

Annual Report 2007



Mission Statement

NRG's aim is to be the leading provider of total people solutions – embracing recruitment services and human resources consultancy in all the regions where we operate.

We will maintain and develop our current strong market positions by delivering services that are consistently of the highest quality, and through continuous improvement of our people, offices and technology.

We will grow through our national delivery capability, by further developing our established regional bases in the North East of England, Yorkshire and Scotland, and by devising and implementing new people solutions in partnership with our clients.

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

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 but specialise in the following:

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

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 hour interviewing, regular contact and free skills training.

NRG CONNECT

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 the confidence in successful recruitment projects delivered on time, to budget.

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

- Applicant attraction
- Response management
- Application sift
- Assessment centre design and delivery
- Offer management and referencing
- Full candidate administration and management
- Comprehensive MI

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 for not-for-profit organisations in areas such as higher education and health. The business is also well-equipped to meet the growing demand for highly experienced professionals to fill interim and temporary positions.

NRG EXECUTIVE

NRG Executive our Search and Selection practice handles executive, non executive and senior management posts in both the public and private sector. During the year it has further developed its executive search and internal research capabilities.

Successful appointments within local government, further education, regeneration and social housing continues to enhance our reputation. Additional consultants in this sector will further strengthen our position.

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.

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 across the UK.

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

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 seasonal construction workers across all office locations. Working predominantly in the public sector including local authorities, health and education.

Just some of what we do...

Scottish Water

NRG Engineering and Manufacturing was instrumental as a partner to Scottish Water, in the design and implementation of bespoke recruitment programmes developed to identify and attract highly sought after technical professionals.

Scottish Water's planned capital development programme is the biggest in the UK water industry.

Representing over 40% of all civil engineering planned for Scotland with project expenditure likely to top £1.25 Billion between 2006 and 2010. The portfolio of work includes improvements to water and wastewater networks and treatment works, large drainage catchment solutions and the creation of Edinburgh's new Water Treatment Works.

Ken Hutchison, General Manager of Capital Investment Delivery within Scottish Water has created a brand new organisation and structure to deliver these ambitious commitments. It is crucial however to the success of the programme that the most talented professionals from a range of technical/specialist disciplines and sectors be attracted to this directive from both within and external to Scottish Water.

NRG have an excellent knowledge of Scottish Water through a preferred supply contract which has been in operation since 2003. NRG have been able to add real value by supporting Scottish Water's rapidly changing requirements during 2006-2007 through the engagement of our specialist technical, scientific and procurement recruitment teams as the emphasis has been very much on difficult to fill appointments.

The disciplines recruited – project planning, programme management, project coordination, estimating, quantity surveying and procurement within the context of high value civil related projects have been in short supply across the whole of the UK.

As traditional approaches to candidate attraction were not yielding sufficient interest, NRG implemented a comprehensive search campaign, designed to penetrate the market and identify suitably talented individuals with the appropriate skills, personal outlook and potential for future contribution to the business.

NRG were successful in making over 10 specialist appointments to the Capital Investment Directive and were engaged as a result within two further high profile assignments: to recruit the next generation of asset management stars through a national graduate campaign and a bespoke search project to recruit over 10 planning professionals who will be instrumental in setting the foundation for Scottish Water's medium term capital strategy.

Business Link North East

Business Link North East went live on the 1st April replacing four previous sub-regional organisations. Charged with becoming an innovative business support organisation that truly meets the needs of existing and potential businesses across the whole region it is meeting some high expectations.

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NRG Executive were commissioned to recruit both the executive and non-executive team to shape, lead and direct the new venture, all to a strict deadline.

Stage One was the appointment of a Chair and fourteen board members reflecting the entire geography of the region and a balance of skills, gender and ethnic background, as well as sector experience. NRG's expertise in non-executive recruitment and networks across the business community proved crucial in meeting the requirement fully.

The board, chaired by Paul Callaghan, is truly business driven and Stage Two was the appointment of a like minded Chief Executive. The appointment of Alastair MacColl, Managing Director of the Gazette Media Company in Teesside has sent a strong signal to key stakeholders and a declaration of intent to the business community besides providing the 'WOW' factor required.

Alastair is confident, ambitious, focused, yet down to earth and defiantly committed, and these qualities were reflected in Stage Three, the appointment of his Senior Management Team. NRG Executive never lost sight of the aspiration and expectations for the new organisation when facilitating the appointment of Nicki Clarke as Director of Operations, Jonathan Lamb as Director of Marketing, Louise Shillinglaw as Director of HR, Chris Bramley as Director of Corporate Services and Jo Boaden as Director of Information.

With this team in place Business Link North East is set to build "something that can become the gold standard for business support, not just in the UK but across Europe".

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.

Since their formation in 1996, AccuRead 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. AccuRead's distinctive brand 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 rigorous tender process NRG was appointed as the supplier of all temporary staff to AccuRead's Head Office based in Killingworth. A seamless transition of over 100 temps from the incumbent supplier took place in May 2007. Since winning this contract NRG have filled over 30 bookings, this is through our dedicated temporaries team, who are working in partnership with AccuRead's HR Team to ensure we continue to meet AccuRead's stringent vetting and referencing requirements.

The dedicated NRG Call Centre Solutions Team, provide AccuRead with candidate care, absence and attrition management and accurate payroll administration. Both parties are working in partnership with regards to the introduction of a new Induction Day and Handbooks for all new starters, AccuRead are looking to launch this in the Autumn of 2007.

Cummins

Over the last year NRG has developed our range of services to Cummins Engines, improving and expanding our already successful consultancy based permanent recruitment service.

Using the same processes ensures 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 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 included advertising campaign management, and selection which involved; competency based interview, written tests, manual dexterity tests, medical assessment, and referencing. The same process was followed for the recruitment of a temporary workforce further supported by NRG with an onsite 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 have successfully delivered assessment centres designed around key competencies outlined by Cummins 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 have replicated the multi-stage assessment centre approach for the recruitment of Maintenance Team Leaders, Team Leaders and Technicians, assessing both internal and external applicants.

Home Office

NRG Connect continue to support the Home Office in its five year strategy for asylum and immigration, known as 'Controlling Our Borders Making Migration Work For Britain'.

To date several recruitment exercises have supported the building of new departments and roles significant to the implementation of this new strategy.

Telephone Enquiry Officers have been recruited throughout 2006 – to date enhancing the team already in place in the newly named Immigration Enquiry Bureau, now part of the Border & Immigration Directorate, Croydon. Also to staff a newly opened Contact Centre within Managed Migration which will handle Nationality calls in Liverpool city centre.

With the emphasis that the Home Office has now put on immigration an internal and external recruitment exercise to increase the number of team leader/senior case workers was carried out with over 100 appointments made. At the same time a campaign to recruit for the newly created Sponsor Account Managers roles successfully appointed over 100 people across Croydon, South East, Liverpool, Sheffield, Belfast, Birmingham, Bristol, Cardiff, Glasgow and Newcastle.

The attraction strategy involved building pro-active relationships with community and diversity organisations. Workshops and awareness days were put in place to be supportive to all candidates, with particular sensitivity shown toward encouraging minority groups successful application.

