



Penna

PENNA CONSULTING PLC

Report and Accounts 2007

Human Capital Management

People Change Performance

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Penna Consulting Plc

Highlights

Recovery in profit in second half

Net revenues* up by 11.6% in second half

Operating costs reduced by £2.8m on annualised basis

Profit of £1.0m before redundancy costs of £0.4m

Profit before tax £0.6m

Net cash of £1.5m at year end (2006: net debt of £4.4m)

*Turnover less pass through costs

Chairman's review

The Group has returned to profit in the second half of the year through a combination of the cost reduction programme initiated last summer and a modest increase in revenues. The Group is well placed to take advantage of any improvement in the outplacement market and our other businesses are expected to continue their growth.

Financial Review

First Half & Second Half Analysis	Six months to 30 September 2006	Six months to 31 March 2007	Year to 31 March 2007
	£'000	£'000	£'000
Net Revenues*	14,650	16,338	30,988
Net costs of operations +	(15,648)	(14,327)	(29,975)
(Loss)/profit before redundancy costs	(998)	2,011	1,013
Redundancy costs	-	(441)	(441)
(Loss)/ profit before tax	(998)	1,570	572

*Turnover less pass through costs

+Operating costs and finance costs less pass through costs and redundancy costs

Turnover in the year at £43.4m was at a similar level to last year (2006 £44.6m) however underlying net revenues (turnover net of pass through costs) reduced by 4.8% from £32.6m to £31.0m. Net revenues in the second half of the year grew by 11.5% over the first half.

The benefit of the cost reduction actions taken last summer were fully realised in the second half of the year and consequently net costs of operations were £1.3m lower than in the first half. As a result we are pleased to report a significantly improved second half profit of £2.0m (before redundancy costs) compared to a first half loss of £1.0m.

Profit before tax for the year as a whole amounted to £1.0m before redundancy costs of £0.4m.

In October the Company moved from the Full List to AIM. The AIM market is more appropriate to an organisation of Penna's size and nature and we have seen the benefits in terms of costs and regulatory regime. At the same time the Company completed a placing of 5.7m ordinary shares at 70 pence and this, together with improved working capital management meant that the Group had net cash of £1.5m at 31 March 2007. (2006 net debt of £4.4m).

Net revenues by service line

	2007	2006
	£'000	£'000
Career Transition	16,313	19,224
Executive Recruitment	5,005	5,590
Executive Interim	2,454	3,140
Recruitment Communications	667	212
Leadership Development	2,839	2,309
HR Consulting	4,008	2,273
Intercompany sales	(298)	(190)
Total net revenues	30,988	32,558
Total turnover	43,379	44,602

Operational review

Career Transition continues to operate in a quiet market as the UK economy remains strong and net revenues were down 15.1% on the previous year. A change in the leadership of this division, refocusing of the sales teams and the introduction of new services meant that the second half was stronger than the first and in particular the fourth quarter saw a series of new large contracts won from the competition. The benefits of these contracts in revenue terms will be realised in the new financial year. We believe we are well placed to take advantage of any upturn in the market in the current year.

Net revenue of our Executive Recruitment business was down 10.5%. Action has been taken to improve the performance of this business in the UK with the recruitment of new senior consultants.

Executive Interim revenues improved through the year and second half net revenues were up by 26.8% compared to the first half. We expect this business to grow further from this strong base.

We continue to invest in our Recruitment Communications business which incurred a small operating loss of £0.4m. Recent wins in both the public and commercial sectors are bringing us closer to the point at which this new business will contribute to group profits.

The first half trend of strong revenue growth in our HR Consulting and Leadership Development businesses continued throughout the second half. Combined revenues of £6.8m for the year are up 49.4% compared to £4.6m in the previous year. We completed a substantial assessment assignment in India during the year and this has created opportunities for us there which we are currently evaluating. Demand for Leadership Development remains strong and during the year we launched a new service in managed coaching to support larger organisations seeking to maximise their return on investments in coaching.

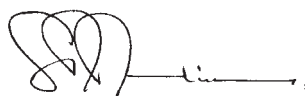
Our International businesses in Europe (with offices in Dublin, Paris, Stockholm and Madrid) performed well increasing their net revenues by 30.5% in the year.

Incentive plan

Since the year end the Board has implemented a Long Term Incentive Plan ("LTIP") to further align the remuneration of the senior management team with shareholders' interests. The LTIP will incentivise senior management of the Company to meet demanding performance targets, details of this plan are given on page 7.

Outlook

The year saw us consolidate our position and results after the significant restructuring of the previous year. We have established an appropriate and flexible cost structure and we are now looking forward to profitable growth in each of our core businesses.



Stephen Rowlinson
Chairman
16 July 2007

Report of the directors

for the year ended 31 March 2007

The Directors present their report and the audited accounts for the year ended 31 March 2007.

Principal Activities, Trading Review and Future Developments

The principal activity of the Group is the provision of human capital management consultancy. A review of the Group's activities, performance in the year and an outline of its future prospects can be found in the Chairman's review on page 2.

Profits and Dividends

The Group profit on ordinary activities before taxation amounted to £572,000 (2006: profit £2,588,000).

The Directors do not recommend the payment of a final dividend for the year. (2006: Nil).

Directors

Directors who served during the year were:

Stephen Rowlinson, Chairman, aged 67. Stephen Rowlinson has many years of experience of the human capital management sector from his work with McKinsey, Korn/Ferry, Bartlett Scott Edgar, and during his time as Chief Executive of Sanders & Sidney in the early 1990's. He joined the board in December 2004 and became Chairman in February 2005.

Gary Browning, Chief Executive, aged 46. Gary Browning joined Penna in 2002. He was appointed Director of Operations in 2004 and joined the Board in February 2005. Gary's earlier career included 12 years with the WPP Group where, from 1997 to 2002, he was Managing Director of BDG McColl Ltd. Gary is a Chartered Accountant and qualified with KPMG having studied for his degree at Warwick University.

David S P Firth, FCA, Finance Director, aged 46. David Firth qualified as a Chartered Accountant with Thomson McLintock in 1985. He joined the Board of the Company in September 1999. Previously he was Finance Director of Parity Plc.

David F Banks†, Non-Executive Director, aged 64. David Banks was Senior Vice President of The Chase Manhattan Bank, President of the Financial Services Group of Continental Grain Company, Chief Executive Officer of AT&T Capital and Executive Chairman of Newcourt Credit Group. He joined the Board of the Company in December 1994. He is currently non-executive Chairman of Dynex Power Inc. and Footmaxx Inc. as well as a Director of Dynatec Corporation and Nightingale Informatics Corporation.

Sir James Harvie-Watt*†, Bt, FCA, Non-Executive Director, aged 66. Sir James, who qualified as a Chartered Accountant with Coopers & Lybrand, was previously Managing Director of Wembley Stadium Limited and a Director of various other companies in the leisure sector. He is currently Chairman of Oliver & Sanders Group Limited and he is also a non-executive director of other companies. He joined the Board of the Company in 1995.

Richard Stillwell*†, Non-Executive Director, aged 58. Richard Stillwell was, until 2000, a member of the ICI Executive as Executive Vice-President of Industrial Specialities. Previous appointments during a 26-year career with ICI included Chief Executive of ICI Polyurethanes and ICI's Human Resources and Safety, Health and Environment Director. He was a Trustee Director of the ICI Pension Fund. He joined the Board of the Company in January 2002. He is a non executive director of Fiberweb plc and St. Ives plc. He qualified as a barrister in 2002.

* Member of the Audit Committee

† Member of the Remuneration Committee

Gary Browning and Stephen Rowlinson will retire at the forthcoming Annual General Meeting and will offer themselves for re-election.

Directors' Responsibilities

The directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the company and the group, for safeguarding the assets of the company and the group, for taking reasonable steps for the prevention and detection of fraud and other irregularities and for the preparation of a Directors' Report which complies with the requirements of the Companies Act 1985.

The directors are responsible for preparing the annual report and the financial statements in accordance with the Companies Act 1985. The directors have chosen to prepare financial statements for the group in accordance with International Financial Reporting Standards as adopted by the European Union (IFRSs) and have chosen to prepare the parent company accounts in accordance with UK Generally Accepted Accounting Practice.

Financial instruments

Details of the use of financial instruments by the company and its subsidiary undertakings are contained in note 19 of the financial statements

Group financial statements

International Accounting Standard 1 requires that financial statements present fairly for each financial year the group's financial position, financial performance and cash flows. This requires the faithful representation of the effects of transactions, other events and conditions in accordance with the definitions and recognition criteria for assets, liabilities, income and expenses set out in the International Accounting Standards Board's 'Framework for the preparation and presentation of financial statements'. In virtually all circumstances, a fair presentation will be achieved by compliance with all applicable IFRSs. A fair presentation also requires the Directors to:

- consistently select and apply appropriate accounting policies;
- present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information; and
- provide additional disclosures when compliance with the specific requirements in IFRS is insufficient to enable users to understand the impact of particular transactions, other events and conditions on the entity's financial position and financial performance.

Parent company financial statements

Company law requires the directors to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that period. In preparing these financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.
- make judgements and estimates that are reasonable and prudent; and
- state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements.

Financial statements are published on the group's website in accordance with legislation in the United Kingdom governing the preparation and dissemination of financial statements, which may vary from legislation in other jurisdictions. The maintenance and integrity of the group's website is the responsibility of the directors. The directors' responsibility also extends to the ongoing integrity of the financial statements contained therein.

