

February 2006



Northern Recruitment Group PLC Restatement of financial information Under International Financial Reporting Standards

Introduction

Northern Recruitment Group PLC (the Group) historically prepared its consolidated financial statements under UK Generally Accepted Accounting Practice (UK GAAP). Following the adoption of Regulation No 1606/2002 by the European Parliament on 19 July 2002 the Group has been preparing for the adoption of International Financial Reporting Standards¹ as its primary accounting base.

IFRS will apply for the first time in the Group's financial statements for the year ending 30 June 2006. Accordingly the financial results for the six months ended 31 December 2005 have been prepared and reported under IFRS. As the Group publishes comparative information in its Annual Report and Interim Statement, the date of transition to IFRS is 1 July 2004, the start of the earliest period of comparative information.

To explain how the Group's reported performance and financial position are affected by this change, information previously published under UK GAAP is restated under IFRS in the attached appendices as follows:

- Appendix 1 Significant accounting policies revised under IFRS
- Appendix 2 Financial information on an IFRS basis for the six months ended 31 December 2004, the year ended 30 June 2005 and the transition balance sheet at 1 July 2004
- Appendix 3 Reconciliations of income statement and balance sheet:
 - a) for the year ended 30 June 2005
 - b) for the six months ended 31 December 2004Reconciliation of transition balance sheet
 - c) at 1 July 2004Comments on the adjustments made to the transition balance sheet at 1 July 2004 and the income statements and balance sheets for the periods ended 31 December 2004 and 30 June 2005, can be found in Appendix 3a.
- Appendix 4 Special Purpose Audit Report of KPMG Audit Plc to the Group

As noted below, this financial information has been prepared on the basis of the recognition and measurement requirements of adopted IFRSs effective (or available for early adoption) at 30 June 2006. These are subject to ongoing review by the EU or possibly amendment by interpretive guidance from the IASB and are therefore still subject to change. We will update our restated information for any such changes when they are made.

Basis of Preparation

The financial information has been prepared in accordance with IFRS. The accounting policies are set out in Appendix 1.

¹ References to IFRS throughout this document refer to the application of International Financial Reporting Standards as adopted by the EU ("IFRS") including International Accounting Standards ("IAS") and interpretations issued by the International Accounting Standards Board ("IASB") and its committees and as interpreted by any regulatory bodies applicable to the Group.

Both the transition balance sheet as at 1 July 2004 and the financial information for the year ended 30 June 2005, as prepared on the above basis, have been audited by KPMG Audit Plc. Their special purpose audit report to the Group is set out on pages 19 and 20. The information for the six months ended 31 December 2004 is unaudited. Subject to no further changes by the EU or from the IASB this information is expected to form the basis for comparatives when reporting financial results for 2006 and for subsequent reporting periods.

Overview of Impact

For the year ended 30 June 2005 the net decrease in both profit after tax and total recognised income and expense attributable to shareholders², as a result of the conversion to IFRS, was £29,000. Details of the IFRS adjustments are given in Appendix 3.

	6 months ended 31 December 2004 (unaudited)		Year ended 30 June 2005 (audited)	
	IFRS £'000	UK GAAP £'000	IFRS £'000	UK GAAP £'000
Operating Profit	1,516	1,535	3,424	3,465
Profit after tax	1,128	1,141	2,583	2,612
Total recognised income & expense attributable to equity holders of the parent	1,128	1,141	2,583	2,612
Basic EPS	6.5p	6.6p	15.0p	15.1p
Net Assets	7,456	7,243	8,739	5,582

The most significant elements contributing to the changes in the financial information are:

- The inclusion of an estimated fair value charge and tax credit in the income statement and a deferred tax asset in the balance sheet in respect of outstanding employee share options.
- Recognition of dividends directly in reserves as they are declared, not when proposed.

IFRS 1 exemptions

IFRS 1 *First Time Adoption of International Financial Standards*, permits those companies adopting IFRS for the first time to take certain exemptions from the full requirements of IFRS in the transition period. The Group has taken the following key exemptions:

- a) Share based payments: The Group has elected to apply IFRS 2 *Share based payments* only to relevant share based payment transactions granted after 7 November 2002 that had not vested before 1 January 2005 as permitted under IFRS 1
- b) Business combinations: The Group has chosen not to restate business combinations prior to the transition date on an IFRS basis, as no significant acquisitions have taken place for the past 5 years
- c) Financial instruments: The Group has taken the exemption from applying IAS 32 *Financial Instruments: Disclosure and Presentation* and IAS 39 *Financial Instruments: Recognition and Measurement* to the comparative information to be presented in its first IFRS financial statements and will adopt IAS 32 and IAS 39 with effect from 1 July 2005.

