Annual Report 2008

Northern Recruitment Group plc

NRG

www.nrgplc.com

Contents

Further copies of this report are available on request from our website www.nrgplc.com

Our Services

NRG has been delivering successful recruitment solutions for more than three decades and is the partner of choice for businesses across the private and public sectors. We offer a comprehensive service including permanent recruitment, temporary and interim staffing, managed services solutions, part process, or end-to-end outsourced process.

Our specialist divisions are adept at matching clients and candidates making it easy for people to find the right job and employers to find the right skills. Our focussed teams use their expertise to fulfil clients' recruitment needs, whether filling a single vital role, delivering a high volume recruitment exercise or managing the outsourced recruitment in its entirety.

The common thread: integrity, expertise, agility, efficiency and value for money.

Our Services

NRG PROFESSIONAL SERVICES GROUP

Our Professional Services Group is a major division of NRG. Utilising our extensive database combined with the latest web technology we source the very best candidates for our clients, quickly and efficiently.

We provide professional candidates across a wide range of sectors for permanent and interim roles but specialise in the following:

- Finance
- Engineering and Technical
- Scientific
- Information Technology
- Human Resources

NRG EXECUTIVE

Our executive search and selection practice focuses on board level and senior appointments in both public and private sectors. Working on a retained or exclusive basis, our in-depth search experience allied to industry and public sector expertise offers clients and candidates an unrivalled service: targeted, fast and discreet.

NRG CITY

Specialising in professional support staff for businesses, from receptionists, administration and clerical support to Executive PAs and much more in between!

NRG City provides a responsive, energetic service in sourcing temporary staffing for emergency cover and planned absences and an efficient seamless service in sourcing permanent staffing.

Clients are fully supported through the service delivery, including an interview support process and professional aftercare once candidates are appointed and in post. City offices are prominent in high street locations, with ease of access for clients and candidates. Guaranteed bookings, early morning emergency service cover and accessibility to expertly interviewed candidates ensures client confidence, while candidates are assured of a team of professionals interested in them, offering out of hours interviewing, regular contact and free skills training.

Our specialities include the education, health service, science and technology sectors as well as local and national government and not-for-profit appointments. Our experienced team can handle the most difficult briefs such as executive teams for start-ups, chairman and board for public sector organisations or non-executive directors with that rare skill-set to provide the perfect client match.

NRG PUBLIC SECTOR

NRG Public Sector handles a wide range of assignments from nationwide volume contracts to both executive and non-executive appointments for national, regional and local government bodies, and not-for-profit organisations in areas such as higher education, social housing and health. The business is also well-equipped to meet the growing demand for highly experienced professionals to fill interim and contractor positions.

TOTALNRG

TOTALNRG is a consortium formed from the best regional recruitment companies to provide a national recruitment solution. The consortium, led by NRG, incorporates strong regional businesses operating to industry best practice, leaders in their respective regions and markets, energetic and entrepreneurial in their approach.

Regional businesses place high emphasis on customer care, delivering innovative solutions, meeting and exceeding the needs of the customer, offering candidates a high value, professional and highly responsive service. Combining this exceptional level of regional delivery, local market knowledge and offering a model with centralised data support, invoicing, e booking process and robust management information gives clients across the public and private sector an alternative approach to national recruitment solutions.

The consortium has been approved to the Home Office framework contract for the provision of temporary clerical and administration staff across government throughout the UK.

The consortium partners include; NRG, Huntress Search, Gap Personnel, Key Personnel and Grafton Recruitment.

NRG CALL CENTRE SOLUTIONS

NRG Call Centre Solutions serves major contact centre organisations across the UK, providing them with a full spectrum of staff from operators to team leaders and senior call centre management.

We work in partnership with our clients to develop recruitment strategies and processes in line with their operational requirements. Particular care is taken to align our resourcing strategy with our clients' business objectives, not least to ensure the diversity and sustainability of the workforce from their local communities.

NRG WORKS

NRG Works, our flexible resourcing division, provides temporary workers to a wide range of manufacturing, engineering, warehousing and distribution companies where seasonality or peak workloads require labour flexibility. We have a wealth of successful experience in this sector, ranging from projects requiring the supply of hundreds of temporary workers, to filling a single, but vital, short term post. Clients benefit from local knowledge, fast but comprehensive recruitment processes and professional candidate care.

A division of NRG Works - NRG Construction provides skilled workers in the public sector including local authorities, health and education, social housing, on permanent, temporary and freelance basis.

NRG RPO

Recruitment process outsourcing, delivered by expert project management teams, with the technical infrastructure of a 100 seat fully enabled response management centre, experienced sifters and interviewers and a national network of assessors. Clients within the public or private sector have confidence in successful recruitment projects delivered on time, to budget.

Versatility to enable clients to select full or part process recruitment solutions.

- Consultation and diagnostics
- Process design
- Applicant attraction
- Response management
- Application sift
- Assessment centre design and delivery
- Offer management and referencing
- Full candidate administration and management
- Comprehensive MI
- On boarding

How do you measure the success of RPO?

- Visibility of expenditure
- Reduced operating costs
- Improved productivity
- Shorter time to hire, and less business downtime
- Better experience for the hiring managers
- Better experience for candidates
- Improved calibre of candidates
- Improvement in the recruitment funnel ratios
- Better flexibility in the resourcing model to allow for contingency
- Overall reductions in cost per hire
- Improved diversity
- Enhanced market intelligence and technical expertise
- Improved brand awareness in the candidate market
- Improved retention

These are just some of the reasons NRG has been delivering successful recruitment solutions for more than three decades and is the partner of choice for businesses across the private and public sectors, whether in delivering managed services solutions, part process, temporary and permanent staffing or end-to-end outsourced process. Several recent case studies follow overleaf.

Just some of what we do…

Scottish Water

Scottish Water approached NRG with the specific aim of sourcing a solution to their need for effective management and leadership professionals within their growing asset management function. Investigation of availability in the market place resulted in a strategic decision to recruit graduates into a structured programme that would grow the next generation of Asset Managers.

The initial first year success of the 2007 Graduate intake has made a significant impact on Scottish Water's management development and growth plans. Resulting in a decision in 2008 to use the same recruitment and selection template to introduce a further 10 Asset Management Graduates and 5 Management Trainee Graduates to join the ongoing Graduate Trainee Programme.

The 2008 template was created thorough investigation of Scottish Water's requirements. NRG designed and created an attraction strategy and recruitment process that essentially:

- Gained management buy in to implementing a structured recruitment plan and commitment to an assessment centre selection process
- Gained management commitment to a two year structured training and development program
- Gained the attention of quality graduates who chose Scottish Water as their first preference of employer, graduate scheme and career path
- Evidenced reduced risk and cost of selecting the wrong people
- Produced an outcome that exceeded expectation of numbers and quality

The recruitment cycle was managed by NRG staff with the involvement and support of Scottish Water Managers during the assessment centre and as one half of an interview panel of two. Management involvement was key to the perception of the candidates and the level of confidence in the appointment being an excellent quality and fit for purpose.

- A creative media and web advertising campaign reached new and recent relevant graduates who have a strong desire to be successfully appointed to the right graduate programme for their career aspirations and plans
- Thorough application first stage sift process evidencing minimum criteria, key competencies in line with generic competency framework and technical ability
- Verification of first stage sifted candidates through a structured telephone interview to ensure a good understanding of the role and employer, as well as their demonstration of enthusiasm and commitment to progress through the selection process and to the graduate scheme
- Completion of SHL Graduate norm Numeric and Verbal Reasoning (new to 2008)
- An Assessment Centre, projecting a highly professional image of Scottish Water as an employer and enabling candidates to demonstrate a range of abilities and competency in leadership skills

At the final selection and review meeting all stakeholders indicated a high level of satisfaction in the recruitment process, the effectiveness of the Assessment Centre process and relaxed style. Together with a successful first quarter of the graduates in post a decision has been made to continue the scheme on an annual basis across all Scottish Water functions.

This years recruitment attracted an increased number of candidates interested in this now highly sort after graduate programme. The assessment centre has generated 10 Asset Management Graduates and 5 Management Trainee Graduates who will commence the programme on 3rd November 08.

npower

Since March 2004, NRG has been working in partnership with npower in providing full end-to-end recruitment and selection services in the recruitment of Team Managers, Customer Service Advisors and Customer Administration Advisors for their Customer Contact Centres and back office operations, covering six sites. NRG provides npower with a fully dedicated Account Team, supported by the Central Resource Unit.

The Support Unit is managed by our Divisional Manager and its role is to support the whole end-to-end process. This includes managing candidates from initial application, either by web or telephone, and continuing personal contact with candidates throughout the whole recruitment process, then working with npower, post placement, through to successful completion and sign off at the end of the twelve week induction period.

The Account Team structure enables flexibility with the resource to support any changes in business needs as and when required. The whole team is fully trained in npower's recruitment and selection process to ensure full compliance. Part of the team's training also includes site visits and Assessment Centre shadowing to broaden understanding of npower's business requirements. By implementing a robust recruitment and selection process we have been able to achieve a 4:1 attraction to offer ratio and have contributed to an overall improvement in employee retention levels.

In our partnership to date we have fully supported npower initiatives including developing attraction strategies to recruit people from a wide range of backgrounds and experience. We have created and managed award winning attraction campaigns which ensure we lead the way within the candidate market, essential in delivering the recruitment needs of the business and ultimately supporting business objectives. We have placed close to 4,000 permanent Customer Advisors to npower's Customer Contact Centres and Administration Centres.

