Tribal Group plc

Annual Report 2002

Company Registered Number: 4128850

Contents

Highlights of the year

	Year ended 31 March 2002	2001	
Turnover	£45.7m	£17.5m	Up 161%
Operating profits before interest and taxation	£8.4m	£3.1m	Up 171%
Operating margins	18.3%	18.0%	
Profit before taxation	£8.1m	£1.9m	Up 326%
Fully diluted earnings per share	14.2p	6.9p	Up 106%
Operating cash flow	£9.5m	£2.9m	Up 228%

(Note: Profits and earnings per share are stated before goodwill amortisation and employee benefit trust costs)

Chairman's Statement

I am pleased to report on the results of Tribal Group plc for the year to 31 March 2002. During this period, the Group has further consolidated its position as a leading professional support services and consultancy business, predominantly delivering services to the UK public sector, with particular focus on the education, local government and health sectors.

Results

In the year ended 31 March 2002, our first full year as a public company, the Group produced excellent results. Excluding amortisation of goodwill and the costs associated with employee benefit trusts, turnover was £45.7m (2001: £17.5m); operating profit was £8.4m (2001: £3.1m). Operating margins were 18.3 per cent (2001: 18.0 per cent), a strong performance given the level of growth during the year. Profit before taxation was £8.1m (2001: £1.9m) and fully diluted earnings per share were 14.2p (2001: 6.9p). During the period, the Group generated operating cashflow of £9.5m (2001: £2.9m), representing an operating profit cash conversion rate of 114 per cent. In line with our previous policy, the directors are not recommending the payment of a dividend. Net debt at the year end was £3.0m, representing gearing of 6 per cent.

Growth

There are three strands to our growth strategy. Firstly, we have increased capacity in our existing businesses and enhanced their organic growth potential. This is supported by our focus on delivering the benefits of cross-selling between the businesses and capitalising on our national coverage. Secondly, we are now successfully using the skills and customer reference sites across the Group to secure major contracts that increase the level of our long-term committed income. Thirdly, we have continued to make strategic acquisitions that add value to shareholders, and either strengthen the Group's position in existing markets or extend our services into new, complementary skill or market areas.

Over the year, on a like for like basis, the businesses within the Group have increased headcount by 31 per cent and demonstrated revenue growth of 42 per cent. Without exception, all businesses have broadened and strengthened their management teams since acquisition. During the year, a number of contracts have been won and increasingly these are involving more than one part of the Group. In May 2001, we were awarded a £7m contract by London Underground Limited to provide document management and other services; in March 2002, we were awarded a £1.1m contract by the Department for Education and Skills to develop and deliver online literacy and numeracy training; and, in May 2002, we were awarded a three year contract to provide strategic management services to Swindon Local Education Authority. We expect to announce further contract wins in the coming weeks.

The acquisitions we have made both in this and in previous years have exceeded our expectations and the incentivisation of management through equity participation has proved very successful in creating a stable yet dynamic culture. During the year, we have attracted high quality companies into the Group, thereby extending our cross-selling potential and our capability to bid for larger scale contracts.

We made a number of acquisitions in the year for an aggregate initial consideration of £36.8m paid for by a combination of cash and shares. Deferred consideration of up to £25.4m is payable, primarily in shares, based on the respective performances, of the businesses acquired, over the next three years. These acquisitions were funded in part through a Placing and Open Offer in November 2001 raising £20.9m. In addition, in April 2002, we signed new banking facilities with BoS, including a £35m revolving facility.

We continue to identify high margin, cash generative companies with strong track records and excellent growth potential, all of which have skills and services to add to our overall proposition. Since the year end, we have made two further acquisitions for an initial consideration of £10.0m, satisfied in cash and shares, with further deferred consideration of up to £10.4m, to be satisfied primarily in shares.

Our services are now grouped into four areas: management consultancy; property services; IT and information management services; and HR and training services. Education is still our major area of activity but, in line with our strategy, we are now increasing our presence in the local authority sector and have recently entered the health and social care markets. We are now operating in sectors that account for over £100bn of government expenditure. Over time, we will extend our services into other parts of the public sector and increase our presence in the private sector.

People

We are a business that relies on the quality and commitment of our people and our success is thanks to the hard work and professional integrity of our 950 staff. We have created an environment in which individuals at all levels are given a high degree of autonomy within a supportive Group framework. We have established a clear set of values which encourage entrepreneurialism, profit focus and a dynamic culture within a strong ethos of customer service, integrity and social awareness.

We have a strong tier of middle and senior management across the Group, many of whom are nationally leading figures in their specialist areas. A key ingredient of our strategy is to incentivise these individuals through an equity interest in the Group.

In November 2001, we introduced a Save As You Earn scheme, the take-up of which was 56 per cent, unusually high for first time schemes of this kind. We intend to offer employees another opportunity to join the scheme later this year.

I would like to put on record the thanks of myself and of the Board to our employees at all levels. Their efforts have ensured that Tribal is one of the most exciting and successful young companies in the UK today.

Move to the Official List

The Board is pleased to announce that it intends to publish listing particulars later today to effect the transfer of the Company's shares to the Official List of the London Stock Exchange, as indicated in our announcement of 13 May 2002. The Board believes that the move will increase the profile of the Group, provide a stronger platform when bidding for new contracts, assist in the recruitment and retention of experienced and high quality staff, and attract new investors.

Prospects

Tribal Group has now established itself as a major supplier of professional support services and consultancy to the public sector. The Group has the right skills, services, management and customer relationships to take advantage of the rapidly increasing opportunities in our markets. We have had a good start to this year's trading and committed income already exceeds 50 per cent of this year's budgeted turnover. In addition, we are currently short-listed for several new important contracts and have a pipeline of further high quality acquisition prospects.

Our intention is to maintain the momentum we have achieved throughout the coming year for the benefit of all employees and shareholders. The Board expects this to be another successful year and believes that future growth will remain strong.

David M Telling
Chairman

25 June 2002

Chief Executive's review

Introduction

This has been a very successful year for Tribal Group, during which we have established ourselves as a leading professional support services and consultancy business in education and developed a strong presence in the local authority and health markets. We are well advanced with our strategy to become one of the leading companies in our sector.

During the year, we have continued to focus on organic growth, the securing of long-term contracts and the completion of further acquisitions.

Organic growth

The Group continues to operate in buoyant markets, where government expenditure is rising and the opportunities for the private sector are increasing. Most of our businesses report that they are operating at full capacity and this year we have further strengthened our management teams and significantly increased staff numbers to meet the demand for our services. The Group has strong penetration across its markets. We now work with 80 per cent of secondary schools; 30 per cent of local education authorities and 70 per cent of local authorities; 95 per cent of further education colleges and 75 per cent of NHS trusts. Cross-selling initiatives are proving successful and we continue to develop our national network of offices.

Contract wins

Individual businesses have won a significant number of outsourced contracts and the central bid team, based in Bristol, has been successful in enabling the Group to bid for more complex, higher value contracts which involve a number of Tribal businesses. At 31 May 2002, the percentage of committed income against budget for the year ending 31 March 2003 was 53 per cent. Our intention is to increase the percentage of committed income over the medium term.

Acquisitions

The Group has made several outstanding acquisitions over the past 12 months, strengthening our skills and service offering in our existing markets as well as taking us into new areas. Our move into health through the acquisitions of Secta Group, the leading management consultancy business in health and social care, and Nightingale Architects, the leading healthcare architects in Europe, has given the Group a strong platform from which to develop its offering in this key sector.

We will continue to make acquisitions where they add value to the Group, either by strengthening our existing businesses or extending our services into new markets. Our criteria for acquisitions remain consistent: companies must be leaders in niche markets; deliver high margins and be cash generative; they must be scaleable and have management teams capable of delivering future growth. Most importantly, they must strengthen the Group's service offering.

All our acquisitions have been structured to incentivise senior management and to enable them to participate in the equity of the Group. This approach has been very successful and all directors of every company acquired have remained with the Group.

Start-ups

We are seeing opportunities to start up new businesses which will broaden our service offering and attract talented individuals. These will usually be set up as subsidiaries of existing businesses. The management team will normally have a minority shareholding in the subsidiary which they can convert into Tribal shares in the future, subject to performance.

Group strategy

We are fast becoming a leading provider of consultancy and professional support services to both the public and private sectors in the UK.

Consultancy services, which often lead to long-term outsourcing opportunities, have recurring, high margin revenues; highly educated and technically sophisticated staff; and high quality, long-term customer relationships. The support services activities provide the Group with long-term committed revenue; skills and services which can be supplied to customers as a packaged solution; and the reference sites to enable the Group to bid successfully for contracts.

Currently, 93 per cent of our revenues are from the public sector and we expect to retain this focus for the next two years. Thereafter, we expect the percentage of our work in the private sector gradually to increase as we apply the skills we have developed in the public sector to outsourcing opportunities in the private sector.

Although we operate across the public sector, our focus is on our core markets of education, local authorities and healthcare. We are now one of the leading providers of consultancy and support services in education and we will continue to consolidate our position in this sector. We will also accelerate our move into healthcare where our percentage of sales will increase significantly over the next 12 months. We will continue to develop our operations in the local authority market and extend our delivery to other parts of the public sector.

We have within the Group an extensive range of services which are, in most cases, applied to one market sector only. We are now placing increased emphasis on applying those skills to other parts of the public sector and the development of cross-selling opportunities remains a central part of our strategy.

We are very well placed to take advantage of the increasing use of the private sector in the delivery of public services and are experiencing a growing willingness on the part of the public sector to work with external providers.