Report of the directors continued

for the year ended 31 March 2007

Statement as to Disclosure of Information to Auditors

All of the current directors have taken all the steps that they ought to have taken to make themselves aware of any information needed by the company's auditors for the purposes of their audit and to establish that the auditors are aware of that information. The directors are not aware of any relevant audit information of which the auditors are unaware.

The Company has maintained insurance throughout the year to cover all directors against liabilities in relation to the Company and its subsidiary undertakings.

Substantial Shareholdings

At 29 June 2007 disclosures had been made to the Company of interests (other than holdings of Directors) in the issued share capital of the Company in excess of 3% as follows:

	Registered holding 000's	% of issued share capital
Jeremy Hosking Esq	3,548	14.0%
Suzie Mummé	3,448	13.6%
Gartmore Investment Limited	3,096	12.3%
AMVESCAP plc	1,311	5.2%
Aberdeen Asset Management	956	3.8%

Details of directors' interests in the company's ordinary share capital are given in the Directors' Remuneration report on pages 7 to 9.

Employees

We are committed to sustainable development through training and supporting our people to genuinely care about the clients and colleagues they work with and the communities they live in. We are committed to involving all employees in the performance and development of the Company. Employees are sent frequent updates on corporate activities, a review of the Group's financial position half yearly, monthly team updates and newsletters. The Company maintains a strong communications network and employees and associates are encouraged to discuss with management matters of interest and subjects affecting day to day operations of the Company. Employees are regularly asked for feedback on their level of engagement, via an independent survey. Actions are taken at all levels of the Company where issues are identified to ensure employees and associates are fully engaged with the development of the business, which is further facilitated through our company intranet, leadership visits and conferences. Penna has a Consultation Forum, which consists of elected representatives from across the business, to harness more effectively the input from employees and associates on business issues.

Penna aims to build a community where everyone feels welcome, valued and respected. We are committed to ensuring equal opportunities, valuing diversity and sustaining an inclusive environment in everything we do.

Penna is committed to providing an environment for all people working or visiting its offices which is safe, healthy and complies with all statutory requirements and codes of practice under the terms of the Health and Safety at Work Act 1974 and other relevant legislation.

Penna recognises that for some people the opportunity to work flexibly would improve their ability to continue to contribute their valuable skills. Penna wants to encourage a better work-life balance and supports flexible working for our people as the world of work changes and more and more people have to balance responsibilities at home and in the workplace.

Corporate Social Responsibility

Penna has a low adverse impact on the environment. In spite of this we still recognise the need to minimise this impact wherever possible and we have implemented a number of initiatives to achieve this aim including recycling paper, mobile phones, toner cartridges, IT equipment and furniture as well as an awareness campaign around saving energy.

A core element of our policy is a commitment to supporting a cause closely aligned to our business, the development of talent. We support UK Career Academy Foundation by providing mentors to students aged between 16 – 19 years old, often from socially disadvantaged backgrounds. This initiative brings together the worlds of business and education to powerful effect; broadening the choices students have about their future education and career pathways.

In recognition and support of the efforts individuals make with regard to fundraising we support employees both in terms of fundraising and time allowing them to partake in activities within the local community.

The Group made charitable donations of £2,273 (2006: £2,084) during the year under review. No political donations were made (2006: Nil).

Enhanced Business Review

Risks and uncertainties

The Group operates in a competitive environment affected, amongst other things, by the impact of macro-economic factors on the propensity for our customers to buy the services we offer and by the activities of our competitors.

Changes in general economic conditions will affect the level of demand for each of our services in different ways. For example adverse economic conditions may lead to more organisations reducing staffing levels thereby increasing the demand for our Career Transition services but reducing the demand for Recruiting services. The Group's strategy has been developed to provide a broad range of services for our customers and to manage the cost of delivering these services in a flexible way primarily through the use of self-employed professionals and investing in technology.

The competitive risk arising from the activities of our competitors manifest itself in price pressure and service development. The Group continually monitors market prices and our bonus policies include an element based on gross margin percentage achieved. The Group develops innovative solutions to address clients needs and our service lines pride themselves on continually developing new ideas that retains existing clients and attracts new business.

Details of financial risks are provided in note 19 to the financial statements.

Financial aspects of the enhanced business review have been incorporated in the Chairman's Review on page 2.

Creditors' Payment Policy

It is the Group's payment policy to obtain the best possible terms for all its businesses and consequently there is no single policy as to the terms used. In general, the Group agrees with its suppliers the terms on which business will take place and it is the Group's policy to abide by these terms. The number of days billing outstanding from associates and other suppliers at the end of the financial year for the Group was 35 days (2006: 35 days). The Company had no such creditors (2006: £nil).

Auditors

A resolution to re-appoint BDO Stoy Hayward LLP as the Group's auditor will be proposed at the forthcoming Annual General Meeting.

By order of the Board



David S P Firth
Secretary
16 July 2007

Registered Office

20 St Mary at Hill,
London
EC3R 8EE

Company Number: 3142685

Corporate governance statement

Although not compulsory for AIM regulated companies, the Group is committed to the principles of corporate governance contained in the revised Combined Code on Corporate Governance which was published in July 2003 by the Financial Reporting Council. The Board is accountable to the Company's shareholders for corporate governance and confirms that there is a process in place for identifying, evaluating and managing the significant risks to the achievement of the Group's strategic objectives on an ongoing basis. The process has been in place throughout the year. This statement describes how the relevant principles of corporate governance are applied to the Company and the Company's compliance throughout the year with the provisions set out in Section 1 of the revised Combined Code.

We have a policy of dividing responsibilities for the Board and running the Company's business by appointing a Chairman, a senior independent director and a Chief Executive. The Chief Executive and the Finance Director form part of an operations board which is responsible for running the operations of the Company.

The Workings of the Board and its Committees

The Board of Directors normally meets at least eight times a year, and also has telephone conferences as considered necessary. The Non-Executive Directors may meet without the Executive Directors being present if required.

The Board has a balance of skills and experience appropriate to its size and business. It is made up of two Executive Directors, Gary Browning and David Firth, and currently four Non-Executive Directors of whom three (Sir James Harvie-Watt, Bt, David Banks and Richard Stillwell) are deemed by the Company to be independent of management and free from any business or other relationships which could materially interfere with the exercise of their independent judgement. Their overriding duty is to ensure the operations conducted by the company and the procedures followed reflect the best interests of the Company's shareholders. The biographies of the Board of Directors appear on page 3. In the event that there is a need to express concerns to the Board other than through the Chairman, the Board has appointed Richard Stillwell as the Senior Independent Director to whom such concerns can be conveyed.

The Board has sought to ensure that Directors are properly briefed on issues arising at Board meetings by; distributing a formal schedule of matters assigned to each Board meeting which is circulated at the beginning of each year; a more detailed agenda together with the Board papers is circulated at least seven days before each Board meeting; considering the adequacy of the information provided before making decisions; adjourning meetings or deferring decisions when Directors require further information; encouraging Directors to talk to any other key executives or seek further information in order to keep them as informed as they deem appropriate; having key executives attend Board meetings to share information and encourage debate with Board members.

All Directors have access to the advice and services of the Company Secretary and the Board has established a procedure whereby any Director may seek independent professional advice in the furtherance of his duties at the Company's expense.

The Board has delegated specific authorities to an Audit Committee and a Remuneration Committee.

Audit Committee

The Audit Committee operates under written terms of reference which are freely available from the Company Secretary on request. The Committee is chaired by Sir James Harvie-Watt and is composed of Sir James and Richard Stillwell. The Chief Executive and the Finance Director attend as requested by the Committee.

The Committee normally meets before the Company's interim and annual accounts are submitted to the Board for approval. The Committee meets annually without management with the Company's auditors to ensure any concerns the auditors may have are fully expressed. The Committee also recommends the appointment and reviews the fees of external auditors, including non-audit related fees, and considers the independence of the external auditors.

Remuneration Committee

The Remuneration Committee operates under written terms of reference. The Committee is composed of Non-Executive Directors deemed by the Board to be independent of management and is chaired by Richard Stillwell and meets periodically to approve the remuneration for the Executive Directors and to discuss the remuneration of senior employees. The Committee sets general policies on behalf of the Board in connection with salaries, bonuses, options and employee benefits. The Remuneration Report is on pages 7 to 10.

Nominations Committee

It is deemed appropriate for all members of the Board to participate in the recruitment of members of the Board. There is a formal, rigorous and transparent procedure for appointing new directors to the Board. A personality, skills and experience specification is drawn up in the context of the skills and experience which are deemed to be needed in a new Board Director, against which a short list of candidates is matched, and full competency based interviews take place before all Board members interview candidates. All new Board members undertake a three-day familiarisation process. This involves visits to several Penna locations and meeting a number of Penna people in order to get as full an understanding of the business and the issues it faces as possible. The terms and conditions of appointment of non-executive Directors are available for inspection at the Company's registered office during normal business hours and at the AGM.

Attendance at meetings

The number of meetings of the Board and Committees and individual attendance by the members are as follows:

	Main Board	Audit Committee	Remuneration Committee
Number of meetings held	9	2	2
Stephen Rowlinson	8	2	2
Gary Browning	8	2	1
David Firth	9	2	1
Sir James Harvie-Watt	8	2	2
Richard Stillwell	6	2	2
David Banks	7	2	2

Corporate governance statement continued

Maintenance of a sound system of Internal Control

In applying Principle D.2 of the Combined Code, the Board should maintain a sound system of internal control to safeguard shareholders' investments and the Company's assets. The Directors recognise that they have overall responsibility for ensuring that the Group maintains a system of internal control to provide them with reasonable assurance regarding effective and efficient operations, internal financial control and compliance with laws and regulations. However, there are inherent limitations in any system of internal control and, accordingly, even the most effective system can provide only reasonable, and not absolute, assurance against material mis-statement or loss.

