

HUMAN RESOURCE GROUP PLC
DIRECTORS' REPORT AND FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 1997

Registered Office
The Cedars
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Kent
TN23 1RQ

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Company No: 924542

CHAIRMAN'S STATEMENT - 1997 FINANCIAL STATEMENTS

This has been another busy and successful year for the Group. Turnover amounted to £31.4m (£22.7m) and showed a substantial increase of 38% with profit before taxation increasing to £1.0m (£0.3m). This pre-tax profit increase of over 200% reflected the benefit of improved turnover and first time profit contributions from joint ventures established in 1996.

As predicted in my statement last year, 1997 saw a significant improvement in our performance, while in the year to date we are already ahead both of last year and our expectation. This current progress augers well for the public flotation being planned to take place within the next twelve months.

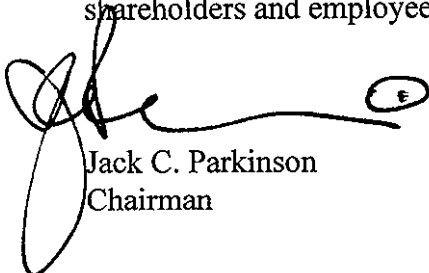
Our programme of developing the Group through the establishment of joint ventures continues and I am delighted to report that, during 1997, a further six have been set up, being three "Staffsign" companies covering Slough, the West and East Anglia respectively, two under the Pennine Engineering name and a further business, Impact Europe. Although joint ventures, when established initially, absorb resources, the majority of those started in 1996 made a positive contribution to the 1997 results and I am confident that those established in 1997 should follow the same pattern and contribute positively to the Group's profit performance for 1998.

Our prime objective continues to be the development of the Group's profitability by giving senior executive teams in the operational companies sufficient incentive, together with substantial autonomy, freedom and responsibility to achieve their clear and agreed business objectives.

Our strategic intent is to create added value for our clients and so bring competitive advantage to their activities. We do this by combining our focused knowledge of employment market sectors with an extensive range of skills, industry and international experience.

The development of the Group into twenty operating businesses has seriously increased the workload on our Central Services function which operates from offices at The Cedars, Ashford, Kent. To overcome the growing problem, a lease has been entered into to take up adjacent offices which, when renovated, will provide adequate facilities for the central services staff, as well as beneficially releasing space for one of our major subsidiaries, Recruitment Holdings Ltd., with whom The Cedars is shared.

Finally, I would like to thank all Directors, Managers and Staff for their contribution during the year and look forward with them to the ongoing improvement and rewards for both shareholders and employees our future endeavours should create.



Jack C. Parkinson
Chairman

REPORT OF THE DIRECTORS

- 1 The directors present their annual report and the audited financial statements for the year ended 31 December 1997.

Principal activities

- 2 The principal activity of the Group during the year was to trade in various recruitment fields and associated activities. The businesses of the principal subsidiaries are set out in Note 10 to the financial statements.

Business review and future developments

- 3 The consolidated results for the year are set out on page 7 of the financial statements. General comments on the development of the business during the year, together with an indication of likely future developments, are given in the Chairman's Statement.

The directors continue to seek further opportunities for internal growth and development of the Group's main spheres of operation.

Dividends

- 4 The directors recommend that no dividend be paid for the year (1996:£Nil).

Directors and directors' interests

- 5 The directors who served during the year and their holdings in the shares of the company were as follows:-

	No of shares at 31 December 1997	No. of shares at 31 December 1996
	No.	No.
Mrs B Parkinson - Beneficial	40,820	40,820
J C Parkinson - Beneficial	652,912	652,912
- Family Trust *	704,200	704,200
- Family Trust (non-beneficial interest) **	79,000	79,000

* Held by a family trust of which certain of the directors are trustees and Mr J C Parkinson has a beneficial interest.

** Held by a family trust of which Mrs B Parkinson and Mr J C Parkinson are trustees. Neither of the trustees has a beneficial interest.

On 5 January 1998 Malcolm Champion was appointed as a non-executive director of the company. Mr Champion had previously held the position of Group Finance Director at Brake Bros. Plc.

REPORT OF THE DIRECTORS - Continued

Share options were granted to certain directors and employees within the Group on 3 July 1990 under the Executive Share Option scheme, exercisable at a subscription price of £3.45 per share normally between the third and tenth anniversary of the date of grant. No options were exercised during the year. During the year share options were granted under the existing scheme at a subscription price of £1.28 per share.