To meet E-recruitment requirements a full on-line candidate management and tracking system with integrated on-line sifting tool was trialed. This proved to be very user friendly and cost effective with real-time candidate communication and ease of tracking progress and management information.

Assessment centres were carried out simultaneously across all three sites over a concentrated period to meet delivery requirements of the business.

Successful assessment centres allowed for promotion of internal candidates to both roles with a good mix of newly appointed external people.

aps

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aps excel in contract packaging services with their expertise revolving around medium to high volume, time critical contracts which demand maximum security and total flexibility. Traditionally aps have completed all recruitment requirements internally, however last year they sought an experienced partner with a track record of excellent service delivery to support them through their high demand period.

Commencing in July and continuing into a second year, NRG provide a flexible temporary workforce that fluctuates daily in response to aps client requirements, anywhere from 0 to 140 workers. This has allowed internal resource to focus on key client requirements, proving a successful strategy for growth.

To ensure that strict quality and security procedures are met, in addition to our standard in depth recruitment service, NRG carry out a thorough induction process with all new staff including NRG Processes, Health & Safety, Quality Standards, security, site tour and first day procedures.

Our staff can be called upon at short notice allowing aps to offer a responsive service to their clients. We support aps dayshift and twilight operation and are equipped to support them 24 hours a day, seven days a week.

Volume fluctuates daily and requirements are met within a couple of hours notice. NRG manage this via recruitment to reserve lists, ensuring a consistent pool of pre-inducted reserves are available and by adopting stand-by working to meet unplanned absence or short notice requests. Experienced onsite presence during critical times is key to the success of providing this flexible temporary workforce.

Chairman's Statement

The results for the year are better than we anticipated at the time of our trading statement in May, with operating profit up by 6% on 2006. Strong growth in our core permanent recruitment businesses, and in the delivery of temporary staff, was partially offset by continuing low activity levels at our NRG Connect national response handling unit.

Results

Revenue in the year ended 30 June 2007 increased by 22.0% to £22.3 million (2006: £18.3 million). Revenues from temporary placements increased by 27.9% to £17.4 million (2006: £13.6 million), while fees from permanent recruitment increased by 4.3% to £4.9 million (2006: £4.7 million) despite a £0.6 million (40%) reduction in turnover at NRG Connect.

Gross profit rose by 7.5% to £7.6 million (2006: £7.1 million), representing a gross margin of 33.9% (2006: 38.5%) as a result of our changed business mix between temporary and permanent recruitment. The net increase in gross profit of £0.5 million comprised a £0.4 million increase in our margin from temporary recruitment and a £0.7 million improvement in our core permanent recruitment operations, offset by a £0.6 million reduction in the contribution of NRG Connect. In consequence, temporary recruitment accounted for 36% (2006: 33%) of our gross profit during the year, conventional permanent recruitment for 53% (2006: 47%) and NRG Connect for 11% (2006: 20%).

Administrative expenses increased by 7.9% to £5.8 million (2006: £5.4 million). The largest factor here was a £240,000 increase in payroll costs as we continued to expand our team of experienced fee earners to keep pace with demand and to provide additional capacity for future growth. We also incurred bad debts of £187,000; this principally related to the appointment of administrators at a former client in the food processing industry to which we had supplied high volumes of temporary staff for its pre-Christmas production peak, as disclosed in the interim report.

Operating profit increased by 6.1% to £1.8 million (2006: £1.7 million), while financial income was 8.1% lower at £0.24 million (2006: £0.26 million). In consequence, profit before tax increased by 4.2% to £2.03 million (2006: £1.95 million).

Diluted earnings per share were 8.1 pence (2006: 7.6 pence), an improvement of 6.4%.

Finances

The business remained healthily cash generative and we ended the year with net cash balances of £5.3 million, compared with £4.9 million at the end of the previous financial year, and £4.7 million at the end of the first half in December 2006.

Dividends

The board recommends a maintained final dividend of 5.0 pence per share (2006: 5.0 pence), making a total for the year of 7.5 pence (2006: 7.5 pence). In making this recommendation, the board has been mindful both of the current level of dividend cover and of the potentially increased demand on the Company's cash resources arising from the strong growth of its temporary recruitment business.

It remains the board's intention in the future to pursue a progressive ordinary dividend policy that broadly reflects the growth in the Company's earnings per share over the medium term.



“We secured a preferred supplier position on a major national four year framework contract.”

Trading highlights

The recruitment market remained strong across nearly all sectors of our business throughout the year. Gross profit from our core permanent recruitment operations grew by 21% overall, including outstanding performances by **NRG Works** and **NRG Scientific**; **NRG City** also made very pleasing progress. We achieved a 16% increase in gross profit from temporary placements, again driven primarily by **NRG Works** and **NRG Scientific**. The gross profit contribution of **NRG Connect** was down by 40%, falling below our expectations as the result of significantly reduced project activity, particularly in the second half. However, our ability to trim costs in line with utilisation meant that it continued to operate profitably and it has enjoyed excellent client retention as well as providing us with a significant competitive edge when tendering for major national projects.

Towards the end of the year we secured a preferred supplier position on a major national four year framework contract to supply Government departments with temporary administrative and clerical staff by forming and leading a new consortium, TotalNRG. This approach, which entailed NRG sourcing four other leading regional recruitment specialists to create the consortium, enables us to offer a unique combination of regional expertise and national project management capabilities. The framework became active on 1 August, and, whilst it will take several months to build business for TotalNRG, it offers significant potential for the future. The consortium business model also has scope to assist the development of our national business in other areas.

Lorna Moran comments in more detail on the performance of individual business streams and offices in her Chief Executive's Review.

Outlook

We have made a positive start to the current year. The market remains buoyant in all our core business areas, and our pipeline of bids and tenders is exceptionally strong. We have substantially strengthened our ability to exploit these opportunities by augmenting our team of fee-earning professional staff, though this will be reflected in a further significant increase in payroll costs during the year. NRG Connect has continued to operate at very low levels of activity in the current year to date, compared with a reasonably active period in the first half of last year. In the absence of major new project wins, this will constrain the Company's progress in the first half, though the strong demand we are experiencing across our other major business streams gives me confidence in our prospects over the year as a whole.

Leo Finn, Chairman

Chief Executive's Review

This year marks the 30th anniversary of NRG's establishment, and I am happy to report that our team of professional consultants and managers has never been stronger. This is reflected in the further strong performances of our core permanent recruitment businesses and the substantial upturn in temporary placements achieved during the year, partly offset by the shortage of major project activity for NRG Connect.

Business Overview

Demand remained very strong in nearly all our main business areas throughout the year with the exception of the very large, high volume projects handled by NRG Connect, mainly for public sector clients. Our various divisions supply both the public and private sectors and each sector continued to account for approximately half of our total business, in line with our strategic objectives. Our new consortium-based approach to handling the latest Government framework contract further strengthens our ability to service clients on a truly national basis, and creates a new model for the future development of our business, with substantial additional potential. We have benefited, as planned, from our strategic decision to address the previous decline in our temporary staffing business by focusing on more buoyant sub-markets under a new brand and a stronger management team.

