

# Tenon Group PLC

Interim results  
Six months to 31 December 2008

## Financial highlights

- > Countercyclical services enjoyed substantial growth
- > Recovery turnover up 43% to £19.3m
- > Corporate services turnover up 13% overall
- > Increases in underlying operating profit and margins (3% and 0.5% respectively)
- > Operating profit up 7% to £7.3m
- > Profit after tax up 15% to £4.7m
- > £19m of unutilised bank facilities for future growth
- > Basic earnings per share 2.46p – up by 12%

# Chairman's statement

## Introduction

Tenon is uniquely branded as the UK's leading adviser dedicated to entrepreneurs and has experienced strong demand for its services during the period. Our strategy has generated excellent results, increasing the profits and margins of the business in a challenging economic environment.

## Financial and business performance

	6 months to 31 December 2008 Unaudited £m	6 months to 31 December 2007 Unaudited £m
Revenue from continuing activities	<b>74.9</b>	75.8
Adjusted operating profit*	<b>8.7</b>	8.4
Adjusted profit after tax*	<b>5.7</b>	5.2
Adjusted basic earnings per share*	<b>2.99p</b>	2.83p
Statutory operating profit	<b>7.3</b>	6.8
Statutory profit after tax	<b>4.7</b>	4.0
Statutory basic earnings per share	<b>2.46p</b>	2.20p

\* Before amortisation of intangibles and exceptional items

The following table sets out the fees generated by service line:

	6 months to 31 December 2008 Unaudited £m % of total		6 months to 31 December 2007 Unaudited £m % of total		Year to 30 June 2008 Audited £m % of total	
<b>Corporate services:</b>						
Business taxation and advisory	<b>18.3</b>	<b>24</b>	17.1	23	37.4	23
Turnaround and corporate recovery	<b>19.3</b>	<b>26</b>	13.5	18	30.9	19
Outsourcing	<b>4.7</b>	<b>6</b>	4.2	6	9.0	6
Corporate finance and related advice	<b>2.9</b>	<b>4</b>	4.3	6	11.2	7
Accounts and audit	<b>9.0</b>	<b>12</b>	9.0	11	18.4	12
	<b>54.2</b>	<b>72</b>	48.1	64	106.9	67
<b>Personal financial advice and taxation</b>	<b>20.7</b>	<b>28</b>	27.7	36	53.4	33
	<b>74.9</b>	<b>100</b>	75.8	100	160.3	100

## Chairman's statement (continued)

Our corporate services division increased turnover by 13%, over half of which is organic reflecting strong performance in our principal operations.

In our prominent turnaround and corporate recovery division comparative turnover has grown by 43%, of which over 20% is organic. This division now represents 26% of group turnover. Further growth is expected in the second half of the year from the continuing rise in the level of insolvencies and our widely based referral sources.

The stability of our recurring client base within business taxation and advisory, outsourcing, accounts and audit is illustrated by the wholly organic growth achieved in the period. Our existing clients value the services we provide, which are increasingly essential to their own continuing success. Substantial new clients gained in the period provide further opportunities for growth.

Corporate finance performance has been affected by the exceptional credit market conditions experienced throughout the majority of the trading period, and this division has significantly reduced its fixed cost base. Our personal financial advisory division has completed its strategy to move away from low value, high volume relationships, whilst maintaining absolute profitability.

We have generated further increases in underlying operating profit margin from 11.1% to 11.6% (statutory 9% to 9.7%), by benchmarking controls including the redirection of resources to increase profit opportunities in our counter-cyclical services.

Further actions have been taken within our continuing efficiency programme in the second half of the financial year. Costs of this initiative provide rapid payback and are separately disclosed in our financial statements.

