

Huntsworth PLC

Interim Results for six months to 30 June 2005

Strong results from merged group

Huntsworth PLC, the international public relations group, has today announced its interim results for the six months to 30 June 2005.

These results include two months' contribution from Incepta, which joined the Group as a result of the merger of Huntsworth and Incepta that completed on 29 April 2005.

Highlights

- Operating income of £54.1 million (2004: £17.4 million)
- Operating profit before highlighted items* increased to £7.1 million (2004: £2.0m)
- Statutory operating profit was £3.32 million (2004: £1.35 million), after highlighted items of £3.73 million
- Overall operating companies margins (before highlighted items): 17.8%; Public Relations and Healthcare Communications at 19.2%; Marketing Services and Specialist Advertising at 13.5%
- Annualised pre-tax cost savings of £3.5 million achieved to date, well in advance of the £2.5 million estimated at the time of the merger
- Substantial first time contribution from Incepta PR companies
- Adjusted earnings per share (before 1 for 5 share consolidation): 0.8p (2004: 0.6p), equivalent to 3.8p post consolidation. Basic earnings per share (before share consolidation): 0.2p (2004: 0.4p)
- Interim dividend of 0.5p per share (post 1 for 5 share consolidation)
- Proposed disposal of marketing services and specialist advertising businesses for a net cash consideration, before disposal costs, of £55 million

* Highlighted items are made up of IFRS related charges as well as merger, restructuring and other non-recurring costs.

Comparatives for the six months ended 30 June 2004 are for the Huntsworth businesses consolidated for that period only.

Jon Foulds, Chairman of Huntsworth, said:

“This has been a momentous period for the Group. We have made a step change in scale, not only in terms of revenues and profits, but also in the scope of services we are able to offer clients and the geographies in which we can support them. With the strategic review completed and implemented, a clearly refocused group, reduced debt levels and cost savings coming through, we have increasing confidence for the development of our businesses in 2006.”

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Interim Results for Six Months to 30 June 2005

Financial performance

This is the first set of results the Group has reported since the merger completed on 29 April of Huntsworth and Incepta. It therefore covers a period of significant change for the Group; the Board has undertaken a major strategic review and the integration of the two businesses has been completed.

The Board is very pleased to report that the results for the six months to 30 June 2005 reflect a strong contribution from the PR businesses of Incepta. Operating income for the period was £54.1 million compared with £17.4 million in the six months to 30 June 2004. Operating profit before highlighted items (described in detail under 'Further financial information', below) was £7,053,000, compared with £1,990,000 in the six months to 30 June 2004.

Statutory operating profit was £3,324,000 (2004: £1,353,000), after highlighted items of £3,729,000.

The Board has declared an interim dividend of 0.5p per share. The interim dividend will be paid on 13 December 2005 to shareholders on the Group's register at the close of business on 28 October 2005. A scrip dividend option will also be available.

Strategy

Following the merger of Huntsworth and Incepta, the new Board carried out a comprehensive strategic review to determine the appropriate focus and structure for the enlarged group. The results of that review were announced in September. Huntsworth's strategy is to build an international Public Relations business specialising in consumer PR, investor/financial PR, Public Affairs, Technology PR and a broad communications offering for clients in Healthcare. Huntsworth will continue to expand within this strategy, both organically and by acquisition.

This strategy lies behind the Board's decision to focus Huntsworth on its core PR and Healthcare communications activities and sell its Marketing Services and Specialist Advertising divisions. The sale of these businesses to Media Square was announced on 13 October and will result in Huntsworth receiving £55 million in cash. The sale involves 16 businesses including those in Sales Promotion, Design, Direct Marketing, Sponsorship Consultancy, Publishing and Specialist and regional advertising. The net proceeds of the sale will be used to reduce borrowings and will increase the Group's financial flexibility. The sale, which is subject, inter alia, to shareholders' approval, is expected to be completed at the beginning of November.

Following the disposal, the Group will have a focused, international Public Relations and Healthcare Communications business operating through a wholly owned network of some 45 principal offices in 20 countries and serving over 2,000 clients. Huntsworth's operating income will be well spread across the Group's key areas of activity - 51 per cent from its full service PR businesses, 42 per cent from Financial, Investor Relations and Public Affairs and the balance from Healthcare Communications. Geographically, Huntsworth will also have a better spread of operating income with 53 per cent from the UK, 23 per cent from other European countries, 21 per cent from the USA and 3 per cent from the Rest of World.

Huntsworth now services an increasingly high profile client list as the scale of the business and its broadened international reach has allowed it to attract and retain larger clients:

- The Group provides services to 73 companies in the FTSE 100, 178 in the Fortune 500, and 164 in the Eurotop 300.
- The Group now represents 136 clients in more than one country and 121 clients are serviced by more than one of our brands.

The benefits of Huntsworth's group structure are already becoming apparent with recent new business wins including: The AA, Capital One, Coca Cola, Diageo (Johnnie Walker), Foreign & Commonwealth Office, Fujitsu Siemens Computers, GNER, John Lewis, LogicaCMG, Nikon, Novartis, Pernod Ricard, Premier Food, QinetiQ, Sanofi-Aventis, Thwaites Brewery, United Business Media and Volvo.

Cost savings

At the time of the announcement of the merger of Huntsworth and Incepta, the Group estimated that annualised pre-tax cost savings of at least £2.5 million would be achieved in 2006. The Board is very pleased to report that the Group has already achieved annualised savings of some £3.5 million, comprising reductions in staff costs of £2.0 million, in property costs of £0.8 million and in administrative costs of £0.7 million. The one-off cash cost of implementing these savings is £1.6 million. The Group is continuing to look for further savings and will report back to shareholders on this at the time of the full year's results.

Operational Review

Operating margins

Operating company margins were 17.8 per cent, before central costs and excluding highlighted items. Margins in Public Relations and Healthcare were 19.2 per cent and in Marketing Services/Specialist Advertising, 13.5 per cent. The margin target for the Group remains 20 per cent across the board and the Group will maintain its focus on achieving this over the medium term.

Operating income

On a like-for-like basis, operating income in the period was down 0.7 per cent compared with the first half of 2004. However, the core Public Relations and Healthcare businesses were up 3.7 per cent, whilst Marketing Services and Specialist Advertising were down 7.3 per cent. The like-for-like comparison is at constant currency rates and includes all operations on a full six months basis.

Particularly strong performances were achieved by Avenue, Citigate Dewe Rogerson, Citigate PR Force, Citigate Sard Verbinnen, Grayling, Haslimann Taylor, Hudson Sandler, The RED Consultancy, Trimedia UK and VB Communications.

Further financial information

Earnings

Profits for the period amounted to £1,517,000 (2004: £898,000), after tax of £816,000.

Adjusted earnings* per share, pre the 1 for 5 consolidation carried out in July (excluding highlighted items) were 0.8 pence (2004: 0.6 pence). Both basic and diluted earnings per share were 0.2 pence (2004: both 0.4 pence).

*Adjusted earnings exclude highlighted items, discontinued operations and the tax effect thereon.