To complement npower's recruitment strategy we have managed the recruitment and selection process for specialist roles for their Contact Centre operations, which includes Recruitment Co-ordinators, Senior trainers, Dialler Managers and Contact Centre Managers to date.

We have demonstrated cost efficiencies by working in partnership to get the best return on investment from the attraction budget and saving npower approximately 26% this year alone.

Julie Jaglowski, Head of Customer Services at npower, says 'We have been delighted with our partnership with NRG over the years and they have played a key role in helping us undertake a major overhaul of our recruitment activity, leading to real business benefits'.

More of what we do...

Accuread

AccuRead is entirely dedicated to the provision of metering data management and support services and operates on behalf of organisations across the Utility Industry.

Wholly owned by Global Solutions Limited.

AccuRead was formed in 1996, and has become the largest company of its type in the UK, visiting over 55 million properties each year on behalf of Gas, Electricity and Water Suppliers. The distinctive brand of AccuRead has become well known in the community and their key strengths are in their experienced and competent workforce, total national geographical coverage and highly proficient technical systems.

Following a highly successful 12 month contract to supply temporary staff to their Head Office in Killingworth AccuRead have decided to renew this on a sole supply basis. Over the last 12 months NRG have delivered on average 130 temporary staff every week to AccuRead, working to high service level KPI's which include high retention rates and attrition monitoring. We have successfully transferred over 20 agents to permanent employment with AccuRead over the last 12 months which supports our attraction activities and promotes long term retention of temporary staff.

AccuRead will be moving to new larger premises in the winter of 2008, to new state of the art offices at Cobalt Business Park. As a result of this NRG will be able to provide AccuRead with a dedicated on site Account Team which will enable further service enhancement and strengthen our working partnership.

Cummins

Over the last 12 months NRG has developed a range of recruitment services for Cummins Engines, improving and expanding the already successful consultancy based permanent recruitment service, and using the same processes to ensure that the flexible temporary workforce, of which 200 workers have been recruited, mirror the skills and calibre of the permanent workforce.

A complete recruitment solution for temporary and permanent positions, as well as independent assessment of internal and external applicants, is now in place.

NRG has created and delivered numerous tailored recruitment services designed to match the requirements of this leading engine manufacturer. These campaigns have resulted in the placement of over 300 permanent production operators and material handlers, through an assessment process which includes advertising campaign management, and a selection process which involves a competency based interview, written tests, manual dexterity tests, medical assessment, and referencing. The same process has been followed for the recruitment of a temporary workforce which was further supported by NRG with an on-site account management team. As testament to the success of this process, and to the calibre of the temporary workers, Cummins have transferred all workers to employed status.

Furthermore, as Cummins' recruitment partner NRG has successfully delivered assessment centres designed around key competencies outlined by Cummins and involving ability testing, team work events, role-plays, written assessments, practical exercises and presentations, final stage competency based interviews and candidate development feedback, for both internal and external applicants. Due to the success of this process NRG has replicated the multi-stage assessment centre approach for the recruitment of team leaders and technicians, assessing both internal and external applicants.

Chairman's & Chief Executive's Statement

The results for the year are close to those we anticipated at the time of our trading statement in May with profit before tax at £1.2m from sales revenue of £19.9m. Sales revenue in 2007 was £22.3m with profit before tax of £2.0m.

Gross profit from the delivery of temporary staff dipped by 4.3 per cent, whilst gross profit from our core permanent recruitment business was at the same level as last year. As we reported at the half year our NRG Connect national response handling unit had a dearth of high volume contracts, and its gross profit for the year was down by £0.7m. Total gross profit was therefore £6.7m compared to £7.6m in 2007.

Results

Revenues in the year ended 30 June 2008 were split as to £15.8m (2007: £17.4m) from temporary placements, £4.0m (2007: £4.0m) from core permanent recruitment operations and £0.1m (2007: £0.8m) from NRG Connect.

Gross profit of £6.7m (2007: £7.6m) represented a gross margin of 33.7 per cent (2007: 33.9 per cent). Administrative expenses were unchanged at £5.8m (2007: £5.8m). Payroll costs within administrative expenses remain the Company's most significant cost. In total they rose from £3.9m in 2007 to £4.1m this year.

Operating profit was £0.9m (2007: £1.8m), while financial income was £0.3m compared to £0.2m last year. In consequence, profit before tax was £1.2m (2007: £2.0 million).

Income tax for the year was £0.4m (2007: £0.6m). The effective tax rate is 31.2 per cent (2007: 30.5 per cent).

Diluted earnings per share were 4.7 pence (2007: 8.1 pence).

Finances

Cash balances at year end were £3.9m compared to £5.3m at the end of the previous year, a cash outflow of £1.4m. However, this outflow was after dividend payments of £1.3m (2007: £1.3m) and share buy backs of £0.8m (2007: nil), together totalling £2.1m (2007: £1.3m).

Capital structure and dividend

The Board's first priority for the Company's free cash flow is to finance the development of the business. Thereafter the Board seeks to strike a balance between a progressive dividend policy broadly reflecting growth in earnings per share over the medium term and share buy backs when it considers this to be in the interest of shareholders. In the second half of the year, the Company paid an interim dividend of 2.5p (2007: 2.5p) at a cost of £0.4m and bought back 1.7m shares at a cost of £0.8m (2007: nil). In view of the results for the full year the Board does not recommend a final dividend (2007: 5p). The interim dividend and share buy backs together bring the total return to shareholders in 2008 to £1.2m compared with £1.3m from dividends in 2007.

Trading highlights

In our core permanent recruitment business **NRG Executive** showed good growth in revenues and gross profit compared to last year. **Professional Services Group** also grew during the year through **Finance**, **Scientific** and **IT**. In more difficult markets **Call Centre Solutions** and **NRG Works** were somewhat weaker than the previous year so that overall core permanent fees were £4.0m, the same as 2007. As noted above and signalled at the half year revenues from **NRG Connect** were just £0.1m (2007: £0.8m) due to a lack of high volume projects. We have repositioned this unit as **NRGRPO** (Recruitment Process Outsourcing) with a wider range of recruitment services. **TotalNRG** our consortium model, whilst proving a robust and efficient model for delivering staff throughout the UK, had low volumes compared to our early hopes.

Gross profit from temporary placements was down by 4.3 per cent or £0.1m. In contrast to our experience in the permanent sector, **Call Centre Solutions** showed good growth, broadening its client base with new accounts in the financial services sector but **Works** and **NRG City** were down against last year. The gross profit contribution from the delivery of temporary staff into the **Professional Services** sector increased compared to last year.

Our Tees Valley operation was expanded during the year with new premises, an increase in headcount, a strengthened Technical team and a recently appointed Business Manager. There is still scope for improvement in the returns from our Scottish branches but we continue to deliver good service and as a result entered into a new contract with a major existing client.

People

We have continued to strengthen the business through training, development, promotion and external recruitment. The Board is grateful for the continuing efforts of every single member of the NRG team in all parts of the Group.

Outlook

As with the UK economy as a whole, the recruitment sector seems unlikely to show much growth in the short term. NRG has been in business for more than 30 years and has considerable experience of weathering such conditions successfully. Our business model, with its emphasis on a high level of customer service and tight financial control, is also ideally suited to the current climate. These fundamental strengths give us confidence in the ability of our talented and highly resourceful team to take the business forward.

Leo Finn, Chairman

Lorna Moran

Lorna Moran, Chief Executive

Directors, Secretary and Advisors

Executive Directors

Lorna Moran MBE (Chief Executive)

Lorna Moran, aged 58, founded the Company in 1976 and has been Chief Executive since then.

Therese Liddle (Executive Director)

Therese Liddle, aged 43, joined the Company in 1989 and worked in various senior operational posts prior to her appointment to the Board in 2000.

Wayham Moran (Finance Director)

Wayham Moran, aged 61, joined the Company and was appointed to the Board in 2000 following a long career with Rexam plc including many years as Chief Executive of groups of their packaging subsidiaries.

Non-executive Directors

Leo Finn*

Leo Finn, aged 70, joined the Board and was appointed Chairman in 2004. He is the senior independent director of Bellway plc, a director of Eden Housing Association and a member of the North East Housing Board. He was Chief Executive of Northern Rock plc until March 2001.

Richard Hutton*

Richard Hutton, aged 40, joined the Board in 2005. He is Group Finance Director of Greggs plc. He joined Greggs in 1998, after qualifying as a chartered accountant with KPMG and gaining career experience with Procter & Gamble.

*member of the Audit and Risk, Remuneration and Nomination Committees

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Report of the Directors

The Directors present their Annual Report and the audited financial statements for the year ended 30 June 2008.

BUSINESS AND FINANCIAL REVIEW

Principal activity

The principal activity of the Company continues to be the placing of permanent and contract staff through a network of regional offices in the North East of England, Yorkshire and Scotland, and the management of major recruitment projects nationwide through NRGRPO its 100-seat recruitment processing outsourcing centre in Newcastle upon Tyne.

Financial results

Company sales were £19.9m in 2008 compared to £22.3m in 2007. The fall was a result of lower temporary revenues and a lack of projects at NRG Connect which operates in the permanent volume recruitment sector. As noted in the Chairman's and Chief Executive's Statement, revenues from our other permanent recruitment divisions were similar to last year.

