	2	1
2007	2	1

Group and Company	Fixed rate financial liabilities Weighted average interest rate %	Weighted average period for which rate is fixed Years
Loan notes	2	2
2006	2	2

Undrawn facilities were as follows:

Group	2007 £'000	2006 £'000
Bank Overdraft	1,905	2,621
Company		
Bank Overdraft	660	2,621

In 2007, the interest rate payable on the overdraft facility ranged from 6.75 – 7.50%.

17 Trade and other payables

	2007 Group £'000	2006 Group £'000	2007 Company £'000	2006 Company £'000
Trade creditors	1,042	2,651	987	2,274
Other taxation and social security costs	772	802	572	432
Other creditors	914	1,001	914	966
Finance lease agreements	4	3	4	–
Loan notes	19	32	19	32
Accruals and deferred income	2,222	1,085	2,058	604
Amounts owed to Group undertakings	–	–	1,178	–
	4,973	5,574	5,732	4,308

18 Commitments under finance leases

Commitments under finance leases and hire purchase agreements are as follows:

Group and company	2007 £'000	2006 £'000
In one year or less	4	2
Between one and five years	–	4
	4	6

It is the Group's policy to minimise the leasing of its plant and equipment under finance leases. The average lease term is 3 years. For the year ended 31 December 2007, the average effective interest rate was 13.8%.

All lease obligations are denominated in sterling.

The fair value of the Group's lease obligations approximates their carrying amount.

The Group's obligations are secured by the lessor's charges over the leased assets.

19 Provisions

Group and company	Deferred consideration £'000
At 1 January 2006	2,230
Additional provision	1,250
Utilised in year	(765)
At 31 December 2006	2,715
Additional provision	750
Utilised in year	(1,465)
At 31 December 2007	2,000

This consideration of £2,000,000 was settled in January 2008, and satisfied by 50:50 split of loan notes and shares.

Maturity profile of provisions

Group and company	2007 £'000	2006 £'000
Due within one year or less	2,000	1,465
Due after more than one year	–	1,250
	2,000	2,715

20 Share capital

Group and company	2007 £'000	2006 £'000
Authorised		
75,000,000 (2006: 75,000,000) ordinary shares of 2p each	1,500	1,500
	1,500	1,500
Issued and fully paid	2007 Number	2006 Number
At beginning of year	25,490,957	510
Issued for cash during the year	1,600,836	32
	27,091,793	542
	25,490,957	510

Share options were exercised during the period at an exercise price of £0.20 per share. The resultant ordinary shares (720,762 shares) were issued for cash throughout the year. In addition, a portion of the deferred consideration for Armstrong Craven Limited was settled by 880,074 ordinary shares in Work Group plc, issued at £0.813 per share.

21 Share based payments

Group and company

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. Awards under the EMI Plan were generally available for all employees. At the AGM held on 13 June 2007, shareholders approved the Work Group plc 2007 Employees' Share Option Scheme (EMI Plan 2). The first grant of options under this scheme was made on 1 October 2007 with a zero exercise price. Awards under the EMI Plan 2 are expected to be restricted to senior employees and executive directors. The contractual life of both EMI Plans is 10 years and options granted under the Plans become exercisable on the third anniversary of the date of grant provided the employee is still employed in the Group. At 31 December 2007, 104 employees held options. Options were valued using the Black-Scholes option-pricing model. No performance conditions are attached to options granted under the EMI Plan. Performance conditions relating to a minimum growth in earnings per share are attached to all options granted under EMI Plan 2. It has been assumed that these performance conditions will be met in the fair value calculations.

The assumptions used in the calculations for options granted in the current year are as follows:

Grant date	1 October 2007	
Share Price at Grant date		£0.795
Exercise price		£0.00
Number of Employees		29
Shares under Option		668,092
Vesting period (years)		3
Expected volatility		19.67%
Option Life (years)		4
Risk free rate		4.94%
Dividend yield		Nil
Fair Value per option		£0.795
Possibility of ceasing employment before vesting		30%
	2007	2006
Share options	Number	Number
	'000	'000
Outstanding at 1 January	3,113	4,615
Granted	668	–
Exercised	(721)	(1,354)
Lapsed	(145)	(148)
Outstanding 31 December	2,915	3,113
Exercisable at 31 December	1,723	2,049

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

	Group 2007 £'000	Group 2006 £'000	Company 2007 £'000	Company 2006 £'000
Profit for the year	2,018	1,666	933	1,055
Adjustments:				
Taxation	933	711	488	613
Finance income	(64)	(53)	(22)	(47)
Finance costs	22	130	21	126
Depreciation of plant property and equipment	309	316	175	175
Loss on disposal of plant property and equipment	58	5	28	-
Share based payments	30	3	30	3
Increase in inventories	(146)	(62)	(146)	(62)
Increase in trade and other receivables	(1,086)	(861)	(2,518)	(347)
(Decrease)/increase in trade and other payables	(617)	376	686	(520)
Decrease in provisions	-	(113)	-	(113)
Cash generated from/(absorbed by) operations	1,457	2,118	(325)	883

23 Cash and cash equivalents

	Group 2007 £'000	Group 2006 £'000	Company 2007 £'000	Company 2006 £'000
Cash & cash equivalents	1,638	1,274	1,626	41
Financial liabilities – borrowings	(595)	(379)	(1,840)	(379)
Net cash and cash equivalents	1,043	895	(214)	(338)

The Group and company overdraft balance at 31 December 2007 was £3,007,000. This has been offset with credit balances in related bank accounts, RCCHR (£1,168,000) and Armstrong Craven Limited (£1,244,000), as permitted by our overdraft facility arrangement.