² Under UK GAAP, as there was no recognised gains and losses for the period other than the profit for the period, total recognised gains and losses attributable to share holders equated to profit after tax. Under IFRS total recognised gains and losses attributable to shareholders equates to total recognised income and expense for the period.

Presentation of financial information

The primary statements within the financial information contained in this document have been presented in accordance with IAS 1 *Presentation of Financial Statements*. However, this format and presentation may require modification as practice develops and in the event that further guidance is issued.

Appendix 1

IFRS Accounting Policies

This section provides a summary of the Group's new accounting policies under IFRS for the year ended 30 June 2005. Where policies have changed under IFRS as compared to UK GAAP this is indicated by *.

(a) Basis of preparation

The financial information is presented in pounds sterling, rounded to the nearest thousand and is prepared on the historical cost basis.

This financial information has been prepared on the basis of the recognition and measurement requirements of adopted IFRSs effective (or available for early adoption) at 30 June 2006, the Group's first annual reporting date at which it is required to use adopted IFRSs. Based on these adopted IFRSs, the directors have applied the accounting policies which they expect to be applied when the first annual IFRS financial statements are prepared for the year ended 30 June 2006.

However, the adopted IFRSs that will be effective (or available for early adoption) in the annual financial statements for the year ended 30 June 2006 are still subject to change and to additional interpretations and therefore cannot be determined with certainty. Accordingly, the accounting policies for that annual period will be determined finally only when the annual financial statements are prepared for the year ended 30 June 2006.

The preparation of financial information in conformity with IFRS requires management to make judgements, estimates and assumptions that effect the application of policies and reported amounts of assets and liabilities, income and expenses. These estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting policies are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of revision and future periods if the revision affects both current and future periods

The accounting policies set out below have been applied consistently to all periods presented in this financial information and in preparing the opening IFRS balance sheet at 1 July 2004 for the purpose of the transition to IFRS.

The accounting policies have been applied consistently throughout the Group.

(b) Basis of consolidation

i. Subsidiaries

Subsidiaries are entities controlled by the Company. Control exists where the Company has the power, directly or indirectly, to govern the financial and operating policies of an entity so as to obtain benefits from its activities. The financial statements of subsidiaries are included in the consolidated financial information from the date control commences until the date that control ceases.

- ii. Transactions eliminated on consolidation

Intragroup balances and any unrealised gains and losses or income and expenses arising from intragroup transactions, are eliminated in preparing the consolidated financial information.

(c) Financial instruments

- i. The financial information has been prepared in accordance with the financial instrument policy applied under UK GAAP in the previously published financial statements.

(d) Property, plant and equipment

- i. Owned assets

Items of property, plant and equipment are stated at cost or deemed cost less accumulated depreciation (see below) and impairment losses (see accounting policy (h))

- ii. Depreciation

Depreciation is charged to the income statement on a straight-line basis over the estimated useful economic lives of each part of an item of property, plant and equipment. The estimated useful economic lives are as follows:

Fixtures and fittings	2 – 10 years
Motor vehicles	4 years
Office equipment	2 – 4 years

The residual value, if not insignificant, is reassessed annually.

(e) Intangible assets

- i. Goodwill

In respect of acquisitions prior to 1 July 2004, goodwill is included on the basis of its deemed cost, which represents the amounts recorded under the previous GAAP. The classification and accounting treatment of business combinations that occurred prior to 1 July 2004 has not been reconsidered in preparing the Group's opening IFRS balance sheet as at 1 July 2004.

(f) Cash and cash equivalents*

Cash and cash equivalents comprises cash balances and call deposits with an original maturity of three months or less. Bank overdrafts that are repayable on demand and from an integral part of the Group's cash management are included as a component of cash and cash equivalents for the purpose of the statement of cash flows.

(g) Trade and other receivables

Trade and other receivables are stated at their cost less impairment losses (see accounting policy (h)).