Gross profit, the difference between revenues received and the direct costs of delivery, is a key performance indicator (KPI) for the Company. This fell from £7.6m (34.0 per cent) in 2007 to £6.7m (33.7 per cent) in 2008 mostly due to the lower revenues for NRG Connect. For gross profit on revenues from the supply of temporary workers a further KPI is the percentage margin on sales revenues. In 2008 the percentage was 16.6 per cent, an increase from 15.7 per cent last year, mainly because of the changed mix of business.

Administrative expenses were £5.8m, the same level as last year. Payroll costs are the largest component of the Company's administrative costs. They rose by £0.2m from £3.9m in 2007 to £4.1m this year. The underlying increase was greater as there was a saving of £0.2m on payroll costs related to NRG Connect. As a percentage of gross profit payroll costs rose from 51.8 per cent in 2007 to 61.9 per cent in 2008.

Operating profit as a percentage of gross profit demonstrates a business's operational leverage. In 2007, it was 23.7 per cent but it fell to 13.5 per cent this year because the fall in gross profit was not matched by cuts in our operating costs.

Cash balances were £3.9m at the year end, a reduction of £1.4m. Dividend payments totalled £1.3m. During the year the Company bought back 1,673,925 of its ordinary 5p shares representing 9.6 per cent of its called up share capital at an aggregate cost of £0.8m. These shares are held in treasury. During the year the Company issued 19,000 new shares to satisfy its share option schemes for proceeds of £8,000.

Net assets fell from £6.9m in 2007 to £5.7m at year end 2008.

Income tax for the year as shown in the income statement is £0.4m (2007: £0.6). The effective tax rate is 31.2 per cent (2007: 30.5 per cent). A reconciliation between the standard UK rate which averaged 29.5 per cent in the year and the effective rate is given in note 4.

Earnings per share and diluted earnings per share were 4.7p and compared to 8.1p last year.

Dividends

An interim dividend of 2.5p was paid in March 2008. The Directors do not recommend a final dividend. Other important financial matters and comments on the Company's trading performance are included in the Chairman's and Chief Executive's Statement on pages 8 to 9.

Risks and uncertainties

The Board considers the full range of business risks affecting the Company on a regular basis, and where appropriate takes action to address such risks. The perceived key risks for recruitment and employment companies operating in the UK are detailed below:

Employment and economic outlook in the UK

Job availability and the level of candidates' confidence in the economic outlook are important factors in determining the total number of recruitment transactions in any year. Historically, candidates have been less inclined to change jobs when there is economic uncertainty or the number of jobs available is stagnant or in decline. Thus there is a risk that economic recession or a decline or stagnation of the UK employment market will have a negative impact on the Company's financial performance.

There is generally limited visibility in respect of a decline in rates of recruitment and the Board's strategy when facing such a decline is to seek to grow market share to protect profitability and retain key staff. When necessary the Board will seek to balance the cost base against the perceived future opportunity benefit from the retention of key staff.

Report of the Directors (continued)

Public sector recruitment

A significant proportion of the Company's recruitment operations is related to the public sector. A reduction in public sector expenditure may have a negative impact on the Company's financial performance. However, much of the Company's work in this area has been related to changes in the delivery of public services rather than an increase in overall public sector employment; this trend may continue even if there is a decline in overall Government expenditure.

Employment law

The Company places a significant number of candidates on short term employment contracts. Any future employment legislation which has the effect of restricting the flexibility of movement of workers could have a detrimental effect on the Company's financial performance.

Payment of creditors

The Company does not operate a defined code of practice regarding the payment of its creditors. All suppliers, other than contractors, have separately negotiated terms of payment. The Company abides by these terms, subject to the provision of adequate documentation for each supply. Creditors days as at 30 June 2008 were an average of 46 (2007: 42) for the Company.

People

NRG is dedicated to providing excellent service to its clients through its people.

The Company's priorities are:

- A safe workplace
- Training and career development
- Recognising and rewarding its people based on merit and the value they bring to customers and the business

  Open communications whilst guarding client and candidate confidentiality. The Company places considerable value on the involvement of its staff and has continued the practice of keeping them informed on matters affecting them as employees and on the various factors affecting the performance of the Company. This is achieved through formal and informal meetings and other means of communication.
- Equality of opportunity

  The Company endorses and promotes the principles of equal employment opportunities. It is the policy of the Company to provide equal opportunities to all qualified individuals and to ensure that all employment decisions are made, subject to legal obligations, on a non-discriminatory basis.

  Applications for employment by persons with disabilities are fully considered, bearing in mind the aptitudes of the applicants concerned. In the event of members of staff becoming disabled every effort is made to ensure that their employment with the Company continues and that appropriate training is arranged. It is the policy of the Company that the training, career development and promotion of disabled persons should, as far as possible, be identical to that of other employees.
- People policies that incorporate best practice for a business our size as well as the requirements of the law.

Environment

Given the nature of its business, the Company believes that its activities have little impact on the environment. Nevertheless the Company takes its environmental responsibility very seriously and aims to adopt good practice for a business of its size, including measurement and targeted improvements.

Social responsibility

NRG has a history of supporting regional organisations through pro bono work, donating the time and skills of its people to projects that benefit its local communities. Additionally it has invested £50,000 in the North East Enterprise Bond (NEEB) over a five-year period and has forgone capital growth and interest income on the money. NEEB invests the interest from all investments in local community projects to regenerate social, economic and intellectual capital. NRG will continue to support this in future years.

NRG's people, and often their families and friends, volunteer their time, and the Company provides the facilities, to help charitable projects.

Directors and their interests

The Directors who served during the year and their interests in the issued share capital of the Company at 30 June 2008 are as follows:

	At 30 June 2008		At 30 June 2007	
	Ordinary Shares	Ordinary Share Options	Ordinary Shares	Ordinary Share Options
CL Moran	8,905,828	–	8,905,828	–
MT Liddle	79,235	178,000	79,235	178,000
WH Moran	45,000	77,100	45,000	77,100
L Finn	14,600	–	14,600	–
R J Hutton	7,300	–	7,300	–

There were no changes in Directors' interests in the period between 30 June and 12 September 2008.

Details of the options granted by the Company to the Directors are set out in the Remuneration Report.

Substantial interests

The Company has been advised that Jupiter Asset Management Limited has a non-beneficial interest of 18.6 per cent of the Company's ordinary share capital. Other than this, and the shareholders noted under Directors' and their interests, the Company has not been notified of any other shareholders with a beneficial interest of 3 per cent or more or a non-beneficial interest of 10 per cent or more of the Company's ordinary share capital at 12 September 2008.

Charitable and political contributions

The Company made contributions of £2,780 to charities. No political contributions were made.

Other matters

Details of the Company's share capital structure are shown in Note 13 to the Accounts.

The Company's Annual General Meeting is required to be held before 31 December 2008. The meeting will be convened and the proposed business to be transacted at the meeting will be circulated to members by separate notice of meeting in due course.

Disclosure of information to auditors

The directors who held office at the date of approval of this directors' report confirm that, so far as they are each aware, there is no relevant audit information of which the Company's auditors are unaware; and each director has taken all the steps that they ought to have taken as a director 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
Wayham Moran
56 Grey Street
Newcastle upon Tyne
NE1 6AH
Company Secretary

12 September 2008

Corporate Governance

The Company has a policy of seeking to comply with established best practice appropriate to its size in the field of corporate governance.

Throughout the year to 30 June 2008, the Company complied with the principles of governance set out in Section 1 of the Combined Code on Corporate Governance ('the Code') updated by the Financial Reporting Council in June 2006 except for the following matters:

Code provision A3: the Code does not consider the Chairman to be independent. As noted under 'Directors and Directors' independence' below, the Board considers the Chairman to be independent.

Code provision A3.3: The Board has not appointed a Senior Independent Director. The Board includes two independent non-executive Directors of whom one is the Chairman. As a result the Board believes that to appoint the only other independent non-executive as "Senior Independent Non-Executive Director" would be gratuitous.

Code provisions A4.1, B2.1 and C3.1: the Code requires that the majority of members of the nomination, remuneration and audit committees should be independent non-executive Directors. As noted above, the Code does not consider the Chairman to be independent.

Board of Directors

The Company is controlled through its Board of Directors. The Board's main roles are to create value to shareholders, to provide entrepreneurial leadership of the Company, to approve the Company's strategic objectives and to ensure that the necessary financial and other resources are made available to enable them to meet those objectives. The Board, which meets at least five times a year, has a schedule of matters reserved for its approval.

The specific responsibilities reserved to the Board include: setting Company strategy and approving an annual budget and medium-term projections; reviewing operational and financial performance; approving major acquisitions, divestments and capital expenditure; reviewing the Company's systems of financial control and risk management; ensuring that appropriate management development and succession plans are in place; reviewing the environmental, health and safety performance of the Company; approving appointments to the Board and the Company Secretary; approving policies relating to Directors remuneration and the severance of Directors' contracts; and ensuring that a satisfactory dialogue takes place with shareholders.

The Board has delegated the following responsibilities to the Executive Management Committee: the development and recommendation of strategic plans for consideration by the Board that reflect the longer term objectives and priorities established by the Board; implementation of the strategies and policies of the Company as determined by the Board; monitoring of the operating and financial results against plans and budgets; monitoring the quality of the investment process against objectives; prioritising the allocation of capital, technical and human resources; monitoring the composition and terms of reference of divisional management committees; and developing and implementing risk management systems.

