



Penna

PENNA CONSULTING PLC

Interim Report 2005

for the six months ended 30 September 2005

Human Capital Management

People Change Performance

Penna specialises in Human Capital Management, helping organisations to optimise business performance through people.

We achieve this by bringing together expertise from across the employment lifecycle in a way that enables us to develop unique solutions to specific business challenges.

Our range of in-depth expertise in Human Capital Management includes Resourcing, Recruitment Communications, Interim Executive, HR Consulting, Leadership Services and Career Transition.

In partnering with our clients we work to:

- Focus on business results
- Deliver measurable gains
- Focus on people and success
- Encompass all people management and development practices
- Understand the individual, the organisation and the business context

At Penna we promise to make a difference

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These interim results are the Group's first set of results prepared under the International Financial Reporting Standards (IFRS). Whilst the application of IFRS has no significant impact on the reported results for the Group, the results for the six months ended 30 September 2005 and the comparative periods have been restated in accordance with IFRS and have not been audited.

Chairman's review

The encouraging first half results announced today show the impact of the actions taken at the end of last year. The Company has returned to profit and has made good progress in implementing its new operating structure. The normal seasonal pattern is for the second half to produce higher profits than the first half and we are looking forward to a satisfactory outcome for the year as a whole.

Financial review

Turnover for the period amounted to £22.0m (2004: £20.4m), which was an increase of 8% compared with the first half of last year. Underlying net revenues (i.e. before recharges to clients) were £15.9m (2004: £16.0m). Despite net revenues being flat the Company reported profits of £1.2m for the period compared with break-even last year. This reflects the reduction in overheads we implemented at the start of the year.

At 30 September 2005 the Group had net debt (including loan notes) of £6.0m (31 March 2005: £3.5m).

Whilst the Company has returned to profit the Board do not recommend the payment of an interim dividend (2004: Nil) for the period. The Board expects to reinstate the dividend when the level of debt has been reduced.

Chairman's review continued

Turnover by service line

	6 months to 30 Sept 2005 £'000	6 months to 30 Sept 2004 £'000
Career Transition	9,598	9,214
Resourcing	4,806	4,276
Interim	5,635	4,343
Recruitment Advertising	117	0
Leadership Services	1,104	1,020
HR Consulting	839	1,568
Intercompany sales	(131)	(51)
Total Turnover	21,968	20,370

Turnover for our career transition services has increased by 4% in the period to £9.6m (2004: £9.2m). The pipeline of activity in career transition is looking satisfactory for the second half of the year with a number of major projects commencing in the public and financial services sectors.

Our resourcing activities have seen good top line growth primarily due to a significant increase in our executive interim activities, where total gross revenues have grown to £5.6m (2004: £4.3m). Our search and selection business has reported turnover of £4.8m, which is 12% above last year.

Recruitment advertising made its first billings in September and it is expected that this service line will be making a significant contribution to profits in 2006/7.

Our other consulting services, which include HR consulting, organisation development, employee communication, assessment, executive development and executive coaching have contributed turnover of £1.9m (2004: £2.6m).

During the 1st half we completed the reorganisation changes announced last year. Ten smaller offices have been decommissioned, of which four leases have been disposed, and we are pursuing an active programme to dispose of the remainder. Total headcount has been reduced by a net 35 since December 2004 and 65 since April 2004. These actions mean that we are on track to achieve annualised cost savings of £3.6m in the year.

Approximately 5% of the Group's turnover is delivered outside of the UK and we have offices in Dublin, Paris, Stockholm, Madrid and Munich. Whilst small in scale these operations provide Penna's clients with the international reach they need, especially in resourcing and developing local talent.

Outlook

Under the leadership of Gary Browning the new management team has made good progress in the first half of the year.

- The Company has returned to profitability despite flat revenues through the implementation of a significant reorganisation project and on going cost control.
- Six service lines have been established which are led by six individuals who have clear accountabilities for revenues and profits within their service line.
- All the group's systems have been simplified. A single billing system was introduced in July which interfaces directly with a single client relationship management system and the accounting system. In addition a new recruitment database and candidate management system has been introduced which provides candidates and clients with on-line access to our recruitment teams.
- A new service line of Recruitment Advertising has been established through the recruitment of an industry leading team who are now in position to provide a full range of advertising services to our existing Resourcing clients and to third parties.