Our markets

Our markets in education, local government and health continue to offer significant opportunities. Their combined expenditure is more than £100bn, employing around 6m people, over 20 per cent of the UK workforce. The Government's focus is on achieving real improvements in public services by the next election. It has established four principles which underpin its programme of reform: setting national standards; delegation to the front line; flexibility of service provision; and expanding choice for the customer. Clearly the best of the private sector is in a strong position to provide additional skills and expertise.

Education

Education remains the stated number one priority for the Government and the role of the private sector in supporting the provision of education is a key element of current policy. We recognise a growing willingness among local authorities and schools to work with private providers, indeed some of the most successful are now encouraging such partnerships.

Department for Education and Skills: The Department for Education and Skills (DfES) continues to offer the private sector a range of commercial opportunities. A number of new initiatives have been launched this year which will increase private sector involvement in the delivery of education. The Group continues to build relationships within the DfES and with related organisations such as the Teacher Training Agency and the Basic Skills Agency.

We have been successful in winning a number of DfES contracts. In March 2002, we were awarded a pilot project to develop e-learning resources for literacy and numeracy in primary schools. This £1.1m contract is expected to lead to other opportunities in this market and follows the very successful ICT training we have been delivering to secondary schools through the £230m New Opportunities Fund initiative.

The Government has put basic skills at the top of its agenda. The budget in this area is £1.5bn over the next three years. We are very well placed to take advantage of this opportunity having now established ourselves as the leading provider of educational content in this market. During the year, major projects have been undertaken, including work for the DfES, the Basic Skills Agency, the Ministry of Defence, 14 local Learning and Skills Councils (LSCs) and many other public and voluntary sector bodies. We are also combining our e-learning and consultancy services in support programmes and materials for UK Online and learndirect centres.

Local education authorities: We are now working with 30 local education authorities, providing a range of support services. In January 2002, we were selected as a framework provider for the City Academies initiative. In May 2002, we were awarded a three year contract to provide strategic management services to Swindon Local Education Authority, which will involve us assuming responsibility for the management of the education department and, in particular, working with schools to improve the quality of education.

OfSTED: The Group continues to be OfSTED's largest provider of school inspection services, with a 9 per cent market share. Our renewed contract, worth £4.6m, will now run until July 2003. Our success in this sector has led to similar inspection work, including inspections of the Business Link network and a training contract from the National College of School Leadership.

Further education: The responsibility for the funding and planning of post-16 education rests with the Learning and Skills Council (LSC), which now has a budget of over £6bn, a significant proportion of which is delegated to over 430 further education (FE) colleges.

We are now established as a leading consultancy in the FE market, with one or more of our businesses working with over 95 per cent of colleges. We are able to offer our FE customers a package of services including management consultancy; management information systems (MIS) and finance software; IT managed services; funding support; staff training; recruitment and interim management; distance learning materials; document management; benchmarking; and property and asset management services. Our funding consultancy has been responsible for raising £30m of UK and European funds this year on behalf of its FE clients. We expect in future to have the opportunity to work in partnership with colleges to manage their entire back office functions, enabling the senior management teams to focus on the delivery of education. This year, we also intend to increase our consultancy services to the 47 regional LSCs.

The Government's emphasis on raising standards and the integration of post-16 funding has created fresh demand for MIS and associated performance monitoring systems to support funding returns. Currently, we provide 25 per cent of colleges with support of this kind and the Group's student administration system (MIS) ebs™ is a market leader. The Group is also helping to define a growing market for outsourcing the management of MIS and other key support functions in colleges including information and learning technologies (ILT) and IT support services. There is considerable potential in this market, with colleges collectively spending over £1 bn on non-staff expenditure. In addition, the Group is increasingly working with adult and community learning and workplace learning providers.

The development of our distance learning business continues and ten new courses have been developed and published in the year. These all lead to nationally accredited qualifications which are eligible for government funding. We also offer associated consultancy services covering curriculum development and all aspects of distance learning delivery. The increasing popularity of flexible and e-learning products suggests that there are considerable opportunities for growth in this sector.

We are a leading provider of benchmarking services and around 75 per cent of colleges use our services, as well as several universities. Our *Total Benchmarking* product provides a complete assessment of the use of resources across an institution, including income, costs, staffing, space and the separate assessment of each teaching faculty. On this basis, clients can assess how well they are using resources against comparative good practice elsewhere.

We remain the predominant professional development organisation in FE, delivering 14,500 training days for managers, lecturers and support staff last year. Our courses cover subject areas in curriculum, teaching skills, finance and funding and address the changes to the 14 to 19 year and the post-16 agendas.

The Government is investing £8.5bn of capital expenditure in educational buildings over the next three year period. The scale of individual projects in FE has grown substantially from a maximum of £6-8m five years ago to £25m today. As one of the largest property services companies in the public sector, we are very well placed to take advantage of these opportunities.

Schools: The recent white paper for schools sets out the Government's vision for the education service and includes an ambitious agenda for higher standards throughout the whole sector. The Group's range of school improvement and other services is continuing to grow rapidly to meet increasing demand for both consultancy and managed services.

Within the schools market, over 85 per cent of funds are now delegated by local authorities to schools and, in our experience, schools will still look to buy the majority of their support services from their local education authority (LEA), providing the level and quality of support offered is adequate. There are growing opportunities for the Group to assist LEAs to develop these services for schools not only within the authority boundary but beyond.

In-service training remains a key priority in schools and we now deliver over 26,000 training days a year to teachers and support staff in secondary schools. The courses help individuals understand the changes in the curriculum, current legislation and DfES requirements.

The Government's emphasis on Information Communications Technology (ICT) and e-learning remains undiminished. Most teachers now use ICT for a variety of purposes, from developing multimedia lessons to monitoring attendance. Pupils can access a wealth of materials online, catering for all levels of ability. ICT is also allowing parents to become more involved in their children's learning. Our particular expertise and involvement in ground-breaking regional initiatives mean that we are well placed to take advantage of the increasing demands for these services and products.

We are now in our third year of providing ICT training in schools through the New Opportunities Fund (NOF) initiative. Nearly 600 secondary schools and 24,500 teachers have benefited from this online training which has been independently inspected and described as exemplary.

Local government

We have made exciting progress in the development of our public sector library management business. Local authorities currently spend £1.3bn on library provision and, until recently, the private sector has had little involvement in delivery. We have undertaken projects on behalf of library services for Manchester City Council, the London Borough of Ealing, the City of Westminster and the London Borough of Hackney. Our partnership with Haringey Council to manage its entire library service on an interim basis is now in its second year.

In housing, we have provided turnaround interim management and consultancy to several authorities. At Torfaen County Borough, we have been advising the housing and contract services department on the implementation of entirely new arrangements for the repairs and maintenance function.

Our work on organisational change continues to flourish. Our extensive change and development project with Leeds City Council is reaching a fruitful conclusion and we have also worked in support of the innovative Yorkshire Forward Urban Renaissance Strategy. We have implemented a package of next steps for Harlow District Council, following inspections and reviews of services and we continue our work on equalities issues in partnership with South Bank University.

Our HR businesses are benefiting from the increasing demands of re-organisation, Best Value reviews and outsourcing. The modernisation agenda and the recent white paper highlight the need for new skills and, in some cases, new workforces and we continue to provide clients in local government with a wide range of HR and recruitment services.

The public sector spends in excess of £70m on recruitment advertising and a further £50m on recruitment and search consultancy. The Group has over 30 contracted public sector advertising clients across the full range of local authorities. Our recruitment consulting team has an outstanding record in the recruitment of chief executives, directors and chief officers and has been retained to recruit some 35 chief executives or equivalent and over 250 directors and heads of service for over 100 authorities. During the year, the Group received the award for the best education advertisement from the Society of Chief Personnel Officers for its work for Northamptonshire County Council and was nominated in four other categories.

The local government property sector has a combined capital budget of over £7bn. Our asset management and property consultancy activities continue to expand and we are now working with 40 per cent of local authorities. One of our most successful asset management products is a suite of software tools that provides a fully integrated web-based solution. Our benchmarking business has piloted its strategic benchmarking product in six Scottish authorities. We intend to roll this out to English authorities over the next year.

Chief Executive's review *(continued)*

Health and social care

The recent acquisitions of Secta Group and Nightingale Architects have established the Group's position in the health and social care sector. We are now both the leading consultancy and the leading architectural practice in healthcare. Currently we work with the Department of Health, 28 strategic health authorities, over 300 primary care trusts and 300 NHS trusts, with similar coverage in Scotland, Wales and Northern Ireland. We also work extensively with the private sector, in particular in the Public Private Partnership (PPP) and Private Finance Initiative (PFI) market. We intend to strengthen our presence in health through a strategy of further high quality acquisitions, new company start-ups and organic and contract driven growth.

The health service employs 1.25m people with a further 1m employed in the social care sector. We spend £1 of every £14 of our national income on public and privately funded healthcare. After social security payments, health is the biggest single component of public expenditure. The NHS budget will increase to £65.4bn in 2002/03 and to £105.6bn by 2007/08, and, for the first time, the NHS has been given a five year settlement by the Treasury.

The NHS Plan and the recently published Wanless Report are both attempts to establish a long-term programme of modernisation and an assessment of future funding requirements. There is widespread agreement that the NHS requires modernisation of its estate, equipment, workforce, IT and working practices, and in all these areas there is a shortage of in-house expertise. We believe that we have the relevant skills and services to support this process.

The Wanless Report identified a substantial underspend in the area of information technology, which currently accounts for 1.5 per cent of health spending against 6 per cent in the United States. Technology expenditure is expected to increase over the next five years, presenting major opportunities for the Group. We already have extensive experience of advising on such areas as the Information for Health Strategy, the Electronic Records Development and Implementation Programme and the national information management and technology (IM&T) infrastructure.

Groundbreaking projects have included the development of the online primary care booking service for appointments with hospital specialists. We have also provided document management support to several NHS trusts, including library and IT reviews, information audits, development of electronic library services and library design work. Our library and information management business also continues to have strong relationships with the private healthcare market.