The roles of Chairman and Chief Executive

The division of responsibilities between the Chairman of the Board, Leo Finn, and the Chief Executive, Lorna Moran, is clearly defined and has been approved by the Board.

The Chairman leads the Board in the determination of its strategy and in the achievement of its objectives. The Chairman is responsible for organising the business of the Board, ensuring its effectiveness and setting its agenda. The Chairman has no involvement in the day to day business of the Company. The Chairman facilitates the effective contribution of non-executive Directors and constructive relations between executive and non-executive Directors, ensures Directors receive accurate, timely and clear information and effective communication with shareholders.

The Chief Executive has direct charge of the Company on a day to day basis and is accountable to the Board for the financial and operational performance of the Company.

Non-executive Director

Whilst the Board feels that there is no sense in formally appointing a senior independent Director for a business of our size, Richard Hutton, a non-executive Director is always available to hold discussions with shareholders on request should any concerns not be resolved through existing mechanisms for investor communication.

Directors and Directors' independence

The Board currently comprises the Chairman, one other non-executive Director and three executive Directors. The names of the Directors together with their biographical details are set out on page 10 which also shows their length of service for the period under review. The Board considers the Chairman and the non-executive director to be independent in character and judgment. These two independent non-executive Directors, who constructively challenge and help develop proposals on strategy, bring strong, independent judgment, knowledge, and experience to the Board's deliberations. The independent Directors are of sufficient calibre and number that their views carry significant weight in the Board's decision making.

The Directors are given access to independent professional advice at the Company's expense, when the Directors deem it necessary for them to carry out their responsibilities.

Details of the Chairman's professional commitments are included in the Chairman's biography. The Chairman does perform a number of pro-bono roles but the Board is satisfied that these are not such as to interfere with the performance of the Chairman's duties of the Company which are based around a commitment of approximately 8 days per annum.

No non-executive Director:

- has been an employee of the Company within the last five years;
- has, or has had within the last three years, a material business relationship with the Company;
- receives remuneration other than a Director's fee;
- has close family ties with any of the Company's advisers, Directors or senior employees;
- holds cross-Directorships or has significant links with other Directors through involvement in other companies or bodies; or
- represents a significant shareholder; or
- has served on the Board for more than nine years.

Professional development

On appointment, the Directors take part in an induction programme when they receive information about the Company, the role of the Board and the matters reserved for its decision, the terms of reference and membership of the principal Board and management committees, and the powers delegated to those committees, the Company's corporate governance practices and procedures, including the powers reserved to the Company's most senior executives, and the latest financial information about the Company. Throughout their period in office the Directors are continually updated on the Company's business, the competitive and regulatory environments in which it operates, corporate social responsibility matters and other changes affecting the Company and the industry it operates in as a whole, by written briefings and meetings with senior executives. Directors are also advised on appointment of their legal and other duties and obligations as a Director of a listed company, both in writing and in face-to-face meetings with the Secretary. They are reminded of these duties each year and they are also updated on changes to the legal and governance requirements of the Company and upon themselves as Directors.

Performance evaluation

Performance evaluation: during the year, an evaluation process of the performance of the Board and of its committees was carried out, led by the Chairman, Leo Finn. The process consisted of a formal, detailed questionnaire updated by each Director, followed by Board and Committee meetings to discuss the results. As a result of this process, the Chairman was satisfied that each of the Directors continued to demonstrate a commitment to their role and in particular to devote adequate time to properly carry out their duties as a member of the Board and Board committees.

The Board carried out a similar evaluation of the performance of the Chairman and was satisfied with his commitment and devotion of adequate time to his duties.

Re-election

Subject to the Company's Articles of Association, the Companies Acts and satisfactory performance, non-executive Directors are appointed for an initial period of three years. Before the third and sixth anniversary of the non-executive Directors' first appointment, the Directors will discuss with the Board whether it is appropriate for a further three year term to be served. The reappointment of Directors who have served for more than nine years will be subject to annual review. Directors appointed during the year seek election at the first AGM following their appointment.

The Company Secretary

The Company Secretary is responsible for advising the Board through the Chairman on all governance matters. The Directors have access to the advice and services of the Company Secretary. The Company's Articles of Association and the schedule of matters reserved to the Board for decision provide that the appointment and removal of the Company Secretary is a matter for the full Board.

Information

Regular reports and papers are circulated to the Directors in a timely manner in preparation for Board and Committee meetings. These papers are supplemented by information specifically requested by the Directors from time to time.

The non-executive Directors receive annual budgets, monthly management accounts and management reports which enable them to scrutinise the Company's and management's performance against agreed objectives.

Corporate Governance (continued)

Relationship with shareholders

The Board considers that its procedures with regard to shareholder relationships are appropriate to the Company's size. There is twice yearly feedback to the Board on meetings between executive Directors and investors. Major investors are encouraged to raise any issues directly with the Chairman who will give feedback to the Board. The Annual General Meeting is normally attended by all Directors, and shareholders are invited to ask questions during the meeting and to meet with Directors after the formal proceedings have ended.

The Company maintains a corporate website, www.nrgplc.com, containing a range of information of interest to institutional and private investors and providing a means of shareholders contacting the Chairman. The Company has discussions with institutional shareholders on a range of issues affecting its performance. These include meetings following the announcement of the annual results with the Company's largest institutional shareholders on an individual basis. In addition, the Company responds to individual ad hoc requests for discussions from institutional shareholders. The Chairman is available to shareholders if they have concerns which contact through the normal channels of Chief Executive or Finance Director has failed to resolve or for which such contact is inappropriate. All shareholders, including private investors, have an opportunity to put questions to members of the Board on matters relating to the Company's operation and performance at the AGM. At the AGM, the balance of proxy votes cast for and against each resolution and the number of abstentions is displayed. All substantial issues, including the receipt of the Annual Report and accounts, are proposed at the AGM as separate resolutions.

Internal control

The Board acknowledges that it is ultimately responsible for the Company's system of internal control and for reviewing its effectiveness. The Board conducts a review of business risks and has implemented procedures to allow the Directors to monitor these risks on a regular basis. Such a system is designed to manage rather than eliminate the risks of failure to achieve key business objectives. There are inherent limitations in any system of internal control and accordingly even the most effective system can only provide reasonable, and not absolute, assurance against material misstatement or loss.

Detailed reviews of the performance and financial position of the Company are included in the Chairman's and Chief Executive's Statement. The Board uses this, together with the Business and Financial Review and the Report of the Directors, to present a balanced and understandable assessment of the Company's position and prospects. The Directors' responsibility for the accounts is described on page 22.

The main features of the Company's risk management activities are as follows:

A. Assessment of business risks

- Risk assessment and evaluation of controls is an integral part of the Company's management process.
- Significant business risks are evaluated and reported to the Board as part of the management information provided monthly.
- In addition, there is a formal review of business risks by the Board at least once a year.

B. Financial control

- Preparation of a detailed, annual budget which is approved by the Board.
- Consideration and review by the Board of monthly management accounts with actual results being monitored against budget and prior year results.
- Comprehensive accounting policies.
- Clearly defined limits of delegated authority in the Company covering both revenue and capital items.
- On behalf of the Board, the Audit Committee reviews the interim results and annual financial statements along with the nature and scope of the external audit. Action is taken to ensure that any significant findings or identified risks are dealt with.
- The Board conducts a review of the operation and effectiveness of the risk management framework at least annually.

The Board has performed an annual review of the need for an internal audit function and does not believe that one is required for a Company of this size and complexity.

The Board has conducted an annual review of the effectiveness of the system of internal financial control for the year ended 30 June 2008.

Going concern

After making appropriate enquires, the Directors have formed the view, at the time of approving the financial statements, that there is a reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future. For this reason, the Directors continue to adopt the going concern basis in preparing the financial statements.

Board committees

Each Director attended all full Board meetings and each non-executive director attended all Committee meetings which took place in the year as follows:

	Scheduled Board Meetings	Nomination Committee Meetings	Remuneration Committee Meetings	Audit & Risk Committee Meetings
L Finn	6	1	3	3
R J Hutton	6	1	3	3
C L Moran	6	n/a	n/a	n/a
M T Liddle	6	n/a	n/a	n/a
W H Moran	6	n/a	n/a	n/a

Nomination Committee

The Nomination Committee has two members. During the year Leo Finn and Richard Hutton served as members of the Committee. Leo Finn acts as Chairman of the Committee. The Nomination Committee considers the mix of skills and experiences that the Board requires and seeks the appointment of Directors to meet its assessment of what is required to ensure that the Board is effective in discharging its responsibilities. The Committee reviews the time that it believes a non-executive Director would normally be required to commit to his or her duties including serving on the Board's Committees, and considers whether this is sufficient to enable Directors to carry out their role. Details of these time commitments have been included in individual non-executive Directors' letters of appointment.

Remuneration Committee

The Remuneration Committee has two members. During the year Leo Finn and Richard Hutton served as members of the Remuneration Committee, with the former as Chairman. The Board consider that both members of the Committee are independent non-executive Directors. The Remuneration Committee met three times during the year; when necessary non-committee members were invited to attend.

The Committee's principal responsibilities are:

- setting, reviewing and approving individual remuneration packages for executive Directors including terms and conditions of employment and any changes to the packages;
- approving the rules of any Company share or share option scheme and the grant, award, allocation or issue of shares or share options under such scheme.