The Penna team are to be congratulated on the progress achieved in the year to date and I am looking forward to the next phase of the Company's development.



Stephen Rowlinson
Chairman
8th November 2005

consolidated income statement

for the six months ended 30 September 2005 (unaudited)

	Notes	6 months ended 30 Sept 2005 £'000	As restated	
			6 months ended 30 Sept 2004 £'000	Year ended 31 March 2005 £'000
Continuing operations				
Turnover		21,968	20,370	41,831
Operating costs		(20,648)	(20,225)	(47,281)
Operating profit/(loss)		1,320	145	(5,450)
Share option expense		(52)	(57)	(128)
Goodwill impairment		–	–	(508)
Interest payable		(141)	(100)	(320)
Share of results of associate		48	(25)	47
Profit/(loss) before tax		1,175	(37)	(6,359)
Tax	2	(376)	(118)	668
Profit/(loss) for the period		799	(155)	(5,691)
Attributable to:				
Equity holders of the parent		799	(155)	(5,691)
Earnings/(loss) per share:	3			
– basic		4.2p	(0.8)p	(30.7)p
– diluted		4.1p	(0.8)p	(30.1)p

consolidated balance sheet

at 30 September 2005 (unaudited)

	30 Sept 2005 £'000	As restated	
		30 Sept 2004 £'000	31 March 2005 £'000
Non-current assets			
Tangibles	1,991	1,344	1,507
Intangibles – software	100	752	77
Goodwill	14,036	14,578	14,070
Investments	2,661	3,140	2,623
	18,788	19,814	18,277
Current assets			
Trade debtors	10,982	8,313	10,513
Corporation tax	480	-	904
Cash and cash equivalents	2,117	1,151	1,680
Other prepayments	1,517	1,562	1,518
	15,096	11,026	14,615
Total assets	33,884	30,840	32,892
Current liabilities			
Trade creditors	2,811	1,464	1,841
Bank overdraft	5,307	-	2,400
Corporation tax	-	17	-
Finance leases	80	72	75
Provision for liabilities and charges	444	619	671
Other creditors and accruals	8,106	8,979	10,908
	16,748	11,151	15,895
Non-current liabilities			
Loan notes	2,462	2,667	2,467
Finance leases	226	306	267
Provision for liabilities and charges	660	254	1,024
Other creditors and accruals	864	-	1,164
	4,212	3,227	4,922
Total liabilities	20,960	14,378	20,817
Net assets	12,924	16,462	12,075
Capital and reserves			
Called up share capital	961	915	961
Share premium account	11,706	10,526	11,701
Merger reserve	10,170	10,170	10,170
ESOP	(397)	(397)	(397)
Share option reserve	264	141	212
Foreign currency translation reserve	33	28	40
Retained earnings	(9,813)	(4,921)	(10,612)
Total equity	12,924	16,462	12,075

consolidated statement of changes in equity

at 30 September 2005 (unaudited)

	Called up share capital £'000	Share premium £'000	Merger reserve £'000	ESOP reserve £'000	Share option reserve £'000	Foreign currency translation £'000	Retained loss £'000	Total equity £'000
At 1 April 2004 (restated)	914	10,497	10,170	(397)	84	–	(4,336)	16,932
Share issue	1	29	–	–	–	–	–	30
Currency translation differences	–	–	–	–	–	28	(46)	(18)
Loss	–	–	–	–	–	–	(155)	(155)
Share option charge	–	–	–	–	57	–	–	57
Equity dividends	–	–	–	–	–	–	(384)	(384)
At 30 Sept 2004 (restated)	915	10,526	10,170	(397)	141	28	(4,921)	16,462
Share issue	46	1,175	–	–	–	–	–	1,221
Currency translation differences	–	–	–	–	–	12	–	12
Loss	–	–	–	–	–	–	(5,691)	(5,691)
Share option charge	–	–	–	–	71	–	–	71
At 31 March 2005 (restated)	961	11,701	10,170	(397)	212	40	(10,612)	12,075
Share issue	–	5	–	–	–	–	–	5
Currency translation differences	–	–	–	–	–	(7)	–	(7)
Profit	–	–	–	–	–	–	799	799
Share option charge	–	–	–	–	52	–	–	52
At 30 Sept 2005	961	11,706	10,170	(397)	264	33	(9,813)	12,924

consolidated group cash flow statement

for the six months ended 30 September 2005 (unaudited)