The NHS capital budget is growing from £2bn to £2.6bn, supplemented by £3.5bn committed private sector capital spending across the whole of the public sector. As the leading architectural practice in healthcare, with an extensive knowledge of the PFI and PPP environments, we are well placed to meet increasing demand.

Recruitment and retention remains a major concern. The NHS Plan contains the commitment to increase the numbers of doctors and nurses by 15,000 and 35,000 respectively over the next ten years. This presents significant opportunities for our HR businesses, both in terms of providing staff resourcing and training services.

Many of the generic skills and services that we currently supply to the education market are equally applicable to the health sector. Over the next year, we expect to develop an increasing portfolio of services in health and social care. This process is well underway with our professional development and our recruitment businesses already establishing a presence in the health sector. We also intend to make further acquisitions which strengthen our existing services or take us into new market and skill areas.

The wider public sector

Although our core markets are education, health and local authorities, we continue to develop our presence in the wider public sector.

In May 2001, we were awarded a £7m two year contract with London Underground Limited (LUL) to provide document management, computer-aided design (CAD) and reprographics services to the LUL engineering directorate. This contract has now been successfully implemented and the volume of activity has been higher than expected. Further similar opportunities within this and other sectors have been identified.

During the year, we have worked with the Ministry of Defence on a basic skills initiative and a number of consultancy projects have been undertaken at central government level. We expect to expand our services to other parts of the public sector over the next few years.

Private sector

The private sector accounts for 7 per cent of our turnover for the year but we expect, in the medium term, to increase our presence here. During the year, our IT business secured a variety of new blue chip customers and continues to have a strong presence in the oil and gas sector. We now have twelve contracts to manage on and off-site information management facilities on behalf of customers.

Our services

Our services are delivered in four areas: management consultancy; property services; IT and information management services; and HR and training services.

Management consultancy

We are now one of the leading public sector consultancy organisations, with over 200 consultants across the Group. Our consultancy activities are sector focused, although our consultants have skills that can be deployed across markets.

Education: We have made a significant investment in our education consultancy capacity. In the schools and LEA market, we have continued to recruit a number of consultants and associates from local authorities and other areas of education.

We deliver education consultancy services to schools, local authorities, central government, voluntary organisations and national agencies. Our services cover the following areas: school improvement; special educational needs; governor services; management development; search and selection; specialist placements; project management; individual and organisational effectiveness; and service inspections, audits and evaluations of various kinds.

Across the Group, we are now working with 30 LEAs. Recent contracts include undertaking the strategic management of Swindon's education service following intervention by the Secretary of State. This innovative contract gives us overall management responsibility for the work of the LEA for three years. Other projects include reviewing school admissions in Bromley, an LEA where admissions is a highly complex and controversial issue; providing East Sussex County Council with leadership of its school improvement service; and working with Sheffield LEA to place its services to schools on a more commercial footing.

In the FE sector, we offer a range of consultancy services. The main focus of our activity is on providing strategic, financial and MIS support to college senior management teams. These core services include funding expertise; support with the strategic planning process; financial recovery work; support with student returns; and the review of management information systems. We have also identified an opportunity to advise LSCs on strategic reviews.

The Group now provides benchmarking services for FE and sixth form colleges, universities, higher education institutions, LEAs and adult learning providers. We have also undertaken some work in unitary councils and in NHS mental health trusts. This year we have pioneered new qualitative benchmarking products, particularly in the FE sector which provide meaningful benchmarks of student success for every area of a college and for every category of student.

We have particular expertise in identifying and accessing a range of complementary funding streams that will maximise the opportunities for strategic development within FE colleges and not-for-profit organisations. We have assisted our clients to access over £100m of additional funding from UK and European sources over the past four years, with an application success rate of over 80 per cent. We have raised over £30m for Newham College alone in the last six years.

Local authorities: We have, during the year, invested heavily in the development of our local government consultancy business, recruiting high quality consultants from both central and local government. The expertise within the Group now extends to change management, procurement, housing and urban regeneration. We are also able to undertake whole organisation reviews.

Health and social care: The Group provides a comprehensive range of consultancy support, with emphasis on policy and strategy, procurement, health facility planning, IM&T implementation and performance improvement.

We have an extensive track record of assisting healthcare organisations to prepare strategic and operational plans. Recent examples of our consultancy work include the outline business case for the £700m redevelopment of St Bartholomew's and the Royal London Hospitals, and a feasibility study into the development of a specialist orthopaedic hospital covering several health authorities in the south-east of England. As part of this process, we have also negotiated a wide range of PFI deals, from small primary care schemes to large acute hospital developments.

During the year, we have worked with commissioners and NHS trusts to review the configuration of services and plan the scale of facilities and manpower required for the future. One example is the development of a plan for the future configuration of acute hospital services across three towns, two NHS trusts and two health authorities in West Yorkshire, followed by a detailed specification for the delivery of one specialty across the same population in conjunction with the regional tertiary centre.

Our health planning team specialises in development planning and design briefing both in the UK and overseas, acting as an independent procurement adviser for medical equipment. Planning services also include the development of financial recovery plans and performance improvement reviews. We have extensive experience of providing IM&T support to NHS organisations such as consultancy on the implementation of electronic health records.

Property services

We are in the midst of the largest public sector building programme since the 1960s. Total public sector capital expenditure is set to rise from £25.3bn in 2001/02 to £34.4bn in 2003/04, a 30 per cent increase across two financial years and an increase of around 60 per cent on 1999/2000 expenditure. This presents massive opportunities for the Group, which is now established as a leading provider of property services to the public sector, particularly in education and health. Following the acquisition of the leading healthcare architectural practice, Nightingale Architects, we now have around 200 property professionals in the Group.

Property consultancy: The Group has developed a range of integrated property services, now incorporating general practice and agency surveying. Our offering includes site acquisition and disposal; specialist planning consultancy; project management; quantity and building surveying and construction cost consultancy; health and safety consultancy; provision of planned asset management programmes and associated estates management systems, and advice on PFI and PPP procurement. We are currently working for 60 FE colleges with a combined value of capital projects in excess of £300m over the next three years.

Examples of projects undertaken include Havering College, a Beacon Status college, where we prepared an accommodation strategy for the college, a feasibility study for the capital investment programme, planning applications for two campuses and an accompanying capital bid for submission to the LSC. In addition, we managed the procurement of the first phase of the proposed £20m development. At Ealing, Hammersmith and West London College, we are managing a £24m capital project, which runs until September 2004 and includes the redevelopment of the Southall and Acton sites.

Chief Executive's review *(continued)*

Architectural and design services: The Group has become a leading architectural practice undertaking major projects in the further education and health sectors. In education, we have been instructed on some major projects such as East Berkshire College, the Windsor and Maidenhead campus redevelopment, Ealing, Hammersmith and West London College, Middlesbrough College and Aylesbury College. We have also provided strategic reviews on a significant number of other college estates.

In health, we provide a comprehensive design service to the public and private healthcare market in the UK and overseas. We are currently preferred bidder for the £300m Coventry New Hospitals PFI, the largest project of its kind in the UK. This involves the design of a new 1,200 bed hospital, a medical school and a separate mental health facility. We are also a member of two of the five consortia contracted to carry out comprehensive design commissions of between £1m and £25m for the West Midlands and the north-west of England, under the Pro-cure 21 NHS initiative. A national roll-out of the Pro-cure initiative is planned, so our early and extensive involvement in the pilot scheme is very positive.

Asset management: We are now contracted by 40 local authorities to provide software asset management services, usually on a three yearly contract basis. Our specialist suite of web-based products facilitates the effective administration of property portfolios, offers integration between services and the necessary market intelligence for informed strategic decision making. Within Nottinghamshire County Council, the software is used across all service delivery departments and the project-tracking module is significantly improving performance on capital project schemes. In Kirklees, our software has been completely integrated within the authority's infrastructure and is now recognised as a best practice site. We expect to achieve very strong growth in this area and are also now working with the NHS and FE sectors.

IT and information management services

Software products: The Group's management information system ebs™ is now operating in 25 per cent of FE colleges and, increasingly, we are offering our customers an integrated student administration, financial and managed learning environment system.

Managed services: Twelve FE colleges have now outsourced the management of their MIS function to the Group. We expect to increase our activity in this area as more colleges prepare to outsource a wide range of back office functions.

e-learning – learning environment: Our e-learning applications and services help providers to deliver, track, measure and manage personalised learning over the internet or via an intranet, often alongside traditional classroom learning. Since May 2000, we have been a major part of the consortium implementing the learndirect e-learning network run by Ufi, the organisation set up to bring about the Government's vision of a 'university for industry'. We are currently contracted to develop, support and manage the e-business solution for the learndirect service. This is the largest applied e-learning environment in the world, with 240,000 learners registered at 1,600 learndirect centres in England, Wales and Northern Ireland.

Leicester Warwick Medical School (LWMS) has selected our *le* ® product as its preferred virtual learning environment (VLE). By 2003, the LWMS will have over 2,000 students and be one of the largest medical schools in the country.

We are also providing a web-based, integrated managed learning environment for the Kent Adult Education Service, the largest adult education provider in the UK. The service has a staff of 1,600 tutors and caters for 120,000 enrolments at 290 locations.

e-learning – content: We now combine skills in learning design, graphics, software engineering and multimedia in a powerful multidisciplinary mix. As specialists in education, we understand the issues from all perspectives: software and multimedia development; research and consultancy; paper-based publishing; and training and development. The Group provides consultancy support, assisting clients to plan, deliver and evaluate learning programmes and processes, design learning systems in both high and low technology formats, and develop strategies for publishing in the electronic age.