### Funding and cash flows

Net debt at the period end achieved our predicted level of £23.3m after the following specific expenditure, the majority of which will not recur in the second half of the financial year:

	£m
Prior year bonuses	7.0*
VAT payment acceleration	3.0*
Deferred consideration	2.8*
Dividends	2.7*
Capital investment	2.0*
Recovery working capital investment	5.0
Corporation tax	1.8
	<hr/> <b>24.3</b> <hr/>

\* Non-recurring in the second half

Investments, in line with the increasing scale of our recovery business, were supported by further reductions in working capital absorption in all other areas. Tight control of working capital continues throughout the business.

Bank facilities available to the group total £44m of which £19m is unutilised and principal banking arrangements run until November 2012. This provides our business with ample headroom to meet current growth plans.

#### **Acquisitions and integrations**

Since the period end our Tenon Medical Services team has acquired the operations of HWSEG Limited, the specialist medical accountants and tax advisers. We continue to seek further opportunities for growth in this and other resilient sectors of the entrepreneurial market place.

#### **Management**

Our proven management structure has remained unchanged during the period, and we continue to attract top quality recruits from competitor businesses.

All our senior appointments are chosen and rewarded on the basis of proven performance, thus maintaining existing relationships between profit and pay.

#### **Outlook and strategy**

We pursue a consistent strategy of providing excellent, essential services to an entrepreneurial client base. Our balanced and flexible range of services are able to meet the changing needs of our clients and the economy. Improved cross selling performance throughout the business further enhances both earnings and stability.

With further growth in turnaround and corporate recovery services and tight control over our cost base and cashflows, we look forward to a successful 2009.

**Bob Morton**  
Chairman

**Andy Raynor**  
Chief Executive

18 March 2009

**“These first half results underline the strength of our service portfolio and our ability to grow profits in a challenging economic environment. We look forward to a successful 2009.”**

Andy Raynor, Chief Executive, 18 March 2009

# Independent review report to Tenon Group PLC

## Introduction

We have been engaged by the company to review the condensed set of consolidated financial statements in the half-yearly financial report for the six months ended 31 December 2008, which comprises the consolidated income statement, consolidated balance sheet, consolidated statement of changes in equity, consolidated cash flow statement and related notes. We have read the other information contained in the half-yearly financial report and considered whether it contains any apparent misstatements or material inconsistencies with the information in the condensed set of financial statements.

## Directors' responsibilities

The half-yearly financial report is the responsibility of, and has been approved by, the directors. The directors are responsible for preparing the half-yearly financial report in accordance with the AIM Rules for Companies which require that the financial information must be presented and prepared in a form consistent with that which will be adopted in the company's annual financial statements.

As disclosed in note 1, the annual financial statements of the group are prepared in accordance with IFRSs as adopted by the European Union. The condensed set of financial statements included in this half-yearly financial report has been prepared in accordance with the basis of preparation set out in note 1.

## Our responsibility

Our responsibility is to express to the company a conclusion on the condensed set of financial statements in the half-yearly financial report based on our review. This report, including the conclusion, has been prepared for and only for the company for the purpose of the AIM Rules for Companies and for no other purpose. We do not, in producing this report, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

## Scope of review

We conducted our review in accordance with International Standard on Review Engagements (UK and Ireland) 2410, 'Review of Interim Financial Information Performed by the Independent Auditor of the Entity' issued by the Auditing Practices Board for use in the United Kingdom. A review of interim financial information consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing (UK and Ireland) and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

## Conclusion

Based on our review nothing has come to our attention that causes us to believe that the condensed set of consolidated financial statements in the half-yearly financial report for the six months ended 31 December 2008 is not prepared, in all material aspects, in accordance with the basis of preparation set out in note 1 and the AIM rules for Companies.