Under this scheme the directors had the following options:-

	10p Ordinary Shares	Subscription Price
Options at 1 January 1997	12,000	£3.45
Granted during 1997	10,000	£1.28
Options at 31 December 1997	<u>22,000</u>	

Employees

- 6 The Group's policy is to consult with employees on matters likely to affect their interest.

Applications for employment by disabled persons are always given full consideration and opportunities will also be sought for employees of the Group who become disabled to continue their employment or be trained for other positions within the Group.

Creditor payment policy

- 7 The company's policy concerning the majority of its trade creditors is to pay as far as practicable on agreed terms of settlement commensurate with normal trading practice.

The Group's 'creditor days' at 31 December 1997 were 39.

REPORT OF THE DIRECTORS - Continued

Close company status

- 8 The company is a close company as defined by the Income and Corporation Taxes Act 1988.

Auditors

- 9 A resolution to reappoint Coopers & Lybrand will be proposed at the forthcoming Annual General Meeting.

BY ORDER OF THE BOARD

A handwritten signature in black ink, appearing to be 'A E Prior', written in a cursive style.

A E Prior
Company Secretary

STATEMENT OF DIRECTORS' RESPONSIBILITIES

The directors are required by UK company law to prepare financial statements for each financial year that give a true and fair view of the state of affairs of the company and the Group as at the end of the financial year and of the profit or loss of the Group for that period.

The directors confirm that suitable accounting policies have been used and applied consistently, with the exception of the changes explained in Note 1(k) on page 14 and reasonable and prudent judgements and estimates have been made in the preparation of the financial statements for the year ended 31 December 1997. The directors also confirm that applicable accounting standards have been followed and that the financial statements have been prepared on the going concern basis.

The directors are responsible for keeping proper accounting records, for safeguarding the assets of the company and of the Group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

BY ORDER OF THE BOARD

A handwritten signature in black ink, appearing to be 'A E Prior', written in a cursive style.

A E Prior
Company Secretary

REPORT OF THE AUDITORS TO THE MEMBERS OF

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HUMAN RESOURCE GROUP PLC

We have audited the financial statements on pages 7 to 28.

Respective responsibilities of directors and auditors

As described on page 5 the company's directors are responsible for the preparation of financial statements. It is our responsibility to form an independent opinion, based on our audit, on those statements and to report our opinion to you.

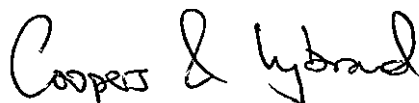
Basis of opinion

We conducted our audit in accordance with Auditing Standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements 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 are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

Opinion

In our opinion the financial statements give a true and fair view of the state of affairs of the company and the Group at 31 December 1997 and of the profit, total recognised gains and cash flows of the Group for the year then ended and have been properly prepared in accordance with the Companies Act 1985.



COOPERS & LYBRAND

Chartered Accountants and Registered Auditors

Maidstone

Date: 29 May 1998

HUMAN RESOURCE GROUP PLC AND ITS SUBSIDIARIES

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CONSOLIDATED PROFIT AND LOSS ACCOUNT FOR THE YEAR ENDED 31 DECEMBER 1997

	<u>Notes</u>	<u>1997</u> £'000	<u>1996</u> £'000 as restated
TURNOVER	1(e),2	31,426	22,728
Cost of Sales		(22,892)	(16,993)
GROSS PROFIT		<u>8,534</u>	<u>5,735</u>
Administrative expenses		(7,360)	(5,283)
Other operating income		103	78
OPERATING PROFIT		<u>1,277</u>	<u>530</u>
Interest payable and similar charges	3	(251)	(222)
PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION	4	<u>1,026</u>	<u>308</u>
Tax on profit on ordinary activities	7	(371)	(179)
PROFIT ON ORDINARY ACTIVITIES AFTER TAXATION		<u>655</u>	<u>129</u>
Minority interests	18	(121)	(43)
RETAINED PROFIT FOR THE FINANCIAL YEAR		<u>534</u>	<u>86</u>

All of the activities of the Group are continuing.

The movements in reserves are set out in notes 16 and 17 to the financial statements.