Our flagship product for assessing adult literacy and numeracy is *Target Skills* – a suite of CD-roms with a web-based tracking system. The product has had extraordinary success and has been purchased by 50 per cent of major providers. We are developing new products within the brand and are expanding into other specialist sectors. Examples include: an 'adaptive technologies' project in partnership with FE colleges and universities which will allow many severely disabled individuals access to learning for the first time; an EU-funded social exclusion project to provide learning via mobile devices; and a housing association scheme offering tenants learning via digital television set-top boxes.

Data management: The Group continues to provide data capture and information solutions to a number of major corporate customers. Typical applications include file tracking, asset management and mobile computing solutions for a diverse range of purposes. To support e-commerce and web applications, we provide a business-to-business managed hosting service. Examples of recent work include the development of a system for Abbey National to track computer media using hand-held computers and replicated databases, and a web-based solution to track containers for the logistics company, Hays.

Systems integration: The Group has very considerable experience of developing complex systems for customers, particularly in education. In order to build on this capability, we have now established a new business unit to bid for systems integration opportunities across the public sector.

Information management: We are well established in the library and document management market where we retain a large number of commercial clients, particularly in the oil and gas, pharmaceutical and transport sectors. Our services include library management; records, data and document management; IT services relating to information management; library design; specialist staff recruitment; cataloguing; online search and brokerage; books and journals procurement; scanning and computer-aided design (CAD); disaster recovery; and reprograhics.

We operate outsourced library and information services both on and off-site for a number of major organisations. The experience gained in the private sector has now been used to establish a strong position in the public library market. We are the first private contractor to be involved in the delivery of an interim management contract in the public library service and we expect opportunities in this sector to increase. We have also recently developed, with Derbyshire Libraries, a portal product, *Information Xpress*, which is targeted at the public library sector.

HR and training services

Professional development: The Group is the leading provider of professional development training to teachers and support staff in secondary schools, and managers, lecturers and support staff in FE colleges, providing a total of over 40,000 training days annually. The training is delivered through courses and conferences in major cities.

With schools increasingly responsible for their own purchasing decisions, many are choosing to use independent suppliers instead of the local authority training provision. We have been very successful in responding to this market, delivering high quality, topical content. We have also developed an original and innovative approach through our *'Schools Training Partnership'*, whereby schools host and market events, enabling us to offer convenient and time-efficient training.

In the FE sector there is increasing demand both from LSC and college staff for training and support in connection with the new funding regime. In association with New College, Nottingham and Guildford College, we have developed a dynamic leadership programme for middle managers.

e-learning: In 2000 we became one of eight nationally approved suppliers for the £230m New Opportunities Fund initiative. We are now contracted by over 600 secondary schools, around 24,500 teachers (16 per cent market share), to provide ICT training over the internet. We have also won a contract with the DfES to develop and pilot internet-based training in literacy and numeracy at key stages 1 and 2 for primary schools. The five month contract, worth £1.1m, is expected to lead to similar opportunities in the future.

Chief Executive's review *(continued)*

Search and selection: The Group provides recruitment and career development services to an extensive public sector client portfolio including borough, district, county, city and unitary authorities; central government; NHS trusts; schools; higher and FE colleges and a range of other not-for-profit organisations.

These services, which are targeted at senior management, include executive search and selection, research, assessment, career counselling and personal development.

HR advisory: The Group undertakes reviews of organisational structures, Best Value, modernisation, strategic HR policy, pay and reward, equalities and diversity, employee relations and employment law. A number of interesting assignments have been undertaken this year on behalf of local authorities, fire and rescue services and FE colleges. We act as editors to the online personnel advice service of the Society of Personnel Officers (SOCPO) which is now used by over 100 local authorities. We also advise SOCPO on a range of personnel issues and are involved in several DTLR working parties.

Recruitment advertising: Over the year, the Group has won a further six contracts to provide recruitment advertising services within local authorities and education. These contracts generally run for three years and are valued between £100k and £1.2m annually. The service includes media buying, print and design, response management and online advertising services.

Inspection and quality assurance: In May we announced the extension of our contract to provide inspection services for primary, secondary and special schools on behalf of OfSTED. This contract, valued at £4.6m, extends to July 2003. We believe that we are well placed to develop quality assurance and related inspection services to other parts of the public sector.

Outlook

Tribal Group's strategy is focused on delivering an integrated range of professional support services in the education, local government and health sectors. These markets offer the Group tremendous opportunities and we now have the skills, references, critical mass and management to increase our presence in these sectors. We will endeavour to offer all our customers real expertise, quality and innovation and we look forward to the next stage of our growth.

Henry Pitman
Chief Executive

25 June 2002

Finance Director's review

This review discusses and highlights the Group's performance for the year ended 31 March 2002 and should be read in conjunction with the Chairman's Statement and Chief Executive's Review.

Tribal Group plc operates under strong financial disciplines in the areas of performance management and cash management. These core disciplines have supported our operating businesses to deliver strong growth and improved quality of earnings.

Accounting policies

Accounting policies are set out on pages 36 to 39. During the year the Group has implemented the requirements of FRS 18 "Accounting Policies" and FRS 19 "Deferred Taxation". In particular, the Group has taken the opportunity to review the appropriateness of its revenue recognition policies for a number of income streams. This has resulted in new disclosures but had no impact on reported results.

The effect of the full implementation of FRS 19 is set out in note 17. No prior year adjustments were required.

In view of the growing importance of bidding activities to the Group, the accounting policy for long term contracts highlights the treatment adopted for bid costs. Pre-contract costs are expensed in full as incurred in accordance with UITF 34 "Pre-contract costs". The Group had no deferred bid costs at 31 March 2002.

Operating performance

EBITA is the primary measure used by the Group to assess its financial performance. It is a long-term operating profit measure and it excludes the amortisation of goodwill, employee benefit trust costs, interest and taxation.

Our 2002 Group results may be summarised as follows:

	2002	2001	
	£'000	£'000	
Operating profit	**4,963**	1,925	
Amortisation of goodwill	**2,903**	1,156	
Employee benefit trust costs	**494**	67	
EBITA	**8,360**	3,148	**+165%**
Net interest	**(283)**	(1,226)	
Adjusted profit before tax	**8,077**	1,922	**+320%**

Amortisation of goodwill rose from £1.16m to £2.90m of which £1.07m was due to the acquisitions made during the year. The increase in the employee benefit cost of £0.43m was mainly due to the effect of a full year charge for share awards to employees when the company floated on AIM on 23 February 2001.

Taxation

The effective rate of tax on the operating profit before amortisation and EBT costs was 22.9 per cent (2001: 33.7 per cent). This large reduction is due to tax relief for the Group's share scheme trusts.

Deferred taxation has been provided on timing differences to comply with FRS 19. This comprises a credit of £173,000 within the £1,851,000 taxation charge for the year.

Earnings per share

The adjusted fully diluted earnings per share (as adjusted to exclude amortisation and EBT cost) rose 106 per cent from 6.9p to 14.2p. The diluted earnings per share takes into account an estimate of the shares to be issued to vendors under deferred consideration arrangements based on the performance achieved in the year to 31 March 2002. The directors consider that the adjusted fully diluted measure more fairly discloses the dilutive effect to shareholders.

Cash management

The Group has maintained an efficient structure of share capital and bank borrowings consistent with the Group's development. The Group maintained a strong cash position at 31 March 2002 of £11.3m (2001: £2.3m). Net cash inflow from operating activities was £9.5m, compared with EBITA of £8.4m, representing an operating profit cash conversion of 114 per cent. This performance reflects the cash generative characteristics of our businesses and strong cash management.

During the year the Group purchased 14 businesses through a combination of cash, shares and loan notes. To fund these acquisitions, the Group raised net proceeds of £20.9m through a placing and open offer on 21 November 2001.

In addition, the Group secured new bank facilities to issue bank guaranteed vendor loan notes. The primary loan funding is a £105m syndicated facility. Under the terms of the facility, £35m is available under a revolving loan until April 2005. The balance of £70m is a cash backed loan note guarantee facility whereby the bank guarantees payments to vendors provided the Group has deposited equal funds in a collateralised deposit account. The Group also has a working capital overdraft facility of £1m to be reviewed in March 2003.

Net debt and contingent net debt at 31 March 2002 may be summarised as follows:

	2002 **£'000**	2001 £'000
Cash at bank	**11,326**	2,269
Cash collateralised deposits	**24,458**	10,380
	35,784	12,649
Bank loans and overdrafts	-	(951)
Loan notes – cash backed	**(22,659)**	(10,380)
Loan notes – bank guarantees	**(15,218)**	-
Other loan notes	**(668)**	-
Finance leases	**(267)**	(36)
Net (debt)/cash (per note 26)	**(3,028)**	1,282
Contingent deferred consideration payable in loan notes:		
Creditors due within one year	**(2,394)**	-
Creditors due after one year	**(2,800)**	-
Contingent net (debt)/cash	**(8,222)**	1,282

The Group had used 23 per cent of available facilities at 31 March 2002 based on the contingent net debt of £8.2m.

Net cash interest received in the year was £109,000 leaving the Group with free cash flow of £6.6m after tax and capital expenditure to service its debt requirements.

Finance Director's Review *(continued)*

Goodwill

Goodwill arising on acquisitions is capitalised over its useful economic life which is expected not to exceed 20 years. The carrying value of goodwill, appearing as an intangible asset in the balance sheet, amounted to £92.7m. Net goodwill of £59.4m arose from additions in the year comprising £60.3m from acquisitions and a reduction of £0.9m arising from a fair value review of the expected deferred consideration to be payable for certain acquisitions.

The charge for goodwill amortisation during the year was £2.9m. No amounts have been written off for any impairment following a formal review as at 31 March 2002.