NRG Executive (Public and Private)

Our search and selection business focusing on board level and other senior appointments has performed very well and has a significant presence in both the public and private sectors. Major assignments completed during the year included the Chief Executive plus 15 board members and senior executive team for the new Business Link North East; Head of Human Resources – House of Commons; and an extension of our higher education portfolio with senior appointments at both Edinburgh University and University College London. In addition, our enlarged executive team handled national assignments for EMAP, npower, Northgate, PD Ports, TSG and eaga. We have also filled a significant number of positions in the buoyant social housing and local government markets.

NRG Professional Services

Our business focusing on professional management recruitment across a range of specialist areas performed very strongly, driven in part by the excellent progress of **NRG Technical** and the **NRG Scientific** practice we established last year to meet the requirements of the pharmaceutical,

food, chemical and biotechnology sectors for expert staff. Significant work was undertaken during the year for clients including Avecia Biotechnology, Dow Chemicals and SSL International. **NRG IT**, dedicated to the provision of information technology and software specialists, had a successful year and enjoys a very strong new business pipeline moving forwards. We have recruited additional staff to strengthen the capabilities of **NRG Practical Human Resources**, focusing on specialist HR recruitment, psychometric testing and assessment, and people development. **NRG Finance**, covering not just finance director appointments but the full range of accounting support roles, made solid progress from its strongly established base.

NRG Call Centre Solutions

Our operation specialising in the provision of contact centre staff enjoyed another very successful year, building on its strong relationships with major clients including npower and Barclays. We also handled some significant senior executive placements within the call centre market place, providing us with a number of valuable introductions into new organisations. This has led to an increase in the number of new business pitches we have been invited to undertake in the current year.

NRG City

Our business specialising in the provision of high quality support staff made excellent progress in the second half of the year, particularly in the filling of permanent positions. The Tees Valley branch we established in the previous year made a pleasing contribution.

NRG Works

We have fulfilled our strategic objective of substantially expanding our revenues and profit from the provision of temporary staff. In particular, we are pleased to have achieved all the expected benefits from the changes we made in the prior year to our flexible resourcing division, which was placed under strengthened management and re-branded as NRG Works. A satisfactory result was achieved despite the bad



“With the market remaining buoyant, and a strong new business pipeline to exploit, I look forward to the future of NRG with confidence and enthusiasm.”

debts we incurred in this area, principally as the result of a business failure in food manufacturing. In addition to the food sector, we made particularly strong progress in the packaging and engineering industries, completing a major contract with Cummins Engines for the operation of assessment centres and the provision of temporary staff, and also undertaking significant work for Saft. Under the **NRG Construction** brand, we have also built an important presence in the provision of specialist staff in this area for clients in the public sector.

TotalNRG

The new **TotalNRG** consortium, led by NRG, brings us together with four other leading regional recruitment specialists with the opportunity to provide recruitment services to major Government departments under a framework contract valued at £300 million over its four year term.

NRG Connect

The ability to handle major recruitment projects through our own process outsourcing contact centre sets NRG apart, and has given us a significant competitive edge in tendering for national project work. NRG Connect has a strong list of clients, mainly from the public sector, including HM Revenue & Customs and the Home Office, for which it handled its first major assignment during the first half. While client retention is excellent, and our highly flexible cost base means that the business has remained profitable, an unexpectedly low level of major project activity throughout the second half led to a substantial reduction in NRG Connect's revenues and profit contribution during the year. There has been no upturn in activity during the current year to date. However, the visibility of Connect's major project work is often no greater than for more conventional recruitment assignments, and we have the ability to respond to demand on very short lead times.

Regional offices

Our headquarters in **Newcastle upon Tyne** remained the Group's principal fee generator and performed well across all disciplines last year, apart from the downturn in NRG Connect and a modest reduction in the contribution from its NRG City branch, though this established an improving trajectory in the final quarter. The **Tees Valley** operation made extremely strong progress, based largely on the rapid expansion of NRG Scientific, though NRG Finance and NRG City also performed well; the office will relocate to larger premises in the current year. **Middlesbrough** benefited from the delivery of our major

Cummins Engine contract in NRG Works, and our **Yorkshire** office also made satisfactory progress. In Scotland, the strengthening of our team in **Glasgow** delivered some improvement in performance there, though further efforts are required in **Edinburgh** to establish critical mass in that market place.

People

We have continued to strengthen our business through training, development, promotion and external recruitment, creating the strongest team we have ever had in the 30-year history of NRG. Our senior executive team is working very well together, and I am encouraged by the quality and commitment of the additional professionals we have brought into the business over the last year. This is reflected in the strong performances achieved by most of our business streams, and gives us the capability to maximise the potential created by the very strong new business pipeline we are currently handling. I am grateful to our managing director, Therese Liddle, for her strong leadership during the year, and to every single member of our team for their individual contributions to our continued progress.

Prospects

The business is well balanced between the public and private sectors, and achieving an improved mix between permanent recruitment and temporary placements. NRG Connect, while temporarily underperforming against our targets, has played a key role in enabling us to develop a truly national offering to our clients. Our new consortium approach to bidding for national contracts takes this process a stage further, creating a new business model with great potential for further development in both the public and private sectors. With the market remaining buoyant, and a strong new business pipeline to exploit, I look forward to the future of NRG with confidence and enthusiasm.

Lorna Moran.

Lorna Moran, Chief Executive

Directors, Secretary and Advisors

Executive Directors

Lorna Moran MBE (Chief Executive)

Lorna Moran, aged 57, founded the Company in 1976 and has been Chief Executive since then.

Therese Liddle (Executive Director)

Therese Liddle, aged 42, 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 60, 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 69, joined the board and was appointed Chairman in 2004. He is the senior independent director of Bellway plc, 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 39, 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.

Company Secretary

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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 2007.

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 its 100-seat contact centre in Newcastle upon Tyne.

Financial results

Company sales rose to £22.3m in 2007 from £18.3m in 2006 as a result of higher revenues from the supply of temporary workers and an increase in our income from permanent placements. Sales at NRG Connect fell as a result of fewer volume recruitment projects.

Gross profit, the difference between revenues received and the direct costs of delivery, is a key performance indicator (KPI) for the Company. In 2007 this rose to £7.6m from £7.1m last year because of the higher sales revenues. For gross profit on revenues from the supply of temporary workers a further KPI is the percentage margin on sales revenues. In 2007 the percentage was 15.7, a reduction from 17.4 per cent in 2006, mainly because of the changed mix of business.

Payroll costs are the largest component of the Company's administrative costs. They rose from £3.7m in 2006 to £3.9m in 2007. As a percentage of gross profit they fell to 51.8 per cent in 2007 from 52.3 per cent in 2006.

Operating profit as a percentage of gross profit demonstrates a business's operational leverage. In 2007, before bad debts, it was 26.2 per cent compared to 24 per cent in 2006. After bad debts it was 23.7 per cent (2006: 24 per cent). The majority of the bad debts of £187,000 related to a client in the food industry, to which we had supplied high volumes of temporary staff for its pre-Christmas production peak.

Cash balances were £5.3m at the year end, an increase of £0.4m on 2006 and after dividend payments of £1.3m. During the year the Company issued 33,000 new shares to satisfy its share option schemes for proceeds of £24,000. Although unused at present the Company has a committed overdraft facility of £1.5m with Barclays Bank. The facility, which is repayable on demand, is subject to regular review. The next

review is July 2008. Current interest rates are 1 per cent above the bank's base rate.