The Audit and Risk Committee

There are two members of the Audit and Risk Committee. During the year Richard Hutton and Leo Finn served as members of the Committee, with the latter as Chairman. The Board consider that both members of the Committee are independent non-executive Directors. The Audit Committee met three times during the year.

The Board considers that both members of the Committee possess what the Smith Report describes as recent and relevant experience. Leo Finn was Chief Executive of Northern Rock plc until March 2001, was Chairman of the Audit Committee of the Northern Rock Foundation from 2002 to 2004 and has been a member of the Audit Committee of Bellway plc since 1995.

Richard Hutton, a qualified chartered accountant, is Group Finance Director of Greggs plc.

Under its terms of reference, the Audit and Risk Committee monitors the integrity of the Company's financial statements and any formal announcements relating to the Company's performance. The Committee is responsible for monitoring the effectiveness of the external audit process and making recommendations to the Board in relation to the appointment, re-appointment and remuneration of the external auditor. It is responsible for ensuring that an appropriate relationship between the Company and the external auditors is maintained, including reviewing non-audit services and fees. It also reviews annually the Company's systems of internal control and the processes for monitoring and evaluating the risks facing the Company. It annually reviews the need for an internal audit function for the Company. At present, the

Committee considers that there is no need for an internal audit function for a business of this size and complexity. The Committee regularly reviews its terms of reference and its effectiveness and recommends to the Board any changes required as a result of the review.

The Committee meets with executive Directors and management, as well as privately with the external auditors.

In 2008 the Audit and Risk Committee discharged its responsibilities by:

- reviewing the Company's draft financial statements;
- reviewing the external auditor's detailed reports thereon;
- reviewing the appropriateness of the Company's accounting policies;
- reviewing its terms of reference;
- reviewing the audit fee and reviewing non-audit fees payable to the Company's external auditors; and
- reviewing a bi-annual report on the risks facing the business and the steps taken to minimise risk.

The Audit and Risk Committee also monitors the Company's whistle blowing procedures, ensuring that appropriate arrangements are in place for employees to be able to raise matters of possible impropriety in confidence, with suitable subsequent follow-up action. An alternative reporting channel has been created whereby perceived wrongdoing may be reported via email.

Auditors' independence and objectivity

Except for very minor items, the Audit and Risk Committee is advised in advance of any non-audit services being provided to the Company by its external auditor to check this does not impair their objectivity and in particular to ensure that the auditors should not audit its own firm's work, make management decisions for the Company, have financial interest with the Company, or be put in the role of advocate for the Company.

Details of the amounts paid to the external auditors during the year for audit and other services are set out in the notes to the financial statements on page 33.

Remuneration Report

No Directors are involved in setting their own remuneration.

The Remuneration Committee comprises the two Non-executive Directors and is chaired by Leo Finn. The Committee meets when required to consider all aspects of Executive Directors' remuneration and to determine the specific remuneration packages of the Executive Directors including service contracts, basic annual salaries, bonus schemes, pension contributions, share options and benefits in kind.

The Remuneration Committee seeks to ensure that Executive Directors' remuneration packages are competitive within the recruitment industry and reflect both Company and personal performance during the year, but to avoid paying more than necessary.

Executive Directors' service contracts

It is the Company's policy that the notice period for Executive Directors does not exceed 12 months. Lorna Moran's contract is dated 4th November 1997, Theresa Liddle's is dated 1st July 1995 and Wayham Moran's is dated 7th March 2000. These service contracts are terminable by either party, in respect of Lorna Moran by 12 months notice, in respect of Therese Liddle by 12 months notice and in respect of Wayham Moran by 3 months notice.

Basic salaries

Executive Directors' basic salaries are reviewed annually with adjustments taking account of performance and market trends. The Committee believes that the Company should offer average levels of base pay reflecting individual responsibilities compared with similar jobs. The most recent review was in June 2008 and this led to no change in basic salaries.

Bonus schemes

Bonus arrangements for Executive Directors are reviewed each year and will normally be related to the overall profitability of the business and the Directors' performance. On this basis, the Committee recommended and the Board accepted a bonus for the year of £25,000 payable to Therese Liddle.

Pension arrangements

Executive Directors are entitled to a percentage of their basic annual salary to be paid to a nominated money purchase scheme. Such payments were made in respect of pensions for Therese Liddle and Wayham Moran. There were no changes in the terms of the pension arrangements during the year.

Share option incentives

Share options are reviewed regularly by the Remuneration Committee and may be awarded, as part of the mix within remuneration packages for Executive Directors, based upon personal performance and where appropriate as an incentive to their future commitment. No options were awarded during the year.

Benefits in kind

As with basic salaries, the Remuneration Committee considers that the Company should offer average benefits in kind compared with similar jobs. Therese Liddle has a company car and healthcare insurance for herself and her family. Lorna Moran has healthcare insurance for herself and her family, which includes Wayham Moran.

Non-executive Directors

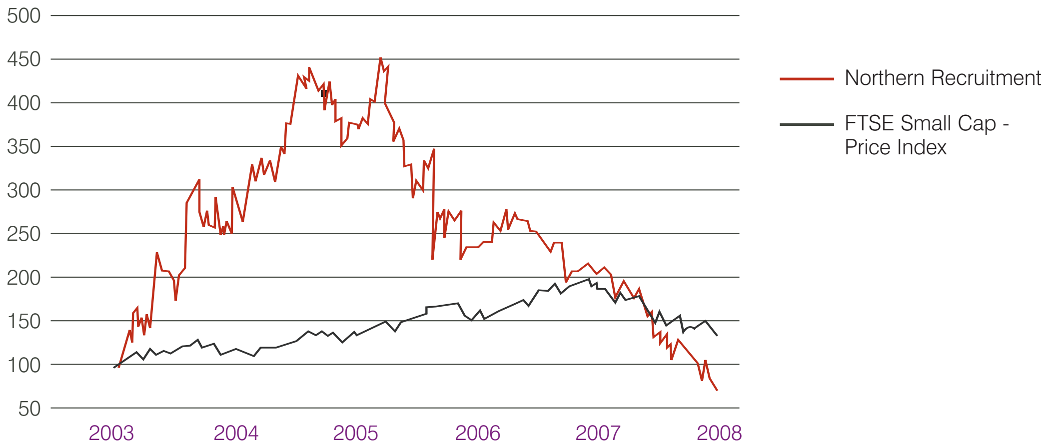
Fees payable to the Non-executive Directors are proposed by the Chief Executive and determined by the full Board.

The Non-executive Directors currently serve under letters of appointment dated 6 August 2004 and 31 January 2005. These letters of appointment are terminable by either party giving not less than three months written notice at any time.

Remuneration Report (continued)

Performance graph

The graph below shows a comparison of the total shareholder return for the Company's shares for each of the last five financial years against the total shareholder return for the Companies comprised in the FTSE Small Cap Index.



This index was chosen for the comparison because it includes companies of broadly similar size to the Company.

Directors' remuneration and share options (audited information)

The remuneration of the Directors in office during the year was £404,000 (2007: £388,000) and is analysed as follows:

	Basic salary/fees £'000	Bonuses £'000	Taxable benefits £'000	2008 Total £'000	2007 Total £'000	2008 Pension contributions £'000	2007 Pension contributions £'000
Executive							
CL Moran	106	–	2	108	105	–	–
MT Liddle	109	25	13	147	142	16	10
WH Moran	82	–	–	82	82	9	7
Non-executive							
L Finn	30	–	–	30	30	–	–
RJ Hutton*	12	–	–	12	12	–	–
	339	25	15	379	371	25	17

Taxable benefits include the taxable value of private medical insurance and company cars.

*The fees for RJ Hutton were paid to Greggs plc.

Pension contributions comprise payments into Directors' personal pension plans and are calculated on basic salary. Retirement benefits are accruing to two (2007: two) Directors under a money purchase pension scheme.

Share options held by Directors under the Company's share option plans at the year end were as follows:

	Number of options at start of year	Number of options granted	Number of options at end of year	Exercise price	Date from which exercisable	Expiry Date
MT Liddle	6,000	–	6000	104.5p	May 2002	May 2009
MT Liddle	100,000	–	100,000	77.5p	Sep 2006	Sep 2013
MT Liddle	72,000	–	72,000	135.5p	Nov 2009	Nov 2016
WH Moran	77,100	–	77,100	131.5p	June 2007	Jun 2014

No share options have been exercised or lapsed during the year ended 30 June 2008.

The range of mid market prices for the year ended 30 June 2008 was 39.0p to 108.5p.

The year end share price was 39p (2007: 106.5p).

Information subject to audit

The remuneration report is not subject to audit except where indicated.

On behalf of the Board

Leo Finn
Chairman of the Remuneration Committee
12 September 2008

Statement of Directors' Responsibilities in Respect of the Annual Report and the Financial Statements

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

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have elected to prepare the financial statements in accordance with IFRSs as adopted by the EU and applicable laws.

The financial statements are required by law to present fairly the financial position and performance of the Company; the Companies Act 1985 provides in relation to such financial statements that references in the relevant part of that Act to financial statements giving a true and fair view are references to their achieving a fair presentation.

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

- select suitable accounting policies and then apply them consistently;
- make judgments and estimates that are reasonable and prudent;
- state whether they have been prepared in accordance with IFRSs as adopted by the EU; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

The directors are responsible for keeping proper accounting records that disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that its financial statements comply with the Companies Act 1985. They have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Company and to prevent and detect fraud and other irregularities.