*PricewaterhouseCoopers LLP*

**PricewaterhouseCoopers LLP**  
Chartered Accountants  
Manchester

18 March 2009

## Notes:

- (a) The maintenance and integrity of the Tenon Group PLC website is the responsibility of the directors; the work carried out by the auditors does not involve consideration of these matters and, accordingly, the auditors accept no responsibility for any changes that may have occurred to the financial statements since they were initially presented on the website.
- (b) Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

## Consolidated income statement for the six months to 31 December 2008

		6 months to 31 December 2008 £000 Unaudited	6 months to 31 December 2007 £000 Unaudited	Year ended 30 June 2008 £000 Audited
<b>Revenue – continuing operations</b>		<b>74,929</b>	75,772	160,269
External charges: direct expenses		(3,879)	(4,504)	(9,404)
Employee benefit expense		(46,491)	(46,577)	(99,045)
Employee share scheme costs		(261)	(177)	(357)
Depreciation of tangible assets		(821)	(748)	(1,257)
Amortisation of intangible assets		(1,187)	(1,502)	(3,160)
Other operating charges		(15,008)	(15,482)	(33,099)
<b>Operating profit</b>		<b>7,282</b>	6,782	13,947
Underlying operating profit		8,665	8,414	17,636
Amortisation of intangible assets		(1,008)	(1,502)	(2,710)
Exceptional items	3	(375)	(130)	(979)
Finance income		274	342	851
Finance costs		(1,095)	(1,167)	(2,363)
<b>Profit on ordinary activities before taxation</b>		<b>6,461</b>	5,957	12,435
Tax on profit on ordinary activities	4	(1,799)	(1,915)	(3,712)
<b>Profit for the financial period</b>		<b>4,662</b>	4,042	8,723
<b>Earnings per 10p share</b>	5			
Basic		2.46	2.20	4.69
Diluted		2.38	2.09	4.48
Adjusted basic		2.99	2.83	6.11
Adjusted diluted		2.88	2.70	5.84

# Consolidated balance sheet

at 31 December 2008

	31 December 2008 £000 Unaudited	31 December 2007 £000 Unaudited	30 June 2008 £000 Audited
<b>ASSETS</b>			
<b>Non-current assets</b>			
Goodwill	77,980	74,540	77,752
Other intangible assets	7,565	8,904	8,754
Intangible assets	<b>85,545</b>	<b>83,444</b>	<b>86,506</b>
Property, plant and equipment	5,264	3,585	4,091
Available for sale financial assets	1,129	170	1,926
Deferred income tax assets	4,508	4,238	5,024
<b>Total non-current assets</b>	<b>96,446</b>	<b>91,437</b>	<b>97,547</b>
<b>Current assets</b>			
Trade and other receivables	50,252	46,600	48,731
Cash	6,763	22,849	20,081
<b>Total current assets</b>	<b>57,015</b>	<b>69,449</b>	<b>68,812</b>
<b>Total assets</b>	<b>153,461</b>	<b>160,886</b>	<b>166,359</b>
<b>LIABILITIES</b>			
<b>Non-current liabilities</b>			
Borrowings	25,700	28,863	24,938
Deferred income tax liabilities	1,668	2,163	1,952
Provisions for other liabilities and charges	2,219	3,961	5,655
<b>Total non-current liabilities</b>	<b>29,587</b>	<b>34,987</b>	<b>32,545</b>
<b>Current liabilities</b>			
Trade and other payables	27,570	36,908	36,842
Corporation tax liabilities	2,719	2,921	2,719
Borrowings	4,402	2,496	4,290
Provisions for other liabilities and charges	5,067	3,566	4,936
<b>Total current liabilities</b>	<b>39,758</b>	<b>45,891</b>	<b>48,787</b>
<b>Total liabilities</b>	<b>69,345</b>	<b>80,878</b>	<b>81,332</b>
<b>EQUITY</b>			
Ordinary shares	19,011	18,768	18,862
Share premium	27,204	28,435	27,192
Merger reserve	26,879	25,629	26,879
Investment revaluation reserve	(1,111)	4	(312)
Retained earnings	12,133	7,172	12,406
<b>Total equity</b>	<b>84,116</b>	<b>80,008</b>	<b>85,027</b>
<b>Total liabilities and equity</b>	<b>153,461</b>	<b>160,886</b>	<b>166,359</b>