Highlighted items (including IFRS related charges)

The introduction of International Financial Reporting Standards (IFRS) has been reflected in both the 2005 and 2004 results. This has had a particularly significant effect at Huntsworth because a substantial part of the group has been acquired since 1 January 2004, the date from which acquisitions are accounted for under IFRS.

The total of highlighted items is £3,729,000, and is made up as follows: IFRS related charges comprise £1,484,000 for the amortisation of intangibles, a share option charge of £286,000 and a holiday pay accrual of £545,000. In addition there were merger, restructuring and other non-recurring costs of £1,414,000.

It is estimated, assuming the disposal of the Marketing Services and Specialist Advertising companies, that for the full year 2005 the amortisation of intangibles and the current share option charge will be approximately £5.0 million and £0.8 million respectively, with those amounts increasing to approximately £5.6 million and £0.9 million respectively in 2006. There should be little holiday pay accrual at the year end.

Treasury

In the six months Huntsworth generated positive trading cash flow of £3.6 million, before exceptional cash flows (2004: £636,000). Huntsworth now has two bankers, Lloyds TSB Bank and The Royal Bank of Scotland, and has a committed unsecured term, overdraft and guarantee facility totalling £95 million in place until April 2008. The facilities will reduce to not less than £55 million after completion of the disposal of the Marketing Services and Specialist Advertising businesses.

EBITDA interest cover (excluding highlighted items) was 8.2x in the six months ended 30 June 2005.

Huntsworth has protected its US dollar and Euro earnings for 2005 by entering into average rate options arrangements. It has also partially protected itself against the effects of interest rate increases for the three years to August 2007 by taking out a base interest rate cap over £5 million.

Tax and minority interests

The tax charge of £816,000 comprises £1,510,000 in respect of profit before highlighted items (based on the expected full year rate of 25%), less £694,000 for tax credits on highlighted items. With an increased proportion of overseas operations, and brought forward tax losses not available across all companies, tax as a percentage of profits will continue to increase. UK tax losses carried forward amount to approximately £7 million and overseas tax losses amount to approximately £28 million.

Minority interests amounted to £484,000 for the period.

Balance Sheet

Net bank debt at 30 June 2005 was £71.5 million, compared with £4.1 million at 31 December 2004. Shareholders' funds at 30 June 2005 increased to £168.2 million, compared with £43.4 million at 31 December 2004.

Acquisition payments

Acquisition payments totalled £3.4 million in the period. Net debt acquired with subsidiaries totalled £60.2 million. A total of 611.3 million shares, with a value of £122.3 million, were issued in respect of acquisitions in the six months.

Earn-out payments

Future earn-out payments are estimated at £11.3 million, comprising £7.5 million payable in cash or in shares at Huntsworth's option, £1.8 million in shares and £2.0 million in cash. The timing of the aggregate of these payments is £2.3 million in 2005, £3.0 million in 2006, £5.1 million in 2007 and £0.9 million in 2008.

Outlook

The strategic review has refocused the Group on Public Relations and Integrated Healthcare and the reorganisation of the executive management. The disposal of the Marketing Services and Specialist Advertising businesses will reduce debt significantly and places Huntsworth in a strong position to develop its businesses within a well defined strategy.

Since the end of June, the Group's Public Relations businesses have continued to perform well, with good growth and margins. The Board has every expectation that this performance will be sustained. The Marketing Services and Specialist Advertising businesses had a difficult start to the year, despite some recovery following the merger, and have seen their operating income fall well below the previous year.

Huntsworth has first class brands with international reach, run by an exceptional group of senior managers. The companies in the merged group are already working together to develop opportunities across brands. While the profits of Marketing Services and Advertising businesses for the period up to their disposal will be below expectations, the Public Relations businesses should have a strong finish to the year. Overall the Board has increasing confidence for the development of the Group's businesses in 2006 and beyond.

H Jon Foulds

Chairman

18 October 2005

Unaudited Consolidated Income Statement for the six months ended 30 June 2005

	Notes	Six months ended 30 June 2005 £000	Six months ended 30 June 2004 £000	Year ended 31 December 2004 £000
Continuing operations				
Turnover				
Excluding acquisitions		28,456	23,083	63,575
Acquisitions		42,375	-	-
		70,831	23,083	63,575
Cost of sales		(16,766)	(5,729)	(18,713)
Operating income				
Excluding acquisitions		28,363	17,354	44,862
Acquisitions		25,702	-	-
	4	54,065	17,354	44,862
Operating expenses including highlighted items		(50,741)	(16,001)	(42,041)
Operating profit before highlighted items				
Excluding acquisitions		3,344	1,990	5,353
Acquisitions		3,709	-	-
	4	7,053	1,990	5,353
Highlighted items	5	(3,729)	(637)	(2,532)
Operating profit		3,324	1,353	2,821
Finance income	6	90	31	75
Finance costs	6	(1,081)	(279)	(622)
Profit before tax and highlighted items				
Highlighted items	5	(3,729)	(637)	(2,532)
Profit before tax		2,333	1,105	2,274
Taxation	7	(816)	(152)	(378)
Profit for the period from continuing operations		1,517	953	1,896
Loss from discontinued operations		-	(55)	(256)
Profit for the period		1,517	898	1,640
Attributable to:				
Parent company's shareholders		1,033	770	1,262
Minority interests		484	128	378
		1,517	898	1,640
Earnings per share from continuing operations:				
Basic – pence	9	0.2	0.4	0.6
Diluted – pence	9	0.2	0.4	0.6
Adjusted – pence	9	0.8	0.6	1.5

Unaudited Consolidated Balance Sheet as at 30 June 2005

	Notes	30 June 2005 £000	30 June 2004 £000	31 December 2004 £000
Non-current assets				
Intangible assets	10	270,655	51,202	62,261
Property, plant and equipment		10,492	2,850	2,680
Deferred tax		3,439	27	13
Other investments		108	191	-
		284,694	54,270	64,954
Current assets				
Work in progress		5,696	1,444	1,148
Trade and other receivables		73,358	15,496	18,046
Cash and short-term deposits	12(c)	11,273	2,136	2,773
		90,327	19,076	21,967
Current liabilities				
Bank overdraft	12(c)	(2,086)	(566)	(141)
Loan notes payable	12(c)	(1,998)	(1,742)	(2,080)
Obligations under finance leases	12(c)	(127)	(182)	(135)
Trade and other payables		(63,753)	(14,619)	(18,088)
Corporation tax payable		(8,341)	(322)	(1,312)
Provisions		(11,027)	(2,047)	(4,402)
		(87,332)	(19,478)	(26,158)
Non-current liabilities				
Bank loans and overdrafts	12(c)	(80,658)	(3,902)	(6,727)
Loan notes payable	12(c)	(1,434)	-	-
Obligations under finance leases	12(c)	(370)	(308)	(162)
Provisions		(16,397)	(6,703)	(8,001)
Other creditors		(5,687)	(1,250)	-
Deferred tax liabilities		(13,589)	(1,536)	(1,792)
		(118,135)	(13,699)	(16,682)
NET ASSETS		169,554	40,169	44,081
Equity				
Called up share capital		91,572	28,709	30,444
Share premium account		22,888	23,612	23,615
Merger reserve		69,067	6,563	7,902
Foreign exchange translation reserve		2,068	(62)	(183)
Shares to be issued		4,864	-	-
Treasury shares		(710)	(8)	(8)
Potential acquisition of minority interests		(4,168)	-	-
Retained earnings		(17,373)	(18,773)	(18,388)
Equity attributable to equity holders of the parent	11	168,208	40,041	43,382
Minority interests		1,346	128	699
TOTAL EQUITY		169,554	40,169	44,081