Under applicable law and regulations, the directors are also responsible for preparing a Directors' Report, Directors' Remuneration Report and Corporate Governance Statement that comply with that law and those regulations.

The directors are responsible for the maintenance and integrity of the corporate and financial information included on the company's website. Legislation in the UK governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Responsibility statement of the Directors in respect of the Annual Report

We, the Directors of the Company, confirm that to the best of our knowledge:

- the financial statements, prepared in accordance with the applicable set of accounting standards, give a true and fair view of the assets, liabilities, financial position and profit and loss of the company; and
- the Directors' Report includes a fair review of the development and performance of the business and the position of the Company, together with a description of the principal risks and uncertainties that face the Company.

By order of the Board

Leo Finn, Chairman

Lorna Moran

Lorna Moran, Chief Executive

Independent Auditors' Report to the Members of Northern Recruitment Group Plc

We have audited the financial statements of Northern Recruitment Group plc for the year ended 30 June 2008 which comprise the Income Statement, the Balance Sheet, the Cash Flow Statement, and the related notes. These financial statements have been prepared under the accounting policies set out therein. We have also audited the information in the Directors' Remuneration Report that is described as having been audited.

This report is made solely to the Company's members, as a body, in accordance with section 235 of the Companies Act 1985. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditors

The directors' responsibilities for preparing the Annual Report, the Directors' Remuneration Report and the financial statements in accordance with applicable law and International Financial Reporting Standards (IFRSs) as adopted by the EU are set out in the Statement of Directors' Responsibilities on page 22.

Our responsibility is to audit the financial statements and the part of the Directors' Remuneration Report to be audited in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

We report to you our opinion as to whether the financial statements give a true and fair view and whether the financial statements and the part of the Directors' Remuneration Report to be audited have been properly prepared in accordance with the Companies Act 1985. We also report to you whether in our opinion the information given in the Directors' Report is consistent with the financial statements. The information given in the Directors' Report includes that information presented in the Chairman's and Chief Executive's Statement that is cross referenced from the Business and Financial Review section of the Directors' Report. We also 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 review whether the Corporate Governance Statement reflects the Company's compliance with the nine provisions of the 2006 Combined Code specified for our review by the Listing Rules of the Financial Services Authority, and we report if it does not. We are not required to consider whether the board's statements on internal control cover all risks and controls, or form an opinion on the effectiveness of the company's corporate governance procedures or its risk and control procedures.

We read the other information contained in the Annual Report and consider whether it is consistent with the audited financial statements. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. Our responsibilities do not extend to any other information.

Basis of audit opinion

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

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

Opinion

In our opinion:

- the financial statements give a true and fair view, in accordance with IFRSs as adopted by the EU, of the state of the Company's affairs as at 30 June 2008 and of its profit for the year then ended;
- the financial statements and the part of the Directors' Remuneration Report to be audited have been properly prepared in accordance with the Companies Act 1985, and
- the information given in the Directors' Report is consistent with the financial statements.

KPMG Audit Plc
Chartered Accountants
Registered Auditor
12 September 2008

Accounts 2008

Income statement

for year ended 30 June 2008

	Note	2008 £000	2007 £000
Revenue	1	19,904	22,336
Cost of sales		(13,204)	(14,751)
Gross profit		6,700	7,585
Administrative expenses		(5,793)	(5,787)
Operating profit	2,3	907	1,798
Financial income		264	238
Profit before tax		1,171	2,036
Income tax expense	4	(365)	(621)
Profit for the year attributable to equity holders of the parent		806	1,415
Basic earnings per share (pence)	5	4.7	8.1
Diluted earnings per share (pence)	5	4.7	8.1

There were no items of income or expense for the current or comparative period other than those reported in the income statement.

Balance sheet

At 30 June 2008

	Note	2008 £000	2007 £000
ASSETS			
Non-current assets			
Property, plant and equipment	6	332	348
Deferred tax assets	8	51	69
		383	417
Current assets			
Trade and other receivables	9	4,171	3,717
Cash and cash equivalents	10	3,877	5,308
		8,048	9,025
Total assets		8,431	9,442
LIABILITIES			
Current liabilities			
Trade and other payables	11	(2,602)	(2,310)
Income tax payable		(170)	(241)
		(2,772)	(2,551)
Total liabilities		(2,772)	(2,551)
Net assets		5,659	6,891
EQUITY			
Share capital and reserves			
Share capital	13	875	874
Share premium	13	726	719
Capital redemption reserve	13	43	43
Retained earnings	13	4,015	5,255
Total equity attributable to equity holders of the parent		5,659	6,891

These financial statements were approved by the board of directors on 12 September 2008 and signed on their behalf by:

Lorna Moran

Director

Cash flow statement

for year ended 30 June 2008

	Note	2008 £000	2007 £000
Cash flows from operating activities			
Profit for the year		806	1,415
Adjusted for:			
Depreciation	6	194	199
Financial income		(264)	(238)
Profit on sale of property, plant and equipment		(21)	(3)
Share-based payment expenses	12	30	18
Taxation	4	365	621
Cash flows from operating activities before working capital movements		1,110	2,012
Increase in trade and other receivables		(454)	(193)
Increase in trade and other payables		293	271
Cash inflow from the operating activities		949	2,090
Income tax paid		(426)	(529)
Net cash inflow from operating activities		523	1,561
Cash flows from investing activities			
Proceeds from sale of property, plant and equipment		21	3
Interest received		264	238
Acquisition of property, plant and equipment	6	(178)	(95)
Net cash inflow from investing activities		107	146
Cash flows from financing activities			
Proceeds from the issue of share capital	13	8	24
Purchase of own shares for treasury	13	(757)	–
Dividends paid	13	(1,312)	(1,311)
Net cash outflow from financing activities		(2,061)	(1,287)
Net (decrease) / increase in cash and cash equivalents		(1,431)	420
Cash and cash equivalents at 1 July 2007		5,308	4,888
Cash and cash equivalents at 30 June 2008	10	3,877	5,308

Notes to the Accounts

(forming part of the financial statements)

Significant accounting policies

Northern Recruitment Group plc ("the Company") is a company incorporated in the UK. The financial statements present information about the Company only. All of the Company's subsidiaries were dormant during the period and have been excluded from consolidation, in accordance with section 229 (2) of the Companies Act 1985, as their inclusion is not considered material for the purpose of giving a true and fair view. As such, group financial statements have not been prepared.

The financial statements were authorised for issue by the directors on 12 September 2008.

(A) Statement of compliance

The Company financial statements have been prepared and approved by the directors in accordance with International Financial Reporting Standards as adopted by the EU ("adopted IFRSs").

(B) Basis of preparation

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

IFRS7 has been applied for the first time in these financial statements resulting in additional disclosure in respect of financial instruments. The application of this standard for the first time has had no material impact on the financial statements.

The preparation of financial information in conformity with IFRSs requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses. The most significant accounting judgement is in respect of the timing and recognition of revenue for permanent placements (see accounting policy (L)).

The 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 year, or in the period of revision and future periods if the revision affects both current and future years.

The accounting policies set out below have, unless otherwise stated been applied consistently to all years presented in these financial statements.

(C) Basis of consolidation

The Company has taken advantage of the exemption permitted by Section 229(2) of the Companies Act 1985 and has excluded all dormant subsidiaries from consolidation. As such group financial statements have not been prepared.

Notes to the Accounts
(continued)

(D) Property, plant and equipment

i. Owned assets

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

ii. Subsequent costs

The Company recognises in the carrying amount of an item of property, plant and equipment the cost of replacing part of such an item when that cost is incurred if it is probable that the future economic benefits embodied with the item will flow to the Company and the cost of the item can be measured reliably. All other costs are recognised in the income statement as an expense as incurred.

iii. 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 depreciation methods, useful lives and residual value(if not insignificant), are reassessed annually.

(E) Investments in subsidiaries

Investments in subsidiaries are carried at cost less impairment (see accounting policy (H)).

(F) Trade and other receivables

Trade and other receivables are stated at their nominal amount (discounted if material) less impairment losses (see accounting policy (H)).

(G) 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 form an integral part of the Company's cash management are included as a component of cash and cash equivalents for the purpose of the statement of cash flows.

(H) Impairment

The carrying amounts of the Company's non financial 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. 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.

(I) Share capital

Ordinary shares are classified as equity.

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 as treasury shares are presented as a deduction from total equity.

ii. Dividends

Final dividends are recognised as a liability in the year in which they are approved by the shareholders. Interim dividends are recognised in the year in which they are approved by the Directors and paid.

(J) Trade and other payables

Trade and other payables are stated at cost.

(K) Employee benefits

i. Defined contribution pension plans

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

ii. Own shares held by ESOP trust

Transactions of the Company-sponsored ESOP trust are included in the Company financial statements. In particular, the trust's purchases of shares in the Company are debited directly to equity.

iii. Share-based payment transactions

The Company operates a number of equity-settled 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.

For options granted before 7 November 2002 the recognition and measurement principles of IFRS 2 have not been applied in accordance with the transitional provisions in IFRS 1. In addition, deferred taxation has not been recognised on these options.