Net assets rose from £6.8m in 2006 to £6.9m at year end 2007.

Income tax for the year as shown in the income statement is £621,000 (2006: £623,000). The effective tax rate is 30.5 per cent (2006: 31.9 per cent). A reconciliation between the standard UK rate of 30 per cent and the effective rate is given in note 4.

Earnings per share and diluted earnings per share were 8.1p and compared to 7.6p last year.

Dividends

An interim dividend of 2.5p was paid in February 2007 and subject to shareholder approval on 16 October 2007, a final dividend of 5p will be paid on 29 October to shareholders on the register on 5 October. The ex dividend date is 3 October 2007.

Other important financial matters are referred to in the Chairman's Statement on pages 8 to 9 and comments on the Company's trading performance are included in the Chief Executive's Review on pages 10 to 11.

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 2007 were an average of 42 (2006: 43) 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 2007 are as follows:

	At 30 June 2007		at 30 June 2006	
	Ordinary Shares	Ordinary Share Options	Ordinary Shares	Ordinary Share Options
CL Moran	8,905,898	–	8,905,898	–
MT Liddle	79,235	178,000	79,235	106,000
WH Moran	45,000	77,100	45,000	77,100
L Finn	14,600	–	14,600	–
R J Hutton	7,300	–	–	–

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 15.7 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 5 September 2007.

Charitable and Political Contributions

The Company made contributions of £3,000 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 (AGM) will be held on 16 October 2007. Members' proxy votes are to be received no later than 11.00 am on 12 October 2007. By virtue of resolutions approved at the 2006 AGM, the Directors have the usual authority to issue or buy back Company shares. The Company will be seeking to renew such authority at the 2007 AGM. Full details of these matters are included in the AGM notice attached to the Annual Report.

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.

Auditors

In accordance with Section 384 of the Companies Act 1985, a resolution for the re-appointment of KPMG Audit Plc as auditors of the Company is to be proposed at the forthcoming Annual General Meeting.

By order of the board

Wayham Moran
52-60 Grey Street
Newcastle upon Tyne
NE1 6AH
Company Secretary
5 September 2007

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 2007, the Company complied with the principles of governance set out in Section 1 of the Combined Code on Corporate Governance ('the Code') issued by the Financial Reporting Council in July 2003 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 12 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 completed 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 Statement and the Chief Executive's Review. 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 24.

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 2007.

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	2	3	3
R J Hutton	6	2	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.

Corporate Governance (continued)

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

In 2007 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 pages 31 to 45.

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 Theresa 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 July 2007, when the Remuneration Committee recommended and the board accepted that Lorna Moran's salary should be increased by 3 per cent and Theresa Liddle's salary should be increased by 5 per cent.

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 Theresa 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 Theresa Liddle and Wayham Moran. There were no changes in the terms of the pension arrangements during the year but the Committee recommended and the board accepted that the Company contributions towards Theresa Liddle's and Wayham Moran's pensions should be increased by 5 per cent and 3 per cent of their respective salaries.

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. On that basis, options over 72,000 shares were awarded to Theresa Liddle in November 2006 under the Company's Share Option Scheme 2004. The option price was £1.36 per share.

Benefits in kind

As with basic salaries, the Remuneration Committee considers that the Company should offer average benefits in kind compared with similar jobs. Theresa 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

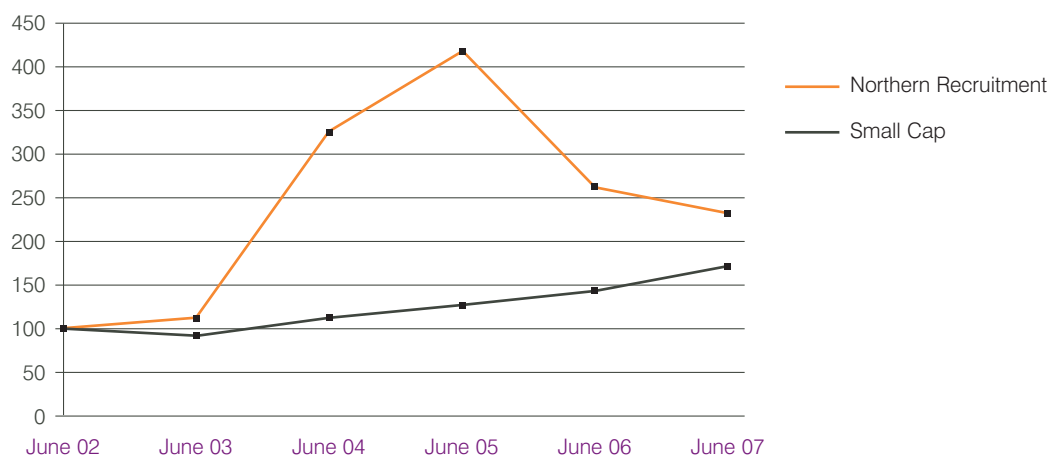
Fees payable to the Non-executive Directors are proposed by the Chief Executive and determined by the full board.

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 £388,000 (2006: £360,000) and is analysed as follows:

	Basic salary/fees £'000	Bonuses £'000	Taxable benefits £'000	2007 Total £'000	2006 Total £'000	2007 Pension contributions £'000	2006 Pension contributions £'000
Executive							
CL Moran	103	–	2	105	105	–	–
MT Liddle	104	25	13	142	116	10	8
WH Moran	82	–	–	82	82	7	7
Non-executive							
L Finn	30	–	–	30	30	–	–
RJ Hutton*	12	–	–	12	12	–	–
	331	25	15	371	345	17	15

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 (2006: 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 2007.

The range of mid market prices for the year ended 30 June 2007 was 101.5p to 139.5p.

The year end share price was 106.5p (2006: 121p).

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

5 September 2007

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.

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 2007 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 24.

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 Statement and Chief Executive's Review 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 2003 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 2007 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
5 September 2007



Accounts 2007

Income statement

for year ended 30 June 2007

	Note	2007 £000	2006 £000
□ Revenue	1	22,336	18,313
Cost of sales		(14,751)	(11,256)
□ Gross profit		7,585	7,057
Administrative expenses		(5,787)	(5,362)
□ Operating profit	2,3	1,798	1,695
Financial income		238	259
□ Profit before tax		2,036	1,954
Income tax expense	4	(621)	(623)
□ Profit for the year attributable to equity holders of the parent		1,415	1,331
□ Basic earnings per share (pence)	5	8.1	7.6
□ Diluted earnings per share (pence)	5	8.1	7.6

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 2007

	Note	2007 £000	2006 £000
ASSETS			
□ Non-current assets			
Property, plant and equipment	6	348	452
Investments in subsidiaries	7	–	–
Deferred tax assets	8	69	73
		417	525
□ Current assets			
Trade and other receivables	9	3,717	3,524
Cash and cash equivalents	10	5,308	4,888
		9,025	8,412
□ Total assets			
		9,442	8,937
LIABILITIES			
□ Current liabilities			
Trade and other payables	11	(2,310)	(2,039)
Income tax payable		(241)	(144)
		(2,551)	(2,183)
□ Total liabilities			
		(2,551)	(2,183)
□ Net assets			
		6,891	6,754
EQUITY			
□ Share capital and reserves			
Share capital	13	874	872
Share premium	13	719	697
Capital redemption reserve	13	43	43
Retained earnings	13	5,255	5,142
□ Total equity attributable to equity holders of the parent			
		6,891	6,754