For the full year the Board has complied with the procedures recommended by the guidance on internal control issued by the Turnbull Committee. The processes used by the Board to review the effectiveness of the system of internal control include:

- Monthly meetings of the operations board which are subsequently reported to the Board
- Discussions with management on risk areas identified by management and/or the audit process
- Discussions and review of the issues arising from external audits
- The review of significant Group risks.

The Audit Committee reports to the Board the results of their review of the risk assessment process. The Board concludes on the overall effectiveness of all internal controls.

The key features of the internal financial control system that operated throughout the period are described below:

- Comprehensive planning system, annually approved by the Board
- The reporting of business performance by operations directors
- Monthly financial reporting comparing actual performance against plan and against the prior year's results on a monthly and year-to-date basis
- Regular consideration by the Board of actual performance against budgets and business plans
- Ongoing discussions with the head of each discipline within the organisation
- A review of the financial controls across the Group
- Regular reporting of legal and accounting developments to the Board
- The definition of lines of responsibility and delegation of authority
- The setting of authorisation limits.

The Board carefully reviews the business plans and budgets. Material capital expenditure and other large commitments in excess of approved plans are subject to approval by the Board.

Given the Group's size and the nature of the Group's business, the Board does not consider that it would be appropriate to have its own internal audit function at present. Instead, the audit of internal financial controls form part of the responsibilities of the central group finance function.

Relations with Shareholders

Communications with shareholders are given high priority. The Chairman's review on page 2 includes a detailed review of the business. There is regular dialogue with institutional shareholders including presentations after the Company's preliminary announcement of the year-end results and at the half year. Feedback from investors is encouraged and is shared with all Board members. Information about Group companies and up to date news on the Group's services and activities is also accessible via the Penna Consulting web site (www.penna.com).

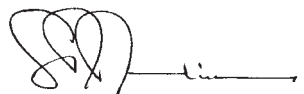
The Board uses the Annual General Meeting to communicate with private and institutional investors and welcomes their participation. The Board aims to ensure that all the Non-Executive Directors are available at Annual General Meetings to answer questions. Details of resolutions to be proposed at the Annual General Meeting on 20 September 2007 can be found in the Notice of Annual General Meeting.

Compliance Statement

The Directors believe that the Company has complied with the revised Combined Code on Corporate Governance issued by the Financial Reporting Council in July 2003 throughout the year except as detailed below.

During the year the Board did not conduct any formal evaluations of its performance or of individual directors.

Certain Board members have served as a Director of the Company for longer than nine years. The Board is of the view that their continued involvement as directors remains beneficial to the Company and its shareholders.



Stephen Rowlinson
Chairman
16 July 2007

Directors' remuneration report

Introduction

This report has been prepared with reference to the Directors' Remuneration Report Regulations 2002 which introduced statutory requirements for the disclosure of Directors' remuneration. The report describes how the Board has applied the principles of good governance relating to Directors' remuneration. As required by the Regulations, a resolution to approve the report will be proposed at The Annual General Meeting of the Company at which the financial statements will be approved.

Remuneration Committee

The Remuneration Committee is composed of three of the Non-Executive Directors, Richard Stillwell (Chairman), David Banks and Sir James Harvie-Watt, Bt.

The purpose of the Committee is to consider all aspects of Executive Directors' remuneration and to determine the specific remuneration packages of the Executive Directors, including bonus schemes, pensions contributions and other benefits ensuring that the remuneration packages are competitive within the human capital management consultancy industry and reflect both Group and personal performance during the year, as well as considering the broader level of remuneration within the Group itself. The Committee meets when required, to consider all aspects of Executive Directors' remuneration. Independent external data on benchmarking Executive Directors' salaries was obtained from published surveys. The Remuneration Committee has also reviewed compensation levels in similar entities quoted in the UK, namely OPD, SHL, Robert Walters, Harvey Nash and Whitehead Mann. Independent external advice is taken when appropriate.

Statement of remuneration policy for Executive Directors

The Group's current policy on Executive Director remuneration for the foreseeable future is as follows:

Salary

The basic salary of each Director is determined by the Remuneration Committee, taking into account the performance of the individual and information from independent sources on the rates of salary for similar jobs in comparable companies.

Annual bonus

Each of the Executive Directors is entitled to participate in an annual executive bonus plan. Under the bonus plan there will be an entitlement to a bonus payment if objectives agreed by the Remuneration Committee at the start of each new financial year are met. The maximum performance-related bonus that can be paid is 100% of total fixed remuneration.

Pensions and other benefits

In addition to the basic remuneration payable under the service agreements, the Executive Directors are entitled to a range of other benefits, including permanent health insurance, death in service benefits, private medical insurance, and car allowance. All benefits are subject to annual review.

Directors have the following pension arrangements:

David Firth

Company contribution of 15% of basic salary into a personal pension plan.

Share options

Executive Directors and senior employees are incentivised by the grant of share options under an Executive Share Option Scheme on a phased basis. Awards for Executive Directors are administered by the Remuneration Committee. Policy for awards to senior employees is set by the Board. The scheme is open to employees and Executive Directors of the Company and its subsidiaries. Subject to any performance condition being met, executive options become exercisable on the third anniversary of the date of grant and lapse if they remain unexercised at the tenth. There is no retesting of performance once the performance condition has been achieved.

Share options granted under the current Executive Option scheme are subject to the performance condition that the option may not be exercised unless the diluted earnings per share of the Group has increased by at least an average of RPI +5% over three consecutive years. This performance criteria was selected as it represents the need for the Company to demonstrate reasonable growth over the medium term. Under the rules of the current option scheme it is now closed for grants.

In July 2007, the Board approved a new option scheme, The Penna Consulting Plc Long term Incentive Scheme 2007 ("LTIP"), to replace the closed Executive Option scheme.

This scheme will allocate up to 5 million options over the Company's ordinary shares to current and future senior management of the Company. The options will vest in equal instalments over the next five years subject to the achievement of annual financial targets calculated as EBITDA per share as set out below.

The options have been granted subject to the Company achieving annual EBITDA per share targets and will vest in equal instalments over the next five years as follows:

- i) 20% of the total options granted to the individual will vest upon the Company achieving a set EBITDA per share target for the year ended 31 March 2008. If this target is not achieved then this proportion of the option will lapse.
- ii) Thereafter, the proportion that will vest each year will be calculated on a straight line pro-rata basis between 0% if the minimum EBITDA target is not achieved up to 20% of the total options granted if the maximum EBITDA target for that year is achieved. Options that do not vest in a particular year will lapse.

For the maximum number of options to vest the Company will need to meet the target set for 2008 and achieve 30% per annum EBITDA growth over the four years from 31 March 2008.

A savings-related share option scheme is in place and is open to all Executive Directors and employees based in the UK.

Directors' remuneration report continued

Contracts of service

Gary Browning and David Firth have separate Service Agreements with the Company. Each contract requires the giving and receiving of one year's notice by either party and contains non-competition and non-solicitation clauses which are binding for up to 12 months after departure. There is also a change of control provision which, subject to conditions, provides for the Company to pay compensation equal to 12 months' total remuneration plus an amount in lieu of bonus.

Non-Executive Directors

The remuneration of the Non-Executive Directors is determined by the Board as a whole, based on outside advice and review of current practices in other companies. Their contracts can be terminated at the will of either party.

Directors' share options

The Company's policy on the issue of options is for them to be allotted normally at market price and solely at the discretion of the Remuneration Committee.

The following options were outstanding at 1 April 2006 and 31 March 2007:

	Exercise Price	1 April 2006	Granted	Lapsed	31 March 2007	Exercisable From	Expiry Date
Gary Browning	125.0p	20,000	–	–	20,000	02.08.06	02.08.13
	133.0p	30,000	–	–	30,000	14.08.07	14.08.14
	115.5p	95,000	–	–	95,000	19.07.08	19.07.15
David Firth	297.5p	80,000	–	80,000	–	–	–
	540.0p	7,407	–	7,407	–	–	–
	375.0p	7,272	–	7,272	–	–	–
	292.5p	12,121	–	12,121	–	–	–
	91.0p	10,000	–	–	10,000	20.12.05	20.12.12
	136.5p	20,000	–	–	20,000	15.08.06	15.08.13
	133.0p	10,000	–	–	10,000	14.08.07	14.08.14
115.5p	105,000	–	–	105,000	19.07.08	19.07.15	

The mid-market share price at 31 March 2007 was 86p. The highest and lowest prices during the year were 123.5p and 56p respectively.

In addition to the options shown above Gary Browning and David Firth participate in the Company's Sharesave Scheme, which is open to all UK employees. This involves a three year savings contract which when completed will entitle the participant to purchase ordinary shares in the Company at a price fixed at the start of the contract.