Unaudited Consolidated Cash Flow Statement for the six months ended 30 June 2005

	Notes	Six months ended 30 June 2005 £000	Six months ended 30 June 2004 £000	Year ended 31 December 2004 £000
Cash inflow (outflow) from operating activities				
Cash generated from operations	12(a)	483	111	4,635
Interest paid		(1,120)	(293)	(570)
Interest received		151	45	75
Corporation tax paid		(632)	(73)	(522)
Net cash (outflow) inflow from operating activities		(1,118)	(210)	3,618
Cash inflow (outflow) from investing activities				
Acquisitions of subsidiaries		(3,416)	(11,134)	(18,164)
Purchases of property, plant and equipment		(1,149)	(135)	(380)
Proceeds from sale of property, plant and equipment		361	6	65
Proceeds from sale of fixed asset investments		55	-	-
Net cash (overdraft) acquired with subsidiaries		24,854	(871)	927
Net cash inflow (outflow) from investing activities		20,705	(12,134)	(17,552)
Cash inflow (outflow) from financing activities				
Proceeds from issue of ordinary shares		13	20,413	20,886
Purchase of treasury shares		-	(3)	(3)
Repayment of finance lease liabilities		(108)	(101)	(272)
Repayment of loan notes		(4,974)	-	-
Net movement in borrowings		(5,438)	(6,128)	(3,303)
Dividends paid to minority interests		(76)	-	(130)
Special dividend paid to Incepta shareholders		(2,100)	-	-
Dividends paid to equity holders of the parent		(306)	(163)	(467)
Net cash (outflow) inflow from financing activities		(12,989)	14,018	16,711
Increase in cash and cash equivalents		6,598	1,674	2,777
Movements in cash and cash equivalents				
Net increase in cash and cash equivalents		6,598	1,674	2,777
Effects of exchange rate fluctuations on cash held		(43)	(58)	(99)
Cash and cash equivalents at 1 January		2,632	(46)	(46)
Cash and cash equivalents at end of period	12(c)	9,187	1,570	2,632

Unaudited Consolidated Statement Of Recognised Income And Expense for the six months ended
30 June 2005

	Six months ended 30 June 2005	Six months ended 30 June 2004	Year ended 31 December 2004
	£000	£000	£000
Profit for the period	1,033	770	1,262
Exchange differences on retranslation of net assets of subsidiary undertakings	2,251	(62)	(183)
Total recognised net income for the period	3,284	708	1,079

Notes to the financial statements for the six months ended 30 June 2005

1. Basis of preparation

Prior to 2005 the Group prepared its audited financial statements under UK Generally Accepted Accounting Principles ('UK GAAP'). For the year ended 31 December 2005 the Group is required to prepare its annual consolidated financial statements in accordance with accounting standards adopted for use in the European Union (International Financial Reporting Standards ('IFRS')). These interim financial statements have been prepared in accordance with the accounting policies set out below, taking into account the requirements and options in IFRS 1 'First-time adoption of International Financial Reporting Standards'. The Group has not adopted the reporting requirements of IAS 34 'Interim Financial Reporting'.

The transition date for the Group's application of IFRS is 1 January 2004 and the comparative figures for 30 June 2004 and 31 December 2004 have been restated accordingly. Reconciliations of the income statement, balance sheet and net equity from previously reported UK GAAP to IFRS are shown in note 14. The consolidated interim statements are prepared on the basis of all IAS and IFRS published by the International Standards Board that are currently in issue. An element of uncertainty still surrounds the application of IFRS as the EU may not endorse all IASB pronouncements, new interpretations may be issued by IFRIC on existing standards and best practice continues to evolve. It is therefore possible that the accounting policies set out below may be updated by the time the Group prepares its first full set of financial statements under IFRS for the year ending 31 December 2005.

The information relating to the six months ended 30 June 2005 and 30 June 2004 is unaudited and does not constitute statutory accounts. The comparative figures for the year ended 31 December 2004 are not the company's statutory accounts for that financial year. The statutory accounts for the year ended 31 December 2004, prepared under UK GAAP, have been reported on by the company's auditors and delivered to the Registrar of Companies. The report of the auditors was unqualified and did not contain a statement under section 237(2) or (3) of the Companies Act 1985.

The interim financial statements are unaudited but have been reviewed by the auditors and their report to the Board of Huntsworth PLC is set out at the end of this document.

2. Accounting policies

The Group's significant accounting policies are listed below:

Basis of consolidation

The Group financial statements consolidate the financial statements of Huntsworth PLC and all of its subsidiaries.

The results of subsidiaries acquired or disposed of during the period are included in the consolidated financial statements from the date of acquisition or to the date of disposal respectively. On acquisition of a business, all of the assets and liabilities of that business that exist at the date of acquisition are recorded at their fair values reflecting their condition at that date.

Turnover, cost of sales and operating income

Group turnover represents amounts received or receivable from clients, exclusive of value added tax, in respect of charges for fees, commissions, rechargeable expenses and sales of marketing products.

Cost of sales include amounts payable to external suppliers where they are retained at the Group's discretion to perform part of a specific client project or service where the Group has full exposure to the benefits and risks of the contract with the client.

Group operating income is turnover less cost of sales, and represents fees, commissions and mark ups on rechargeable expenses and marketing products.

Turnover and operating income are calculated on a prudent basis to reflect the fair value of the proportion of the work carried out in the year, by recording turnover and related costs (as defined in Work in progress below) as service activity progresses.

Public Relations & Healthcare Communications

Operating income is derived from retainers and fees for services provided. Operating income is recognised when the service is performed in accordance with the contract and the stage of completion.

Marketing Services & Specialist Advertising

Operating income is in the form of commissions on media placements and fees for creative and production services provided. Operating income is recognised as the services are performed.

Goodwill and intangible fixed assets

Goodwill arising on consolidation, being the excess of the fair value of the consideration paid over the net fair value of the identifiable assets, liabilities and contingent liabilities acquired, is capitalised as an asset in the balance sheet. Goodwill arising before the date of transition to IFRS has been retained at the previous UK GAAP amounts subject to being tested for impairment at that date.

Goodwill is reviewed for impairment annually and in any periods in which events or changes in circumstances indicate the carrying value may not be recoverable.

Intangible fixed assets comprise acquired separable corporate brand names and customer relationships. Intangible fixed assets are amortised systematically over their estimated useful lives, which vary from 3 to 20 years depending on the nature of the asset. These intangible assets are reviewed for impairment in any periods in which events or changes in circumstances indicate the carrying value may not be recoverable.