# Consolidated statement of changes in equity

for the six months to 31 December 2008

	Share capital £000 Unaudited	Share premium account £000 Unaudited	Merger reserve £000 Unaudited	Shares to be issued £000 Unaudited	Investment revaluation reserve £000 Unaudited	Retained earnings £000 Unaudited	Total £000 Unaudited
<b>Balance at 1 July 2007</b>	16,964	19,976	25,629	440	12	5,471	68,492
Cash flow hedges, net of tax	–	–	–	–	–	(52)	(52)
Loss recognised directly in equity	–	–	–	–	(8)	(52)	(60)
Profit for the half year	–	–	–	–	–	4,042	4,042
<b>Total recognised (expense)/income for the half year to 31 December 2007</b>	–	–	–	–	(8)	3,990	3,982
Employee share option scheme:							
– value of employee services	–	–	–	–	–	177	177
– proceeds from shares issued	111	6	–	–	–	–	117
– deferred tax on share option scheme	–	–	–	–	–	(218)	(218)
Share placement	819	3,986	–	–	–	–	4,805
Shares issued on acquisition	874	4,467	–	(440)	–	–	4,901
Dividends relating to June 2007 paid in December 2007	–	–	–	–	–	(2,248)	(2,248)
	1,804	8,459	–	(440)	–	(2,289)	7,534
<b>Balance at 31 December 2007</b>	<b>18,768</b>	<b>28,435</b>	<b>25,629</b>	<b>–</b>	<b>4</b>	<b>7,172</b>	<b>80,008</b>
<b>Balance at 1 July 2008</b>	18,862	27,192	26,879	–	(312)	12,406	85,027
Cash flow hedges, net of tax	–	–	–	–	–	(2,105)	(2,105)
Revaluation of available for sale financial assets	–	–	–	–	(799)	–	(799)
Loss recognised directly in equity	–	–	–	–	(799)	(2,105)	(2,904)
Profit for the half year	–	–	–	–	–	4,662	4,662
<b>Total recognised (expense)/income for the half year to 31 December 2008</b>	–	–	–	–	(799)	2,557	1,758
Employee share option scheme:							
– value of employee services	–	–	–	–	–	261	261
– proceeds from shares issued	149	12	–	–	–	–	161
– deferred tax on share option scheme	–	–	–	–	–	(433)	(433)
Dividends relating to June 2008 paid in December 2008	–	–	–	–	–	(2,658)	(2,658)
	149	12	–	–	–	(2,830)	(2,669)
<b>Balance at 31 December 2008</b>	<b>19,011</b>	<b>27,204</b>	<b>26,879</b>	<b>–</b>	<b>(1,111)</b>	<b>12,133</b>	<b>84,116</b>