(h) Impairment*

The carrying amounts of the Group's assets, other than deferred tax assets (see accounting policy (n)) are reviewed at each balance sheet date to determine whether there is any indication of impairment. If any such indication exists, the asset's recoverable amount is estimated.

An impairment loss is recognised whenever the carrying amount of an asset exceeds its recoverable amount. Impairment losses are recognised in the income statement.

i. Calculation of recoverable amount

The recoverable amount of assets is the greater of their net selling price and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For an asset that does not generate largely independent cash inflows, the recoverable amount is determined for the cash-generating unit to which the asset belongs.

ii. Reversal of past impairment losses*

An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined net of depreciation, if no impairment loss had been recognised. An impairment loss in respect of goodwill is not reversed.

(i) Share capital

i. Repurchase of share capital

When share capital recognised as equity is repurchased, the amount of the consideration paid, including directly attributable costs, is recognised as a change in equity. Repurchased shares that are held in the Employee Share Ownership Plan are classified as treasury shares and are presented as a deduction from total equity.

ii. Dividends*

Dividends are recognised as a liability in the period in which they are declared.

(j) Employee benefits*

i. Defined contribution plans

Obligations for contributions to defined contribution pension plans are recognised as an expense in the income statement as incurred.

ii. Share-based payment transactions*

The Group operates a number of equity-based share option plans which allow employees to acquire shares of the Company. The fair value of share options granted is recognised as an employee expense with a corresponding increase in equity. The fair value is measured at grant date, using an appropriate valuation model taking into account the terms and

conditions upon which the share options were granted, and is spread over the period during which the employees become unconditionally entitled to the options. The amount recognised as an expense is adjusted to reflect the actual number of share options that vest except where forfeiture is only due to share prices not achieving the threshold for vesting.

For options granted before 7 November 2002 the recognition and measurement principles of IFRS2 have not been applied in accordance with the transitional provision of IFRS1.

(k) Provisions

A provision is recognised in the balance sheet when the Group has a present legal or constructive obligation as a result of a past event, and it is probable that an outflow of economic benefits will be required to settle the obligation. If the effect is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability.

(l) Revenue

i. Revenue from temporary placements comprises the value of Group services provided to clients in the financial year, including the employment costs of temporary workers on assignment with clients. Revenue for permanent placements is recognised at the date an offer is accepted by a candidate. No revenue is recognised if there is significant uncertainty regarding the recovery of the consideration due. All revenue excludes value added tax. Revenue not invoiced at the balance sheet date is included within prepayments and accrued income.

(m) Expenses

Operating lease payments*

Payments under operating leases are recognised in the income and expenditure account on a straight-line basis over the term of the lease. Lease incentives received are recognised in the income statement as an integral part of the total lease expense

i. Finance income

Finance income comprises interest receivable on funds invested. Interest income is recognised in the income statement as it accrues using the effective interest method.

ii. Finance expenses

Finance expenses comprise interest payable on borrowings calculated using the effective interest method.

(n) Income tax

Income tax on the profit or loss for the period 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 substantively enacted at the balance sheet date and any adjustments to tax payable in respect of previous years.

Deferred tax is provided using the balance sheet liability method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Temporary differences are not provided for on the initial recognition of assets or liabilities that affect neither accounting nor taxable profit, other than in a business combination, and differences relating to investments in subsidiaries to the extent that they will not reverse in the foreseeable future. The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amounts of assets and liabilities, using tax rates enacted or substantively enacted at the base balance sheet date. No temporary differences are recognised on the initial recognition of goodwill.

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be utilised. Deferred tax assets are de-recognised to the extent that it is no longer probable that the related tax benefit will be realised. Deferred tax has not been recognised on share based payment transactions granted prior to 7 November 2002.

(o) Segment reporting

A segment is a distinguishable component of the Group that is engaged either in providing services (business segment), or in providing services within a particular economic environment (geographical segment), which is subject to risks and rewards that are different from those of other segments.

Appendix 2

Consolidated income statement

	6 months ended 31 December 2004 Unaudited £'000	Year ended 30 June 2005 Audited £'000
Revenue	11,063	21,682
Cost of Sales	(6,838)	(13,306)
Gross profit	<u>4,225</u>	<u>8,376</u>
Administrative expenses	(2,709)	(4,952)
Operating profit	<u>1,516</u>	<u>3,424</u>
Finance income	122	271
Profit before tax	<u>1,638</u>	<u>3,695</u>
Income tax	(510)	(1,112)
Profit for the period attributable to the equity holders of the parent	<u><u>1,128</u></u>	<u><u>2,583</u></u>
Basic earnings per share (pence)	6.5	15.0
Diluted earnings per share (pence)	6.4	14.5

There were no gains or losses for the current or comparative period other than those reported in the consolidated income statement.