Shareholder returns

In pursuit of our aim to maximise total shareholder value, the directors do not recommend the payment of a dividend. This policy will be reviewed during the current financial year. Profit and loss reserves grew from negative reserves of £34,000 to a positive balance of £2.8m. Since our flotation on 23 February 2001, the Group's share price has risen from £1.65 to £3.30 at 31 March 2002 or 100 per cent.

S M Lawton
Group Finance Director

25 June 2002

Board of Directors

David M Telling (aged 63) – Chairman*

David Telling joined HAT Group plc in 1960 and became chief executive in 1976. In 1983 he became chairman of HAT Group plc until it was acquired by BET plc in 1986. He formed MITIE Group plc in 1987 and became its executive chairman. Since forming MITIE Group plc he has overseen its development into a company with an annual turnover of over £500m. He is currently chairman of Empresaria Group plc. He joined Tribal Group in December 2000 as non-executive chairman.

Henry J Pitman (aged 39) – Chief Executive

Henry Pitman worked for Savills plc from 1985 to 1990 and for the Property Corporation of South Africa, a property and investment company, from 1990 to 1995. He joined JHP Group Limited, a UK vocational training and business services company in 1995 and became managing director in 1998. In September 1999 he founded Tribal Group.

Simon M Lawton FCA (aged 41) – Group Finance Director, Company Secretary

Simon Lawton joined KPMG in 1982 where he qualified and became a senior manager in audit and advisory services. In 1994 he became finance director of Dawes Group Limited. In 1997, after a brief period as a financial consultant, he became director of finance at Securicor Electronics Limited, a subsidiary of Securicor Group plc. He joined Tribal Group in March 2000.

Peter J Martin (aged 44) – Executive Director*

In 1981, Peter Martin joined the corporate finance division of Kleinwort Benson Limited. He became head of the mergers and acquisitions department in 1989 and head of the engineering sector in 1992. From 1993 to 1994 he attended London Business School as a Sloan Fellow. He was a founding partner of Anvil Partners in 1994 and acted as an adviser to both purchasers and sellers in many private equity transactions. Having worked as an adviser to the Tribal Group since its formation, he agreed to join the Group in June 2001 on a full time basis.

Non-Executive Directors

Miles W R Hunt (aged 36)*

After qualifying and practising as a solicitor, Miles Hunt joined F. Bender Limited in 1992 as commercial manager and company secretary. In 1995 he established Pro Source Limited, a management consultancy focusing on procurement. In 1996 he formed Empresaria Group plc, a staffing company with subsidiaries operating in a number of technical recruitment disciplines. He is currently chief executive of Empresaria Group plc, which is listed on OFEX. He joined Tribal Group as a non-executive director in January 2000.

Bill Roots (aged 56)*

Bill Roots has been working in local government since 1964 when he joined the Greater London Council. In 1980 he left to work for the London Borough of Southwark. He then became director of finance at the London Borough of Bexley in 1982. In 1990 he joined Westminster City Council as director of finance and became chief executive in 1994 before retiring in 2000. He joined Tribal Group as a non-executive director in April 2000.

** Member of the Remuneration, Audit and Nomination Committee*

Directors' report

The directors have pleasure in presenting their second annual report and the audited consolidated financial statements of Tribal Group plc for the year ended 31 March 2002.

Principal activities

Tribal Group plc is the parent company of a number of trading subsidiaries.

The principal activities of the Group are the provision of a wide range of outsourcing services both to the UK public and private sectors. The current key focus is on the education, health, and local authorities sectors.

The wide range of services include management consultancy; property services; IT and information management; and HR and training services.

Business review

A detailed review of the Group's performance is provided within the Chairman's statement and in the Chief Executive's review.

Results

The results of the Group are shown on page 30.

Proposed dividend

The directors do not recommend the payment of a dividend (2001: £nil).

Directors and directors' interests

The directors who held office during the year and at the end of the financial year had the following interests in the shares of the company according to the register of directors' interests:

	Interest at end of year	Interest at start of year
D M Telling	189,384	189,384
H J Pitman	11,988,240*	11,988,240*
S M Lawton	600,000	600,000
M W R Hunt	600,000	600,000
W Roots	60,000	60,000
P J Martin	382,664	376,164

** Of these, 1,200,000 Ordinary shares are held by his wife and 1,200,000 Ordinary shares by the trustees of the Henry Pitman 2001 Accumulation and Maintenance Trust.*

None of the directors held interests in subsidiary undertakings.

Directors' remuneration

Details of directors' remuneration are given in the Report of the Remuneration Committee on page 26.

Share option and SAYE schemes

There are two share option schemes: the Tribal Group plc employee share option scheme ('the PLC scheme') and the Tribal Holdings Limited employee share option scheme ('the Limited scheme'). The Limited scheme was used to grant options prior to admission on AIM. Options can no longer be granted under the Limited scheme.

The exercise of options granted under each scheme is conditional on the annual growth in adjusted earnings per share exceeding the rise in the retail prices index (RPI) plus eight per cent over the two year period from grant. Both the PLC and Limited schemes contain an Inland Revenue Approved and Unapproved part.

The Group has a Long Term Incentive Plan ('LTIP') for the grant of performance-related share awards to executive directors and senior employees of the Group.

The exercise of options granted under the LTIP is conditional on the growth in Tribal Group plc's earnings per share exceeding the annual growth in the retail prices index over the three year period from grant. Vesting will be on a straight line basis with zero per cent if the annual adjusted EPS growth is less than RPI +10 per cent, up to 100 per cent if the annual adjusted EPS growth is equal to RPI +20 per cent or more.

In November 2001 the Group introduced a Savings Related Share Option ('SAYE') scheme which is open to all employees and full time directors who have been in continuous service for such minimum period as determined by the Remuneration Committee. Eligible employees may save up to £250 per month under a three year SAYE contract and then apply the savings to buy new shares in the company. The option price is set at 20 per cent of the market value at the date of grant.

Details of options granted to directors under the share option schemes are given in the Report of the Remuneration Committee on page 27.

Employment Policies

The Group is committed to an Equal Opportunities Policy from recruitment and selection, through training and development, appraisal and promotion to retirement.

It is our policy to promote an environment free from discrimination, harassment and victimisation, where everyone will receive equal treatment regardless of gender, colour, ethnic or national origin, age, marital status, sexual orientation or religion. All decisions relating to employment practices will be objective, free from bias and based solely upon work criteria and individual merit. Should any employee become disabled, every practical effort is made to provide continued employment, having regard to their aptitude and ability. Depending on their skills and abilities, they enjoy the same career prospects and scope for realising their potential as other employees. Appropriate training is arranged for disabled persons, including retraining for alternative work for employees who become disabled, to promote their career development within the organisation.

The directors are committed to maintaining and developing communication and consultation procedures with employees, who in turn are encouraged to become aware of and involve themselves in the performance of their own companies and subjects affecting day-to-day operations of the Group.

The directors consider that the various share option schemes will be a key factor in attracting, retaining and motivating senior employees across the Group. The company grants share options to senior employees, on a discretionary basis, in order to reward their long-term commitment to the Group. The granting of share options is subject to the approval of the Remuneration Committee.

Policy and practice on payment of suppliers

The Group does not follow any specified code or standard on payment practice. However, it is the Group's policy to negotiate terms with its suppliers and to ensure that they are aware of the terms of payment when business is agreed. It is the Group's policy to make prompt payment to those suppliers meeting their obligations.

The Group year end trade creditors represented approximately 53 days (2001: 33 days).

Substantial shareholdings

As at 31 March 2002, the company had been notified of the following interests in 3 per cent or more of its issued share capital (excluding directors):

	Ordinary shares of 5p each	%
Zurich Financial Services	3,977,858	8.79
Henderson Global Investors	2,535,770	5.61
Martin Hill	1,989,027	4.40
Standard Life Assurance Co	1,372,554	3.04

Special business at the Annual General Meeting

The Annual General Meeting will be held at 9.30am on Thursday 12 September 2002. The resolutions to be proposed are given on page 71.

Three items of special business will be proposed as follows:

- Resolution 6 is to increase the authorised share capital of the company.
- Resolution 7 renews the directors' authority to allot new Ordinary shares up to an aggregate nominal value of £1,661,723.
- Resolution 8 renews the directors' authority to allot new Ordinary shares, not exceeding 5 per cent of the issued share capital, for cash without first being required to offer them to existing shareholders in proportion to their holding.

Environment, health and safety

The Group is conscious of the importance of providing a safe working environment for both its employees and its customers, of ensuring compliance with all statutory and mandatory requirements and of minimising the environmental impact of its operations whenever possible.

Political and charitable contributions

The Group made charitable donations during the year of £1,125 (2001: £400).

Auditors

KPMG Audit plc resigned as auditors to the Company on 19 March 2002. Deloitte & Touche were appointed on 19 March 2002. A resolution for the re-appointment of Deloitte & Touche as auditors of the company is to be proposed at the forthcoming Annual General Meeting.

On behalf of the Board

Simon Lawton

S M Lawton
Company Secretary

165 Queen Victoria Street
London
EC4V 4DD

25 June 2002

Corporate Governance

Application of the Combined Code

Tribal Group plc is committed to high standards of corporate governance. Although it is not a requirement, the directors have decided to provide corporate governance disclosures.

Since the company's flotation on the Alternative Investment Market on 23 February 2001, the executive directors have implemented a process of assessment of the Group's internal controls in order to ensure that full compliance with the provisions of the Combined Code on Corporate Governance will be possible when the company moves to a full listing on the London Stock Exchange. The process included analysis to determine whether more rigorous procedures and documentation were needed and indeed whether new processes and reporting structures to supplement those already in place were required.