These financial statements were approved by the board of directors on 5 September 2007 and were signed on its behalf by:

Lorna Moran
Director

Cash flow statement

for year ended 30 June 2007

	Note	2007 £000	2006 £000
□ Cash flows from operating activities			
Profit for the year		1,415	1,331
Adjusted for:			
Depreciation	6	199	249
Financial income		(238)	(259)
Profit on sale of property, plant and equipment		(3)	(1)
Share-based payment expenses	12	18	47
Taxation		621	623
□ Cash flows from operating activities before working capital movements			
Increase in trade and other receivables		(193)	(127)
Increase / (decrease) in trade and other payables		271	(453)
□ Cash inflow from the operating activities			
Income tax paid		(529)	(937)
□ Net cash inflow from operating activities			
□ Cash flows from investing activities			
Proceeds from sale of property, plant and equipment		3	17
Interest received		238	259
Acquisition of property, plant and equipment	6	(95)	(108)
□ Net cash inflow from investing activities			
□ Cash flows from financing activities			
Proceeds from the issue of share capital	13	24	114
Dividends paid	13	(1,311)	(3,578)
□ Net cash outflow from financing activities			
Net increase / (decrease) in cash and cash equivalents			
Cash and cash equivalents at 1 July 2006			
□ Cash and cash equivalents at 30 June 2007			

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 5 September 2007.

(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.

The Company has applied IAS 32 *Financial Instruments: Disclosure and presentation* and IAS 39 *Financial Instruments: Recognition and measurement* with effect from 1 July 2004.

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 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 (O)) 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 in the Employee Share Ownership Plan are classified as treasury shares and 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

- i. 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 for permanent placements is recognised at the date an offer is accepted by a candidate. No revenue is recognised if there is significant uncertainty regarding the recovery of the consideration due. All revenue excludes value added tax. Revenue not invoiced at the balance sheet date is included within prepayments and accrued income.

Notes to the Accounts

(continued)

(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 IFRSs, which will have an impact for the Company, were available for early adoption but have not been applied in these financial statements:

- Amendments to IAS 1 Presentation of Financial Statements applicable for years commencing on or after 1 January 2007; and
- IFRS 7 Financial instruments: Disclosure applicable for years commencing on or after 1 January 2007.

The application of Amendments to IAS 1 and IFRS 7 in the current year would not have affected the balance sheet or income statement as the standards are 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:

	2007 £000	2006 £000
Depreciation on owned property, plant and equipment	199	249
Payments under operating leases – property & motor vehicles	327	301
Profit on disposal of fixed assets	3	1
Provision for bad and doubtful debts	187	(12)
Auditors' remuneration:		
Audit of these financial statements	23	20
IFRS conversion project	–	12
Other services related to taxation	5	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	
	2007	2006
Administration	33	34
Consultancy	98	92
Directors	5	5
	136	131

The aggregate payroll costs of these persons were as follows:

	2007 £000	2006 £000
Wages and salaries	3,482	3,268
Share based payments (See note 12)	18	47
Social security costs	363	320
Other pension costs (See note 12)	66	53
	3,929	3,688

Directors' emoluments are shown in the Directors' remuneration report on pages 21 to 23.

Notes to the Accounts

(continued)

4 Taxation

□ Recognised in the income statement

	2007 £000	2006 £000
Current tax expense		
Current year	613	621
Adjustments for prior years	12	(14)
	625	607
Deferred tax expense		
Origination and reversal of temporary differences	4	16
Adjustments for prior years	(12)	–
Effect of tax rate change on opening balance	4	–
	(4)	16
Total tax in income statement	621	623

□ Reconciliation of effective tax rate

	2007 £000	2006 £000
Profit before tax	2,036	1,954
Tax using the UK corporation tax rate of 30%	611	586
Non-deductible expenses	6	51
Under / (over) provided in prior years	–	(14)
Effect of tax rate change on deferred tax	4	–
Total tax in income statement	621	623

□ Tax recognised directly in equity

	2007 Income tax £000	2007 Deferred tax £000	2007 Total £000	2006 Total £000
Relating to equity-settled transaction	–	(9)	(9)	101

5 Earnings per share

□ Basic earnings per share

The calculation of basic earnings per share for the year ended 30 June 2007 was based on profit attributable to ordinary shareholders of £1,415,000 (2006: £1,331,000) and a weighted average number of ordinary shares outstanding during the year ended 30 June 2007 of 17,470,448 (2006: 17,416,059), calculated as follows:

□ Weighted average number of ordinary shares

	2007 Number	2006 Number
Issued ordinary shares at start of year	17,454,080	17,267,370
Effect of shares issued	25,743	158,064
Effect of own shares held	(9,375)	(9,375)
Weighted average number of ordinary shares during the year	17,470,448	17,416,059

□ Diluted earnings per share

The calculation of diluted earnings per share for the year ended 30 June 2007 was based on profit attributable to ordinary shareholders of £1,415,000 (2006: £1,331,000) and a weighted average number of ordinary shares outstanding during the year ended 30 June 2007 of 17,550,363 (2006: 17,570,760), calculated as follows:

□ Weighted average number of ordinary shares

	2007 Number	2006 Number
Weighted average number of ordinary shares during the year	17,470,448	17,416,059
Effect of share options on issue	79,915	154,701
Weighted average number of ordinary shares (diluted) during the year	17,550,363	17,570,760

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 2005	359	262	1,156	1,777
Additions	33	24	51	108
Disposals	–	(21)	(44)	(65)
Balance at 30 June 2006	392	265	1,163	1,820
Balance at 1 July 2006	392	265	1,163	1,820
Additions	1	38	56	95
Disposals	(4)	(12)	(92)	(108)
Balance at 30 June 2007	389	291	1,127	1,807
□ Depreciation				
Balance at 1 July 2005	192	105	871	1,168
Depreciation charge for the year	38	64	147	249
Disposals	–	(5)	(44)	(49)
Balance at 30 June 2006	230	164	974	1,368
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
□ Net book value				
At 1 July 2005	167	157	285	609
At 30 June 2006 and 1 July 2007	162	101	189	452
At 30 June 2007	120	86	142	348

7 Fixed asset investments

As at 30 June 2007 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	
	2007 £000	2006 £000	2007 £000	2006 £000	2007 £000	2006 £000
Property, plant and equipment	52	48	–	–	52	48
Employee benefits	17	25	–	–	17	25
Net tax assets	69	73	–	–	69	73

Movement in deferred tax during the 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

Movement in deferred tax during the prior year

	1 July 2005 £000	Recognised in income £000	Recognised in equity £000	30 June 2006 £000
Property, plant and equipment	58	(10)	–	48
Employee benefits	48	(6)	(17)	25
	106	(16)	(17)	73

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

	2007 £000	2006 £000
Trade receivables	2,632	2,282
Other trade receivables and prepayments	1,085	1,242
	3,717	3,524

Included within trade and other receivables is £50,000 (2006:£50,000) that the Company expects to be recovered in more than 12 months.