Appendix 2

Consolidated Balance Sheet as at

	1 July 2004 Audited £'000	31 December 2004 Unaudited £'000	30 June 2005 Audited £'000
ASSETS			
Non-current assets			
Property, plant and equipment	676	731	609
Deferred tax assets	63	91	106
	<u>739</u>	<u>822</u>	<u>715</u>
Current assets			
Trade and other receivables	3,147	3,225	3,397
Cash & cash equivalents	5,856	6,306	7,711
	<u>9,003</u>	<u>9,531</u>	<u>11,108</u>
Total assets	<u>9,742</u>	<u>10,353</u>	<u>11,823</u>
LIABILITIES			
Current liabilities			
Trade & other payables	(2,650)	(2,432)	(2,492)
Current tax liabilities	(489)	(465)	(592)
Total current liabilities	<u>(3,139)</u>	<u>(2,897)</u>	<u>(3,084)</u>
Net assets	<u>6,603</u>	<u>7,456</u>	<u>8,739</u>
EQUITY			
Capital & reserves			
Issued capital	860	863	863
Share premium account	564	592	592
Capital redemption reserve	43	43	43
Retained earnings	5,136	5,958	7,241
Total equity attributable to equity holders of the parent	<u>6,603</u>	<u>7,456</u>	<u>8,739</u>

Appendix 2

Consolidated statement of cash flows

	6 months ended 31 December 2004	Year ended 30 June 2005
	Unaudited £'000	Audited £'000
Cash flows from operating activities		
Profit for the period	1,128	2,583
Depreciation	126	259
Share based payment expenses	19	41
(Profit)/Loss on sale of property, plant & equipment	(5)	9
Finance income	(122)	(271)
Income tax expense	510	1,112
Increase in debtors	(128)	(250)
Decrease in creditors	(217)	(156)
Cash from operating activities	1,311	3,327
Income tax paid	(491)	(1,030)
Net cash inflow from operating activities	820	2,297
Cash flows from investing activities		
Acquisition of property, plant & equipment	(203)	(214)
Proceeds from sale of property, plant & equipment	27	13
Interest received	122	271
Net cash (outflow)/inflow from investing activities	(54)	70
Cash flows from financing activities		
Proceeds from the issue of share capital	31	31
Purchase of own shares	-	(24)
Dividends paid	(347)	(519)
Net cash outflow from financing activities	(316)	(512)
Net increase in cash & cash equivalents	450	1,855
Cash & cash equivalents at the start of the period	5,856	5,856
Cash & cash equivalents at the end of the period	6,306	7,711

Appendix 2

Consolidated Statement of Changes in Equity

Audited	Attributable to equity shareholders				Total
	Share capital	Share premium	Capital Redemption Reserve	Retained earnings	
	£'000	£'000	£'000	£'000	£'000
At 1 July 2004	860	564	43	5,136	6,603
Shares issued in the period	3	28	-	-	31
Profit for the period	-	-	-	2,583	2,583
Purchase of own shares	-	-	-	(24)	(24)
Share based payments	-	-	-	64	64
Equity dividends	-	-	-	(518)	(518)
At 30 June 2005	863	592	43	7,241	8,739

Unaudited	Attributable to equity shareholders				Total
	Share capital	Share premium	Capital Redemption Reserve	Retained earnings	
	£'000	£'000	£'000	£'000	£'000
At 1 July 2004	860	564	43	5,136	6,603
Shares issued in the period	3	28	-	-	31
Profit for the period	-	-	-	1,128	1,128
Share based payments	-	-	-	41	41
Equity dividends	-	-	-	(347)	(347)
At 31 December 2004	863	592	43	5,958	7,456