Statement on compliance

Apart from the exception noted below, the Group has been in compliance with the Code provisions set out in *Section 1 of the Combined Code on Corporate Governance issued by the Financial Services Authority in the period* since flotation on the Alternative Investment Market on 23 February 2001 to date. The exception with specified code provisions is as follows:

- Principle D2 – process for identifying, evaluating and managing the significant risks faced by the Group. A process has been developed during the year and is now in place. It was not in place for the whole year under review or up to the date of approval of the accounts.

The following describes how the Group has applied the Principles of Good Governance set out in the Combined Code.

Board of Directors

During the year to 31 March 2002, the Board comprised three executive directors and three independent non-executive directors. Details of all directors are listed on page 19.

The Board meets monthly to exercise full and effective control over the Group. The Board is responsible for overall strategy and management of performance, for acquisitions, capital expenditure and for safeguarding the Group's assets. The actual results of the Group and a summary of operating company performance are reported to all members of the Board each month. Members of the Board meet formally with subsidiary management monthly to review business performance and to discuss operational and strategic issues. Key points from these meetings are discussed at Group Board meetings. The company secretary is responsible to the Board for ensuring agreed procedures, rules and regulations are observed.

All directors are appointed by the Board as a whole following recommendations from the Nomination Committee and each director submits himself for re-election at least every three years. None of the executive directors have service contracts greater than 12 months.

Board Committees

The Board has established three committees each of which operates within defined terms of reference. They are an Audit Committee, a Nomination Committee and a Remuneration Committee. The members of each committee are the three independent non-executive directors with David Telling, senior independent director, Chairman of all three committees. David Telling will be available to answer questions at the Annual General Meeting. The Chief Executive is an additional member of the Nomination Committee. The Finance Director attends Audit Committee meetings.

The Audit Committee meets at least twice each year. It monitors the effectiveness of internal financial controls and considers matters relating to accounting, financial reporting, accounting policies and the external audit. To do this it receives and considers written and oral reports from company officers, the Finance Director and the auditors. Procedures to correct weaknesses identified in these reports are put in place by the Finance Director and reviewed at subsequent meetings. The Audit Committee invites the auditors to hold discussions with the Committee without the Finance Director present at least once a year. The Audit Committee considers annually the need for an internal audit function. It has recently determined that the Group is not of sufficient size or complexity to obtain value from such a function at this stage.

The Nomination Committee deals with appointments to the Board, monitors potential conflicts of interest and reviews annually the independence of the non-executive directors.

The Remuneration Committee meets annually to determine the remuneration and benefits of the executive directors and senior management and their performance. Its report is set out on page 26.

Maintenance of a sound system of internal control

The process of assessment of the internal controls in place explained above has included review of all controls, including financial, operational and compliance controls and risk management. Whilst this assessment process has been carried out specifically for a move to a full listing, the directors intend to conduct an annual review of the effectiveness of the Group's system of internal controls using a common strategic risk framework developed from this process.

The Group's assessment included a review of the major financial and non-financial risks to the business and the corresponding internal controls. The output was reviewed by the executive directors and as a result appropriate action plans, which will further embed the internal control and risk management culture of the Group throughout its subsidiaries, have now been established. These have been agreed with each area of the business. Clear responsibilities have been allocated for key risk areas such as acquisitions, treasury, capital expenditure, insurance and information technology. Other risks fall within the scope of the Audit, Remuneration and Nomination Committees as appropriate. No potential issues warranting disclosure in the accounts have been identified.

The executive directors will review these action plans on a regular basis to ensure that the plans for improvement are being implemented and that the outputs of the strategic risk assessments remain relevant to the Group. A review will be carried out and an action plan prepared for all new acquisitions as part of the integration process. The action plans and their ongoing review will form a process for identifying, evaluating and managing risks faced by the Group. Such a process will be in accordance with Turnbull guidance.

Review of effectiveness of internal control

The directors are responsible for the Group's system of internal control and for reviewing its effectiveness. Such a system is designed to manage rather than eliminate the risk of failure to achieve business objectives. In establishing and reviewing the system of internal control, the directors have regard to the materiality of relevant risks, the likelihood of a loss being incurred and the costs of control. It follows that the system of internal control can only provide reasonable and not absolute assurance against the risk of material misstatement or loss.

In addition to the process of assessment of internal control and the monitoring of the effectiveness of internal financial control by the Audit Committee, explained above, the process used by the Board to review the effectiveness of the system of internal controls includes the following:

Control environment

The directors are committed to maintaining a control-conscious culture across the Group whilst allowing subsidiary companies sufficient autonomy to manage and develop their businesses. This is communicated to all employees by way of regular management briefings, training and mentoring. An organisational structure is in place within which the business can be planned, controlled and monitored. This structure includes appropriate delegation of authority, physical controls and procedures such as authorisation limits and segregation of duties. The operating companies' managing directors regularly review their responsibilities and compliance with the Group's policies and procedures.

Financial reporting

There is a comprehensive system of financial reporting to the Board based on an annual budget prepared in line with the Group's strategic plan and formally adopted by the Board, quarterly rolling forecasts and monthly reporting of financial and operating results. Key operational performance indicators including weekly cash flow forecasts and daily cash balances are continuously monitored by the executive and subsidiary directors.

Going concern

After making enquiries, the directors have formed a judgement that there is a reasonable expectation that the Group has adequate resources to continue in operational existence for the foreseeable future. For this reason, the directors continue to adopt the going concern basis in preparing the financial statements.

Shareholder relations

The Chief Executive and Group Finance Director are the Group's principal spokesmen with investors, analysts, fund managers, the press and other interested parties. Briefing meetings are held with analysts and Institutional shareholders, usually following the interim and final results announcements, to ensure that the investing community receives a balanced and complete view of the Group's performance and the issues faced by the business. The Group reports formally to all shareholders twice a year when its half year and full year results are announced. Other information is available on the Group's website. The Annual General Meeting is attended by all directors and private investors are encouraged to participate in the meeting.

Report of the Remuneration Committee

The Board has delegated responsibility for remuneration policy to the Remuneration Committee, the members of which are the three non-executive directors, David Telling, Miles Hunt and Bill Roots.

Remuneration policy

The basic salaries and other benefits of the executive directors are determined by the Committee. The key objective is to provide packages which are directly aligned with the performance of the Group and which attract, retain and motivate directors to perform at the highest levels and reward them for enhancing value to shareholders. Through its share schemes: the PLC scheme, the Limited scheme, the LTIP and the SAYE scheme, the Group aims to motivate executive directors and employees to contribute towards the continuing growth and performance of the Group by participating in the Group's success along with other shareholders. The Committee considers the executive remuneration packages of similar jobs in comparative groups of companies and recently listed AIM and FTSE 350 companies of a comparable size, using objective research from third party surveys.

The components of executive directors' remuneration are:

- Basic salary and benefits, reviewed annually based on a director's experience, level of responsibility and commitment. Benefits include a car allowance, permanent health cover, private medical insurance and a death in service benefit of four times salary;
- Performance related bonuses based on improvements in the Group's adjusted earnings per share. The threshold earnings per share target is adjusted each year to the audited figure disclosed in note 9. Bonus payments are made if the threshold target is exceeded. Bonus payments do not form part of salary for pension purposes;
- Share option incentives, the exercise of which is based on improvements in earnings per share as detailed in the Directors' report on page 21. Options are granted once a year on a phased basis as part of the annual review of packages; and
- Pensions based on 12 per cent of basic salary, through membership of the company's defined contribution pension scheme or equivalent personal pension plan.

Executive directors have 12 month service agreements which the Committee considers to be fair and reasonable and in the best interests of the Group and its shareholders. Executive directors are encouraged to take up one or two non-executive positions, with the prior approval of the Board, provided that there is no conflict of interest and provided that the appointment does not lead to deterioration in the individual's performance. Fees are not required to be paid to the Group. Henry Pitman has one non-executive directorship.

Non-executive directors' remuneration is determined by the Board and reflects the knowledge and experience they bring to the Group. It is considered to be at market rates. Non-executive directors do not participate in the Group's bonus or share schemes, they have fixed term contracts of 12 months, are not members of the company's pension scheme nor do they receive taxable benefits in kind.

Remuneration for the year

	Salary or fees	Performance related bonus	Benefits	Pension costs	**2002 Total**	2001 Total
	£'000	£'000	£'000	£'000	**£'000**	£'000
Chairman						
D M Telling	15	-	-	-	**15**	5
Executive directors						
H J Pitman	100	79	8	12	**199**	78
S M Lawton	81	79	7	10	**177**	75
P J Martin*	75	70	6	9	**160**	-
Non-Executive directors						
M W R Hunt	12	-	-	-	**12**	10
W Roots	12	-	-	-	**12**	19

* P J Martin had an interest in a partnership that provided services to the Group during the year as disclosed in note 4 to the financial statements

Report of the Remuneration Committee *(continued)*

According to the register of directors' interests, the following options over Ordinary shares have been granted to the directors under the share option schemes:

Number of options during the year*

	At start of year	Granted	Exercised	At end of year	Exercise price £	Date from which exercisable	Expiry date
H J Pitman							
SAYE scheme	-	4,567	-	4,567	£2.08	01.12.2004	01.06.2005
S M Lawton							
Limited scheme	18,744	-	-	18,744	£1.33	30.06.2003	23.01.2011
PLC scheme	45,444	-	-	45,444	£1.65	30.06.2003	07.02.2011
LTIP	90,909	-	-	90,909	£nil	07.02.2006	07.08.2006
SAYE scheme	-	3,653	-	3,653	£2.08	01.12.2004	01.06.2005
P J Martin							
PLC scheme	-	40,000	-	40,000	£2.83	30.06.2003	26.06.2011
LTIP	-	60,000	-	60,000	£nil	26.06.2006	26.12.2006
SAYE scheme	-	4,567	-	4,567	£2.08	01.12.2004	01.06.2005

* The market value of the company's shares at the year end was £3.30. The highest market value during the year was £3.35 and the lowest market value £2.26.