10 Cash and cash equivalents

	2007 £000	2006 £000
Cash and cash equivalents per balance sheet	5,308	4,888
Cash and cash equivalents per cash flow statements	5,308	4,888

11 Trade and other payables

	2007 £000	2006 £000
Trade payables	599	508
Non-trade payables and accrued expenses	1,711	1,531
	2,310	2,039

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 £66,385 (2006: £52,725).

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 principal 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 2007 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 30.6.06	13,750	5,000	9,000	10,000	83,250	14,000	135,000
Lapsed during the year	–	–	–	–	(5,000)	(3,000)	(8,000)
Exercised during the year	–	–	–	–	(33,000)	–	(33,000)
Outstanding at 30.6.07	13,750	5,000	9,000	10,000	45,250	11,000	94,000
Exercisable at 30.6.07	13,750	5,000	9,000	10,000	45,250	11,000	94,000

At 30 June 2007 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 30.6.06	6,000	6,000	15,000	100,000	77,100	204,100
Lapsed during the year	–	–	–	–	–	–
Exercised during the year	–	–	–	–	–	–
Outstanding at 30.6.07	6,000	6,000	15,000	100,000	77,100	204,100
Exercisable at 30.6.07	6,000	6,000	15,000	100,000	77,100	204,100

At 30 June 2007 share options under the Share Option Scheme 2004 were outstanding as follows:

Northern Recruitment Group Share Option Scheme 2004

Date granted	8 Nov 2004	4 Feb 2005	17 Mar 2005	23 June 2006	28 Nov 2006	11 June 2007	Total
Exercise price	170p	211p	213.5p	121p	135.5p	107.5p	
Contractual life 3 – 10 years							
Outstanding at 30.6.06	40,000	5,000	7,050	321,400	–	–	373,450
Lapsed during the year	(40,000)	(5,000)	(7,050)	(321,400)	–	–	(373,450)
Granted during the year	–	–	–	–	72,000	564,450	636,450
Outstanding at 30.6.07	–	–	–	–	72,000	564,450	636,450
Exercisable at 30.6.07	–	–	–	–	–	–	–

The options exercised during the year had a weighted average market price of £1.30.

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	23 June 2006	28 Nov 2006	11 June 2007
Exercise price	121.0p	135.5p	107.5p
Share price at grant	121.0p	135.5p	107.5p
Estimated option life – yrs	4	4	4
Expected volatility – %	42.4	36.9	32.3
Expected dividends – %	4.5	5.5	7.0
Risk Free Rate – %	4.7	5.0	5.8
Fair Value at measurement date	60p	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:

	2007 £000	2006 £000
Share options granted in 2003	(1)	18
Share options granted in 2004	13	25
Share options granted in 2005	–	3
Share options granted in 2006	–	1
Share options granted in 2007	6	–
Total expense recognised as employee costs	18	47

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 2005	863	592	43	7,241	8,739
Total recognised income and expense	–	–	–	1,331	1,331
Shares issued in the year	9	105	–	–	114
Share based payment transactions, net of tax	–	–	–	148	148
Dividends	–	–	–	(3,578)	(3,578)
Balance at 30 June 2006	872	697	43	5,142	6,754
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

The aggregate current and deferred tax relating to items that are charged to equity is £9,000, (2006: credit to equity £101,000).

13 Capital and reserves (continued)

Share capital

	Ordinary shares (number)	
	2007	2006
In issue and fully paid at 1 July 2006	17,454,080	17,267,370
Issued for cash	33,000	186,710
In issue and fully paid at 30 June 2007	17,487,080	17,454,080

	2007		2006	
	£000		£000	
Authorised 22,000,000 (2006: 22,000,000) Ordinary shares of 5p each	1,100		1,100	
Allotted, called up and fully paid 17,487,080 (2006: 17,454,080) Ordinary shares of 5p each	874		873	

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 33,000 5p ordinary shares for a consideration of £24,000, settled in cash. These shares were issued upon the exercise of share options.

The Northern Recruitment Group plc Employee Trust holds 9,325 ordinary shares (2006: 9,325) shares with a market value of £10,000 (2006: £11,000). The shares held by the Trust are to meet obligations to certain employees.

Dividends

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

	2007		2006	
	Per share pence		Per share pence	
2005 Special dividend	–		11.5	
2005 Final dividend	–		6.5	
2006 Interim dividend	–		2.5	
2006 Final dividend	5.0		–	
2007 Interim dividend	2.5		–	
	7.5		20.5	

	2007		2006	
	£000		£000	
2005 Special dividend	–		2,007	
2005 Final dividend	–		1,135	
2006 Interim dividend	–		436	
2006 Final dividend	874		–	
2007 Interim dividend	437		–	
	1,311		3,578	

The proposed final dividend in respect of 2007 amounts to 5p per share (£874,000), is subject to approval by the shareholders at the Annual General Meeting and has not been included as a liability in these financial statements.

Notes to the Accounts

(continued)

14 Financial instruments

The company's bank facilities are in place to accommodate the capital expenditure and working capital requirements of the company. The Company's treasury policy has its principal objective the achievement of the optimum interest rate on cash balances whilst maintaining an acceptable level of risk and administration. Other than mentioned below there are no financial instruments, derivatives or commodity contracts used.

□ Financial assets liabilities

The Company's main financial assets comprise cash and cash equivalents. Other financial assets include trade receivables arising from the Company's activities. Other than trade and other payables, the Company had no financial liabilities within the scope of IAS 39 as at 30 June 2007 (2006 £ nil). The Company has an overdraft facility of £1,500,000 of which £1,500,000 was undrawn at 30 June 2007 (2006: £1,500,000 undrawn).

□ Fair values

The fair values of the Company's financial assets and liabilities is not materially different from their carrying values.

□ Credit risk

The company's credit risk is mainly attributable to its trade receivables. The amounts shown in the balance sheet are net of allowances for doubtful receivables.

The placement of temporary workers generally carries the greatest risk as the Company funds the payment of the worker prior to payment by the client. The Company seeks credit references on most clients and reviews credit limits regularly. At the year end the largest single client represented less than 10 per cent of the balance of trade receivables.

□ Interest rate risk

The Company earns interest on its bank balances. A change in interest rates will have a consequent change in interest receivable. The bank overdraft is charged at 1% above the based rate on all borrowings up to £1,500,000.

□ Effective interest rates

The effective interest rate at the balance sheet date was 5.25% (2006: 4.25%)

15 Operating leases

Non-cancellable operating lease rentals are payable as follows:

	2007 £000	2006 £000
Less than one year	24	14
Between one and five years	876	1,128
More than five years	–	–
	900	1,142

The Company leases certain buildings and cars on short term leases, the lease agreements provide that the Company will pay insurance, maintenance and repairs in relation to the buildings. The car leases provide that we insure the vehicles separately but maintenance is included in the leasing charge.

16 Capital commitments

No provision has been made for capital commitments at the end of the financial year which totalled £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 (including those of their immediate families) in the share capital of the Company, according to the register of Directors' interests can be found in the Directors Report on page 15. Directors of the Company control 51.8% 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 21 to 23.