HUMAN RESOURCE GROUP PLC AND ITS SUBSIDIARIES

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STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES
FOR THE YEAR ENDED 31 DECEMBER 1997

	<u>1997</u> £'000	<u>1996</u> £'000 as restated
Profit for the financial year	534	86
Currency translation differences on foreign currency net investment	15	12
Total recognised gains and losses relating to the year	<u>549</u>	<u>98</u>
Prior year adjustment	(44)	
Total gains and losses recognised since last annual report	<u>505</u>	

There is no difference between the profit on ordinary activities before taxation and the retained profit for the year stated above, and their historical cost equivalents.

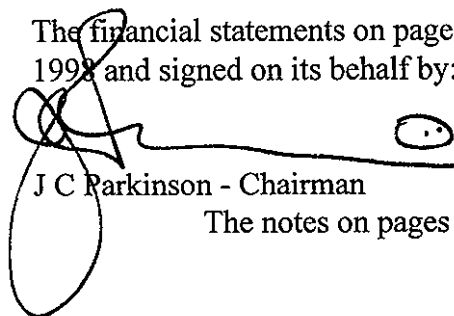
HUMAN RESOURCE GROUP PLC AND ITS SUBSIDIARIES

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CONSOLIDATED BALANCE SHEET AT 31 DECEMBER 1997

	<u>Notes</u>	<u>1997</u> £'000	<u>1996</u> £'000 as restated
FIXED ASSETS			
Tangible fixed assets	8	1,659	1,495
CURRENT ASSETS			
Stocks		15	-
Debtors	11	6,495	4,225
Cash at bank and in hand		244	264
		<u>6,754</u>	<u>4,489</u>
CREDITORS: amounts falling due within one year	12	(6,315)	(4,438)
NET CURRENT ASSETS		<u>439</u>	<u>51</u>
TOTAL ASSETS LESS CURRENT LIABILITIES		<u>2,098</u>	<u>1,546</u>
CREDITORS: amounts falling due after more than one year	13	(902)	(1,039)
PROVISIONS FOR LIABILITIES AND CHARGES			
Deferred tax	14	(19)	-
NET ASSETS		<u>1,177</u>	<u>507</u>
CAPITAL AND RESERVES			
Called up share capital	15	156	156
Share premium account		489	489
Revaluation reserve	16	-	-
Capital reserve		7	7
Profit and loss account	17	324	(225)
EQUITY SHAREHOLDERS' FUNDS	19	<u>976</u>	<u>427</u>
MINORITY INTERESTS	18	201	80
		<u>1,177</u>	<u>507</u>

The financial statements on pages 7 to 28 were approved by the Board of directors on 29 May 1998 and signed on its behalf by:



J C Parkinson - Chairman

The notes on pages 12 to 28 form part of these financial statements.
Auditors' report page 6

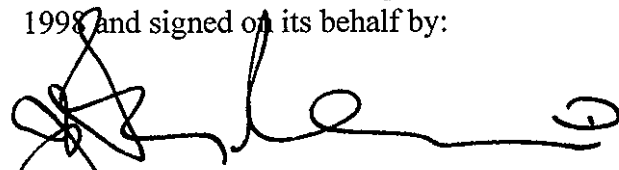
HUMAN RESOURCE GROUP PLC

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COMPANY BALANCE SHEET AT 31 DECEMBER 1997

	<u>Notes</u>	<u>1997</u> £'000	<u>1996</u> £'000
FIXED ASSETS			
Tangible fixed assets	8	164	243
Investments	10	338	524
		<u>502</u>	<u>767</u>
CURRENT ASSETS			
Debtors	11	3,481	5,817
Cash at bank and in hand		-	148
		<u>3,481</u>	<u>5,965</u>
CREDITORS: amounts falling due within one year	12	(3,431)	(5,744)
NET CURRENT ASSETS		<u>50</u>	<u>221</u>
TOTAL ASSETS LESS CURRENT LIABILITIES		<u>552</u>	<u>988</u>
CREDITORS: amounts falling due after more than one year	13	(231)	(352)
NET ASSETS		<u>321</u>	<u>636</u>
CAPITAL AND RESERVES			
Called up share capital	15	156	156
Share premium account		489	489
Capital reserve		7	7
Profit and loss account	17	(331)	(16)
EQUITY SHAREHOLDERS' FUNDS		<u>321</u>	<u>636</u>

The financial statements on pages 7 to 28 were approved by the Board of directors on 29 May 1998 and signed on its behalf by:



J C Parkinson - Chairman

The notes on pages 12 to 28 form part of these financial statements.
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CONSOLIDATED CASH FLOW STATEMENT FOR THE YEAR ENDED 31 DECEMBER 1997