(L) Revenue

Revenue from temporary placements comprises the value of Company services provided to clients in the financial year, including the employment costs of temporary workers on assignment with clients. Revenue from permanent placements, which is based on a percentage of the candidate's remuneration package, is derived from both retained assignments (income recognised on completion of defined stages of work) and non-retained assignments (income recognised at the date an offer is accepted by a candidate and where a start date has been determined). The latter includes revenue anticipated, but not invoiced, at the balance sheet date, which is correspondingly accrued on the balance sheet within prepayments and accrued income. A provision is made against accrued income for possible cancellations of placements prior to, or shortly after, the commencement of employment. All revenue excludes value added tax.

(M) Expenses

i. 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.

ii. 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.

(N) Income tax

Income tax 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 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 balance sheet date.

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 reduced to the extent that it is no longer probable that the related tax benefit will be realised.

(O) Segmental reporting

A segment is a distinguishable component of the Company 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.

(P) IFRSs available for early adoption not yet applied

The following adopted IFRS, which will have an impact for the Company, was available for early adoption but has not been applied in these financial statements:

The revised version of IAS 1 Presentation of Financial Statements issued in September 2007 and applicable for years commencing on or after 1 January 2009.

Its adoption would not have affected the balance sheet or income statement as the standard is concerned only with disclosure.

No other standards available for early adoption currently have any impact for the Company.

1 Segment reporting

Business is the basis of the Company's primary segmentation. The Company operates in one business segment being the provision of recruitment services. As a result no additional business segment information is required to be provided. It operates in one geographical segment, the United Kingdom, and therefore no additional segment information is required to be provided.

2 Expenses and auditors' remuneration

Included in profit are the following:

	2008 £000	2007 £000
Depreciation on owned property, plant and equipment	194	199
Payments under operating leases – property & motor vehicles	351	327
Profit on disposal of fixed assets	21	3
Provision for bad and doubtful debts	8	187
Auditors' remuneration:		
Audit of these financial statements	23	23
Other services related to taxation	4	5

3 Staff numbers and costs

The average number of persons employed by the Company (including directors) during the year, analysed by category, was as follows:

	Number of employees	
	2008	2007
Administration	39	33
Consultancy	95	98
Directors	5	5
	139	136

The aggregate payroll costs of these persons were as follows:

	2008 £000	2007 £000
Wages and salaries	3,641	3,482
Share based payments (See note 12)	30	18
Social security costs	387	363
Other pension costs (See note 12)	88	66
	4,146	3,929

Directors' emoluments are shown in the Directors' remuneration report on pages 19 to 21.

Notes to the Accounts
(continued)

4 Taxation

Recognised in the income statement

	2008 £000	2007 £000
Current tax expense		
Current year	354	613
Adjustments for prior years	–	12
	354	625
Deferred tax expense		
Origination and reversal of temporary differences	11	4
Adjustments for prior years	–	(12)
Effect of tax rate change on opening balance	–	4
	11	(4)
Total tax in income statement	365	621

Reconciliation of effective tax rate

	2008 £000	2007 £000
Profit before tax	1,171	2,036
Tax using the UK average corporation tax rate of 29.5% (2007 30%)	345	611
Non-deductible expenses	16	6
Effect of tax rate change on deferred tax	4	4
Total tax in income statement	365	621

Tax recognised directly in equity

	2008 Income tax £000	2008 Deferred tax £000	2008 Total £000	2007 Total £000
Relating to equity-settled transaction	–	(7)	(7)	(9)

5 Earnings per share

Basic earnings per share

The calculation of basic earnings per share for the year ended 30 June 2008 was based on profit attributable to ordinary shareholders of £806,000 (2007: £1,415,000) and a weighted average number of ordinary shares outstanding during the year ended 30 June 2008 of 17,293,472 (2007: 17,470,448), calculated as follows:

Weighted average number of ordinary shares

	2008 Number	2007 Number
Issued ordinary shares at start of year	17,487,080	17,454,080
Effect of shares issued	9,942	25,743
Effect of own shares held	(203,550)	(9,375)
Weighted average number of ordinary shares during the year	17,293,472	17,470,448

Diluted earnings per share

The calculation of diluted earnings per share for the year ended 30 June 2008 was based on profit attributable to ordinary shareholders of £806,000 (2007: £1,415,000) and a weighted average number of ordinary shares outstanding during the year ended 30 June 2008 of 17,295,279 (2007: 17,550,363), calculated as follows:

Weighted average number of ordinary shares (diluted)

	2008 Number	2007 Number
Weighted average number of ordinary shares during the year	17,293,472	17,470,448
Effect of share options on issue	1,807	79,915
Weighted average number of ordinary shares (diluted) during the year	17,295,279	17,550,363

Notes to the Accounts
(continued)

6 Property, plant and equipment

	Fixtures and Fittings £000	Motor Vehicles £000	Office Equipment £000	Total £000
Cost				
Balance at 1 July 2006	392	265	1,163	1,820
Acquisitions	1	38	56	95
Disposals	(4)	(12)	(92)	(108)
Balance at 30 June 2007	389	291	1,127	1,807
Balance at 1 July 2007	389	291	1,127	1,807
Acquisitions	23	91	64	178
Disposals	–	(84)	–	(84)
Balance at 30 June 2008	412	298	1,191	1,901
Depreciation				
Balance at 1 July 2006	230	164	974	1,368
Depreciation charge for the year	43	53	103	199
Disposals	(4)	(12)	(92)	(108)
Balance at 30 June 2007	269	205	985	1,459
Balance at 1 July 2007	269	205	985	1,459
Depreciation charge for the year	43	61	90	194
Disposals	–	(84)	–	(84)
Balance at 30 June 2008	312	182	1,075	1,569
Net book value				
At 1 July 2006	162	101	189	452
At 30 June 2007 and 1 July 2007	120	86	142	348
At 30 June 2008	100	116	116	332

7 Fixed asset investments

As at 30 June 2008 the Company held 100% of the issued share capital of the following companies:

	Country of Registration	Principal Activity
KFJ Holdings Limited	Scotland	Dormant
KFJ Resourcing Limited*	Scotland	Dormant
KFJ Call Centre Solutions Limited*	Scotland	Dormant
Geordie Job Finders Limited	England	Dormant
Northern Accountancy Appointments Limited	England	Dormant
Northern Recruitment Group LTIP Trustee Company Limited	England	Dormant

* The interests in the above subsidiary undertakings are held indirectly.

8 Deferred tax assets and liabilities

Recognised deferred tax assets and liabilities

Deferred tax assets and liabilities are attributable to the following:

	Assets		Liabilities		Net	
	2008 £000	2007 £000	2008 £000	2007 £000	2008 £000	2007 £000
Property, plant and equipment	51	52	–	–	51	52
Employee benefits	–	17	–	–	–	17
Net tax assets	51	69	–	–	51	69

Movement in deferred tax during the year

	1 July 2007 £000	Recognised in income £000	Recognised in equity £000	30 June 2008 £000
Property, plant and equipment	52	(1)	–	51
Employee benefits	17	(10)	(7)	–
	69	(11)	(7)	51

Movement in deferred tax during the prior year

	1 July 2006 £000	Recognised in income £000	Recognised in equity £000	30 June 2007 £000
Property, plant and equipment	48	4	–	52
Employee benefits	25	–	(8)	17
	73	4	(8)	69

On 27th June 2007, the corporation tax rate change was substantially enacted, with corporation tax to be reduced from 30% to 28% from 1 April 2008. Therefore all deferred tax balances that are expected to be realised after this date have been calculated based on this new rate.

Notes to the Accounts

(continued)

9 Trade and other receivables

	2008 £000	2007 £000
Trade receivables	2,929	2,632
Other trade receivables and prepayments	1,242	1,085
	4,171	3,717

Included within trade and other receivables is £50,000 (2007:£50,000) that the Company expects to be recovered in more than 12 months.

10 Cash and cash equivalents

	2008 £000	2007 £000
Cash and cash equivalents per balance sheet	3,877	5,308
Cash and cash equivalents per cash flow statements	3,877	5,308

11 Trade and other payables

	2008 £000	2007 £000
Trade payables	714	599
Non-trade payables and accrued expenses	1,888	1,711
	2,602	2,310

12 Employee Benefits

Defined contribution plans

The Company makes contributions to personal pension plans for eligible employees. The total expense relating to these plans in the current year was £88,264 (2007: £66,385).

Equity-settled share option schemes

The Northern Recruitment Group 1997 Company Share Option Plan ('the Approved Scheme') and the Northern Recruitment Group 1997 Unapproved Share Option Scheme ('the Unapproved Scheme') were both approved by the shareholders on 15 October 1997 (and amended on 28 October 1997 and 24 November 2000). The Northern Recruitment Group Plc Share Option Scheme 2004 was approved by shareholders on 20 October 2004. The exercise price of options granted is based on the market value of a share on the dealing day immediately preceding the date of grant, or the average value over the previous three days. Options are normally exercisable between the third and tenth anniversary of the date of the grant. The Schemes are open to all employees at the invitation of the Board. The vesting conditions of the schemes are: a minimum of 3 years service, and profitability of the Company to be greater in a period after grant than a period before grant. These conditions are not taken into account in the grant date fair value measurement of the services received. There are no market conditions associated with the share option grants.

Both the Northern Recruitment Group 1997 Company Share Option Plan and the Northern Recruitment Group 1997 Unapproved Share Option Scheme made grants of options prior to 7 November 2002. The recognition and measurement principle of IFRS 2 have not been applied to grants made before 7 November 2002 in accordance with the transitional provision of IFRS 1 and IFRS 2.