24 Leases

Operating leases

The Group and company leases all of its properties. The terms of the leases vary, but are negotiated for an average term of 11 years.

The Group and company also lease plant, machinery and vehicles under non-cancellable operating lease agreements.

The total future minimum lease payments are due as follows:

Group	Property	Vehicles	Property	Vehicles
	2007	plant and	2006	plant and
	£'000	equipment	£'000	equipment
		2007		2006
		£'000		£'000
Total commitments under non cancellable operating leases:				
Payable within one year	1,029	45	771	47
Payable between one and five years	3,252	33	2,799	46
Payable in more than five years	2,757	–	2,691	–
	7,038	78	6,261	93
<hr/>				
Company	Property	Vehicles	Property	Vehicles
	2007	plant and	2006	plant and
	£'000	equipment	£'000	equipment
		2007		2006
		£'000		£'000
Total commitments under non cancellable operating leases:				
Payable within one year	887	39	771	47
Payable between one and five years	2,827	26	2,799	46
Payable in more than five years	2,332	–	2,691	–
	6,046	65	6,261	93

25 Employee benefit trust

The Resourceful Group Ltd Employee Benefit Trust 1995 holds £31,030 (2006: £40,181) in cash offshore for the benefit of employees

The 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.

26 Related party transactions

The company conducts numerous transactions each year with its subsidiaries: RCCHR, Work Group Inc and Armstrong Craven. At 1 November 2007, RCCHR was hived up into Work Group plc and consequently a balance owing to RCCHR of amount £1,178,000 (2006: £Nil) exists.

For the year ended 31 December 2007, total sales of £74,682 (2006: £Nil) were made to Armstrong Craven and RCCHR (prior to 1 November 2007), of which a net debtor balance of £7,000 remains outstanding to the company at 31 December 2007; management services of £100,000 were provided to Armstrong Craven (2006: £65,000 to RCCHR); and recharges relating to operating activities amounting to £160,000 (2006: £Nil) were made to Work Group Inc during the year. In total, £267,000 was owing to Work Group plc at 31 December 2007.

27 Company income statement

The company has taken advantage of the exemption in Section 230 of the Companies Act 1985 from publishing a separate income statement. A profit of £804,000 (2006: £1,184,000) before dividends has been reported for the current year.

28 Transition to IFRS

Group and company

i IFRS 1 – First time adoption of International Accounting Standards

The Group and company prepared their financial statements under UK Generally Accepted Accounting Principles (UK GAAP) for all reporting periods to 31 December 2006. With effect from 1 January 2007 all companies listed on the Alternative Investment Market (AIM) are required to report in accordance with International Financial Reporting Standards (IFRS). The Group and company's IFRS transition date was 1 January 2006, being the first day of the comparative period.

The financial information for the year ended 31 December 2006 has been extracted from the financial statements for this period prepared under UK GAAP, adjusted as appropriate to present the information in accordance with the Group's IFRS accounting policies.

The financial information in the IFRS reconciliations as at and for the year ended 31 December 2006 has been amended from that presented in the Interim Statement for the 6 months ended 30 June 2007, for a further adjustment to deferred taxation, the effect of which is to reduce profit and net assets by £129,000.

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

ii Exemptions from full retrospective application applied by the Group and company

Optional Exemptions

Business combination exemption

The Group and company have not restated business combinations that took place prior to the 1 January 2006 transition date, as allowed under IFRS 1.

Share-based payment transaction exemption

The Group and company have applied IFRS 2 only to those options granted after 7 November 2002 but which had not vested by 1 January 2005.

Fair value deemed as cost exemption

The Group and company have used the cost of all property, plant and equipment as an approximation for the fair value of the assets.