	<u>Notes</u>	<u>1997</u> £'000	<u>1996</u> £'000 as restated
Net cash inflow from operating activities	20	585	157
		—	—
Returns on investments and servicing of finance			
Interest received		1	1
Interest paid		(223)	(197)
Interest paid on finance leases		(29)	(26)
		—	—
Net cash outflow from returns on investments and servicing of finance		(251)	(222)
		—	—
Taxation			
UK taxation paid		(165)	(109)
		—	—
Capital expenditure and financial investment			
Payments to acquire fixed assets		(290)	(160)
Receipts from sales of fixed assets		87	36
		—	—
Net cash outflow from capital expenditure and financial investment		(203)	(124)
		—	—
Equity dividends paid to minorities		-	(32)
		—	—
Net cash outflow before financing		(34)	(330)
Financing			
Receipt of loans		31	126
Repayment of loans		(93)	(60)
Repayment of principal under finance leases		(185)	(135)
		—	—
Net cash outflow from financing		(247)	(69)
		—	—
Decrease in cash		(281)	(399)
		==	==

The notes on pages 12 to 28 form part of these financial statements.

Auditors' report page 6

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 1997**Principal accounting policies**

- 1 The financial statements have been prepared in accordance with applicable Accounting Standards in the United Kingdom. A summary of the more important Group accounting policies is set out below, together with an explanation of where they have not been applied consistently.

(a) **Changes in presentation of financial information**

FRS1 "Cash flow statements" was revised in 1996 to change the format for reporting cash flows. The revised standard came into effect for accounting periods ending on or after 23 March 1997. Accordingly the Group's cash flow statement has been presented under the new format.

(b) **Basis of accounting**

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

(c) **Basis of consolidation**

The Group financial statements comprise the statements of the holding company and its principal subsidiaries which are listed in Note 10. The financial statements of all subsidiaries are made up to 31 December 1997. Intra Group sales and profits are eliminated fully on consolidation.

On acquisition of a subsidiary, all of the subsidiary's assets and liabilities that exist at the date of acquisition are recorded at their fair values reflecting their condition at that date. All changes to those assets and liabilities, and the resulting gains and losses that arise after the Group has gained control of the subsidiary are charged to the post acquisition profit and loss account.

(d) **Goodwill**

Goodwill represents the excess of the fair value of the consideration given over the fair value of the identifiable net assets at the date of their acquisition. Goodwill is written off against reserves in the year in which it arises.

(e) **Turnover**

Turnover represents the amounts receivable by the Group in the ordinary course of business, net of Value Added Tax, for goods sold and services provided outside of the Group.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 1997 - Continued**Principal accounting policies - continued****(f) Depreciation**

Depreciation is provided on a straight line basis in order to write off the cost of the assets, less their estimated residual values, over their estimated useful lives at the following rates:-

Fixtures, fittings, equipment & vehicles	- between 10% and 33% per annum
Freehold properties	- 2% per annum

(g) Deferred taxation

Deferred taxation is provided using the liability method in respect of the taxation effect of all timing differences to the extent that it is probable that liabilities will crystallise in the foreseeable future.

(h) Finance and operating leases

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

Leasing agreements which transfer to the Group substantially all the benefits and risks of ownership of an asset are treated as if the asset had been purchased outright. The assets are included in fixed assets and the capital element of the leasing commitments is shown as obligations under finance leases. The lease rentals are treated as consisting of capital and interest elements. The capital element is applied to reduce the outstanding obligations and the interest element is charged against profit so as to give a constant periodic rate of charge on the remaining balance outstanding at each accounting period. Assets held under finance leases are depreciated over the shorter of the lease terms and the useful lives of equivalent owned assets.

(i) Pension scheme

The Group operates two defined contribution pension schemes. The assets of the schemes are held separately from those of the Group in independently administered funds. The pension charge for the period is disclosed in Note 5 to the financial statements.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 1997 - Continued**(j) Foreign exchange**

Assets and liabilities in foreign currencies are translated into sterling at the exchange rates ruling at the year end. Transactions in foreign currencies are translated into sterling at the rates of exchange ruling at the date of the transaction. Exchange differences arising from the above are included in the profit and loss account. Differences on exchange arising from the retranslation of the opening net investment in subsidiary companies, and from translation of results of those companies at the closing rate, are taken to reserves and are reported in the statement of total recognised gains and losses.