Details of the individual entitlements under the Sharesave Scheme are as follows:

	Start Date of Savings Contract	Exercise Price	Total Maximum No. of Shares	Total Savings at 31 March 2006
David Firth	01.02.06	84p	8,993	£3,030
Gary Browning	01.02.06	84p	11,130	£3,750

Directors' emoluments

	Basic Salary £000's	Fees £000's	Benefits £000's	Bonus £000's	Total Excluding Pension Contributions	
					2007 £000's	2006 £000's
Stephen Rowlinson	–	22	–	–	22	22
Gary Browning	182	–	8	–	190	181
David Firth	140	–	8	–	148	141
David Banks	–	15	–	–	15	15
Sir James Harvie-Watt Bt	–	15	–	–	15	15
Richard Stillwell	–	15	–	–	15	15
Suzie Mummé†	–	–	–	–	–	14
Allen Thomas†	–	–	–	–	–	8
Total 2007	322	67	16	–	405	–
Total 2006	305	88	18	–	–	411

† Resigned on 15 September 2005.

David Firth had a company contribution of £17,803 (2006: £19,421) paid into a personal pension plan.

Directors' interests

The interests of the Directors in the ordinary shares of the Company at 31 March 2007 were as follows:

	Number of Shares	
	2007 000's	2006 000's
Stephen Rowlinson	8,613	5,863
David Banks	720	502
Sir James Harvie-Watt, Bt	91	66
Gary Browning	13	10
David Firth	6	5
Richard Stillwell	3	3

There have been no changes in the Directors' interests in the ordinary share capital between the year-end and 16 July 2007.

Approval

This report was approved by the Board of Directors and signed on its behalf by:



Richard Stillwell
16 July 2007

Consolidated income statement

for the year ended 31 March 2007

	Notes	Year Ended 31 March 2007 £'000	Year Ended 31 March 2006 £'000
Revenue		43,379	44,602
Operating expenses		(42,647)	(42,217)
Operating profit		732	2,385
Finance costs	8	(160)	(288)
Share of profit from associate		–	183
Profit on disposal of fixed asset investment		–	308
Profit before tax		572	2,588
Tax	18	–	442
Profit for the year		572	2,146
Attributable to:			
Equity holders of the parent		572	2,146
Earnings per share:	9		
– basic		2.58p	11.2p
– diluted		2.58p	11.1p

Consolidated statement of changes in equity

for the year ended 31 March 2007

	Called up share capital £'000	Share premium account £'000	Merger reserve £'000	ESOP reserve £'000	Currency translation reserve £'000	Retained loss £'000	Total £'000
Balance at 1 April 2005	961	11,701	10,170	(397)	40	(10,503)	11,972
Impact of IAS 39/32 adoption	–	–	–	–	–	(542)	(542)
Share issue	17	198	–	–	–	–	215
Currency translation differences	–	–	–	–	2	–	2
Net profit for the year	–	–	–	–	–	2,146	2,146
Share option credit	–	–	–	–	–	60	60
At 1 April 2006	978	11,899	10,170	(397)	42	(8,839)	13,853
Share issue	286	3,210	–	–	–	–	3,496
Currency translation differences	–	–	–	–	24	–	24
Net profit for the year	–	–	–	–	–	572	572
Share option credit	–	–	–	–	–	4	4
At 31 March 2007	1,264	15,109	10,170	(397)	66	(8,263)	17,949

Consolidated balance sheet

as at 31 March 2007

	Note	31 March 2007 £'000	31 March 2006 £'000
Non-current assets			
Goodwill	11	14,036	14,036
Property, plant and equipment	12	1,972	2,270
Other intangible assets – software	13	50	75
		16,058	16,381
Current assets			
Trade receivables	15	9,956	11,173
Other current assets	16	1,916	2,418
Corporation tax		–	35
Deferred tax	17	77	14
Cash and short term deposits	19	3,218	2,117
		15,167	15,757
Total assets		31,225	32,138
Current liabilities			
Trade payables	20	2,667	2,824
Bank overdrafts and loans	21	1,200	4,386
Loan notes	22	431	2,462
Obligations under finance leases	23	94	84
Provisions	24	194	377
Corporation tax		8	–
Other creditors and accruals	25	7,906	7,524
		12,500	17,657
Non-current liabilities			
Bank Loans	21	300	–
Obligations under finance leases	23	88	183
Provisions for liabilities and charges	24	388	445
		776	628
Total liabilities		13,276	18,285
Net assets		17,949	13,853
Capital and reserves			
Called up share capital	26	1,264	978
Share premium account	27	15,109	11,899
Merger reserve	28	10,170	10,170
Employee Share Option Plan reserve	28	(397)	(397)
Foreign currency translation reserve	28	66	42
Retained loss	28	(8,263)	(8,839)
Total equity		17,949	13,853

The financial statements were approved by the board of directors and authorised for issue on 16 July 2007. They were signed on its behalf by:



David SP Firth
Finance director

The accompanying notes are an integral part of this Balance Sheet.

Consolidated cash flow statement

for the year ended 31 March 2007

	Note	Year Ended 31 March 2007 £'000	Year Ended 31 March 2006 £'000
Cash flows from operating activities			
Cash generated/(used) by operations	30a	2,238	(2,388)
Tax refunded		45	428
Interest paid – bank overdraft		(134)	(241)
Net cash generated/(used) by operating activities		2,149	(2,201)
Cash flows from investing activities			
Net purchase of property, plant and equipment		(266)	(1,356)
Sale of investment		750	2,250
Net cash generated by investing activities		484	894
Cash flows from financing activities			
Interest paid – finance leases		(26)	(35)
Repayment of finance leases		(85)	(75)
Repayment of loan notes		(2,031)	(342)
Issue of ordinary share capital		3,496	210
New bank loan received		2,250	–
Bank loan repaid		(750)	–
Net cash from/(used) in financing activities		2,854	(242)
Net increase/(decrease) in cash and cash equivalents		5,487	(1,549)
Cash and cash equivalents at start of period		(2,269)	(720)
Cash and cash equivalents at end of period	30b	3,218	(2,269)

Notes to the financial statements

for the year ended 31 March 2007

1. General Information

On 11 September 2006, the Company's shareholders approved the cancellation of the listing of the existing Ordinary Shares on the Official List and the application for the Company's Ordinary Shares to be admitted to trading on the Alternative Investment Market ("AIM"). In addition, the shareholders approved the placing of 5,714,286 new Ordinary Shares at a price of 70 pence per Ordinary Share, raising £4 million. These shares were placed with existing shareholders and new investors. The placing completed on 10 October 2006.

2. Significant accounting policies

Basis of accounting

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards as adopted for use in the European Union (IFRS).

The consolidated financial statements have been prepared on the historical cost basis, except for certain financial instruments. The principal accounting policies adopted are set out below.

Basis of consolidation

The consolidated financial statements incorporate the accounts of Penna Consulting Plc and all its subsidiary undertakings made up to 31 March 2007. Acquisitions are included from the date of acquisition; this is deemed to be the date when control passes to the Group.

The Group financial statements include the appropriate share of associated undertakings' results and net assets based on the latest available accounts. Associated undertakings are those in which the Group has a long-term investment in the voting equity and over which it exerts significant influence.

Where necessary, adjustments are made to the financial statements of subsidiaries to bring the accounting policies used into line with those used by the Group. All intra-group transactions, balances, income and expenses are eliminated on consolidation.

Accounting policy note

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

IFRS – 7 Financial Instruments: Disclosures; and the related amendment to IAS1 on capital disclosures

IFRSS – 8 Operating segments

IFRIC – 7 Applying the Restatement Approach under IAS 29 Financial Reporting in Hyperinflationary Economies

IFRIC – 8 Scope of IFRS2 Share-based Payment

IFRIC – 9 Reassessment of Embedded Derivatives

IFRIC – 10 Interim Financial Reporting and Impairment

IFRIC – 11, IFRS – 2 Group and Treasury Share Transactions

IFRIC – 12 Service Concession Arrangements

The directors anticipate that the adoption of these Standards and Interpretations will have no material impact on the financial statements of the Group when the relevant standards and interpretations come into effect.

Goodwill

Goodwill arising on consolidation represents the excess of the cost of acquisition over the Group's interest in the fair value of the identifiable assets and liabilities of a subsidiary, associate or jointly controlled entity at the date of acquisition. Goodwill is initially recognised as an asset at cost and is subsequently measured at cost less any accumulated impairment losses. Goodwill which is recognised as an asset is reviewed for impairment at least annually. Any impairment is recognised immediately in profit or loss and is not subsequently reversed.

Goodwill arising on acquisitions before the date of transition to IFRSs has been retained at the previous UK GAAP amounts subject to being tested for impairment at that date. Goodwill written off to reserves under UK GAAP prior to 1998 has not been reinstated and is not included in determining any subsequent profit or loss on disposal.

Other intangible assets

Other intangible assets consist of computer software that is not an integral part of a related item of computer hardware. Capitalised internal-use software costs include external direct costs of materials and services consumed in developing or obtaining the software, and payroll and payroll-related costs for employees who are directly associated with the project. Capitalisation of these costs ceases no later than the point at which the project is substantially complete and ready for its intended purpose. These costs are amortised over their expected useful life of three years on a straight-line basis, with the lives reviewed annually. The amortisation charge is included in operating costs.

Notes to the financial statements continued

for the year ended 31 March 2007

Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable and represents amounts receivable for goods and services provided in the normal course of business, net of discounts, VAT and other sales-related taxes. Revenue from Fee income from retained assignments is recognised on completion of defined stages of work. Revenue in respect of project based assignments is recognised when the service is provided.

Interest income

Interest income is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount.

Leased assets

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

Assets held under finance leases are recognised as assets of the Group at the fair value or, if lower, at the present value of the minimum lease payments, each determined at the inception of the lease. The corresponding liability to the lessor is included in the balance sheet as a finance lease obligation. Lease payments are apportioned between finance charges and reduction of the lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are charged directly against income.