Notes to the financial statements for the six months ended 30 June 2005

2. Accounting policies (continued)

Property, plant and equipment

Property, plant and equipment are stated at their purchase price, together with any incidental expenses of acquisition. Provision for depreciation is made so as to write off the cost of tangible fixed assets less the estimated residual value, on a straight line basis, over the expected useful economic life of the assets concerned. The principal annual rates used for this purpose are:

Motor vehicles	25%
Equipment, fixtures and fittings	15% – 35%

Leasehold improvements are amortised over the period of the lease.

Depreciation is provided on freehold and long leasehold property over the useful economic life of between 30 and 70 years.

The carrying values of tangible fixed assets are reviewed for impairment periodically if events or changes in circumstances indicate the carrying value may not be recoverable.

Work in progress

Work in progress is stated at the lower of cost and net realisable value, and consists of third party costs incurred on behalf of clients which have still to be re-charged.

Taxation

The tax charge for the period 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 as it excludes items of income or expense that are deductible in other years and items that are never deductible. The current and deferred tax charges are calculated using tax rates and laws that have been enacted or substantively enacted at 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 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.

Provisions

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. If the amounts involved are significant, provisions are determined by discounting the expected future cash flows at a pre-tax rate which reflects the current market assessment of the time value of money and when appropriate the risks specific to the liability. Where discounting is applied to provisions, the increase in the value of the provision due to the passage of time is recognised as a finance cost.

Where a leasehold property substantially ceases to be used for the Group's business, or a commitment is entered into which would cause this to occur, provision is made to the extent that the recoverable amount of the interest in the property is expected to be insufficient to cover the future obligations relating to the lease.

Leasing and hire purchase commitments

Assets held under finance leases, which are leases where substantially all the risks and rewards of ownership of the asset have passed to the Group, and hire purchase contracts are capitalised in the balance sheet and are depreciated over their useful lives or lease terms, whichever is shorter. The capital elements of future obligations under finance leases and hire purchase contracts are included as liabilities in the balance sheet. The interest elements of the rental obligations are charged in the profit and loss account over the periods of the finance leases and hire purchase contracts and represent a constant proportion of the balance of capital repayments outstanding.

Rentals payable under operating leases are charged to the profit and loss account on a straight line basis over the lease term.

Notes to the financial statements for the six months ended 30 June 2005

2. Accounting policies (continued)

Foreign currencies

Sterling is the functional currency of Huntsworth PLC and the presentational currency of the Group. The functional currency of subsidiaries is the local currency of the economic environment in which they operate. Transactions denominated in foreign currencies are initially translated at the exchange rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the rate of exchange ruling at the balance sheet date. All gains and losses are recorded in the income statement, with the exception of gains and losses relating to borrowings that provide a hedge against a net investment in a foreign entity, in which case they are recorded in equity until the disposal of the net investment to which they relate.

The financial statements of subsidiaries are translated into the presentational currency of the Group on consolidation. Assets and liabilities are translated at the exchange rate ruling at the balance sheet date with items in the income statement being translated at the average rate for the period. Exchange differences arising on consolidation are recorded in a separate component of equity, but are recognised in the consolidated income statement on disposal of the subsidiary to which they relate.

Goodwill and fair value adjustments arising on the acquisition of an overseas subsidiary are treated as assets and liabilities of the overseas subsidiary and translated at the closing rate.

Derivative financial instruments

The Group uses derivative financial instruments to reduce its exposure to foreign exchange and interest rate movements. The Group does not hold or issue derivative financial instruments for financial trading purposes but derivatives that do not qualify for hedge accounting are accounted for as trading instruments. Derivative financial instruments are initially recognised at fair value at the contract date and continue to be stated at fair value at the balance sheet date with gains and losses on revaluation being recognised immediately in the income statement.

Share-based payments

The Group issues equity-settled share-based payments to certain employees. The Group has used a binomial share option valuation model for the purposes of calculating the fair value of the share options granted to employees. The cost of share-based payments is recognised in the income statement as an expense spread over the relevant vesting period, with a corresponding increase in equity.

Employee benefits

All accumulating employee compensated absences that are unused at the balance sheet date are recognised as a liability.

Dividends

Interim dividends are recognised as a deduction from equity in the period in which they are paid. Final dividends are recognised in the period in which they are approved by the company in general meeting.

Pensions

The Group operates defined contribution money purchase pension schemes and makes contributions to individual employees' personal pension schemes. The Group's contributions are charged against profits in the year in which contributions are due.

Employee share ownership plans

Shares in Huntsworth PLC held by Employee Benefit Trusts have been included within equity and are stated at cost.

3. Acquisitions

The following acquisitions were made during the period:

i) Incepta Group plc

On 29 April 2005 the Group acquired 100% of the issued share capital of Incepta Group plc through a share for share exchange in which 3,13654 ordinary 10p Huntsworth PLC shares were issued for every Incepta ordinary share of 5p each. The fair value of the consideration given for the acquisition of the Incepta shares was £126.6m based on the issue of 633,086,083 Huntsworth shares at the quoted market bid price of 20p at the date of acquisition. There were also related acquisition costs incurred of £3.0m that are included in the total cost of acquisition.

Included within the consolidated income statement is operating income of £25.2m and operating profit (before highlighted items) of £3.6m in respect of Incepta's post acquisition results.

Notes to the financial statements for the six months ended 30 June 2005

3. Acquisitions (continued)

ii) Sinclair Mason Limited

On 23 February 2005 the Group acquired 100% of the issued share capital of Sinclair Mason Limited for an initial consideration of £1.1m satisfied by £0.62m of cash and £0.48m of Huntsworth shares. Additional deferred consideration is payable dependent on the next three years' trading profits up to a maximum of £2.8m.

iii) Neisser Communications Austria

On 26 May 2005 the Group acquired the brand and associated client and staff contracts of Neisser Communications Austria for an initial consideration of €139,000 satisfied 50% in cash and the balance by the issue of Huntsworth shares. Additional deferred consideration based on financial performance over the next three years is payable up to a maximum of €1.1m.

4. Segmental analysis

The Group's primary reporting segment is business divisions which correspond with the way the operating businesses are organised and managed within the Group and its secondary segment is geographical origin. The following table analyses the operating income and operating profit before highlighted items from continuing operations accordingly:

	Six months ended 30 June 2005 £000	Six months ended 30 June 2004 £000	Year ended 31 December 2004 £000
Operating income			
<i>Business segment</i>			
Public Relations & Healthcare Communications	40,172	16,680	43,323
Marketing Services & Specialist Advertising	14,082	711	1,575
Intra group	(189)	(37)	(36)
Total	54,065	17,354	44,862
<i>Geographical origin</i>			
United Kingdom	33,238	12,571	31,376
Other European	10,210	2,782	9,050
USA	8,875	1,927	4,034
Rest of World	1,931	111	438
Intra group	(189)	(37)	(36)
Total	54,065	17,354	44,862
Operating profit before highlighted items			
<i>Business segment</i>			
Public Relations & Healthcare Communications	7,732	3,310	8,367
Marketing Services & Specialist Advertising	1,899	(35)	70
Less corporate costs	(2,578)	(1,285)	(3,084)
Total	7,053	1,990	5,353
<i>Geographical origin</i>			
United Kingdom	6,838	2,640	6,467
Other European	1,321	376	1,201
USA	1,286	238	656
Rest of World	186	21	113
Less corporate costs	(2,578)	(1,285)	(3,084)
Total	7,053	1,990	5,353

Notes to the financial statements for the six months ended 30 June 2005

5. Highlighted items

	Six months ended 30 June 2005 £000	Six months ended 30 June 2004 £000	Year ended 31 December 2004 £000
Amortisation of intangible assets	1,484	101	448
Share option charge	286	72	244
Holiday pay charge	545	250	2
Merger, restructuring and other non-recurring costs	1,414	214	1,838
	3,729	637	2,532

Highlighted items comprise expenses relating to the introduction of International Financial Reporting Standards and costs incurred in the integration and restructuring of businesses within the Group.