# Consolidated cash flow statement

for the six months to 31 December 2008

	6 months to 31 December 2008 £000 Unaudited	6 months to 31 December 2007 £000 Unaudited	Year to 30 June 2008 £000 Audited
<b>Cash flows from operating activities</b>			
Profit before tax	6,461	5,957	12,435
Net finance costs	821	825	1,512
Employee share scheme costs	261	177	357
Depreciation of tangible fixed assets	821	748	1,257
Loss on disposal of fixed assets	3	8	9
Amortisation of intangible assets	1,187	1,502	3,160
Increase in trade and other receivables	(3,836)	(1,638)	(1,286)
(Decrease)/increase in trade and other payables	(11,145)	6,349	5,731
(Decrease)/increase in provisions	(655)	(156)	457
Cash flow from operating activities	(6,082)	13,772	23,632
Interest paid	(913)	(916)	(2,022)
Income tax paid	(1,830)	(1,530)	(3,336)
<b>Net cash (outflows)/inflows from operating activities</b>	<b>(8,825)</b>	<b>11,326</b>	<b>18,274</b>
<b>Cash flows from investing activities</b>			
Acquisition of subsidiary undertakings and businesses	(49)	(12,040)	(17,074)
Net cash acquired with subsidiary undertakings and businesses	-	441	296
Deferred consideration on purchase of subsidiary undertakings and businesses	(2,822)	(10)	(63)
Net consideration on disposal of group businesses	1,842	617	617
Purchase of property, plant and equipment	(2,002)	(416)	(1,669)
Purchase of software	-	-	(862)
Proceeds from sale of property, plant and equipment	-	10	10
Purchase of available-for-sale financial assets	(100)	(76)	(2,145)
Proceeds from sale of financial assets	-	162	162
Interest received	274	342	751
Interest paid on finance leases	(10)	(8)	(8)
<b>Cash flows from investing activities</b>	<b>(2,867)</b>	<b>(10,978)</b>	<b>(19,985)</b>
<b>Cash flows from financing activities</b>			
Dividends paid to shareholders	(2,658)	(2,248)	(2,248)
Issue of ordinary share capital for cash	161	4,923	5,024
Loan received	-	8,661	8,661
Repayment of loans	-	(2,127)	(3,128)
Capital element of finance lease repayments	(291)	(142)	(354)
New finance lease on existing assets	1,162	-	403
<b>Cash flows from financing activities</b>	<b>(1,626)</b>	<b>9,067</b>	<b>8,358</b>
<b>(Decrease)/increase in cash in the period</b>	<b>(13,318)</b>	<b>9,415</b>	<b>6,647</b>
Cash at start of period	20,081	13,434	13,434
<b>Cash at end of period</b>	<b>6,763</b>	<b>22,849</b>	<b>20,081</b>

# Notes to the interim results

for the six months to 31 December 2008

## 1 Basis of preparation

The interim financial information has been prepared in accordance with IFRS (as adopted by the EU), in accordance with the accounting policies as set out in the financial statements for the year ended 30 June 2008 and AIM rules.

These interim results for the period ended 31 December 2008, which are not audited, have been prepared in accordance with IFRS and do not comprise statutory accounts within the meaning of section 240 of the Companies Act 1985.

The comparative financial information for the year ended 30 June 2008 has been extracted from the full audited accounts of the group in respect of that financial period. These accounts received an unqualified audit opinion and did not contain a statement under either section 237(2) or (3) of the Companies Act 1985 and have been delivered to the Registrar of Companies.

Available for sale financial assets purchased for investment and strategic purposes are held at prevailing market value, where the asset is publicly quoted. Any movement in value from the original cost is transferred to an investment revaluation reserve. Profit and losses arising from such movement in the value are taken to the profit and loss account when either the change in value is expected to be permanent, or at such time as the original strategic intent of the purchase is no longer valid. It is management's judgement that the change in value to date does not represent an impairment and therefore movements have been transferred to reserves. This treatment is regularly reviewed by management.

## 2 Employees

The average number of persons (including executive directors) employed by the group was as follows:

	6 months to 31 December 2008 Unaudited	6 months to 31 December 2007 Unaudited	Year to 30 June 2008 Audited
Management and professional staff	1,611	1,439	1,474
Support and administrative staff	336	295	347
	<b>1,947</b>	<b>1,734</b>	<b>1,821</b>

## 3 Exceptional items

Exceptional costs in the period (of £375,000) relate to the consolidation of a number of smaller operations within the turnaround and corporate recovery service line (6 months to 31 December 2007: £130,000; year to 30 June 2008: £979,000).

As referred to in the financial and business performance review, subsequent to the period end action has been taken with the intention to increase efficiency and improve the group's cost base. Expenditure associated with this exercise will be classified as exceptional and presented in the full year financial statements.

## 4 Income tax

The tax charge accrued in these interim results reflects an estimated tax rate of 28% (6 months to 31 December 2007: 32%; year to 30 June 2008: 30%).