Details of directors' interests in the shares of the company are provided in the Directors' Report on page 20.

D M Telling
Chairman, Remuneration Committee

Statement of directors' responsibilities

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

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements.

The directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the company and to enable them to ensure that the financial statements comply with the Companies Act 1985. They have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Group and to prevent and detect fraud and other irregularities.

Independent auditors' report to the members of Tribal Group plc

We have audited the financial statements of Tribal Group plc for the year ended 31 March 2002 which comprise the profit and loss account, the balance sheets, the cash flow statement and the related notes 1-31. These financial statements have been prepared under the accounting policies set out therein.

Respective responsibilities of directors and auditors

As described in the statement of directors' responsibilities, the company's directors' are responsible for the preparation of the financial statements in accordance with applicable United Kingdom law and accounting standards. Our responsibility is to audit the financial statements in accordance with relevant United Kingdom legal and regulatory requirements, auditing standards, and the Listing Rules of the Financial Services Authority.

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act 1985. We also report if, in our opinion, the directors' report is not consistent with the financial statements, if the company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law or the Listing Rules regarding directors' remuneration and transactions with the company and other members of the Group is not disclosed.

We read the directors' report and the other information contained in the annual report for the above year as described in the contents section and consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements.

Basis of audit opinion

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

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

Opinion

In our opinion, the financial statements give a true and fair view of the state of affairs of the company and the Group as at 31 March 2002 and of the profit of the Group for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

Deloitte & Touche

Deloitte & Touche
Chartered Accountants
Registered Auditor

25 June 2002

Queen Anne House
69-71 Queen Square
Bristol
BS1 4JP

Consolidated profit and loss account

for the year ended 31 March 2002

	Note	2002 £'000	2002 £'000	2001 £'000	2001 £'000
Turnover	2				
Continuing operations		**34,285**		7,431	
Acquisitions		**11,366**		10,034	
			45,651		17,465
Cost of sales			**(19,975)**		(8,477)
Gross profit			**25,676**		8,988
Administrative expenses					
Amortisation of goodwill		**(2,903)**		(1,156)	
Other administrative expenses		**(17,810)**		(5,907)	
Total administrative expenses			**(20,713)**		(7,063)
Operating profit					
Continuing operations		**2,882**		716	
Acquisitions		**2,081**		1,209	
			4,963		1,925
Interest receivable and similar income	6		**801**		394
Interest payable and similar charges	7		**(1,084)**		(1,620)
Profit on ordinary activities before taxation	3		**4,680**		699
Taxation	8		**(1,851)**		(648)
Profit for the financial year	20		**2,829**		51
Earnings per share					
Basic	9		**7.6p**		0.3p
Diluted	9		**6.6p**		0.3p
Adjusted basic before amortisation of goodwill and employee benefit trust costs	9		**16.3p**		7.1p
Adjusted diluted before amortisation of goodwill and employee benefit trust costs	9		**14.2p**		6.9p

The results for the year disclosed in the profit and loss account are on a historical cost basis. There are no other recognised gains or losses in the current or prior year and, accordingly, no separate statement of total recognised gains and losses has been presented.

Notes 1 to 31 form part of these financial statements.

Consolidated balance sheet

at 31 March 2002

	Note	2002 £'000	2002 £'000	2001 £'000	2001 £'000
Fixed assets					
Intangible assets - goodwill	*10*		**92,697**		36,235
- development expenditure	*11*		**244**		-
Tangible assets	*12*		**2,261**		601
Investments	*13*		**71**		-
			95,273		36,836
Current assets					
Stock – work in progress		**1,030**		130	
Debtors	*14*	**18,063**		5,872	
Cash at bank and in hand	*26*	**35,784**		12,649	
		54,877		18,651	
Creditors: amounts falling due within one year	*15*	**(25,938)**		(6,069)	
Net current assets					
Due within one year		**4,481**		2,202	
Cash collateralised beyond one year	*26*	**24,458**		10,380	
			28,939		12,582
Total assets less current liabilities			**124,212**		49,418
Creditors: amounts falling due after more than one year	*16*		**(39,414)**		(11,353)
Net assets			**84,798**		38,065
Capital and reserves					
Called up share capital	*19*		**2,261**		1,707
Share premium account	*20*		**39,596**		9,748
Capital reserve	*20*		**9,545**		9,545
Profit and loss account	*20*		**2,795**		(34)
Shares to be issued	*21*		**30,601**		17,099
Equity shareholders' funds			**84,798**		38,065

Notes 1 to 31 form part of these financial statements.

These financial statements were approved by the Board of directors on 25 June 2002 and were signed on its behalf by:

Henry J Pitman
Director

Simon M Lawton
Director

Company balance sheet

at 31 March 2002

	Note	2002 £'000	2001 £'000
Fixed assets			
Investments	*13*	**63,780**	1,358
Current assets			
Debtors	*14*	**28,067**	10,097
Total assets less current liabilities		**91,847**	11,455
Creditors: amounts falling due after more than one year	*16*	**(27,119)**	-
Net assets		**64,728**	11,455
Capital and reserves			
Called up share capital	*19*	**2,261**	1,707
Share premium account	*20*	**39,596**	9,748
Profit and loss account	*20*	**4,779**	-
Shares to be issued	*21*	**18,092**	-
Equity shareholders' funds		**64,728**	11,455

Notes 1 to 31 form part of these financial statements.

These financial statements were approved by the Board of directors on 25 June 2002 and were signed on its behalf by:

Henry J Pitman
Director

Simon M Lawton
Director

Consolidated cash flow statement
for the year ended 31 March 2002

	Note	2002 £'000	2002 £'000	2001 £'000	2001 £'000
Cash inflow from operating activities	*25*		**9,502**		2,937
Returns on investments and servicing of finance					
Interest paid		**(863)**		(1,349)	
Interest element of finance lease rental payments		**(3)**		(2)	
Debt issue costs		**-**		(139)	
Interest received		**975**		207	
Net cash inflow/(outflow) from returns on investments and servicing of finance			**109**		(1,283)
Taxation					
Corporation tax paid			**(1,994)**		(210)
Capital expenditure and financial investment					
Payments to acquire tangible fixed assets		**(1,088)**		(325)	
Payments to acquire intangible fixed assets		**(60)**		-	
Sales of tangible fixed assets		**115**		-	
Net cash outflow for capital expenditure and financial investment			**(1,033)**		(325)
Acquisitions					
Purchase of subsidiary undertakings	*18*	**(6,935)**		(4,951)	
Net cash acquired with subsidiary undertakings	*18*	**3,599**		725	
Net cash outflow from acquisitions			**(3,336)**		(4,226)
Cash inflow/(outflow) before financing			**3,248**		(3,107)
Financing					
Issue of Ordinary share capital less issue costs		**20,881**		10;097	
Proceeds from loan conversions into Ordinary share capital		**-**		5,362	
Proceeds from exercise of share warrants into Ordinary share capital		**-**		217	
Repayment of borrowings		**(951)**		(11,700)	
New secured loans less issue costs		**-**		11,331	
Capital element of finance lease rental payments		**(42)**		(4)	
Collateralised cash		**(14,079)**		(10,380)	
Net cash inflow from financing			**5,809**		4,923
Increase in cash in the year	*26*		**9,057**		1,816

Notes 1 to 31 form part of these financial statements.

Consolidated cash flow statement *(continued)*

for the year ended 31 March 2002

	2002	2001
	£'000	£'000
Reconciliation of net cash flow to movement in net debt		
Increase in cash in the year	**9,057**	1,816
Cash (outflow)/inflow from movements in debt	**(13,094)**	555
Change in net debt resulting from cash flows	**(4,037)**	2,371
Finance leases acquired with subsidiaries	**(235)**	(28)
New finance leases	**(38)**	-
Loans converted into share capital in year	**-**	300
Reclassification of contingent consideration falling due after one year	**-**	6,337
Movement in net debt in the year	**(4,310)**	8,980
Net funds/(debt) at the start of the year	**1,282**	(7,698)
Net (debt)/funds at the end of the year	**(3,028)**	1,282

Notes 1 to 31 form part of these financial statements.

Reconciliation of movements in shareholders' funds
for the year ended 31 March 2002

	Group 2002 £'000	Group 2001 £'000	**Company 2002 £'000**	Company 2001 £'000
Profit/(loss) for the financial year	**2,829**	51	**4,779**	(30)
Other recognised gains and losses relating to the year				
New share capital subscribed (net of issue costs)	**30,402**	10,097	**30,402**	11,455
Shares to be issued	**13,083**	17,099	**18,092**	-
Credit in relation to share related awards	**419**	30	**-**	30
Loans converted into issued share capital (net of issue costs)	**-**	9,645	**-**	-
Net addition to shareholders' funds	**46,733**	36,922	**53,273**	11,455
Opening shareholders' funds	**38,065**	1,143	**11,455**	-
Closing shareholders' funds	**84,798**	38,065	**64,728**	11,455

Notes 1 to 31 form part of these financial statements.

Notes to the financial statements

1. Accounting policies

The following accounting policies have been applied consistently in dealing with items which are considered material in relation to the Group's financial statements.

Basis of preparation

The financial statements have been prepared in accordance with applicable accounting standards and under the historical cost accounting rules.

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the company and all its subsidiary undertakings.

In the company's balance sheet, the investment in Tribal Holdings Limited is stated at the nominal value of the shares issued in consideration for that company. As required by Sections 131 and 133 of the Companies Act 1985, no premium has been recorded on the shares issued as consideration.

Under Section 230(4) of the Companies Act 1985 the company is exempt from the requirement to present its own profit and loss account. The profit for the company amounted to £4,779,000 (2001: loss of £30,000).