Notice of Annual General Meeting

Notice is hereby given that the Annual General Meeting of the Company will be held at the offices of Dickinson Dees LLP, St Ann's Wharf, 112 Quayside, Newcastle upon Tyne on 16 October 2007 at 11.00 a.m. for the following purposes:

To consider and, if thought fit, to pass the following as ordinary resolutions of the Company:

- 1 To receive and adopt the accounts of the Company for the year ended 30 June 2007 together with the Reports of the Directors and of the Auditors.
- 2 To approve the Directors' Remuneration Report.
- 3 To declare a final dividend for the year ended 30 June 2007 of 5.0p per ordinary share.
- 4 To re-elect as a Director of the Company Leo Finn who retires by rotation.
- 5 To re-elect as a Director of the Company Therese Liddle who retires by rotation.
- 6 To re-elect KPMG Audit Plc as Auditors.
- 7 To authorise the Directors to determine the remuneration of the Auditors.
- 8 That in substitution for the authority granted to the Directors pursuant to an ordinary resolution passed at the annual general meeting of the Company held on 15 November 2002, the Directors be authorised for the purpose of section 80 of the Companies Act 1985 (the "Act") to allot relevant securities (within the meaning of section 80(2) of the Act) up to an aggregate nominal amount of £225,646 provided that:-
 - 8.1 (except as provided in paragraph 8.2 below) this authority shall expire at the conclusion of the next Annual General Meeting of the Company (or, if earlier, the date which is 15 months from the passing of this resolution), but may be previously revoked or varied by an ordinary resolution of the Company; and
 - 8.2 the Company may before such expiry make an offer or agreement which would or might require relevant securities to be allotted after such expiry and the Directors may allot relevant securities in pursuance of such offer or agreement notwithstanding that the authority conferred by this resolution has expired.

To consider and, if thought fit, to pass the following resolutions which will be proposed as special resolutions of the Company:

- 9 Subject to the passing of resolution 8 above, that the Directors be and are hereby empowered, pursuant to section 95 of the Companies Act 1985 (the "Act"), to allot equity securities as defined in section 94(2) of the Act for cash pursuant to the authority conferred by resolution 8 as if section 89(1) of the Act did not apply to any such allotment, provided that this power shall be limited to:
 - 9.1 the allotment of equity securities in connection with a rights issue, open offer or other offer of securities, open for acceptance for a fixed period, in favour of holders of ordinary shares of 5p each in the capital of the Company ("Ordinary shares") on the register on a fixed record date in proportion (as nearly as may be) to their then holdings of such shares (but subject to such exclusions or other arrangements as the Directors may deem necessary or expedient to deal with fractional entitlements or any legal or practical problems under the laws of, or the requirements of any recognised regulatory body or any stock exchange in, any territory or any other matter whatsoever);
 - 9.2 the allotment of equity securities in connection with any employees' share schemes approved by the members in general meeting; and
 - 9.3 the allotment (otherwise than pursuant to sub-paragraphs 9.2 and 9.3 above) of equity securities up to an aggregate nominal amount of £43,000
and shall expire at the conclusion of the next Annual General Meeting of the Company (or, if earlier, the date which is 15 months from the passing of this resolution) save that the Company may before such expiry make an offer or agreement which would or might require equity securities to be allotted after such expiry and the Directors may allot equity securities in pursuance of such offer or agreement as if the power conferred hereby had not expired.
- 10 That the Company be and is hereby generally and unconditionally authorised for the purposes of section 166 of the Act to make one or more market purchases (within the meaning of section 163(3) of the Act) on the London Stock Exchange of Ordinary shares of 5p each in the capital of the Company ("Ordinary shares") provided that
 - 10.1 the maximum aggregate number of Ordinary shares hereby authorised to be purchased is 1,740,000;
 - 10.2 the minimum price which may be paid for such shares is 5p per Ordinary share (exclusive of expenses);
 - 10.3. the maximum price (exclusive of expenses) which may be paid for Ordinary shares shall not be more than the highest of
 - (a) 5 per cent above the average of the market values for Ordinary shares as derived from the London Stock Exchange's Daily Official List for the five business days immediately preceding the date on which the Ordinary share is purchased; and
 - (b) the price of the last independent trade on the London Stock Exchange; and
 - (c) the price of the highest current independent bid on the London Stock Exchange;
 - 10.4 unless previously renewed, varied or revoked, the authority hereby conferred shall expire at the conclusion of the Company's next Annual General Meeting or 15 months from the date of passing this resolution, if earlier; and
 - 10.5 the Company may make a contract or contracts to purchase Ordinary shares under the authority hereby conferred prior to the expiry of such authority which will or may be executed wholly or partly after the expiry of such authority and may make a purchase of Ordinary shares in pursuance of any such contract or contracts.

By Order of the Board

Wayham Moran, Company Secretary, 5 September 2007
Registered Office: 52-60 Grey Street, Newcastle upon Tyne, NE1 6AH

NOTES:

- a. A member entitled to attend and vote at the above meeting may appoint one or more proxies to attend and, on a poll, vote instead of him or her. A proxy need not be a member of the Company.
- b. To be valid, a form of proxy together with, if applicable, the power of attorney or other authority under which it is signed, or a certified copy thereof, must be lodged with or posted to Capita Registrars, Proxies Department, PO Box 25, 34 Beckenham Road, Beckenham, Kent BR3 4BR so as to be received not later than 11.00 a.m. on 14 October 2007. Completion and return of a form of proxy will not prevent a member from attending and voting at the meeting in person should he or she wish to do so.
- c. To be entitled to attend and vote at the meeting (and for the purpose of determining the number of votes cast), members must be entered on the Company's register of members not less than 48 hours before the time set for the meeting. This time will still apply for the purpose of determining who is entitled to attend and vote at the meeting (and for the purpose of determining the number of votes cast) if the meeting is adjourned from its scheduled time by 48 hours or less. If the meeting is adjourned for a longer period, members who wish to attend and vote at the meeting must be entered on the Company's register of members not less than 48 hours before the time set for the adjourned meeting.
- d. The register of interests of the Directors and their families in the share capital of the Company and copies of contracts of service of Directors with the Company or with any of its subsidiary undertakings (being service contracts with a notice or contract period of one year or more or with provisions for predetermining compensation on termination of an amount which equals or exceeds one year's salary and benefits in kind) will be available for inspection at the registered office of the Company during normal business hours (Saturdays and public holidays excepted) from the date of this notice until the conclusion of the meeting and will also be available for inspection at the venue of the meeting for at least 15 minutes before the meeting and also during the meeting.

ANNUAL GENERAL MEETING: EXPLANATION OF RESOLUTIONS

The Company's Annual General Meeting ('AGM') will be held at 11.00 a.m. on 16 October 2007 at the offices of Dickinson Dees LLP, 112 Quayside, Newcastle upon Tyne. The notice of the AGM is attached to this explanatory note. As well as dealing with the routine business of the Annual General Meeting, resolutions will be put to the AGM on the following matters.

A Re-election of Leo Finn (Resolution 4)

Leo Finn, aged 69, joined the Board and was appointed Chairman in 2004. The Board consider that the Company will continue to benefit from his business expertise.