## 5 Earnings per share

	6 months to 31 December 2008		6 months to 31 December 2007		Year to 30 June 2008	
	Earnings £000	Earnings per share p	Earnings £000	Earnings per share p	Earnings £000	Earnings per share p
Basic earnings per share	<b>4,662</b>	<b>2.46</b>	4,042	2.20	8,723	4.69
Dilutive share options	–	<b>(0.08)</b>	–	(0.11)	–	(0.21)
<b>Diluted earnings per share</b>	<b>4,662</b>	<b>2.38</b>	<b>4,042</b>	<b>2.09</b>	<b>8,723</b>	<b>4.48</b>
Basic earnings per share	<b>4,662</b>	<b>2.46</b>	4,042	2.20	8,723	4.69
Amortisation of intangibles, exceptional items net of tax effect	<b>996</b>	<b>0.53</b>	1,172	0.63	2,641	1.42
<b>Adjusted earnings per share</b>	<b>5,658</b>	<b>2.99</b>	<b>5,214</b>	<b>2.83</b>	<b>11,364</b>	<b>6.11</b>
Dilutive share options	–	<b>(0.11)</b>	–	(0.13)	–	(0.27)
<b>Adjusted diluted earnings per share</b>	<b>5,658</b>	<b>2.88</b>	<b>5,214</b>	<b>2.70</b>	<b>11,364</b>	<b>5.84</b>

Earnings per share is calculated by dividing the earnings attributable to ordinary shareholders by the weighted average number of ordinary shares in issue during the six month period. The weighted average number of shares in issue during the six months to 31 December 2008 was 189,520,000 (6 months to 31 December 2007: 184,042,000; year to 30 June 2008: 186,039,000).

There are 15,638,000 share options and warrants that give rise to a dilution during the 6 months to 31 December 2008 (6 months to 31 December 2007: 17,182,000; year to 30 June 2008: 16,914,000). There are 10,700,000 options and warrants in issue that do not give rise to dilution during the 6 months to 31 December 2008 (6 months to 31 December 2007: nil; year to 30 June 2008: 7,892,000).

The adjusted earnings per share are calculated and shown in order to demonstrate earnings per share before amortisation of intangibles and exceptional items, as the directors believe this figure more accurately reflects the performance of the group.

## 6 Analysis and reconciliation of movement in net debt

	1 July 2008 £000 Unaudited	Cash flow £000	Non-cash Items £000	31 December 2008 £000 Unaudited
<b>Cash balances</b>				
Cash at bank and in hand	20,081	(13,318)	–	<b>6,763</b>
<b>Debt</b>				
Bank loans due within one year	(3,916)	–	38	<b>(3,878)</b>
Bank and other loans due after one year	(24,719)	–	(41)	<b>(24,760)</b>
Finance leases due within one year	(374)	291	(441)	<b>(524)</b>
Finance leases due after one year	(219)	(1,162)	441	<b>(940)</b>
	(29,228)	(871)	(3)	<b>(30,102)</b>
<b>Net debt</b>	<b>(9,147)</b>	<b>(14,189)</b>	<b>(3)</b>	<b>(23,339)</b>

## Notes to the interim results

for the six months to 31 December 2008 (continued)

### 7 Directors' interests in shares

The number of ordinary shares of 10p each in the company held by the directors was as follows:

	31 December 2008	30 June 2008
CS Jackson	537,895	537,895
RS McBurnie	20,855	–
CA McFetrich	26,825	25,391
ALR Morton	300,000	300,000
AP Raynor	1,954,768	1,953,334

CA McFetrich and AP Raynor both participate in the company's Share Incentive Plan where shares are purchased monthly, by a trustee, on behalf of Tenon Group employees and directors. In the period from 1 January 2009 to 1 March 2009 both became interested in an additional 545 ordinary shares each.


All directors' interests are beneficially held. ALR Morton's adult children are interested in 22,175,000 ordinary shares.

### 8 Copies of the interim report

Copies of the interim report will be sent to shareholders and copies will also be available for inspection at the company's registered office at 66 Chiltern Street, London, W1U 4GB.

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