12 Employee Benefits (continued)

At 30 June 2008 share options under the Approved Scheme were outstanding as follows:

Northern Recruitment Group 1997 Approved Share Option Plan

Date granted	13 Nov 1997	30 Apr 1999	26 April 2002	10 Sep 2002	1 Sep 2003	23 Apr 2004	Total
Exercise price	108p	104.5p	48.5p	33p	72p	134p	
Contractual life 3 – 10 years							
Outstanding at 30.6.07	13,750	5,000	9,000	10,000	45,250	11,000	94,000
Lapsed during the year	(13,750)	–	–	–	–	–	(13,750)
Exercised during the year	–	–	(9,000)	(10,000)	–	–	(19,000)
Outstanding at 30.6.08	–	5,000	–	–	45,250	11,000	61,250
Exercisable at 30.6.08	–	5,000	–	–	45,250	11,000	61,250

At 30 June 2008 share options under the Unapproved Scheme were outstanding as follows:

Northern Recruitment Group 1997 Unapproved Share Option Plan

Date granted	13 Nov 1997	30 Apr 1999	1 Sep 2003	22 Sep 2003	21 Jun 2004	Total
Exercise price	108p	104.5p	72p	77.5p	131.5p	
Contractual life 3 – 10 years						
Outstanding at 30.6.07	6,000	6,000	15,000	100,000	77,100	204,100
Lapsed during the year	(6,000)	–	–	–	–	(6,000)
Exercised during the year	–	–	–	–	–	–
Outstanding at 30.6.08	–	6,000	15,000	100,000	77,100	198,100
Exercisable at 30.6.08	–	6,000	15,000	100,000	77,100	198,100

At 30 June 2008 share options under the Share Option Scheme 2004 were outstanding as follows:

Northern Recruitment Group Share Option Scheme 2004

Date granted	28 Nov 2006	11 June 2007	Total
Exercise price	135.5p	107.5p	
Contractual life 3 – 10 years			
Outstanding at 30.6.07	72,000	564,450	636,450
Lapsed during the year	–	(217,000)	(217,000)
Granted during the year	–	–	–
Outstanding at 30.6.08	72,000	347,450	419,450
Exercisable at 30.6.08	–	–	–

The options exercised during the year had a weighted average market price of 70.5p.

Notes to the Accounts
(continued)

12 Employee Benefits (continued)

The fair value of services received in return for share options granted are measured by reference to the fair value of share options granted. The estimate of the fair value of the services received is measured using the Black-Scholes model.

Date granted	28 Nov 2006	11 June 2007
Exercise price	135.5p	107.5p
Share price at grant	135.5p	107.5p
Estimated option life - yrs	4	4
Estimated volatility - %	36.9	32.3
Estimated dividends - %	5.5	7.0
Risk Free Rate - %	5.0	5.8
Fair Value at measurement date	31p	19p

The estimated volatility is based upon historical volatility calculated using the closing share price for the three year period immediately prior to the grant date. The estimated dividend rate is based upon historical returns and publicly available information.

The costs charged to the income statement relating to share based payments were as follows:

	2008 £000	2007 £000
Share options granted in 2003	–	(1)
Share options granted in 2004	3	13
Share options granted in 2005	–	–
Share options granted in 2006	–	–
Share options granted in 2007	27	6
Total expense recognised as employee costs	30	18

13 Capital and reserves

Reconciliation of movement in capital and reserves

	Share capital £000	Share premium £000	Capital redemption reserve £000	Retained earnings £000	Total equity £000
Balance at 1 July 2006	872	697	43	5,142	6,754
Total recognised income and expense	–	–	–	1,415	1,415
Shares issued in the year	2	22	–	–	24
Share based payment transactions, net of tax	–	–	–	9	9
Dividends	–	–	–	(1,311)	(1,311)
Balance at 30 June 2007	874	719	43	5,255	6,891
Balance at 1 July 2007	874	719	43	5,255	6,891
Total recognised income and expense	–	–	–	806	806
Shares issued in the year	1	7	–	–	8
Purchase of own shares	–	–	–	(757)	(757)
Share based payment transactions, net of tax	–	–	–	23	23
Dividends	–	–	–	(1,312)	(1,312)
Balance at 30 June 2008	875	726	43	4,015	5,659

The aggregate current and deferred tax relating to items that are charged to equity is £7,000 (2007: £9,000).

13 Capital and reserves (continued)

Share capital

	Ordinary shares (number)	
	2008	2007
In issue and fully paid at 1 July 2007	17,487,080	17,454,080
Issued for cash	19,000	33,000
In issue and fully paid at 30 June 2008	17,506,080	17,487,080
Treasury shares included above	1,673,925	–

	2008 £000	2007 £000
Authorised		
22,000,000 (2007: 22,000,000) Ordinary shares of 5p each	1,100	1,100
Allotted, called up and fully paid		
17,506,080 (2007: 17,487,080) Ordinary shares of 5p each	875	874

The holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at meetings of the Company.

During the year the Company issued 19,000 5p ordinary shares for a consideration of £7,665 settled in cash.

The Northern Recruitment Group plc Employee Trust holds nil ordinary shares at nil value (2007: 9,325 shares, £10,000 market value).

Dividends

The following tables analyse dividends when paid and the year to which they relate:

	2008 Per share pence	2007 Per share pence
2006 Final dividend	–	5.0
2007 Interim dividend	–	2.5
2007 Final dividend	5.0	–
2008 Interim dividend	2.5	–
	7.5	7.5

	2008 £000	2007 £000
2006 Final dividend	–	874
2007 Interim dividend	–	437
2007 Final dividend	874	–
2008 Interim dividend	438	–
	1,312	1,311

No final dividend is proposed in respect of 2008 (2007: 5p, £874,000).

Notes to the Accounts
(continued)

14 Financial instruments

The Company's principal financial instruments comprise short term debtors and creditors, and short term bank deposits. The Company does not trade in financial instruments and all of its financial assets and liabilities are denominated in sterling.

The objective of the Company's policy towards financial instruments is to optimise returns on the Company's cash balances, manage the Company's working capital requirements and finance the Company's ongoing operations.

Capital management

The Company's policy is to maintain a strong capital base. The Company finances its operations through retained earnings, and the management of working capital. The Company issues new shares when satisfying share based incentive schemes. The Company seeks to strike a balance between a progressive dividend policy broadly reflecting growth in earnings per share over the medium term and share buy backs when appropriate.

Management of financial risk

The main risks associated with the Company's financial instruments have been identified as credit risk, liquidity risk and interest rate risk. The Board is responsible for managing these risks and the policies adopted, which have remained largely unchanged throughout the year as set out below:

Credit risk

The carrying amount of financial assets is as follow:

	2008 £000	2007 £000
Trade receivables	2,929	2,632
Other trade receivables and prepayments	1,242	1,085
Cash and cash equivalents	3,877	5,308

Credit risk is the risk of financial loss if a customer fails to meet its contractual obligations and arises principally from the Company's trade receivables. The carrying amount of trade receivables in the balance sheet represents the maximum exposure to credit risk. The age profile of trade receivables at the balance sheet date was as follows:

	2008 £000	2007 £000
0 – 30 days	1,925	1,658
31 – 120 days	904	784
Over 120 days	100	190
	2,929	2,632

No bad debt analysis has been provided as the bad debt provision is not considered material.

Other trade receivables are estimated to be payable on average within 90 days (2007:90 days).

The Company seeks to manage its credit risk by using credit checking agencies and trade references. The Board considers the Company's exposure to credit risk to be acceptable and normal for an entity of its size.

Liquidity risk

Liquidity risk is the risk that the Company will not be able to access the necessary funds to finance its operations. The Company finances its operations through its bank deposits. The Company manages its liquidity risk by regularly monitoring its bank deposits and cash flows and reviewing any need for overdraft facilities.

14 Financial instruments (continued)

The Company has the following bank deposits at 30 June:

	2008 £000	2007 £000
Barclays Bank	1,877	5,308
HBOS	2,000	–

The Company has no borrowings.

The Company has the following financial liabilities:

	2008 £000	2007 £000
Trade and other payables	2,772	2,551

Most trade payables are settled within 60 days of receipt of invoice.

Interest rate risk

Interest rate risk reflects the Company's exposure to fluctuations of interest rates in the market.

The Company's treasury policy is to place surplus cash balances on short term deposit to optimise interest returns. Risk arises because interest on the Company's bank depositis are at floating rates of interest based on the banks' base rates. The Company manages its exposure to interest rate fluctuations by monitoring banks' base rates.

Interest rates on the two deposit accounts above at 30.6.08 were 4.75% and 5.35% pa. (2007: 5.25% pa).

Sensitivity analysis

A 1% decrease in interest rates, with all other variables remaining constant, would have an adverse impact of approximately £38,766 on reported profits (2007:£53,083).

15 Operating leases

Non-cancellable operating lease rentals are payable as follows:

	2008 £000	2007 £000
Less than one year	15	24
Between one and five years	886	876
More than five years	–	–
	901	900

16 Capital commitments

There were no capital commitments at the end of the financial year (2007: £21,000).

17 Related party transactions

Transactions with key management personnel

The Directors are the key management personnel of the Company. The interests of the Directors who served during the year in the share capital of the Company, according to the register of directors' interests can be found in the Directors' Report on page 13. Directors of the Company control 57.2 per cent of the voting shares of the Company.

Details of Directors' share options, emoluments, pension benefits and other non-cash benefits can be found in the Directors' Remuneration Report on pages 19 to 21.

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