	Notes	6 months ended 30 Sept 2005 £'000	As restated	
			6 months ended 30 Sept 2004 £'000	Year ended 31 March 2005 £'000
Cash flows from operating activities				
Cash (used)/generated by operations	5a	(1,226)	265	889
Tax refunded/(paid)		48	(32)	(177)
Net cash (used)/generated by operating activities		(1,178)	233	712
Cash flows from investing activities				
Net purchase of property, plant and equipment		(783)	(183)	(680)
Sale of tangible fixed assets		–	–	290
Payment of deferred consideration		–	(144)	(300)
Net cash used in investing activities		(783)	(327)	(690)
Cash flows from financing activities				
Interest paid				
– finance leases		(18)	(26)	(51)
– other		(113)	(74)	(257)
Net proceeds from finance leases		–	–	342
Repayment of finance leases		(36)	(36)	–
Repayment of loan notes		(342)	(10)	(3,004)
Issue of ordinary share capital		–	–	1,221
Repayment of loan		–	(2,500)	(2,500)
Dividends paid		–	–	(384)
Net cash used in financing activities		(509)	(2,646)	(4,633)
Net decrease in cash and cash equivalents		(2,470)	(2,740)	(4,611)
Cash and cash equivalents at start of period		(720)	3,891	3,891
Cash and cash equivalents at end of period	5b	(3,190)	1,151	(720)

notes to the interim financial statements

for the six months ended 30 September 2005 (unaudited)

1 Accounting policies

The consolidated interim financial statements are for the six months ended 30 September 2005. They have been prepared under the historical cost convention using accounting policies that are consistent with current International Financial Reporting Standards (IFRS). IFRS 1, "First-time Adoption of International Financial Reporting Standards", applies to these interim financial statements because they are part of a period, the year to 31 March 2006, to which IFRS apply for the first time. The interim financial statements are unaudited.

The Group's consolidated financial statements were prepared in accordance with the United Kingdom Generally Accepted Accounting Principles (UK GAAP) until 31 March 2005. In preparing the 2005 interim financial statements, the directors have amended certain accounting disclosures and valuation methods applied in the UK GAAP financial statements so that the comparative information has been prepared on a consistent basis. The adjustments to the Group's equity and its income are shown in Note 6. These restated financial statements have not been audited.

The Group has taken advantage of the exemption available under IFRS 1 where cumulative translation differences for all foreign operations are deemed to be zero at 1 April 2004, the date of transition. The Group has also elected to apply IFRS 2, "Share-based Payment" to all relevant share based payment transactions granted after 7 November 2002 that had not fully vested at 1 April 2004. Under IFRS 3, "Business Combinations" the Group has also taken advantage of the exemption to not apply IFRS 3 to business combinations occurring before the date of transition.

The adopted IFRS that will be effective in the annual financial statements for the year ending 31 March 2006 are still subject to change and to additional interpretations and therefore cannot be determined with certainty. Accordingly, the accounting policies for the year ending 31 March 2006 will be determined only when the financial statements are prepared for this period.