Rentals payable under operating leases are charged on a straight-line basis over the lease term, even if the payments are not made on such a basis. Benefits received and receivable as an incentive to sign an operating lease are similarly spread on a straight-line basis over the lease term.

Foreign currencies

The individual financial statements of each Group company are presented in the currency of the primary economic environment in which it operates (its functional currency). For the purpose of the consolidated financial statements, the results and financial position of each Group company are expressed in pounds sterling, which is the functional currency of the Company, and the presentation currency for the consolidated financial statements.

In preparing the financial statement of the individual companies, transactions in currencies other than the entity's functional currency (foreign currencies) are recorded at the rates of exchange prevailing on the dates of the transactions. At each balance sheet date, monetary assets and liabilities that are denominated in foreign currencies are retranslated at the rates prevailing on the balance sheet date. Non-monetary items carried at fair value that are denominated in foreign currencies are translated at the rates prevailing at the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences arising on the settlement of monetary items, and on the retranslation of monetary items, are included in profit or loss for the period. Exchange differences arising on the retranslation of non-monetary items carried at fair value are included in profit or loss for the period except for differences arising on the retranslation of non-monetary items in respect of which gains and losses are recognised directly in equity. For such non-monetary items, any exchange component of that gain or loss is also recognised directly in equity.

For the purpose of presenting consolidated financial statements, the assets and liabilities of the Group's foreign operations are translated at exchange rates prevailing on the balance sheet date. Income and expense items are translated at the average exchange rates for the period, unless exchange rates fluctuate significantly during that period, in which case the exchange rates at the date of transactions are used. Exchange differences arising, if any, are classified as equity and transferred to the Group's translation reserve. Such translation differences are recognised as income or as expenses in the period in which the operation is disposed of.

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the closing rate.

Operating profit

Operating profit is stated after charging restructuring costs but before finance costs and the share of results of associates.

Retirement benefit costs

A defined contribution scheme is operated on behalf of the employees. The assets are held separately from those of the Company in an independently administered fund. Payments to defined contribution retirement benefit schemes are charged as an expense as they fall due.

Taxation

The tax expense represents the sum of the tax currently payable and deferred tax.

The tax currently payable is based on taxable profit for the year. Taxable profit differs from net profit as reported in the income statement because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the balance sheet date.

Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from

the initial recognition of goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the tax profit nor the accounting profit.

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries and associates, and interests in joint ventures, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realised. Deferred tax is charged or credited in the income statement, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Group intends to settle its current tax assets and liabilities on a net basis.

Property, plant and equipment

Property, plant and equipment are recorded in the balance sheet at cost less accumulated depreciation and any accumulated impairment losses. Under UK GAAP, certain assets were revalued in 2005 and the depreciated revalued amount has been treated as deemed cost on transition to IFRS.

Depreciation is charged so as to write off the cost or valuation of all fixed assets over their expected useful lives. It is calculated on the following bases:

Leasehold premises and improvements	– The lesser of the remaining life of the lease or 10 years
Furniture, equipment and motor vehicles	– 20–25% straight-line
Computer equipment	– 20–33 ¹ / ₃ % straight-line

Where assets are financed by leasing agreements and substantially all the risks and rewards of ownership are substantially transferred to the Group (“finance leases”) the assets are treated as if they had been purchased outright and the corresponding liability to the leasing company is included as an obligation under finance leases. Depreciation on assets held under finance leases is charged to the income statement on the same basis as owned assets.

Impairment of assets

Assets that have an indefinite useful life are not subject to amortisation and they are tested for impairment annually and whenever there is an indication that the asset may be impaired. Assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable.

The impairment loss recognised is the amount by which the asset’s carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset’s fair value less costs to sell and value in use.

For the purpose of impairment testing, goodwill is allocated solely to the UK trading entity, Penna Plc. If the recoverable amount of the entity is less than the carrying amount of the entity, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the entity and then to the other assets of the entity pro-rata on the basis of the carrying amount of each asset in the entity. An impairment loss recognised for goodwill is not reversed in a subsequent period. On disposal of a subsidiary, associate or jointly controlled entity, the attributable amount of goodwill is included in the determination of the profit or loss on disposal.

Financial instruments

Financial assets and financial liabilities are recognised on the Group’s balance sheet when the Group becomes a party to the contractual provision of the instrument.

Trade receivables

Trade receivables are measured at fair value. Appropriate allowances for estimated irrecoverable amounts are recognised in profit or loss when there is objective evidence that the asset is impaired. The allowance recognised is measured as the difference between the asset’s carrying amount and the present value of estimated future cash flows discounted at the effective interest rate computed at initial recognition.

Trade payables

Trade payables are measured at fair value.

Cash and cash equivalents

Cash and cash equivalents comprise cash on hand and demand deposits, overdrafts, and other short-term highly liquid investments that are readily convertible to a known amount of cash and are subject to an insignificant risk of changes in value.

Financial liabilities and equity

Financial liabilities and equity instruments are classified according to the substance of the contractual arrangements entered into.

An equity instrument is any contract that evidences a residual interest in the assets of the group after deducting all of its liabilities.

In accordance with IAS 39 a financial liability of the Group is only de-recognised when the underlying legal obligation is extinguished.

Notes to the financial statements continued

for the year ended 31 March 2007

Bank borrowings

Interest-bearing bank loans and overdrafts are initially recorded at their fair value. Finance charges, including premiums payable on settlement or redemption and direct issue costs, are accounted for on an accrual basis in profit or loss account using the effective interest method and are added to the carrying amount of the instrument to the extent that they are not settled in the period in which they arise.

Equity instruments

Equity instruments issued by the Company are recorded at the proceeds received, net of direct issue costs.

Provisions

Provisions are recognised when the Group has a present obligation as a result of a past event, and it is probable that the Group will be required to settle that obligation. Provisions are measured at the directors' best estimate of the expenditure required to settle the obligation at the balance sheet date, and are discounted to present value where the effect is material.

Share-based payments

The group has applied the requirements of IFRS 2 Share-based Payments. In accordance with the transitional provisions, IFRS 2 has been applied to all grants of equity instruments after 7 November 2002 that were unvested as of 1 January 2005.

The group issues equity-settled share-based payments to certain employees. Equity-settled share-based payments are measured at fair value (excluding the effect of non market-based vesting conditions) at the date of grant. The fair value determined at the grant date of the equity-settled share-based payments is expensed on a straight-line basis over the vesting period, based on the group's estimate of shares that will eventually vest and adjusted for the effect of non market-based vesting conditions.

Fair value is measured by use of the Black-Scholes model. The expected life used in the model has been adjusted, based on management's best estimate, for the effects of non-transferability, exercise restrictions, and behavioural considerations.

The Group also provides employees with the ability to purchase the group's ordinary shares at 80% of the current market value under a Savings Related Share Option scheme. The Group records an expense, based on its estimate of the 20% discount related to shares expected to vest on a straight-line basis over the vesting period.

3. Key sources of estimation uncertainty

The Group makes estimates and assumptions that affect the reported amounts of assets and liabilities within the next financial year. Estimates and judgements are regularly reviewed and based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

Property, plant and equipment and intangible assets, including goodwill

The Group has property, plant and equipment with a carrying value £1,972,000 (note 12), intangible assets have a carrying value of £50,000 (note 13) and goodwill has a carrying value of £14,036,000 (note 11). These assets are reviewed annually for impairment. To assess if any impairment exists, estimates are made of the future cash flows expected to result from the use of the asset and its eventual disposal, and a suitable discount rate to calculate present value. Actual outcomes could vary from such estimates of discounted future cash flows. Factors such as changes in the planned use of equipment, closure of offices or lower than anticipated sales could result in shortened useful lives or impairment.

Notes to the financial statements continued

for the year ended 31 March 2007

4. Operating expenses

	Year Ended 31 March 2007 £'000	Year Ended 31 March 2006 £'000
Included within operating expenses are the following		
Decrease in surplus property provision	176	960

At 31 March 2005, £5,258,000 was provided in respect of business reorganisations. During the year ended 31 March 2007 the provision for surplus property costs was reduced £176,000 (2006: £960,000) to reflect the earlier than anticipated disposal of certain lease liabilities.

5. Business and geographical segments

Business segments

The Group operates as one business segment with the principal activity being the provision of Human Capital management consultancy.

Geographical segments

The Group's operations are predominantly located in the United Kingdom, and do not have separately identified reportable geographic segments. Sales have been derived principally from the UK, and a majority of assets are located in the UK.

6. Operating profit

	Year Ended 31 March 2007 £'000	Year Ended 31 March 2006 £'000
Operating profit has been arrived at after charging:		
Depreciation of property, plant and equipment	472	492
Amortisation of other intangible assets – software	37	66
Staff costs (see note 7)	14,195	14,980
Auditors' remuneration for Group audit services	55	74
Included within the above:		
Parent company audit fee	25	29

Amounts payable to BDO Stoy Hayward LLP and their associates by the Company and its UK subsidiary undertakings in respect of non-audit services were £nil (2006: £nil)

7. Staff costs

The average monthly number of employees (including executive directors) was:

	Year Ended 31 March 2007 Number	Year Ended 31 March 2006 Number
Total employees	237	263
	£'000	£'000
Their aggregate remuneration comprised:		
Wages and salaries	12,603	13,206
Social Security costs	1,273	1,424
Pension costs	319	350
	14,195	14,980

Details of the Directors' remuneration are given in the Directors' remuneration report on pages 7 to 9.