6. Finance costs

	Six months ended 30 June 2005 £000	Six months ended 30 June 2004 £000	Year ended 31 December 2004 £000
Bank interest payable	1,022	258	537
Loan note interest	22	-	39
Finance lease interest	17	20	42
Other net interest payable	20	1	4
	1,081	279	622
Bank interest receivable	(90)	(31)	(75)
	991	248	547

7. Taxation

The tax charge for the half year ended 30 June 2005 has been based on an estimated effective tax rate on profit before highlighted items for the full year of 25% (year ended 31 December 2004: 11.2% before non-recurring items and goodwill).

8. Dividends

	Six months ended 30 June 2005 £000	Six months ended 30 June 2004 £000	Year ended 31 December 2004 £000
Equity dividends on ordinary shares:			
Interim dividend for year ended 2003 – 0.1p	-	163	163
Interim dividend for year ended 2004 – 0.1p	-	-	303
Special second interim dividend for year ended 2004 – 0.1p	306	-	-
	306	163	466

The proposed interim dividend of 0.5p per share was approved by the Board on 17 October 2005 and in accordance with IFRS has not been included as a deduction from equity at 30 June 2005. The dividend will be paid on 13 December 2005 to those shareholders on the register at 28 October 2005.

Notes to the financial statements for the six months ended 30 June 2005

9. Earnings per share

The data used in the calculations of the earnings per share numbers is summarised in the table below:

	Six months ended 30 June 2005		Six months ended 30 June 2004		Year ended 31 December 2004	
	Earnings £'000	Weighted average no of shares 000's	Earnings £'000	Weighted average no of shares 000's	Earnings £'000	Weighted average no of shares 000's
Continuing operations:						
Basic	1,033	514,230	825	214,294	1,518	257,954
Diluted	1,033	530,838	825	226,410	1,518	269,645
Adjusted basic	4,068	514,230	1,387	214,294	3,891	257,954

The basic earnings per share calculation is based on the profit for the period attributable to parent company shareholders divided by the weighted average number of ordinary shares outstanding during the period.

Diluted earnings per share is calculated based on the profit for the period attributable to parent company shareholders divided by the weighted average number of ordinary shares outstanding during the period adjusted for the potentially dilutive impact of employee share option schemes and shares to be issued as part of deferred consideration on acquisitions of subsidiaries.

Adjusted earnings per share is calculated in order to provide information to shareholders about continuing trading performance and is based on the profit attributable to parent company shareholders excluding discontinued operations, amortisation of intangible assets, share option charges, holiday pay charges and non-recurring merger/restructuring costs together with related tax effects as set out below:

	Six months ended 30 June 2005 £000	Six months ended 30 June 2004 £000	Year ended 31 December 2004 £000
Basic earnings from continuing operations	1,033	825	1,518
Highlighted items	3,729	637	2,532
Tax on highlighted items	(694)	(75)	(159)
Adjusted earnings from continuing operations	4,068	1,387	3,891

10. Intangible fixed assets

	Brands and customer relationships £000	Goodwill £000	Total £000
Cost			
At 1 January 2005	7,318	55,391	62,709
Arising on acquisitions in the period	38,095	167,852	205,947
Adjustment to prior year acquisitions	-	268	268
Exchange differences	614	3,049	3,663
At 30 June 2005	46,027	226,560	272,587
Amortisation			
At 1 January 2005	448	-	448
Charge for the period	1,484	-	1,484
At 30 June 2005	1,932	-	1,932
Net book value at 30 June 2005	44,095	226,560	270,655
Net book value at 31 December 2004	6,870	55,391	62,261

Brands and customer relationships are being amortised over their useful economic lives of between 3 and 20 years. The amounts recognised above for intangible assets arising on acquisitions in the period are provisional awaiting final determination in accordance with the time limit allowed in IFRS 3. Details of acquisitions made during the period are set out in note 3.

Notes to the financial statements for the six months ended 30 June 2005

11. Reconciliation of movements in consolidated equity shareholders' funds

	Note	Six months to 30 June 2005 £000	Six months to 30 June 2004 £000	Year ended 31 December 2004 £000
Balance at start of period	14(c)	43,382	13,453	13,453
Impact of adoption of IAS32 and IAS39 on 1 January 2005		(4,168)	-	-
Shares issued for cash consideration		13	21,873	21,896
Shares issued on acquisitions		122,282	5,555	8,609
Shares to be issued for acquisitions		4,864	-	-
Share issue costs		(729)	(1,460)	(1,460)
Credit for share based payments		286	72	244
Deferred tax on share based payments		2	6	30
Movement in investment in own shares		(702)	(3)	(3)
Currency translation differences		2,251	(62)	(183)
Profit for the period		1,033	770	1,262
Equity dividends	8	(306)	(163)	(466)
Balance at end of period		168,208	40,041	43,382

As consideration for the share for share exchange arising on the merger with Incepta Group plc on 29 April 2005, 633,086,083 ordinary shares of 10p each were issued under the terms of the merger agreement. As at 30 June 2005 608,767,283 ordinary 10p shares had been issued and a further 24,318,800 were issued in early July which are reflected in shares to be issued. The 608,767,283 shares were issued at a bid price of 20p per share resulting in a total share premium of £60,876,728 which has been credited to merger reserve.

Share issue costs incurred in respect of the merger of £729,000 have been written off against share premium account.