B Re-election of Therese Liddle (Resolution 5)

Therese Liddle, aged 42, joined the Company in 1989 and held various senior operational posts prior to her appointment to the Board in 2000. The Board believes that the Company will continue to benefit from her business expertise.

C Directors' Authority to Allot Shares (Resolution 8)

Under section 80 of the Companies Act 1985, the Directors of the Company may only allot relevant securities if authorised to do so. This resolution proposes to renew the authority granted to the Directors at the Annual General Meeting held on 15 November 2002 to allot shares in the Company. Resolution 8 will, if passed, give the Directors authority to allot shares up to a maximum nominal value of £225,646 being the currently unissued but authorised share capital (representing 25.8 per cent of the current issued share capital).

The Directors have no present intention of exercising the allotment authority proposed by this resolution other than pursuant to existing rights under employee share schemes. To ensure compliance with institutional guidelines and market practice, it is proposed that the authority will expire at the conclusion of the next Annual General Meeting or, if earlier, the date which is 15 months from the passing of this resolution except insofar as commitments to allot shares have been entered into before that date. It is the present intention of the Directors to seek a similar authority annually.

As at 5 September 2007 the Northern Recruitment Group plc Employee Trust holds 9,325 ordinary shares which are classified as treasury shares. This represents approximately 0.05 per cent of the Company's issued ordinary share capital.

D Issue of Share Capital (Resolution 9)

Resolution 9, which will be proposed as a special resolution, relates to the disapplication of the statutory pre-emption rights which would otherwise apply on an issue of the Company's shares for cash. Resolution 9 disapplies these statutory pre-emption rights for an issue of shares for cash pursuant to a rights issue (or a similar pre-emptive share issue) where the securities attributable to the interests of all share holders are proportionate (as nearly as practicable) to the number of shares held, and also disapplies the statutory pre-emption rights in connection with the allotment of shares pursuant to existing share options, and to allotments of shares on a non pre-emptive basis up to an aggregate nominal amount of £43,000 (representing the nominal value of approximately 5 per cent of the Company's existing share capital). Resolution 9 replaces the existing authority (passed at the 2006 AGM) to disapply pre-emption rights, which expires at the 2007 AGM. The new authority, contained in Resolution 9, will expire at the conclusion of the Company's 2008 AGM, or 15 months from the date of passing of the resolution, whichever is the earlier. Other than the allotment of shares in connection with the Company's existing share option schemes, the Directors have no present intention to allot shares in the Company. The Board also confirms its intention that equity securities equivalent to no more than 7.5% of the issued share capital of the Company will be allotted for cash on a non pre-emptive basis during any rolling three-year period in line with institutional investor guidelines.

E Purchase of Own Shares (Resolution 10)

Resolution 10, which will be proposed as a special resolution, if passed, would renew the Company's power to buy-back up to 1.74 million of its Ordinary shares of 5p on the Stock Market. This authority gives the Company greater flexibility in managing its capital resources. Any shares purchased under this authority may be cancelled (in which case the number of shares in issue will be reduced accordingly) or may be held in treasury so as to be sold at a later date subject to the restrictions set out in Resolution 10 or its equivalent in force at the time. Resolution 10 specifies the maximum number of shares which may be purchased, which is approximately 10 per cent of the Company's issued Ordinary share capital at 5 September 2007. The proposed resolution sets out the lowest and highest prices that the Company may pay for its shares. The maximum price for the Ordinary shares stated in Resolution 10 reflects the requirements of the UK Listing Authority under the provisions of the Listing Rules. The proposed authority, if granted, will expire at the Company's 2008 AGM, or 15 months from the date of the resolution (if earlier). The Directors have no current intention of buying back any of the Company's shares, but it is one of the options they wish to keep under review. The Company will only purchase its own shares if the Directors believe that it is in shareholders' best interests and will increase earnings per share.

Group Offices & Financial Calendar

□ Newcastle upon Tyne

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Tel: 0191 232 1222

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□ Tees Valley

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York
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□ Glasgow

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□ Edinburgh

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Fax: 0131 240 1090

□ London

212 Piccadilly
London
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Tel: 0207 917 9458

□ Company Website

www.nrgplc.com

□ Financial Calendar 2008

Annual General Meeting:

16 October 2007

Payment date for proposed final dividend:

29 October 2007

Announcement of 2008 Interim Results:

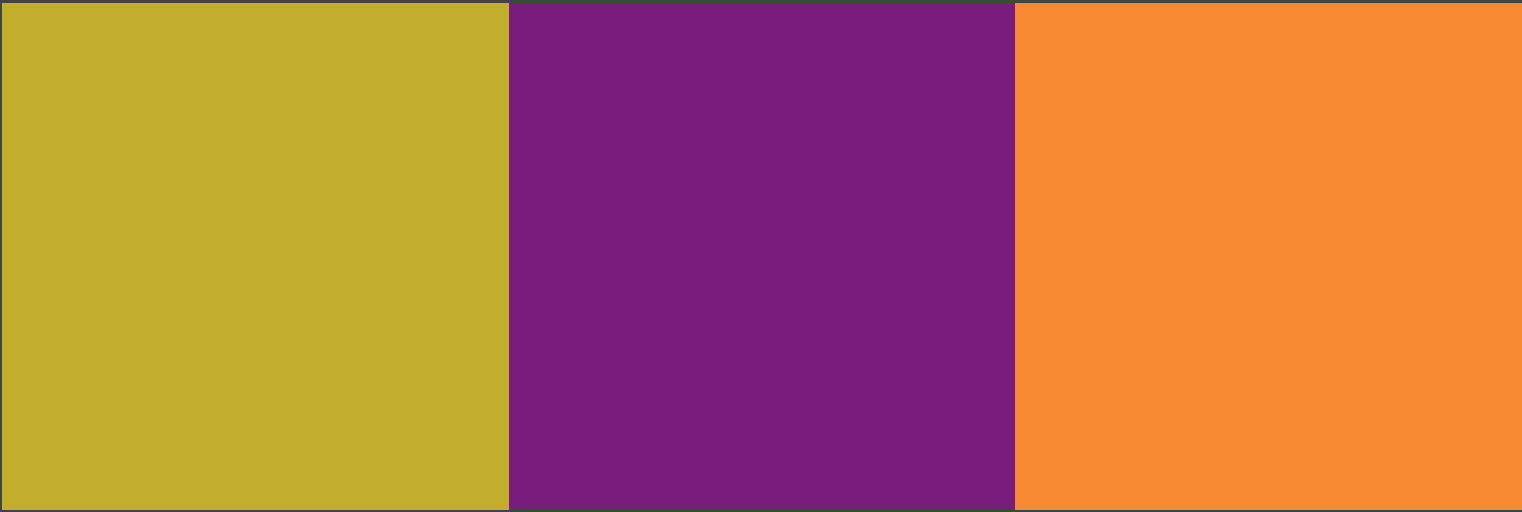
February 2008

Payment date for interim dividend:

March 2008

Announcement of 2008 Final Results:

September 2008



www.nrgplc.com

NRG



GROUP

Northern Recruitment Group plc

56, Grey Street, Newcastle upon Tyne NE1 6AH