(k) Change of accounting policy

With effect from 1 January 1997 the Group changed its accounting policy in respect of the treatment of freehold and investment properties. The Group now retains all properties at historical cost and provides depreciation as set out in note 1(f) above. The effects of the change in accounting policy are disclosed in notes 9 and 25.

Turnover and results

2	<u>1997</u> £'000	<u>1996</u> £'000
EC Countries	31,426	22,728
	=====	=====

In the directors' opinion there are no significant trading activities other than recruitment and associated activities.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 1997 -
Continued

Interest payable and similar charges

3	<u>1997</u> £'000	<u>1996</u> £'000
On bank loans, overdrafts and other loans wholly repayable within five years	212	187
On other loans	11	10
On finance leases	29	26
Interest receivable	(1)	(1)
	<u>251</u>	<u>222</u>
	==	==

Profit on ordinary activities before taxation

- 4 Profit on ordinary activities before taxation is stated after charging/(crediting) the following items:-

	<u>1997</u> £'000	<u>1996</u> £'000 as restated
Depreciation:		
- on owned assets	229	209
- on assets under finance leases	55	25
Auditors' remuneration:		
- audit services (company audit £5k : 1996 £4k)	55	43
- other services	-	-
Directors' remuneration (see note 6)	158	117
Profit/(loss) on disposal of fixed assets	(7)	5
Operating lease expenses	307	253
Settlement of past liabilities (see below)	100	-
	<u>==</u>	<u>==</u>

Since the year end the Group has settled a claim which came to light in 1997 relating back to the liquidation of a company in 1991. A full and final settlement has been reached in this regard.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 1997 -
Continued

Staff numbers and costs

- 5 During the year the average monthly number of persons employed by the Group was as follows:-

	<u>1997</u>	<u>1996</u>
	No	No
Recruitment and administration	195	140
	==	==
	£'000	£'000
Wages and salaries	3,938	2,783
Social security costs	393	270
Other pension costs	41	30
	<u>4,372</u>	<u>3,083</u>
	==	==

Directors' emoluments

6	<u>1997</u>	<u>1996</u>
	£	£
Aggregate emoluments	158,404	117,210
	==	==

Tax on profit on ordinary activities

7	<u>1997</u>	<u>1996</u>
	£'000	£'000
United Kingdom corporation tax at 31.5% (1996: 33%)		
Current	352	179
Deferred	19	-
	<u>371</u>	<u>179</u>
	==	==

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 1997 -
Continued

Tangible fixed assets

8 Group

	Freehold properties £'000	Fixtures, fittings, equipment & vehicles £'000	Total £'000
COST			
At 1 January 1997 as previously stated	1,086	1,103	2,189
Investment properties reclassified (see note)	257	-	257
Prior year adjustment	(246)	-	(246)
	<hr/>	<hr/>	<hr/>
At 1 January 1997 as restated	1,097	1,103	2,200
Additions	-	528	528
Disposals	-	(190)	(190)
	<hr/>	<hr/>	<hr/>
At 31 December 1997	1,097	1,441	2,538
	<hr/>	<hr/>	<hr/>
DEPRECIATION			
At 1 January 1997 as previously stated	162	519	681
Prior year adjustment	24	-	24
	<hr/>	<hr/>	<hr/>
At 1 January 1997 as restated	186	519	705
Charge for the year	22	262	284
Disposals	-	(110)	(110)
	<hr/>	<hr/>	<hr/>
At 31 December 1997	208	671	879
	<hr/>	<hr/>	<hr/>
NET BOOK VALUE			
At 31 December 1997	889	770	1,659
	<hr/>	<hr/>	<hr/>
At 1 January 1997 as restated	911	584	1,495
	<hr/>	<hr/>	<hr/>

The net book value of tangible fixed assets includes an amount of £379,034 (1996: £337,626) in respect of assets held under finance leases.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 1997 -
Continued

Tangible fixed assets - continued

8 Company

	Fixtures, fittings, <u>equipment & vehicles</u> £'000
COST	
At 1 January 1997	472
Additions	59
Disposals	(17)
Transfers from other Group companies	4
Transfers to other Group companies	(130)
	<hr/>
At 31 December 1997	388
	<hr/>
DEPRECIATION	
At 1 January 1997	229
Charge for the year	89
Disposals	(10)
Transfers from other Group companies	1
Transfers to other Group companies	(85)
	<hr/>
At 31 December 1997	224
	<hr/>
NET BOOK VALUE	
At 31 December 1997	164
	<hr/>
At 1 January 1997	243
	<hr/> <hr/>

The net book value of tangible fixed assets includes an amount of £91,461 (1996: £163,850) in respect of assets held under finance leases.