Notes to the financial statements continued

for the year ended 31 March 2007

8. Finance costs

	Year Ended 31 March 2007 £'000	Year Ended 31 March 2006 £'000
Interest receivable:		
Other interest	37	64
Less: interest payable:		
on loan notes	(16)	(18)
on bank overdraft	(153)	(286)
on finance leases	(26)	(35)
other interest	(2)	(13)
	(197)	(352)
	(160)	(288)

9. Earnings per share

The calculation of basic and diluted earnings per share are based on the following amounts:

	Year Ended 31 March 2007 £'000	Year Ended 31 March 2006 £'000
Earnings		
Profit from continuing operations	572	2,146
Profit for the year	572	2,146
Number of shares		
Weighted average number of Shares	22,151,821	19,248,782
Dilution effect of share option Schemes	–	172,103
Diluted weighted average number of Shares	22,151,821	19,420,885
Earnings per share:		
– basic	2.58p	11.2p
– diluted	2.58p	11.1p

The number of potentially issuable shares that have not been brought into the dilutive calculation because they are anti dilutive is 845,000. (2006: 433,739).

10. Dividends

No dividend was proposed (2006: nil) for the year ended 31 March 2007.

11. Goodwill

	Total £'000
Cost	
At 1 April 2006 and 31 March 2007	29,688
Accumulated impairment charges	
At 1 April 2006 and 31 March 2007	15,652
Carrying amount	
At 1 April 2006 and 31 March 2007	14,036

During the year the acquired goodwill was tested for impairment in accordance with IAS36.

The carrying value is attributed to one cash generating unit, namely the UK trading entity Penna Plc. The recoverable amount of goodwill is calculated based on its discounted cash flow. The key assumptions for the value in use calculations are future projections based on the approved plan for 2007/08; growth of 8% in net revenues in the following two years; and return on sales to be a constant of 8.5% over these next three years.

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

The rate used to discount the forecast cash flows is 7.25%.

12. Property, plant and equipment

	Short leasehold premises and improvements £'000	Computer equipment £'000	Furniture, equipment & vehicles £'000	Total £'000
Cost				
At 1 April 2005	2,113	2,091	1,083	5,287
Additions	830	285	177	1,292
Disposals	(135)	(263)	(284)	(682)
At 1 April 2006	2,808	2,113	976	5,897
Additions	109	49	95	253
Disposals	(305)	(44)	(352)	(701)
At 31 March 2007	2,612	2,118	719	5,449
Accumulated Depreciation				
At 1 April 2005	913	1,912	955	3,780
Charge for Year	271	158	63	492
Disposals	(99)	(260)	(286)	(645)
At 1 April 2006	1,085	1,810	732	3,627
Charge for Year	256	141	75	472
Disposals	(231)	(41)	(350)	(622)
At 31 March 2007	1,110	1,910	457	3,477
Carrying Amount				
At 31 March 2007	1,502	208	262	1,972
At 31 March 2006	1,723	303	244	2,270
At 31 March 2005	1,200	179	128	1,507

Included in short leasehold premises and improvements at 31 March 2007 are leased assets with a cost of £420,000 (2006: £420,000), accumulated depreciation of £129,000 (2006: £86,000) and net book value of £291,000 (2006: £334,000).

13. Other intangible assets

	Software and development £'000
Cost	
At 1 April 2005	279
Additions	64
Disposals	(217)
At 1 April 2006	126
Additions	12
At 31 March 2007	138
Accumulated Amortisation	
At 1 April 2005	202
Charge for Year	66
Disposals	(217)
At 1 April 2006	51
Charge for Year	37
At 31 March 2007	88
Carrying Amount	
At 31 March 2007	50
At 31 March 2006	75
At 31 March 2005	77

Notes to the financial statements continued

for the year ended 31 March 2007

14. Investments

During 2006, the Group's 30% holding in the ordinary share capital of Knightsbridge Human Capital Management Inc. was disposed of for a consideration of £3,000,000.

Aggregated amounts relating to associates:

	31 March 2007 £'000	31 March 2006 £'000
Total assets	–	–
Total liabilities	–	–
Revenues	–	2,911
Profit	–	171

Profit comprises an interest charge of nil (2006: £12,000) and operating profit of nil (2006: £183,000) .

Principal investments

The parent Company and the Group have investments in the following undertakings. All but Target Holdings AS, Penna Consulting Germany GmbH and Penna Human Capital Management AB (which are incorporated in Norway, Germany and Sweden respectively) are incorporated within the UK.

Subsidiary Undertakings	Principal Activity	% Holding
Penna Plc	Human Capital Management	100
Penna Consulting Germany GmbH	Resourcing	100
Target Holdings AS	Resourcing	100
Penna Human Capital Management AB	Resourcing	100
Penna Management Services Plc*	Holding Company	100
Penna International Limited*	Holding Company	100
Penna Consulting (NI) Limited	Change and Career Management	100

* Held directly by Penna Consulting Plc

15. Trade receivables

	31 March 2007 £'000	31 March 2006 £'000
Amounts receivable for the rendering of services	9,956	11,173

The average credit period taken on rendering of services is 71 days (2006: 70 days). No interest is charged on the receivables for the first 30 days from the date of the invoice. Thereafter, a late payment fee of 3% may be charged on the outstanding balance. An allowance has been made for estimated irrecoverable amounts from the sale of goods of £129,000 (2006: £263,000). This allowance has been determined by reference to past default experience.

The directors consider that the carrying amount of trade receivables approximates to their fair value.

16. Other current assets

	31 March 2007 £'000	31 March 2006 £'000
Other debtors	1,273	896
Prepayments and accrued income	643	772
Deferred consideration for the disposal of investment in associate	–	750
	1,916	2,418

17. Deferred tax

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

	Short term Differences £'000	Tax Losses Available £'000	Total £'000
At 1 April 2006	14	–	14
Credit to income	18	45	63
At 31 March 2007	32	45	77

It was announced in the Government's budget on 21 March 2007 that the rate of UK corporation tax will be reduced from 30% to 28%. This proposed change had not been enacted at the date of these accounts and therefore no adjustment has been made for the effect of this proposed change or for other matters contained in the budget.

18. Corporation tax

	Year Ended 31 March 2007 £'000	Year Ended 31 March 2006 £'000
Current tax:		
Adjustments in respect of prior periods	63	41
	63	41
Overseas tax	–	11
Deferred tax	(63)	390
Total tax charge on profit	–	442

Corporation tax is calculated at 30% (2006: 30%) of the estimated assessable profit for the year.

Taxation for other jurisdictions is calculated at the rates prevailing in the respective jurisdictions.

The charge for the year can be reconciled to the profit per the income statement as follows:

	Year Ended 31 March 2007 £'000	Year Ended 31 March 2006 £'000
Profit/(loss) before tax:	572	2,588
Tax at the UK corporation tax rate of 30% (2006: 30%)	172	776
Factors affecting charge for the period:		
Capital allowances in excess of depreciation	(75)	(133)
Expenses not deductible for tax purposes	119	183
Income not taxable	(28)	(343)
Unprovided UK tax assets	–	63
Unprovided overseas tax charge due to losses brought forward	(27)	–
Utilisation of brought forward tax losses	(208)	(171)
Unprovided overseas tax assets	29	26
Adjustments in respect of prior periods	18	41
Total tax charge on profit	–	442

Notes to the financial statements continued

for the year ended 31 March 2007

19. Cash and short term deposits

The purchase consideration for certain acquisitions included the issue of loan notes. The balance of unredeemed loan notes at 31 March 2007 amounted to £431,000 (2006: £2.1million). Cash has been transferred into a restricted deposit account to guarantee the payment of these loan notes. This is included within cash and short term deposits for the Company and Group.

Credit risk

The group's principal financial assets are bank balances and cash, and trade and other receivables.

The group's credit risk is primarily attributable to its trade receivables. The amounts presented in the balance sheet are net of allowances for doubtful receivables. An allowance for impairment is made where there is an identified loss event which, based on previous experience, is evidence of a reduction in the recoverability of the cash flows. The group has no significant concentration of credit risk, with exposure spread over a large number of counterparties and customers.

The credit risk on liquid funds is limited because the counterparties are banks with high credit-ratings assigned by international credit-rating agencies.

Liquidity risk

The liquidity risk of the group is managed centrally. The working capital needs of the group are forecast on a weekly and rolling three month and twelve month basis.

Surplus cash is held centrally to maximise returns on deposits through economies of scale. The type of cash instrument and its maturity will depend on the group's forecast cash requirements.

Currency Risk

The Group operates internationally but its exposure to foreign exchange risk is not high given that the Group's operations are predominantly located and delivered in the United Kingdom and therefore denominated in sterling. The Group's non-sterling operations generally invoice revenues and pay costs in the same currency which mitigates the foreign currency exchange rate risk for these operations.

20. Trade payables

	31 March 2007 £'000	31 March 2006 £'000
Trade payables	2,667	2,824

Trade payables principally comprise amounts outstanding for trade purchases and ongoing costs. The average credit period taken for trade purchases is 35 days (2006: 35 days).

The directors consider that the carrying amount of trade payables approximates to their fair value.

21. Bank overdrafts and loans

	31 March 2007 £'000	31 March 2006 £'000
Bank overdrafts	–	4,386
Bank loans	1,500	–
	1,500	4,386

The borrowings are repayable as follows:

On demand or within one year	1,200	4,386
In the second year	300	–
Less: Amount due for settlement within 12 months (shown under current liabilities)	(1,200)	(4,386)
Amount due for settlement after 12 months	300	–

Borrowings are held in sterling currency.