Appendix 3a

**Reconciliation of income statement
for the year ended 30 June 2005**

	UK GAAP £'000	IFRS ADJUSTMENTS		IFRS £'000
		Share-based payments (a) £'000	Dividends (b) £'000	
Revenue	21,682			21,682
Cost of Sales	(13,306)			(13,306)
Gross Profit	8,376			8,376
Administrative costs	(4,911)	(41)		(4,952)
Operating profit	3,465	(41)		3,424
Finance income	271			271
Profit before tax	3,736			3,695
Income tax	(1,124)	12		(1,112)
Profit for the period attributable to equity holders of the parent	2,612	(29)		2,583
Net expense recognised directly in equity	-			-
Total recognised income & expense attributable to equity holders of the parent	2,612	(29)		2,583
Dividends	(3,280)		3,280	-

Explanation of the IFRS adjustments to the Income Statement for the year ended 30 June 2005 and the six months ended 31 December 2004

a) Share-based payments

Principal difference

The Group operates a number of share-based incentive schemes that are impacted by IFRS 2 *Share-based payments*. Under UK GAAP no expense has been recognised for awards under these schemes as the intrinsic value (the difference between the exercise price and the market value at the date of grant) was nil. Under IFRS, an expense is recognised in the income statement for all share based payments. This expense has been calculated based on the fair value at the date of the awards using pricing models appropriate to the schemes.

Impact

This has resulted in a charge for the full year of £41,000 (six months to 31 December 2004: £19,000) recognised within administrative costs. Since the estimated future tax deduction in respect of share based payments exceeds the cumulative expense charged in the income statement, the tax income has been restricted to £12,000 (six months to 31 December 2004: £6,000) in the income statement and the excess associated tax income has been recognised directly in equity.

b) Dividends

Principal difference

Under UK GAAP, the dividend is recognised in the profit and loss account. Under IFRS, the dividend is not recognised in the income statement but is recognised directly in equity.

Impact

Both the interim, final and the special dividend for 2005 have been reversed from the income statement with an impact of £3,280,000 (six months to 31 December 2004: interim dividend of £172,000)

Appendix 3a

Reconciliation of balance sheet
as at 30 June 2005

	UK GAAP £'000	IFRS ADJUSTMENTS			IFRS £'000
		Share-based payments (a) £'000	Dividends (b) £'000	Re-classification (c) £'000	
ASSETS					
Non current assets					
Property, plant and equipment	609				609
Deferred tax assets	-	48		58	106
	609	48		58	715
Current assets					
Trade and other receivables	3,455			(58)	3,397
Cash and cash equivalents	7,711				7,711
	11,166			(58)	11,108
Total assets	11,775	48		-	11,823
LIABILITIES					
Current Liabilities					
Trade and other payables	(6193)		3,109	592	(2,492)
Current tax liability	-			(592)	(592)
Total current liabilities	(6,193)		3,109		(3,084)
Net assets	5,582	48	3,109	-	8,739
EQUITY					
Capital and reserves					
Issued capital	863				863
Share premium account	592				592
Capital redemption reserve	43				43
Retained earnings	4,084	48	3,109		7,241
Total equity attributable to equity holders of the parent	5,582	48	3,109		8,739

Appendix 3a

Explanation of IFRS adjustments to the transition balance sheet at 1 July 2004, interim balance sheet at 31 December 2004 and closing balance sheet at 30 June 2005.

a) Share based payments

Principal difference

Under UK GAAP no liability was recognised in respect of share awards as the intrinsic value was nil. Under IFRS 2, as all of the share awards are equity settled, the balance sheet entry, based on the fair value of the awards, is a credit direct to equity reserves.

Transitional impact

A deferred tax asset of £13,000 has been recognised on transition at 1 July 2004.

Closing balance sheet impact

The deferred tax asset has been increased by £35,000 as at 30 June 2005 (31 December 2004: £28,000) with the excess deferred tax credit, above the cumulative expense, being recognised directly in equity.

b) Dividends

Principal difference

Under UK GAAP, the practice is to recognise dividends in the period to which they relate, whereas under IFRS the dividend is recognised in the period in which it is declared. As a result, the dividend creditor is not recognised until the dividend is declared and therefore at each year end needs to be adjusted accordingly.

Transition impact

As the 2004 interim dividend had been paid and the 2004 final dividend had not been declared at 1 July 2004 there is no dividend creditor in the transition balance sheet. The opening creditor of £347,000 has been reversed (see Appendix 3c).

Closing balance sheet impact

At the year end the 2004 interim dividend had been paid and the final dividend had not been declared. The closing dividend creditor of £3,109,000 (31 December 2004: £172,000) under UK GAAP has been reversed.