9 Investment properties

The directors of the company are of the opinion that as the principal activity of the Group is to trade in various recruitment fields and not to be an investment property company, it is more appropriate to include all properties at historical cost rather than at valuation. This change of accounting policy has been treated as a prior year adjustment and the effect on profit before taxation in the year is to increase profit by £20,000 and to reduce profit in 1996 by £5,000.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 1997 -
Continued

Investments

<u>Company</u>		
10	Investment in subsidiaries	
		<u>1997</u>
		£'000
	COST	
	At 1 January 1997	608
	Additions	-
	At 31 December 1997	<u>608</u>
	PROVISION AGAINST INVESTMENTS	
	At 1 January 1997	84
	Movement during year	186
	At 31 December 1997	<u>270</u>
	NET BOOK VALUE	
	At 31 December 1997	338
	At 1 January 1997	<u>524</u>

The directors consider that to give full particulars of all subsidiary undertakings would lead to a statement of excessive length. The following information relates to those subsidiary undertakings whose results or financial position, in the opinion of the directors, principally affected the Group.

<u>Name of Company</u>	<u>Share Capital</u>	<u>%held</u>	<u>Activity</u>
Foleybrook Properties Limited	£100	100*	Property investment
Staffsign (Group) Limited	£10,000	90*	Recruitment
Recruitment Holdings Limited	£10,000	90*	Recruitment
Hayden Pearse Group Limited	£200	68*	Recruitment
Birmingham Power Limited	£100	52*	Recruitment
Anthony Griffin & Co. Limited	£100	51*	Recruitment
Human Engineering Limited	£100	52*	Ergonomic consultancy
Sales & Marketing Selection Limited	£100	80*	Recruitment
Interactive Recruitment Limited	£100	51*	Recruitment
PSB Recruitment Limited	£10,000	90*	Recruitment
Eclipse Personnel Limited	£200	51*	Recruitment

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 1997 - Continued

<u>Name of Company</u>	<u>Share Capital</u>	<u>%held</u>	<u>Activity</u>
Anderson's (UK) Limited	100	51*	Recruitment
Brian Forbes Search & Selection Limited	85	60*	Recruitment
Pennine Engineering Limited	87	59*	Recruitment
Staffsign (East Anglia) Limited	100	51*	Recruitment
Staffsign (Slough) Limited	100	51*	Recruitment
Staffsign (West) Limited	100	51*	Recruitment
Impact Europe Limited	100	51*	Recruitment
Pennine Engineering (Lancs) Limited	100	52*	Recruitment

The above subsidiaries are all incorporated and trade in Great Britain.

Shares are ordinary shares of 100p each except for the shares of Staffsign Limited, Recruitment Holdings Limited and PSB Recruitment Limited which are ordinary shares of 10p each.

<u>Name of company</u>	<u>Country of incorporation</u>	<u>% held</u>	<u>Activity</u>
Anderson's (Deutschland) GmbH	Germany	51	Recruitment in Germany

During the year Human Resource Group disposed of its entire shareholding in Anderson's (Deutschland) GmbH to Anderson's (UK) Limited for the sum of DM1. The company remains a subsidiary by virtue of the controlling interest that Human Resource Group has in Anderson's (UK) Limited.

*Direct subsidiary of HUMAN RESOURCE GROUP PLC.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 1997 -
Continued

11	Debtors		1997		1996	
	<u>Group</u>	<u>Company</u>	<u>Group</u>	<u>Company</u>	<u>Group</u>	<u>Company</u>
	£'000	£'000	£'000	£'000	£'000	£'000
Falling due within one year:						
Trade debtors	6,087	13	4,023	37		
Amounts owed by subsidiary companies	-	2,791	-	5,274		
Other taxes and social security	3	-	4	-		
Prepayments	385	102	190	35		
Other debtors	20	18	-	-		
Advance corporation tax	-	-	8	-		
	<u>6,495</u>	<u>2,924</u>	<u>4,225</u>	<u>5,346</u>		
Falling due after one year:						
Loans to subsidiaries	-	557	-	471		
	<u>6,495</u>	<u>3,481</u>	<u>4,225</u>	<u>5,817</u>		
	<u><u>6,495</u></u>	<u><u>3,481</u></u>	<u><u>4,225</u></u>	<u><u>5,817</u></u>		