12. Cash flow analysis

(a) Reconciliation of operating profit to net cash inflow from operations

	Six months to 30 June 2005 £000	Six months to 30 June 2004 £000	Year ended 31 December 2004 £000
Operating profit	3,324	1,353	2,821
Depreciation	1,035	433	1,059
Share option charge	286	72	244
Loss on write down of associated undertaking	-	-	151
Property, plant and equipment written off	25	-	50
(Profit) loss on disposal of property, plant & equipment	(49)	(2)	67
Amortisation of intangible assets	1,484	101	448
(Increase) decrease in work in progress	(1,655)	(290)	214
(Increase) in debtors	(1,778)	(1,891)	(1,611)
(Decrease) increase in creditors	(805)	707	1,501
(Decrease) in provisions	(1,384)	(372)	(309)
Net cash inflow from operations	483	111	4,635

Net cash inflow (outflow) from operations is analysed as follows:

	Six months to 30 June 2005 £000	Six months to 30 June 2004 £000	Year ended 31 December 2004 £000
Before non-recurring items and discontinued operations	3,646	691	6,579
Non-recurring items	(3,163)	(525)	(1,610)
Discontinued operations	-	(55)	(334)
	483	111	4,635

Notes to the financial statements for the six months ended 30 June 2005

12(b) Reconciliation of net cash flow to movement in net debt

	Six months to 30 June 2005	Six months to 30 June 2004	Year ended 31 December 2004
	£000	£000	£000
Increase in cash and cash equivalents in the period	6,598	1,674	2,777
Cash outflow from debt repayment	5,438	6,128	3,303
Bank loans and overdrafts acquired	(78,535)	-	-
Loan notes acquired	(6,326)	-	-
Loan notes repaid	4,974	-	-
Repayment of capital element of finance leases	108	101	272
Change in net debt resulting from cashflows	(67,743)	7,903	6,352
Loan notes issued	-	-	(2,080)
Finance leases acquired with subsidiaries	(159)	(49)	(60)
New finance leases	(148)	(133)	(137)
Disposal/cancellation of finance leases	-	6	43
Translation differences	(878)	(58)	(99)
(Increase) decrease in net debt	(68,928)	7,669	4,019
Net debt at beginning of period	(6,472)	(10,491)	(10,491)
Net debt at end of period	(75,400)	(2,822)	(6,472)

12(c) Analysis of net debt

	1 January 2005	Cash flow	Other	30 June 2005
	£000	£000	£000	£000
Cash and short terms deposits	2,773	8,541	(41)	11,273
Bank overdraft	(141)	(1,943)	(2)	(2,086)
Net cash and cash equivalents	2,632	6,598	(43)	9,187
Committed bank facility repayable between one and two years	(6,727)	(73,098)	(833)	(80,658)
Loan notes payable	(2,080)	(1,352)	-	(3,432)
Obligations under finance leases	(297)	108	(308)	(497)
Net debt	(6,472)	(67,744)	(1,184)	(75,400)

13. Post balance sheet events

On 14 July 2005 the Company's existing 10p ordinary shares were consolidated on the basis of 1 new 50p ordinary share for 5 existing 10p ordinary shares.

On 13 October 2005 the Company announced that, subject inter alia to shareholder approval, it had agreed to sell its marketing services and specialist advertising businesses to Media Square plc for £55 million in cash less expected disposal costs of £2.5 million. These businesses contributed operating income of £12.8m and operating profits (before highlighted items) of £1.8m in the results of the Group for the six months ended 30 June 2005.

14. Explanation of transition to IFRS

The accounting policies in note 2 have been applied in preparing the consolidated interim financial statements for the six months ended 30 June 2005, the comparative information for the six months ended 30 June 2004 and the year ended 31 December 2004 and the preparation of the opening IFRS balance sheet at 1 January 2004 (the Group's date of transition).

In preparing its opening balance sheet, comparative information for the six months ended 30 June 2004 and the year ended 31 December 2004, the Group has adjusted amounts reported previously in financial statements prepared in accordance with UK GAAP.

An explanation of the principal changes in accounting policies and how the transition from UK GAAP to IFRS has affected the Group's income statement, balance sheet and net equity is set out in the tables and accompanying notes below:

Notes to the financial statements for the six months ended 30 June 2005

14. Explanation of transition to IFRS (continued)

IFRS 1 First-time adoption of IFRS

In making the transition to IFRS, the following optional exemptions from full retrospective application of IFRS accounting policies have been adopted:

- (1) Business combinations – the Group has chosen not to restate business combinations which completed prior to the transition date of 1 January 2004.
- (2) Share based payments – the Group has elected to fair value only equity instruments that have been granted after 7 November 2002 that had not vested by 1 January 2005.
- (3) Cumulative translation differences – the Group has chosen to reset all translation reserves to £nil as at 1 January 2004.
- (4) Recognition, measurement and disclosure of financial instruments – the Group has opted not to apply IAS 32 and IAS 39 for the periods to 31 December 2004 and has adopted these standards from 1 January 2005.

Goodwill

The Group's application of IAS 38 to acquisitions after 1 January 2004 has resulted in the recognition of intangible assets that did not qualify for recognition under UK GAAP, and were instead subsumed into goodwill. These intangibles which include the fair value of brands and customer relationships are amortised over their useful economic lives, which vary depending on the individual characteristics of the intangible assets.

Under IAS 36 remaining goodwill is tested annually for impairment, unless there is any indication of impairment before that time.

Share-based payments

IFRS 2 requires that the costs of share-based payments are recognised in the income statement as an expense spread over the relevant vesting period. The Group has used a binomial share option valuation model for the purposes of calculating the fair value of these share options granted to employees.

Dividends

IAS 10 requires that interim dividends are recognised as a deduction from equity in the period in which they are paid, and final dividends are recognised in the period in which they are approved by the company in general meeting. Consequently dividends proposed or declared after the balance sheet date do not represent a present obligation of the entity at that date. Therefore certain prior year dividends have been derecognised on transition to IFRS and have been disclosed as a movement in shareholders equity.

Employee benefits

Short term employee benefits are payable within one year after the end of the period in which the services have been rendered and in accordance with IAS 19 employee holiday pay owing at the end of a financial period is now being recorded as a current liability.

Cumulative translation differences

Under IAS 21 'The Effects of Changes in Foreign Exchange Rates', cumulative translation differences are separately accounted for within reserves and are recycled from equity to the income statement on disposal of a foreign operation.

Deferred tax

Under IFRS deferred tax is provided in full using the balance sheet liability method, on the basis of temporary differences between the carrying value of assets and liabilities in the balance sheet and their tax bases used in the computation of taxable profit. Deferred tax assets are recognised only to the extent that it is probable that they can be utilised against future taxable profits. The principal items that result in adjustments to deferred tax between UK GAAP and IFRS are fair value accounting for share based payments and acquired intangible assets.

Financial instruments: Recognition and Measurement

All derivative financial instruments have been recognised at fair value on the date the derivative contract is entered into and are subsequently remeasured at their fair value at the balance sheet date. The method of recognising the resulting gain or loss on revaluation depends on whether the derivative is designated as a hedging instrument and, if so, on the nature of the asset or liability being hedged. Certain derivative instruments that provide effective hedging of the Group's economic exposures are not designated as hedges as they are not taken out to cover a specific position and the change in their fair value is recognised in the income statement.

Shares to be issued

Shares to be issued as contingent consideration for acquisitions, previously shown in equity, have been reclassified to current and non-current liabilities. The balance remaining in equity represents shares due to former Incepta shareholders following the merger on 29 April 2005.