Group cashflow statement For the year ended 30 June 2005

The move from UK GAAP to IFRS does not change the cashflow statement of the Group. The IFRS cashflow statement is similar to UK GAAP but presents various cashflows in different categories and in a different order from the UK GAAP cashflow statement.

Appendix 3b

Reconciliation of income statement
for the 6 month ended 31 December 2004

	UK GAAP £'000	IFRS ADJUSTMENTS		IFRS £'000
		Share-based payments (a) £'000	Dividends (b) £'000	
Revenue	11,063			11,063
Cost of sales	(6,838)			(6,838)
Gross Profit	4,225			4,225
Administrative Costs	(2,690)	(19)		(2,709)
Operating profit	1,535	(19)		1,516
Finance income	122			122
Profit before tax	1,657	(19)		1,638
Income tax	(516)	6		(510)
Profit for the period attributable to equity holders of the parent	1,141	(13)		1,128
Net expense recognised directly in equity	-			-
Total recognised income and expense attributable to equity holders of the parent	1,141	(13)		1,128
Dividends	(172)		172	-

(a) and (b) see appendix 3a

Appendix 3b

**Reconciliation of balance sheet
As at 31 December 2004**

	UK GAAP £'000	IFRS ADJUSTMENTS			IFRS £'000
		Share- Based Payments (a) £'000	Dividends (b) £'000	Reclassification (c) £'000	
ASSETS					
Non current assets					
Property, plant and equipment	731				731
Deferred tax assets	-	41		50	91
	731	41		50	822
Current assets					
Trade and other receivables	3,275			(50)	3,225
Cash and cash equivalents	6,306				6,306
	9,581			(50)	9,531
Total assets	10,312	41		-	10,353
LIABILITIES					
Current Liabilities					
Trade and other payables	(3069)		172	465	(2,432)
Current tax liability	-			(465)	(465)
Total current liabilities	(3,069)		172	-	(2,897)
Net assets	7,243	41	172	-	7,456
EQUITY					
Capital and reserves					
Issued capital	863				863
Share premium account	592				592
Capital redemption reserve	43				43
Retained earnings	5,745	41	172		5,958
Total equity attributable to equity holders of the parent	7,243	41	172		7,456

(a) and (b) see appendix 3a

**Reconciliation of balance sheet
As at 1 July 2004**

	UK GAAP £'000	IFRS ADJUSTMENTS			IFRS £'000
		Share- Based Payments (a) £'000	Dividends (b) £'000	Reclassification (c) £'000	
ASSETS					
Non current assets					
Property, plant and equipment	676				676
Deferred tax assets	-	13		50	63
	676	13		50	739
Current assets					
Trade and other receivables	3,197			(50)	3,147
Cash and cash equivalents	5,856				5,856
	9,053			(50)	9,003
Total assets	9,729	13		-	9,742
LIABILITIES					
Current Liabilities					
Trade and other payables	(3486)		347	489	(2,650)
Current tax liability	-			(489)	(489)
Total current liabilities	(3,486)		347	-	(3,139)
Net assets	6,243	13	347	-	6,603
EQUITY					
Capital and reserves					
Issued capital	860				860
Share premium account	564				564
Capital redemption reserve	43				43
Retained earnings	4,776	13	347		5,136
Total equity attributable to equity holders of the parent	6,243	13	347		6,603

(a) and (b) see appendix 3a

Special Purpose Audit Report of KPMG Audit Plc to Northern Recruitment Group PLC ('the Company') on its preliminary International Financial Reporting Standards ("IFRS") Financial Information for the year ended 30 June 2005 and on its preliminary opening International Financial Reporting Standards ("IFRS") balance sheet as at 1 July 2004

In accordance with the terms of our engagement letter dated 12 December 2005 we have audited the accompanying consolidated preliminary IFRS balance sheet of Northern Recruitment Group PLC as at 30 June 2005, and the related consolidated statements of income, changes in equity and cash flows for the year then ended and the related accounting policy notes ("the preliminary IFRS financial information") set out on pages 3 - 11.

Also in accordance with the terms of our engagement letter dated 12 December 2005 we have audited the accompanying preliminary opening consolidated IFRS balance sheet and related notes of Northern Recruitment Group PLC as at 1 July 2004 ('the opening IFRS balance sheet') as set out on pages 3-11.