Creditors: amounts falling due within one year

12	1997		1996	
	<u>Group</u>	<u>Company</u>	<u>Group</u>	<u>Company</u>
	£'000	£'000	£'000	£'000
Bank loans and overdrafts	1,991	1,303	1,730	1,185
Other loans	114	100	-	-
Trade creditors	224	14	244	59
Obligations under finance leases	157	29	143	79
amounts owed to subsidiary companies	-	1,718	-	4,268
Corporation tax	358	-	179	13
Other taxes and social security	2,144	68	1,397	23
Other creditors	213	103	204	57
Accruals	1,114	96	541	60
	<u>6,315</u>	<u>3,431</u>	<u>4,438</u>	<u>5,744</u>
	<u><u>6,315</u></u>	<u><u>3,431</u></u>	<u><u>4,438</u></u>	<u><u>5,744</u></u>

The bank loans and overdrafts of £1,991,000 (1996: £1,730,000) are secured by a fixed and floating charge over the assets of the Group.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 1997 -
Continued

Creditors: amounts falling due after more than one year

13

	1997		1996	
	<u>Group</u>	<u>Company</u>	<u>Group</u>	<u>Company</u>
	£'000	£'000	£'000	£'000
Bank loans	459	-	519	-
Other loans	289	225	405	325
Obligations under finance leases	154	6	115	27
	<u>902</u>	<u>231</u>	<u>1,039</u>	<u>352</u>
	==	==	==	==

The rate of interest payable on bank loans of £519,000 (1996: £579,000) is 1.375% above LIBOR. The bank loans are secured by a fixed and floating charge on the freehold properties owned by the Group.

Details of loans not wholly repayable within five years are as follows:

	<u>1997</u>	<u>1996</u>
	£'000	£'000
Bank loan repayable in equal quarterly instalments until April 2006	519	579
Less: due within one year	(60)	(60)
	<u>459</u>	<u>519</u>
	==	==

These loans are repayable as follows:-

	<u>1997</u>	<u>1996</u>
	£'000	£'000
Within one year	60	60
Between one and five years	240	240
Over five years	219	279
	<u>519</u>	<u>579</u>
	==	==

Other loans are repayable between one and five years.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 1997 -
Continued

The net finance lease obligations to which the Group is committed are:

	<u>1997</u>	<u>1996</u>
	£'000	£'000
In one year or less	157	143
Between one and five years	154	115
Over five years	-	-
	<u>311</u>	<u>258</u>
	<u>==</u>	<u>==</u>

Provisions for liabilities and charges

Deferred tax

	£'000
14 At 1 January 1997	-
Profit and loss account	19
	<u>19</u>
At 31 December 1997	<u>==</u>

Deferred taxation provided in the financial statements and the amount unprovided of the total potential liability are as follows:

	Amount provided		Amount unprovided	
	<u>1997</u>	<u>1996</u>	<u>1997</u>	<u>1996</u>
	£'000	£'000	£'000	£'000
Tax effect of timing differences over depreciation	19	-	-	-
	<u>==</u>	<u>==</u>	<u>==</u>	<u>==</u>

Share capital

	<u>1997</u>	<u>1996</u>
	£	£
15 Authorised: 5,000,000 ordinary shares of 10p	500,000	500,000
	<u>==</u>	<u>==</u>
Allotted, called up and fully paid: 1,563,824 ordinary shares of 10p	156,382	156,382
	<u>==</u>	<u>==</u>

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 1997 - ContinuedOptions in shares of Human Resource Group Plc.

Options have been granted for 10p ordinary shares under the share option schemes for executives and employees as follows:

Number of shares		Subscription price per share	Period of option
1997	1996		
14,000	14,000	345p	before 3 July 2000
56,500	-	128p	from 23 December 2000 to 22 December 2007

Consolidated revaluation reserve

16

	<u>Freehold properties</u> £'000	<u>Investment properties</u> £'000
At 1 January 1997 as previously stated	225	6
Prior year adjustment	(225)	(6)
	—	—
At 1 January and 31 December	-	-
	==	==

Profit and loss account

17

	<u>Group</u> £'000	<u>Company</u> £'000
At 1 January 1997 as previously stated	(181)	(16)
Prior year adjustment	(44)	-
	—	—
At 1 January 1997 as restated	(225)	(16)
Profit/(loss) for the year	534	(315)
Current translation differences on foreign currency net investment	15	-
	—	—
At 31 December 1997	324	(331)
	==	==

As permitted by Section 230 of the Companies Act 1985, the parent company's profit and loss account has not been included in these financial statements. The parent company's loss for the financial year was £315,000 (1996: £73,000).