Mandatory Exemption

UK GAAP estimates exemption

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

Reconciliations between IFRS and UK GAAP

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

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

1 January 2006

31 December 2006

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

Year ended 31 December 2006

28a Equity as at 1 January 2006

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

28a Equity as at 31 December 2006

Group	Notes	UK GAAP £'000	Effect of Transition to IFRS £'000	IFRS £'000
Assets				
Non current assets				
Goodwill	(b)	10,984	467	11,451
Property, plant & equipment		856	–	856
Deferred tax assets	(c), (f), (g)	–	481	481
		11,840	948	12,788
Current Assets				
Inventories		95	–	95
Trade and other receivables	(f)	6,112	(255)	5,857
Cash and cash equivalents		1,274	–	1,274
		7,481	(255)	7,226
Liabilities				
Current liabilities				
Financial liabilities – borrowings		(379)	–	(379)
Trade and other payables	(e)	(7,039)	1,465	(5,574)
Provisions	(e)	–	(1,465)	(1,465)
Current tax liabilities		(500)	–	(500)
		(7,918)	–	(7,918)
Net current liabilities		(437)	–	(692)
Non current liabilities				
Trade and other payables	(e)	(1,250)	1,250	–
Provisions	(e)	–	(1,250)	(1,250)
		(1,250)	–	(1,250)
Net Assets		10,153	693	10,846
Shareholders' equity				
Ordinary share capital		510	–	510
Share premium		6,433	–	6,433
Other reserves		2,826	–	2,826
Retained earnings	(b), (c), (g)	384	693	1,077
Total shareholders' equity		10,153	693	10,846

28a Income statement as at 31 December 2006

Income statement as at 31 December 2006	Notes	UK GAAP £'000	Effect of Transition to IFRS £'000	£'000
Revenue		33,147	–	33,147
Cost of sales		(19,576)	–	(19,576)
Gross profit		13,571	–	13,571
Net operating expenses	(b)	(11,584)	467	(11,117)
Operating profit		1,987	467	2,454
Finance cost		(130)	–	(130)
Finance income		53	–	53
Profit before taxation		1,910	467	2,377
Taxation	(d), (g)	(400)	(311)	(711)
Profit for the year		1,510	156	1,666

28b Equity as at 1 January 2006

Company	Notes	UK GAAP £'000	Effect of Transition to IFRS £'000	IFRS £'000
Assets				
Non current assets				
Goodwill		4,308	–	4,308
Property, plant & equipment		654	–	654
Investments		6,009	–	6,009
Deferred tax assets	(a)	–	347	347
		10,971	347	11,318
Current Assets				
Inventories		33	–	33
Trade and other receivables	(a)	3,786	(347)	3,439
Cash and cash equivalents		59	–	59
		3,878	(347)	3,531
Liabilities				
Current liabilities				
Financial liabilities – borrowings		(1,019)	–	(1,019)
Trade and other payables	(e)	(6,091)	400	(5,691)
Provisions	(e)	–	(400)	(400)
Current tax liabilities		–	–	–
		(7,110)	–	(7,110)
Net current liabilities		(3,232)	–	(3,579)
Non current liabilities				
Bank loan		(1,654)	–	(1,654)
Loan stock		(1,000)	–	(1,000)
Finance leases		–	–	–
Trade and other payables	(e)	(1,830)	1,830	–
Provisions	(e)	(113)	(1,830)	(1,943)
		(4,597)	–	(4,597)
Net Assets		3,142	–	3,142
Shareholders' equity				
Ordinary share capital		296	–	296
Other reserves		2,826	–	2,826
Retained earnings		20	–	20
Total shareholders' equity		3,142	–	3,142

28b Equity as at 31 December 2006

Company	Notes	UK GAAP £'000	Effect of Transition to IFRS £'000	IFRS £'000
Assets				
Non current assets				
Goodwill	(b)	4,055	253	4,308
Property, plant & equipment		621	–	621
Investments		9,442	–	9,442
Deferred tax assets	(c), (f), (g)	–	473	473
		14,118	726	14,844
Current Assets				
Inventories		95	–	95
Trade and other receivables	(f)	4,053	(247)	3,806
Cash and cash equivalents		41	–	41
		4,189	(247)	3,942
Liabilities				
Current liabilities				
Financial liabilities – borrowings		(379)	–	(379)
Trade and other payables	(e)	(5,773)	1,465	(4,308)
Provisions	(e)	–	(1,465)	(1,465)
Current tax liabilities		–	–	–
		(6,152)	–	(6,152)
Net current liabilities		(1,963)	(247)	(2,210)
Non current liabilities				
Trade and other payables	(e)	(1,250)	1,250	–
Provisions	(e)	–	(1,250)	(1,250)
		(1,250)	–	(1,250)
Net Assets		10,905	479	11,384
Shareholders' equity				
Ordinary share capital		510	–	510
Share premium		6,433	–	6,433
Other reserves		2,826	–	2,826
Retained earnings	(b), (c), (g)	1,136	479	1,615
Total shareholders' equity		10,905	479	11,384

Explanation of the effect of transition to IFRS

- (a) Reclassification of Deferred tax asset, at 1 January 2006, from trade and other receivables to non current assets, Group £339k; Company £347k.
- (b) Reversal of goodwill amortisation calculated under UK GAAP but no longer required under IFRS, Group £467k; Company £253k
- (c) Recognition of Deferred tax asset on future tax benefit of share options not yet exercised, Group and Company £355k.
- (d) Tax saving on share options exercised in the period, now shown as a movement in equity in accordance with IAS 12, £182k.
- (e) Reclassification of deferred consideration payable from trade and other payables to Provisions.
- (f) Reclassification of Deferred tax asset, at 31 December 2006, from trade and other receivables to non current assets, Group £255k; Company £247k.
- (g) Other adjustments to deferred tax assets, Group and company £129k.

Changes to the cash flow statement

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

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

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