On 18 August 2006, the overdraft facility was replaced with a term loan for the principal amount of £2,250,000 from Royal Bank of Scotland, which incurs an interest rate of 1.5% above LIBOR. Companies in the Group have granted fixed and floating charges to secure this borrowing.

It is the Group's current policy not to hedge the floating interest rate borrowings. The Board considers that the balance of exposure to the risks is appropriate.

22. Loan notes

	31 March 2007 £'000	31 March 2006 £'000
Secured loan notes	198	2,117
Unsecured loan notes	233	345
	431	2,462

Loan notes are repayable on demand. Per note 19, cash held in a restricted deposit account has guaranteed the secured loan note. The loan notes incur interest at variable rates ranging between 3% and 6%.

During the year £2,031,000 of loan notes were redeemed.

23. Obligations under finance leases

Minimum lease payments

	31 March 2007 £'000	31 March 2006 £'000
Amounts payable under finance leases:		
Within one year	110	110
In the second to fifth years inclusive	93	203
Less: future finance charges	(21)	(46)
Present value of lease obligations	182	267
Less: Amount due for settlement within 12 months (shown under current liabilities)	(94)	(84)
Amount due for settlement after 12 months	88	183

It is the Group's policy to lease certain of its leasehold improvements under finance leases. The average lease term is 5 years. For the year ended 31 March 2007, the average effective interest rate was 11.3% (2006: 11.3%).

All lease obligations are denominated in sterling.

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

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

24. Provisions

	Onerous contracts £'000	Leasehold dilapidations £'000	Total £'000
At 1 April 2006	349	473	822
Additional provision	–	100	100
Utilised in year	(164)	–	(164)
Provision no longer required	–	(176)	(176)
At 31 March 2007	185	397	582
Due within one year or less	69	125	194
Due after more than one year	116	272	388
	185	397	582

Onerous contracts relate to the excess of rents payable over rents receivable on sub-let office space. Inherent uncertainties in measuring the provision relate to estimates of rents that will be received in the future on vacant property, and estimating future rents on property where the current sub-lease is of a shorter duration than the head lease.

Leasehold dilapidations relate to the estimated cost of returning a leasehold property to its original state at the end of the lease in accordance with the lease terms. The cost is recognised as depreciation of leasehold improvements over the remaining terms of the lease. The main uncertainty relates to estimating the cost that will be incurred at the end of the lease.

25. Other creditors and accruals

	31 March 2007 £'000	31 March 2006 £'000
Amounts falling due within one year:		
Other creditors, accruals and deferred income	6,776	6,428
Other taxes and social security	1,130	1,096
	7,906	7,524

Notes to the financial statements continued

for the year ended 31 March 2007

26. Share capital

	31 March 2007 £'000		31 March 2006 £'000	
Authorised 26,000,000 (2006: 26,000,000) ordinary shares of 5p each		1,300		1,300
Issued and fully paid	2007 Number	2007 £'000	2006 Number	2006 £'000
At beginning of the year	19,559,062	978	19,215,327	961
Issued for cash during the year	5,714,286	286	343,735	17
At end of the year	25,273,348	1,264	19,559,062	978

27. Share premium account

	Share premium £'000
Balance at 1 April 2006	11,899
Premium arising on issue of equity shares	3,714
Expenses on issue of equity shares	(504)
Balance at 31 March 2007	15,109

28. Equity shareholders' funds

	Called up share capital £'000	Share premium account £'000	Merger reserve £'000	ESOP reserve £'000	Currency translation reserve £'000	Retained loss £'000	Total £'000
Balance at 1 April 2005	961	11,701	10,170	(397)	40	(10,503)	11,972
Impact of IAS 39/32 adoption	–	–	–	–	–	(542)	(542)
Share issue	17	198	–	–	–	–	215
Currency translation differences	–	–	–	–	2	–	2
Net profit for the year	–	–	–	–	–	2,146	2,146
Share option credit	–	–	–	–	–	60	60
At 1 April 2006	978	11,899	10,170	(397)	42	(8,839)	13,853
Share issue	286	3,210	–	–	–	–	3,496
Currency translation differences	–	–	–	–	24	–	24
Net profit for the year	–	–	–	–	–	572	572
Share option credit	–	–	–	–	–	4	4
At 31 March 2007	1,264	15,109	10,170	(397)	66	(8,263)	17,949

The share premium account represents the excess of the proceeds of share allotments over the nominal value of those shares.

The merger reserve represents non-distributable reserves arising upon the acquisition of certain subsidiaries for which the consideration included the issue of shares eligible for merger relief.

The ESOP reserve represents the costs of 100,000 shares of the company acquired with finance provided by the company and held by the Trustee of the ESOP scheme (refer note 32).

The currency translation reserve represents exchange differences arising on the translation of the assets and liabilities and income and expense items of the Group's foreign operations into sterling.

29. Related party transactions

Key management personnel

Key management personnel comprises the Board of Directors which manages the business and affairs of the Company. Details of shares held in the Company by directors and share options granted, and remuneration of key management personnel are disclosed in the Directors' Remuneration report (pages 7 to 9).

30. Notes to the cash flow statement

30a. Reconciliation of operating profit to cash generated/(used) by operating activities

	Year Ended 31 March 2007 £'000	Year Ended 31 March 2006 £'000
Operating profit	732	2,385
Adjustments for:		
Depreciation and amortisation	509	558
Loss on disposal of fixed assets	80	–
Share option expense	4	60
Changes in working capital:		
Decrease/(Increase) in trade and other receivables	995	(826)
Increase/(Decrease) in trade and other payables	94	(3,605)
Property provision reversed	(176)	(960)
Cash generated/(used) by operations	2,238	(2,388)

30b. Cash and cash equivalents

	Year Ended 31 March 2007 £'000	Year Ended 31 March 2006 £'000
Cash and cash equivalents are made up as follows:		
Cash/(Bank overdraft)	3,019	(4,386)
Cash on restricted deposit	199	2,117
Cash and cash equivalents	3,218	(2,269)

31. Leases

Operating leases – lessee

The Group leases all of its properties. The terms of the leases vary, but are negotiated for an average term of 10 years and rentals are fixed for an average of 5 years.

The total future minimum lease payments are due as follows:

	31 March 2007 £'000	31 March 2006 £'000
Not later than one year	2,995	2,904
Later than one year and not later than five years	7,877	8,151
Later than five years	3,603	5,676
	14,475	16,731

Operating leases – lessor

Certain properties may have been vacated prior to the end of the lease term. Where possible the group always endeavours to sub-lease such vacant space on short-term lets. An onerous provision is recognised where the rents receivable over the lease term are less than the obligation to the head lessor (see note 24).

The sub-lease rental income for the year ended 31 March 2007 was £904,620 (2006: £904,620)

The minimum rent receivables under non-cancellable operating leases are as follows:

	31 March 2007 £'000	31 March 2006 £'000
Not later than one year	850	905
Later than one year and not later than five years	1,851	1,193
Later than five years	714	–
	3,415	2,098

Notes to the financial statements continued

for the year ended 31 March 2007

32. Share-based payments

Options have been granted under the Penna Executive Share Option Scheme and Sharesave Scheme to subscribe for ordinary shares of the Company. Options are exercisable at a price equal to the quoted market prices of the Company's shares on the date of grant for those granted under the Executive Share Option Scheme; and at a discount (20%) for those granted under the Sharesave Scheme. The vesting period for the Executive Share Option Scheme is between 3 and 10 years after date of grant, depending on achievement of certain performance conditions, and for the Sharesave Scheme for six months after the third anniversary of date of grant.

The options expire immediately after the vesting period. Options are forfeited if the employee leaves the Group before the options vest.

Details of the share options outstanding during the year are as follows:

	Year Ended 31 March 2007 No of share options	2007 Weighted average exercise price (£)	Year Ended 31 March 2006 No of share options	2006 Weighted average exercise price (£)
Outstanding at beginning of period	1,221,322	1.08	1,642,935	1.20
Granted during the period	–	–	532,207	0.96
Forfeited during the period	(265,015)	1.02	(423,103)	1.68
Exercised during the period	–	–	(343,735)	0.61
Expired during the period	(111,279)	0.67	(186,982)	1.30
Outstanding at the end of the period	845,028	1.10	1,221,322	1.08
Exercisable at the end of the period	237,307	1.17	164,578	0.88

No share options were granted or exercised during the year.

The range of exercise prices of share options outstanding at the year end was £0.91 to £3.80.

During the year ended 31 March 2006 options were granted in July and December 2005. The aggregate of the estimated fair values of the options granted in those months was £106,742.

	2007	2006
Weighted average share price	–	122p
Weighted average exercise price	–	61p
Expected volatility	–	20%
Expected life	–	3 years
Risk free rate	–	5%

The Group recognised total expenses of £4,000 and £60,000 related to equity-settled share-based payment transactions in 2007 and 2006 respectively.

ESOP Scheme

Penna Consulting Plc established an 'ESOP' scheme as an incentive scheme for employees. The Trustee, Ogier (Jersey) purchased the Company's shares in the open market with finance provided by the Company. Costs in respect of the scheme are written off as incurred. The original cost of the shares of £396,640 represents the purchase of 100,000 shares at £3.97. This value is held in reserves. The market value of the shares at the balance sheet date was £86,000. The right to dividends has not been waived and at balance sheet date, no shares had been allocated to employees. Allocation is at the discretion of the Remuneration Committee.