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 1997 -
Continued

<u>Minority interest</u>			
18		<u>1997</u>	<u>1996</u>
		£'000	£'000
	Balance at 1 January	80	37
	Profit for the year	121	43
		<u> </u>	<u> </u>
	Balance at 31 December	201	80
		<u> </u>	<u> </u>

Reconciliation of movements in shareholders' funds

19		<u>1997</u>	<u>1996</u>
		£'000	£'000
			as restated
	Opening shareholders' funds as previously stated	702	580
	Prior year adjustment	(275)	(251)
		<u> </u>	<u> </u>
	Opening shareholders' funds as restated	427	329
	Profit for the year	534	86
	Other recognised gains	15	12
		<u> </u>	<u> </u>
	Closing shareholders' funds	976	427
		<u> </u>	<u> </u>

Net cash flow from operating activities

20		<u>1997</u>	<u>1996</u>
		£'000	£'000
			as restated
	Operating profit	1,277	530
	Depreciation	284	234
	(Profit)/loss on sale of fixed assets	(7)	5
	Increase in debtors	(2,270)	(1,166)
	Increase in creditors	1,316	554
	Increase in stocks	(15)	-
		<u> </u>	<u> </u>
		585	157
		<u> </u>	<u> </u>

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 1997 -
Continued

Reconciliation of net cash flow to movement in net debt

21		<u>1997</u> £'000	<u>1996</u> £'000
	Decrease in cash in the period	(281)	(399)
	Cash outflow from decrease in debt	247	69
		—	—
	Change in net debt resulting from cash flows	(34)	(330)
	Other non-cash items:		
	New finance leases	(238)	(148)
		—	—
	Movement in net debt in the period	(272)	(478)
	Net debt at 1 January 1997	(2,648)	(2,170)
		—	—
	Net debt at 31 December 1997	(2,920)	(2,648)
		=====	=====

Analysis of changes in net debt

22		At 1 Jan <u>1997</u> £'000	Cash <u>flow</u> £'000	Other non <u>cash changes</u> £'000	At 31 Dec <u>1997</u> £'000
	Cash at bank and in hand	264	(20)	-	244
	Overdrafts	(1,670)	(261)	-	(1,931)
		—	—	—	—
		(1,406)	(281)	-	(1,687)
	Debt due after 1 year	(924)	-	176	(748)
	Debt due within 1 year	(60)	62	(176)	(174)
	Finance leases	(258)	185	(238)	(311)
		—	—	—	—
	Total	(2,648)	(34)	(238)	(2,920)
		=====	=====	=====	=====

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 1997 - Continued**Commitments**

- 23 At 31 December 1997 capital expenditure that had been contracted for but not provided in the financial statements was nil (1996:nil).

Operating lease commitments

- 24 At 31 December 1997 the Group had annual commitments under non-cancellable operating leases as follows:

	Land & Buildings	
	<u>1997</u>	<u>1996</u>
	£'000	£'000
Expiring less than one year	7	4
Expiring between one and five years inclusive	76	36
Expiring in over five years	177	240
	<u>260</u>	<u>280</u>
	<u>==</u>	<u>==</u>

Change in accounting policy

- 25 The prior year adjustment of £275,000 (1996: £251,000) results from a change in accounting policy for the treatment of freehold and investment properties discussed on page 14 and reported, to the extent that it affects the profit and loss reserve, in the statement of total recognised gains and losses and is adjusted in opening reserves in Notes 16 and 17.

The effect of the change in accounting policy is to increase the current year's profit before taxation by £20,000. The effect on the comparative profit and loss account is to reduce the profit before by £5,000.

Ultimate controlling party

- 26 The ultimate controlling party is Mr J C Parkinson by virtue of his controlling interest in Human Resource Group plc.

Contingent liabilities

- 27 The company has given a cross guarantee to Barclays Bank Plc in respect of the overdrafts of the subsidiary companies.

**NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 1997 -
Continued**

Related party transactions

- 28 During the year the Group rented two of its properties from the self-administered pension scheme of Mr J C Parkinson. Rents paid for these properties during the year were £64,000. The Group also rented a property from Mr J C Parkinson for which it paid rent during the year of £8,270. The rents on these properties are determined by an independent professional valuer.