Respective responsibilities of directors and KPMG Audit Plc

The directors of the Company have accepted responsibility for the preparation of the preliminary IFRS financial information and the opening IFRS balance sheet, both of which have been prepared as part of the Company's conversion to IFRS. Our responsibilities, as independent auditors, are established in the United Kingdom by the Auditing Practices Board, our profession's ethical guidance and the terms of our engagement.

Under the terms of engagement we are required to report to you our opinion as to whether the preliminary IFRS financial information and the opening IFRS balance sheet have been properly prepared, in all material respects, in accordance with the basis of preparation to the preliminary IFRS financial information and the opening IFRS balance sheet. We also report to you if, in our opinion, we have not received all the information and explanations we require for our audit.

We read the other information accompanying both the preliminary IFRS financial information and the opening IFRS balance sheet and consider whether it is consistent with the preliminary IFRS financial information and opening IFRS balance sheet. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the preliminary IFRS financial information and with the opening IFRS balance sheet.

Our report has been prepared for the Company solely in connection with the Company's conversion to IFRS.

Our report was designed to meet the agreed requirements of the Company determined by the Company's needs at the time. Our report should not therefore be regarded as suitable to be used or relied on by any party wishing to acquire rights against us other than the Company for any purpose or in any context. Any party other than the Company who chooses to rely on our report (or any part of it) will do so at its own risk. To the fullest extent permitted by law, KPMG Audit Plc will accept no responsibility or liability in respect of our report to any other party.

Basis of audit opinion

We conducted our audit having regard to Auditing Standards issued by the UK Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the preliminary IFRS financial information and in the opening IFRS balance sheet. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the preliminary IFRS financial information and opening IFRS balance sheet, and of whether the accounting policies are appropriate to the Group'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 preliminary IFRS financial information and opening IFRS balance sheet 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 preliminary IFRS financial information and opening IFRS balance sheet.

Emphasis of matters

Without qualifying our opinion, we draw your attention to the following matters:

- The basis of preparation to the preliminary IFRS financial information and opening IFRS balance sheet explains why the accompanying preliminary IFRS financial

information may require adjustment before their use as comparative information in the IFRS financial statements for the year ending 30 June 2006 when the Company prepares its first IFRS financial statements.

- As described in the basis of preparation to the preliminary IFRS financial information, as part of its conversion to IFRSs, the Company has prepared the preliminary IFRS financial information for the year ended 30 June 2005 to establish the financial position, results of operations and cash flows of the Company necessary to provide the comparative financial information expected to be included in the Company's first complete set of IFRS financial statements for the year ending 30 June 2006. The preliminary IFRS financial information and the opening IFRS balance sheet do not themselves include comparative financial information for the prior period.
- In respect of the opening IFRS balance sheet, under IFRS only a complete set of consolidated financial statements comprising a balance sheet, income statement, statement of changes in equity and cash flow statement, together with comparative financial information and explanatory notes, can achieve a fair presentation of the Company's financial position, results of operations and cash flows in accordance with IFRS.
- In accordance with IFRS 1 *First-time Adoption of International Financial Reporting Standards*, no adjustments have been made for any changes in estimates made at the time of approval of the UK Generally Accepted Accounting Practices financial statements on which the preliminary IFRS financial information and the opening IFRS balance sheet are based.
- As permitted by IFRS 1, IAS 32 *Financial Instruments: Disclosure and Presentation* and IAS 39 *Financial Instruments: Recognition and Measurement* have not yet been applied and there has been no related restatement of the opening IFRS balance sheet, the 31 December 2004 balance sheet or the 30 June 2005 balance sheet. Any adjustments that arise from the application of those standards will be shown as an equity movement on 1 July 2005.

Opinion

In our opinion, the accompanying preliminary IFRS financial information for the year ended 30 June 2005 and the opening IFRS balance sheet as at 1 July 2004 have been prepared, in all material respects, in accordance with the basis of preparation on page 3, which describes how IFRS have been applied under IFRS 1, including the assumptions made by the directors of the Company about the standards and interpretations expected to be effective, and the policies expected to be adopted, when they prepare the first complete set of consolidated IFRS financial statements of the Company for the year ending 30 June 2006.

KPMG Audit Plc

Chartered Accountants
Quayside House
110 Quayside
Newcastle-upon-Tyne
NE1 3DX