33. Retirement benefit schemes

A defined contribution scheme is operated on behalf of the employees of three of the subsidiary undertakings. The assets are held separately from those of the Company in an independently administered fund. The total cost charged to income of £319,602 (2006: £350,415) represents contributions payable to these schemes. There were no outstanding contributions at the year-end (2006: £nil).

34. Critical accounting judgement when applying the Group's accounting policies

Goodwill impairment

The carrying value of goodwill is tested annually for impairment by using cash flow projections for each cash generating unit. These projections are based upon actual and short term planning results which are extrapolated using a discount rate of 7.25%.

Company balance sheet

At 31 March 2007

		31 March 2007 £'000	31 March 2006 £'000
Fixed assets			
Investments	c	15,693	15,693
		15,693	15,693
Current assets			
Debtors	d	23,129	13,606
Cash at bank and in hand	e	1,494	5,246
		24,623	18,852
Creditors: Amounts falling due within one year	f	(13,774)	(11,521)
Net current assets		10,849	7,331
Total assets less current liabilities		26,542	23,024
Creditors: Amounts falling due after more than one year			
Bank loan		(300)	–
Net assets		26,242	23,024
Capital and reserves			
Called up share capital	g	1,264	978
Share premium account	h	15,109	11,899
ESOP		(397)	(397)
Profit and loss account	i	10,266	10,544
Shareholders' funds	j	26,242	23,024

The financial statements were approved by the board of directors and authorised for issue on 16 July 2007. They were signed on its behalf by:



David SP Firth
Finance director

The accompanying notes are an integral part of this Balance Sheet.

Notes to the Company financial statements

for the year ended 31 March 2007

a. Significant accounting policies

Basis of accounting

The separate financial statements of the company are presented as required by the Companies Act 1985. They have been prepared under the historical cost convention and in accordance with applicable United Kingdom Accounting Standards and law.

The principal accounting policies are summarised below. They have all been applied consistently throughout the year and the preceding year.

Investments

Fixed asset investments in subsidiaries and associates are shown at cost less provision for impairment.

Acquisitions, for which the consideration includes an issue of shares which are eligible for 'merger relief', are stated in the Company's balance sheet at the nominal value of the shares issued together with the fair value of any other consideration given, plus the costs of the relevant acquisitions.

Financial instruments

Financial assets and financial liabilities are recognised on the Company's balance sheet when the Company becomes a party to the contractual provision of the instrument.

Trade receivables

Trade receivables are measured at initial recognition at fair value, and are subsequently measured at amortised cost using the effective interest rate method. Appropriate allowances for estimated irrecoverable amounts are recognised in profit or loss when there is objective evidence that the asset is impaired. The allowance recognised is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the effective interest rate computed at initial recognition.

Trade payables

Trade payables are initially measured at fair value, and are subsequently measured at amortised cost, using the effective interest rate method.

Cash and cash equivalents

Cash and cash equivalents comprise cash on hand and demand deposits, overdrafts, and other short-term highly liquid investments that are readily convertible to a known amount of cash and are subject to an insignificant risk of changes in value.

Financial liabilities and equity

Financial liabilities and equity instruments are classified according to the substance of the contractual arrangements entered into.

An equity instrument is any contract that evidences a residual interest in the assets of the group after deducting all of its liabilities.

In accordance with FRS 26 a financial liability of the Company is only derecognised when the underlying legal obligation is extinguished.

Bank borrowings

Interest-bearing bank loans and overdrafts are initially recorded at their fair value. Finance charges, including premiums payable on settlement or redemption and direct issue costs, are accounted for on an accrual basis in profit or loss account using the effective interest method and are added to the carrying amount of the instrument to the extent that they are not settled in the period in which they arise.

Equity instruments

Equity instruments issued by the Company are recorded at the proceeds received, net of direct issue costs.

b. Profit for the year

As permitted by section 230 of the Companies Act 1985 the company has elected not to present its own profit and loss account for the year.

The company reported a loss for the financial year ended 31 March 2007 of £554,000 (2006 loss: £663,000)

The auditors' remuneration for audit services to the company was £25,000 (2006: £15,000).

The Company has no employees in the current or prior year.

c. Fixed assets investments

Company
£'000s**Cost**

At 1 April 2006 and 31 March 2007	26,451
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Provisions for Impairment

At 1 April 2006 and 31 March 2007	10,758
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Net book value

At 1 April 2006 and 31 March 2007	15,693
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d. Debtors

	31 March 2007 £'000	31 March 2006 £'000
Amounts owed by subsidiary undertakings	23,010	12,736
Other debtors	44	750
Corporation tax recoverable	75	120
	23,129	13,606

e. Cash and cash in hand

The purchase consideration for certain acquisitions included the issue of loan notes. The balance of unredeemed loan notes at the year ended amounted to £431,000 (2006: £2.1 million). Cash has been transferred into a restricted deposit account to guarantee the payment of certain of these loan notes. This is included within cash at bank and in hand for the Company.

f. Creditors: Amounts falling due within one year

	31 March 2007 £'000	31 March 2006 £'000
Bank loans and overdrafts	1,200	–
Loan notes	431	2,454
Amounts due to subsidiary undertakings	12,073	8,964
Other creditors, accruals and deferred income	70	103
	13,774	11,521

g. Share capital

	31 March 2007 £'000		31 March 2006 £'000	
Authorised 26,000,000 (2006: 26,000,000) ordinary shares of 5p each	1,300		1,300	
Issued and fully paid	2007 Number	2007 £'000	2006 Number	2006 £'000
At beginning of the year	19,559,062	978	19,215,327	961
Issued for cash during the year	5,714,286	286	343,735	17
At end of the year	25,273,348	1,264	19,559,062	978

Notes to the Company financial statements continued

for the year ended 31 March 2007

h. Share premium account

	£'000
Balance at 1 April 2006	11,899
Premium arising on issue of equity shares	3,714
Expenses of issue of equity shares	(504)
Balance at 31 March 2007	15,109

i. Profit and loss account

	£000's
Balance at 1 April 2006	10,544
Loss for the financial year	(554)
Share option credit	276
Balance at 31 March 2007	10,266

j. Reconciliation of movements in Shareholders' funds

	£000's
Balance at 1 April 2005	23,472
Increase in share capital	215
Loss for the financial year	(663)
Balance at 1 April 2006	23,024
Increase in share capital	3,496
Loss for the financial year	(554)
Share option credit	276
Balance at 31 March 2007	26,242

Independent auditor's report

For the year ended 31 March 2007

Independent Auditor's Report To The Shareholders Of Penna Consulting Plc

We have audited the group and parent company financial statements (the "financial statements") of Penna Consulting Plc for the year ended 31 March 2007 which comprise the Group Income Statement, the Group and Parent Company Balance Sheets, the Group Cash Flow Statement, the Group Statement of Changes in Equity and the related notes. These financial statements have been prepared under the accounting policies set out therein.

Respective responsibilities of directors and auditors

The directors' responsibilities for preparing the Annual Report and the group financial statements in accordance with applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union, and for preparing the parent company financial statements in accordance with applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice) are set out in the Statement of Directors' Responsibilities. Where a company is fully listed, there are additional responsibilities contained in the Listing Rules of the Financial Services Authority. Penna Consulting plc has voluntarily complied with the requirements of the 2003 FRC Combined Code in preparing its annual report.

Our responsibility is to audit the financial statements 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 have been properly prepared in accordance with the Companies Act 1985 and whether the information given in the Directors' Report is consistent with those financial statements. 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 read the other information contained in the Annual Report and consider whether it is consistent with the audited financial statements. The other information comprises only the Directors' Report, the Chairman's Statement, the Operating and Financial Review and the Corporate Governance Statement. 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.

Our report has been prepared pursuant to the requirements of the Companies Act 1985 and for no other purpose. No person is entitled to rely on this report unless such a person is a person entitled to rely upon this report by virtue of and for the purpose of the Companies Act 1985 or has been expressly authorised to do so by our prior written consent. Save as above, we do not accept responsibility for this report to any other person or for any other purpose and we hereby expressly disclaim any and all such liability.

Basis of audit opinion

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

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

Opinion

In our opinion:

- the group financial statements give a true and fair view, in accordance with IFRSs as adopted by the European Union, of the state of the group's affairs as at 31 March 2007 and of its profit for the year then ended;
- the parent company financial statements give a true and fair view, in accordance with United Kingdom Generally Accepted Accounting Practice, of the state of the parent company's affairs as at 31 March 2007;
- the financial statements have been properly prepared in accordance with the Companies Act 1985; and
- the information given in the Directors' Report is consistent with the financial statements.

BDO STOY HAYWARD LLP
Chartered Accountants and Registered Auditors
London
16 July 2007

Further information

Where to contact us

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We operate from:

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Ireland
Italy

Netherlands
Norway
Portugal
Romania
Spain
Sweden
Switzerland
United Kingdom

Argentina
Brazil
Canada
Colombia
Mexico
Panama
Puerto Rico
USA

Australia
Hong Kong
Japan
Korea
Singapore
New Zealand

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Auditors

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Financial Adviser and Stockbroker

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EC4V 4BJ

Bankers

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62/63 Threadneedle Street
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EC2R 8LA

Registrar and Transfer Office

Capita Registrars
The Registry
34 Beckenham Road
Beckenham
Kent
BR3 4BR

Useful Information for Shareholders

Diary

The Annual General Meeting will be held at 2.00 pm on 20 September 2007 at 55 Gracechurch Street, London EC3V 0EE.

Share Price Information

Up to date information on the Company's share price can be found on our website at www.penna.com. Daily share prices are published in the Financial Times and The Times.



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