Notes to the financial statements for the six months ended 30 June 2005

I4(a) IFRS reconciliation of income statement comparatives

Notes	Six months ended 30 June 2004			Year ended 31 December 2004		
	Published UK GAAP*	IFRS adjustments	Restated under IFRS	Published UK GAAP	IFRS adjustments	Restated under IFRS
	£000	£000	£000	£000	£000	£000
Continuing operations						
Turnover						
Excluding acquisitions	23,083	-	23,083	63,575	-	63,575
Acquisitions	-	-	-	-	-	-
	23,083	-	23,083	63,575	-	63,575
Cost of sales	(5,729)	-	(5,729)	(18,713)	-	(18,713)
Operating income						
Excluding acquisitions	17,354	-	17,354	44,862	-	44,862
Acquisitions	-	-	-	-	-	-
	17,354	-	17,354	44,862	-	44,862
Operating expenses including highlighted items	(15,733)	(268)	(16,001)	(41,760)	(281)	(42,041)
Operating profit before highlighted items						
Excluding acquisitions	1,990	-	1,990	5,353	-	5,353
Acquisitions	-	-	-	-	-	-
	1,990	-	1,990	5,353	-	5,353
Highlighted items						
Amortisation of intangibles	1,2 (155)	54	(101)	(413)	(35)	(448)
Share option charge	3 -	(72)	(72)	-	(244)	(244)
Holiday pay charge	4 -	(250)	(250)	-	(2)	(2)
Merger, restructuring and other non-recurring costs	(214)	-	(214)	(1,838)	-	(1,838)
Operating profit	1,621	(268)	1,353	3,102	(281)	2,821
Finance income	31	-	31	75	-	75
Finance costs	(279)	-	(279)	(622)	-	(622)
Profit before tax and highlighted items	1,742	-	1,742	4,806	-	4,806
Highlighted items above	(369)	(268)	(637)	(2,251)	(281)	(2,532)
Profit before tax	1,373	(268)	1,105	2,555	(281)	2,274
Taxation	5 (227)	75	(152)	(528)	150	(378)
Profit for the period from continuing operations	1,146	(193)	953	2,027	(131)	1,896
Loss from discontinued operations	(55)	-	(55)	(256)	-	(256)
Minority interests	(128)	-	(128)	(378)	-	(378)
Profit for the period	963	(193)	770	1,393	(131)	1,262
Earnings per share from continuing operations:						
Basic – pence	0.5	(0.1)	0.4	0.6	-	0.6
Diluted – pence	0.4	-	0.4	0.6	-	0.6

*The published UK GAAP figures for the six months ended 30 June 2004 have been restated for the impact of operations discontinued during the second half of the year ended 31 December 2004.

Notes to the financial statements for the six months ended 30 June 2005

14(b) IFRS reconciliation of balance sheet comparatives

	Notes	Six months ended 30 June 2004			Year ended 31 December 2004		
		Published UK GAAP	IFRS adjustments	Restated under IFRS	Published UK GAAP	IFRS adjustments	Restated under IFRS
		£000	£000	£000	£000	£000	£000
Non-current assets							
Intangible assets	1	49,537	1,665	51,202	60,043	2,218	62,261
Property, plant and equipment		2,850	-	2,850	2,680	-	2,680
Deferred tax	6	-	27	27	-	13	13
Other investments		191	-	191	-	-	-
		52,578	1,692	54,270	62,723	2,231	64,954
Current assets							
Work in progress		1,444	-	1,444	1,148	-	1,148
Trade and other receivables		15,496	-	15,496	18,046	-	18,046
Cash and short-term deposits		2,136	-	2,136	2,773	-	2,773
		19,076	-	19,076	21,967	-	21,967
Current liabilities							
Bank overdrafts		(566)	-	(566)	(141)	-	(141)
Loan notes payable		(1,742)	-	(1,742)	(2,080)	-	(2,080)
Obligations under finance leases		(182)	-	(182)	(135)	-	(135)
Trade and other payables	2	(14,437)	(182)	(14,619)	(18,106)	18	(18,088)
Corporation tax payable		(322)	-	(322)	(1,312)	-	(1,312)
Provisions	4,5,9	-	(2,047)	(2,047)	-	(4,402)	(4,402)
		(17,249)	(2,229)	(19,478)	(21,774)	(4,384)	(26,158)
Non-current liabilities							
Bank loans and overdrafts		(3,902)	-	(3,902)	(6,727)	-	(6,727)
Obligations under finance leases		(308)	-	(308)	(162)	-	(162)
Provisions	4,9	(3,121)	(3,582)	(6,703)	(5,215)	(2,786)	(8,001)
Other creditors		(1,250)	-	(1,250)	-	-	-
Deferred tax liabilities	3	(220)	(1,316)	(1,536)	-	(1,792)	(1,792)
		(8,801)	(4,898)	(13,699)	(12,104)	(4,578)	(16,682)
NET ASSETS		45,604	(5,435)	40,169	50,812	(6,731)	44,081
Equity							
Called up share capital		28,709	-	28,709	30,444	-	30,444
Share premium account		23,612	-	23,612	23,615	-	23,615
Merger reserve		6,563	-	6,563	7,902	-	7,902
Foreign exchange translation reserve	7	-	(62)	(62)	-	(183)	(183)
Shares to be issued	9	5,602	(5,602)	-	7,157	(7,157)	-
Treasury shares		(8)	-	(8)	(8)	-	(8)
Retained earnings	8	(19,002)	229	(18,773)	(18,997)	609	(18,388)
Equity attributable to equity holders of the parent		45,476	(5,435)	40,041	50,113	(6,731)	43,382
Minority interests		128	-	128	699	-	699
TOTAL EQUITY		45,604	(5,435)	40,169	50,812	(6,731)	44,081

Notes to the financial statements for the six months ended 30 June 2005

14(c) Reconciliation of net equity

	1 January 2004 £000	30 June 2004 £000	31 December 2004 £000
Net equity under UK GAAP	16,306	45,476	50,113
<i>Impact of changes in accounting under IFRS:</i>			
Add back goodwill amortisation	-	155	413
Amortisation of intangible assets	-	(101)	(448)
Holiday pay accrual	(48)	(298)	(50)
Reclassification of shares to be issued to provisions	(2,995)	(5,602)	(7,157)
Tax relief on holiday pay accruals	14	48	-
Deferred tax on goodwill and share based payments	13	60	207
Write back of proposed dividends	163	303	304
Net equity under IFRS	13,453	40,041	43,382