The changes necessary to the Group's accounting policies under UK GAAP as set out in the Group's financial statements for the year ended 31 March 2005 are:

- IAS 1 "Presentation of Financial statements" and IAS 7 "Cash Flow Statements" have affected the overall presentation and certain disclosures;
- IFRS 2 "Share-based Payment" requires that the fair value of employee options at grant date be expensed and recognised over the vesting period;
- IAS 10 "Events After the Balance Sheet Date" has the effect of prohibiting the recognition of the final dividend until shareholder approval has been received. Previously a liability was recognised.
- IAS 19 "Employee Benefits" has the effect of recognising a liability for unused accumulated employee holiday entitlement at balance date. Previously no accrual was made.
- IFRS 3 "Business Combinations", IAS 36 "Impairment of Assets" and IAS 38 "Intangible Assets" have resulted in a change in the accounting policy for goodwill. In accordance with the provisions of IFRS 3, the Group ceased amortisation of goodwill from 1 April 2004. From the year ended 31 March 2004 onwards, goodwill is tested annually for impairment, as well as when there are indications of impairment.

The adjustments to the Group's equity and income as previously reported are set out in Note 6.

2 Taxation

Taxation has been provided for at 30% (2005:30%), for the UK and appropriate rates for overseas earnings.

notes to the interim financial statements (continued)

for the six months ended 30 September 2005 (unaudited)

3 Earnings/(loss) per share

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

	6 months ended 30 Sept 2005	As restated	
		6 months ended 30 Sept 2004	Year ended 31 March 2005
Earnings			
Profit/(loss) from continuing operations (£'000)	799	(155)	(5,691)
Profit/(loss) for the period (£'000)	799	(155)	(5,691)
Number of shares			
Weighted average number of shares	19,215,987	18,279,462	18,517,363
Dilution effect of share option schemes	292,984	280,385	361,752
Diluted weighted average number of shares	19,508,971	18,559,847	18,879,115
Earnings/(loss) per share:			
Basic	4.2p	(0.8)p	(30.7)p
Diluted	4.1p	(0.8)p	(30.1)p

4 Dividends

No interim dividend was proposed (2004: nil) for the six months ended 30 September 2005.

5a Reconciliation of operating profit to net cash outflow from operating activities

	6 months ended 30 Sept 2005 £'000	As restated	
		6 months ended 30 Sept 2004 £'000	Year Ended 31 March 2005 £'000
Operating profit/(loss)	1,320	145	(5,450)
Adjustments for:			
Depreciation	276	459	779
Profit on disposal of fixed assets	–	–	399
Changes in working capital:			
(Increase)/decrease in trade and other receivables	(468)	812	(1,171)
(Decrease)/increase in trade and other payables*	(2,354)	(1,151)	6,332
Cash (used)/generated by operations	(1,226)	265	889

*Included in the decrease in other payables at 30 September 2005 are payments of £1,691,000 relating to the exceptional items accrued at 31 March 2005.

5b Cash and cash equivalents

	At 30 Sept 2005 £'000	At 30 Sept 2004 £'000	At 31 March 2005 £'000
Cash and cash equivalents are made up as follows:			
(Bank overdraft)/cash at bank	(5,307)	274	(2,400)
Cash on restricted deposit:	2,117	877	1,680
Cash and cash equivalents	(3,190)	1,151	(720)

notes to the interim financial statements (continued)

for the six months ended 30 September 2005 (unaudited)

6 IFRS restatement and prior period adjustments

The accounting policies were changed on 1 April 2005 to be consistent with IFRS. The transition to IFRS is accounted for in accordance with IFRS 1, "First-time Adoption of International Financial Reporting Standards" with 1 April 2004 as the date of transition. The changes in accounting policies are described below together with reconciliations of the restated shareholders' equity and profit to that previously reported.

The transition to IFRS resulted in the following changes in accounting policies:

- Cumulative translation differences are deemed to be zero at the date of transition, per IFRS 1.
- Share option costs were previously based on the intrinsic value of the option at the date of grant. These costs are now accounted for in accordance with IFRS 2 (FRS 20) "Share-based Payments". In accordance with the transitional provisions, IFRS 2 has been applied to grants after 7 November 2002, which had not vested by the balance sheet date. The value of share-based payments is measured at the date of grant. The value determined is expensed on a straight-line basis over the vesting period, based on the Group's estimate of shares that will eventually vest. The value of the options is measured using the Black-Scholes model.
- Dividends to shareholders declared after the balance sheet date but before the financial statements are authorised for issue are not recognised as a liability at the balance sheet date.
- Unused accumulated employee holiday entitlement at balance date are now recognised as a liability.
- In accordance with IFRS 3, the goodwill that arose prior to 1 April 2004 was amortised until that date. From 1 April 2004 the goodwill was no longer amortised on an annual basis, but rather subjected to an impairment test on that date and all subsequent reporting periods. Accordingly, the goodwill that was reported as amortised in the year ended 31 March 2005 under UK GAAP has therefore been reversed. At the 30 September 2005 the Group has reassessed the useful lives of its intangible assets in accordance with the provisions of IAS 38. No adjustment resulted from this reassessment.
- Capitalised computer software previously included within tangible fixed assets has now been reclassified as intangible fixed assets. Under IAS 38, only computer software integral to the hardware operating system should be included as plant and equipment. All other computer software should be recorded as an intangible asset.

notes to the interim financial statements (continued)

for the six months ended 30 September 2005 (unaudited)

Reconciliations of equity

	Called up share capital £'000	Share premium £'000	Merger reserve £'000	ESOP reserve £'000	Share option reserve £'000	Foreign currency translation £'000	Retained loss £'000	Total equity £'000
At 1 April 2004								
As previously stated	914	10,497	10,170	(397)	–	–	(4,918)	16,266
Share option charge	–	–	–	–	84	–	(84)	–
Goodwill amortisation written back	–	–	–	–	–	–	282	282
Dividend not recognised as a liability until paid	–	–	–	–	–	–	384	384
At 1 April 2004 (restated)	914	10,497	10,170	(397)	84	–	(4,336)	16,932

	Called up share capital £'000	Share premium £'000	Capital redemption reserve £'000	Own shares £'000	Share option reserve £'000	Foreign currency translation £'000	Retained loss £'000	Total equity £'000
At 30 Sept 2004								
As previously stated	915	10,526	10,170	(397)	–	–	(5,508)	15,706
Share option charge	–	–	–	–	141	–	(141)	–
Goodwill amortisation written back	–	–	–	–	–	–	1,140	1,140
Currency translation	–	–	–	–	–	28	(28)	–
Dividend liability	–	–	–	–	–	–	(384)	(384)
At 30 Sept 2004 (restated)	915	10,526	10,170	(397)	141	28	(4,921)	16,462

	Called up share capital £'000	Share premium £'000	Merger reserve £'000	ESOP reserve £'000	Share option reserve £'000	Foreign currency translation £'000	Retained loss £'000	Total equity £'000
At 31 March 2005								
As previously stated	961	11,701	10,170	(397)	–	–	(11,412)	11,023
Share option charge	–	–	–	–	212	–	(212)	–
Goodwill amortisation written back	–	–	–	–	–	–	1,227	1,227
Currency translation	–	–	–	–	–	40	(40)	–
Employee benefit accrual	–	–	–	–	–	–	(175)	(175)
At 31 March 2005 (restated)	961	11,701	10,170	(397)	212	40	(10,612)	12,075

notes to the interim financial statements (continued)

for the six months ended 30 September 2005 (unaudited)

Reconciliation of previously stated loss

Six months ended 30 Sept 2004	£'000
Loss after tax as previously stated	(637)
Currency translation	18
Goodwill amortisation written back	521
Share option charges	(57)
Loss for the period after tax (restated)	(155)


Year ended 31 March 2005	£'000
Loss after tax as previously stated	(6,531)
Currency translation	18
Goodwill amortisation written back	1,125
Accrual for holiday pay	(175)
Share option charges	(128)
Loss for the period after tax (restated)	(5,691)

7 Nature of the financial information

The financial information set out in this document does not constitute statutory accounts within the meaning of Section 240 of the Companies Act 1985. Statutory accounts for the year ended 31 March 2005, on which the auditors gave an unqualified audit report, have been delivered to the Registrar of Companies and copies of the Interim Report can be obtained from our Registered Office at 15 Welbeck Street, London W1G 9XT.

The Board of Directors approved the Interim Report on 8 November 2005.

The financial information in respect of the six months to 30 September 2005 is unaudited.



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