Explanatory notes to the UK GAAP to IFRS reconciliations

Income statement

- Under UK GAAP goodwill was, where considered appropriate, amortised through the income statement on a straight line basis whereas under IFRS 3 goodwill is not amortised through the income statement but is instead subject to an annual impairment test. This change results in credits to the income statement of £155,000 for the six months ended 30 June 2004 and £413,000 for the year ended 31 December 2004.
- Under IAS 38 and the transitional provisions of IFRS 1 being adopted by the Group, acquisitions made after 1 January 2004 result in recognition of intangible assets including brands and customer relationships that did not qualify for recognition under UK GAAP and were subsumed into goodwill. These intangible assets are being amortised over their useful economic lives and the charge for the six months ended 30 June 2004 is £101,000 and for the year ended 31 December 2004 is £448,000.
- IFRS 2 requires the expensing of employee share options to the income statement that were not previously charged to profit under UK GAAP and these amount to £72,000 for the six months ended 30 June 2004 and £244,000 for the year ended 31 December 2004. These charges relate to the share options granted after 7 November 2002.
- Under IAS 19 employee holiday pay owing at the end of a financial period is now required to be recognised as a current liability and charged to the income statement. A charge of £250,000 has been made for the six months ended 30 June 2004 and £2,000 for the year ended 31 December 2004.
- Under IAS 12 deferred tax is recognised on the basis of temporary differences between balance sheet amounts of assets and liabilities and their corresponding tax bases rather than the UK GAAP approach of recognising deferred tax assets and liabilities for the estimated future tax effects of all timing differences that have originated but not reversed at the balance sheet date and are expected to crystallise a tax asset or liability in the future. The above differences relate to fair value accounting for share options, acquired intangible assets and holiday pay. A £75,000 deferred tax credit has been recognised in the six months ended 30 June 2004 and £150,000 in the year ended 31 December 2004.
- Under IAS 10 equity dividends are not recognised until they are paid or formally approved whereas under UK GAAP dividends relating to a period were recognised at the balance sheet date even if they were declared or approved after the balance sheet date. Accordingly certain dividends have been derecognised in prior periods and a credit of £140,000 has been reflected in the six months ended 30 June 2004 and £141,000 credit for the year ended 31 December 2004.

Notes to the financial statements for the six months ended 30 June 2005

Explanatory notes to the UK GAAP to IFRS reconciliations (continued)

Balance sheet

1. The £1,665,000 net debit to intangible assets in the 30 June 2004 balance sheet (31 December 2004 - £2,218,000) consists of additional goodwill arising on the reversal of goodwill previously charged to profit of £155,000 (31 December 2004 - £413,000), £101,000 of amortisation of brands and customer contracts (31 December - £448,000), additional goodwill of £214,000 recognised as a result of provisions made for holiday pay in businesses acquired during the period (31 December 2004 - £267,000) and deferred tax liabilities arising on brands and customer contracts of £1,397,000 (31 December 2004 - £1,986,000).
2. The £182,000 credit to trade and other payables in the 30 June 2004 balance sheet (31 December 2004 - £18,000 debit) consists of £485,000 of holiday pay accruals (31 December 2004 - £286,000) less the £303,000 debit arising on the de-recognition of the proposed dividend (31 December 2004 - £304,000).
3. The £1,316,000 credit to deferred tax liabilities represents the additional deferred tax liabilities of £1,367,000 (31 December 2004 - £1,851,000 credit) arising from the recognition of brands and customer contracts less a £51,000 debit in respect of deferred tax relief of on share based payments (31 December 2004 - £59,000 debit).
4. Under IFRS provisions previously shown under UK GAAP as provisions for liabilities and charges have been reclassified to show the analysis of provisions that are current liabilities and those that are payable beyond one year. The amounts reclassified from provisions due after more than one year to provisions due within one year are £1,590,000 at 30 June 2004 and £3,753,000 at 31 December 2004.
5. The balance of £27,000 credited to provisions at 30 June 2004 represents the cost of providing for long term staff benefits (31 December 2004 - £31,000 credit).
6. The £27,000 debit to deferred tax at 30 June 2004 arises from deferred tax relief on share based payments of £13,000 (31 December 2004 - £13,000) and deferred tax relief in respect of holiday pay of £14,000 (31 December 2004 - £nil).
7. In accordance with IAS 21, cumulative translation differences are separately accounted for within reserves and are recycled from equity to the income statement on disposal of a foreign operation. The adjustments of £62,000 for the six months ended 30 June 2004 represents a reclassification of a balance previously shown in retained earnings under UK GAAP (31 December 2004 - £183,000).
8. The net credit to retained earnings of £229,000 for the six months ended 30 June 2004 is made up as follows: a £303,000 credit arising from dividend de-recognition, a holiday pay charge of £264,000, deferred tax relief credit on share options and holiday pay of £44,000, a credit of £155,000 in respect of the reversal of previously amortised goodwill, a charge of £101,000 for goodwill on brands and customer contracts and a £30,000 deferred tax credit arising from the recognition of brands and customer contracts. In addition £62,000 of cumulative foreign exchange losses have been reclassified to a separate reserve (see note 7 above). The net credit to retained earnings of £609,000 for the year ended 31 December 2004 consists of the following: a £304,000 credit arising from dividend de-recognition, a holiday pay charge of £50,000, deferred tax relief credit on share options and holiday pay of £72,000, a credit of £413,000 in respect of the reversal of previously amortised goodwill, a charge of £448,000 for goodwill on brands and customer contracts and a £135,000 deferred tax credit arising on the recognition of brands and customer contracts. In addition £183,000 of cumulative foreign exchange losses have been reclassified to a separate reserve (see note 7 above).
9. Under IFRS shares to be issued in respect of deferred consideration, previously shown under UK GAAP within equity, are regarded as liabilities and have therefore been reclassified to current and non-current liabilities as provisions. The amounts reclassified from shares to be issued to provisions due within one year at 30 June 2004 are £430,000 (31 December 2004 - £618,000) and the amounts reclassified from shares to be issued to provisions due in more than one year at 30 June 2004 are £5,172,000 (31 December 2004 - £6,539,000).

Independent review report to Huntsworth PLC

Introduction

We have been instructed by the company to review the financial information for the six months ended 30 June 2005 which comprises the Consolidated Income Statement, Consolidated Balance Sheet, Consolidated Cash Flow Statement, Consolidated Statement of Recognised Income and Expense and the related notes 1 to 14. We have read the other information contained in the interim report and considered whether it contains any apparent misstatements or material inconsistencies with the financial information.

This report is made solely to the company in accordance with guidance contained in Bulletin 1999/4 'Review of interim financial information' issued by the Auditing Practices Board. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company, for our work, for this report, or for the conclusions we have formed.

Directors' responsibilities

The interim report, including the financial information contained therein, is the responsibility of, and has been approved by, the directors. The directors are responsible for preparing the interim report in accordance with the Listing Rules of the Financial Services Authority.

As disclosed in note 1, the next annual financial statements of the group will be prepared in accordance with those IFRSs adopted for use by the European Union.

The accounting policies are consistent with those that the directors intend to use in the next financial statements.

Review work performed

We conducted our review in accordance with guidance contained in Bulletin 1999/4 'Review of interim financial information' issued by the Auditing Practices Board for use in the United Kingdom. A review consists principally of making enquiries of group management and applying analytical procedures to the financial information and underlying financial data, and based thereon, assessing whether the accounting policies have been applied. A review excludes audit procedures such as tests of controls and verification of assets, liabilities and transactions. It is substantially less in scope than an audit performed in accordance with International Standards on Auditing (UK and Ireland) and therefore provides a lower level of assurance than an audit. Accordingly we do not express an audit opinion on the financial information.

Review conclusion

On the basis of our review we are not aware of any material modifications that should be made to the financial information as presented for the six months ended 30 June 2005.

Ernst & Young LLP

London
18 October 2005