Where a Group company is party to a joint arrangement which is not an entity, the consolidated financial statements record its share of income and expenditure, assets, liabilities and cash flows.

Turnover

Turnover represents the amounts (excluding value added tax) derived from the provision of goods and services to third party customers. The particular policies applied are:

- Consultancy – on performance of the contracted services;
- Courses and training – over the provision of the related services; and
- Product sales – on despatch of the related goods.

Acquisitions and disposals

On acquisition of a business, including an interest in an associated undertaking, fair values are attributed to the Group's share of net separable assets. Where the cost of acquisition exceeds the fair values attributable to such net assets, the difference is treated as purchased goodwill and capitalised in the balance sheet in the year of acquisition.

The profit or loss on the disposal or closure of a previously acquired business includes the attributable amount of any purchased goodwill relating to that business not previously charged through the profit and loss account.

The results and cash flow relating to a business are included in the consolidated profit and loss account and the consolidated cash flow statement from the date of acquisition or up to the date of disposal.

1 Accounting policies *(continued)*

Goodwill

Goodwill arising on the acquisition of a business represents the excess of the fair value of the consideration given over the fair values of the separable net assets acquired. In accordance with FRS 10 "Goodwill and Intangible Assets" goodwill is included within intangible fixed assets and is amortised on a straight line basis over its estimated useful economic life, with a maximum of 20 years, subject to any provision required for impairment.

A formal review of the carrying value of goodwill is carried out at the end of the first full financial year following the related acquisition, and at any point where events or changes in circumstances indicate that the carrying value may not be recoverable.

Where the amount of purchase consideration is contingent on one or more future events, the cost of acquisition includes a reasonable estimate of the fair value of amounts expected to be payable in the future. The cost of acquisition is adjusted when revised deferred consideration estimates are made, with consequential adjustments continuing to be made to goodwill until the ultimate deferred consideration is known, in accordance with FRS 7 "Fair values in acquisition accounting."

Where the value of goodwill is revised under FRS 7, the revised carrying value is amortised over the remaining useful economic life.

In the event of a disposal or closure of the businesses, the remaining unamortised goodwill is written off through the profit and loss account.

Investments

Investments held as fixed and current assets are shown at cost less provision for any impairment.

Tangible fixed assets and depreciation

Depreciation is provided to write off the cost less the estimated residual value (based on prices prevailing at the date of acquisition) of tangible fixed assets by equal annual instalments over their estimated useful economic lives as follows:

Short-term leases	-	life of the lease
Motor vehicles	-	25 per cent
Furniture and fittings	-	15 per cent
Computer equipment	-	33 per cent

Research and development expenditure

Research expenditure is written off in the year in which it is incurred. Development expenditure represents expenditure mainly of a revenue nature in establishing new products of the Group. Such expenditure is amortised over a period of two years once the products are revenue producing.

The directors review the capitalised development expenditure on an ongoing basis and, where appropriate, provide for any impairment in value.

Stocks

Stocks and work in progress, other than long-term contracts, are stated at the lower of cost and net realisable value. Cost comprises materials, direct labour and a share of production overheads appropriate to the relevant stage of production. Net realisable value is based on estimated selling price less all further costs to completion and all relevant marketing, selling and distribution costs.

1 Accounting policies *(continued)*

Long term contracts

Long-term contract balances represent costs incurred on specific contracts, net of amounts transferred to cost of sales in respect of work recorded as turnover, less foreseeable losses and payments on account not matched with turnover. Contract work in progress is recognised as turnover by reference to the cost of work carried out to date.

Profits are recognised on long-term contracts where the final outcome can be assessed with reasonable certainty but not until the contract is at least 20% complete. In calculating this, the percentage of completion method is used to calculate the profit based upon the proportion of costs incurred to the total estimated costs. Cost includes direct staff, outlays and an appropriate proportion of overheads. Full provision is made for all known losses immediately such losses are forecast on each contract.

Amounts recoverable on contracts are included within trade debtors and are valued at the proportion of the anticipated net sales value of the work done to date, including uncertified amounts where the directors have satisfied themselves that entitlement has been established less billed on account. Advance payments are included in creditors to the extent that they exceed the related work in progress.

Directly attributable pre-contract costs incurred after the point when there is a high degree of certainty that the contract will be awarded are capitalised within other debtors and amortised over the contract period. All other pre-contract costs are expensed as incurred.

Leases

Assets acquired under finance leases are capitalised and the outstanding future lease obligations are shown in creditors. The finance charges are allocated over the period of the lease in proportion to the capital amount outstanding and are charged to the profit and loss account.

Operating lease rentals are charged to the profit and loss account on a straight line basis over the period of the lease.

Pension costs

The Group operates various defined contribution pension schemes that are established in accordance with employment terms set by the subsidiary undertakings. The assets of these schemes are held separately from those of the Group in independently administered funds. The amount charged against profits represents the contributions payable to the scheme in respect of the accounting period.

Employee share schemes

The cost of awards to employees that take the form of shares or rights to shares are recognised over the period of the employee's related performance. Where there are no performance criteria, the cost is recognised when the employee becomes unconditionally entitled to the shares. No cost is recognised in respect of SAYE schemes that are offered on similar terms to all or substantially all employees.

Employee Benefit Trust (EBT)

Shares in the company which have been purchased on the open market and are held by the EBT are recorded in the balance sheet and are classified within fixed assets. The expected net cost of benefits is charged against profits over the performance period during which the benefits are earned by employees.

1 Accounting policies *(continued)*

Deferred taxation

This is the first year of adoption of FRS 19 'Deferred Tax'. FRS 19 requires full provision to be made for deferred tax, as stated below. It replaces the "partial provision" rules previously allowed under Statement of Standard Accounting Practice No. 15. This change had no material impact on the company and hence, there is no restatement of the opening reserves.

In accordance with FRS 19, deferred taxation is provided in full on timing differences which represent an asset or liability at the balance sheet date, at rates expected to apply when they crystallise based on current tax rates and law. Timing differences arise from the inclusion of items of income and expenditure in taxation computations in periods different from those in which they are included in financial statements. Deferred tax is not provided on timing differences arising on unremitted earnings of subsidiaries, associates and joint ventures where there is no commitment to remit these earnings. Deferred tax assets and liabilities are not discounted.

Capital instruments

Capital instruments are accounted for and classified as equity or non-equity share capital, equity or non-equity minority interests and debt according to their form. Convertible debt is separately disclosed and regarded as debt unless conversion actually occurs. Provision is made for the accrued premium payable on redemption of redeemable debt or non-equity interests.

Cash and liquid resources

Cash, for the purpose of the cash flow statement, comprises cash in hand and deposits repayable on demand, less overdrafts payable on demand.

Financial instruments

Financial instruments are accounted for in accordance with FRS 13 'Derivatives and other financial instruments'.

2. Turnover

The turnover and profit before tax of the Group for the year has been derived from its principal activity wholly undertaken in the United Kingdom.

3. Profit on ordinary activities before taxation

		2002	2001
		£'000	£'000
Profit on ordinary activities before taxation is stated after charging			
Auditors' remuneration:			
Group	- audit	**138**	90
	- other services	**143**	56
Company	- audit (included above)	**40**	35
Depreciation and other amounts written off tangible fixed assets:			
Owned		**527**	241
Leased		**36**	10
Amortisation of goodwill		**2,903**	1,156
Amortisation of shares held by employee benefits trusts		**75**	37
Contribution to employee share awards		**419**	30
Hire of other assets - operating leases		**373**	107
Amortisation of development costs		**109**	-

Notes to the financial statements *(continued)*

3 Profit on ordinary activities before taxation *(continued)*

In addition, fees as reporting accountants of £439,000 paid to the previous auditors have been capitalised as part of the cost of acquisitions in accordance with FRS7. In 2001, due diligence and fees as reporting accountants of £623,000 were paid to the previous auditors. Of this total, £108,000 was capitalised as part of the cost of acquisitions in accordance with FRS7 and £515,000 written off against the share premium account as part of the cost of issuing new shares in connection with the company's admission to the Alternative Investment Market on 23 February 2001.

The total figures for continuing operations as stated in the consolidated profit and loss account for the year ended 31 March 2002 include the following amounts in relation to subsidiaries acquired in the period: cost of sales £2,868,000 (2001: £5,614,000) and administrative expenses £6,417,000 (2001: £3,211,000).

4. Remuneration of directors

	2002	2001
	£'000	£'000
Directors' emoluments	**575**	187

Included within directors' emoluments are pensions costs of £31,000 (2001: £11,000) in respect of payments made to three (2001: two) directors' individual defined contribution pension schemes.

Disclosures on directors' remuneration, share options, long-term incentive schemes, and pension contributions required by the Companies Act 1985 and those specified for audit by the Financial Services Authority are contained in the tables headed 'Remuneration for the year' and 'Number of options during the year' within the Report of the Remuneration Committee and form part of these audited financial statements.

Anvil Partners, a partnership of which Peter Martin was a partner up until 30 June 2001, received an aggregate amount of £43,833 in 2002 in return for the provision of acquisition and corporate finance advice to the Group.

5. Staff numbers and costs

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

	2002	2001
	No.	No.
Selling, operations and marketing	**616**	293
Finance and administration	**128**	37
	744	330

The aggregate payroll costs of these persons were as follows:

	2002	2001
	£'000	£'000
Wages and salaries	**11,851**	3,924
Social security costs	**1,154**	352
Pension costs	**397**	112
	13,402	4,388

6. Interest receivable and similar income

	2002 £'000	2001 £'000
Bank interest	**242**	394
Other interest receivable	**559**	-
	801	394

7. Interest payable and similar charges

	2002 £'000	2001 £'000
On bank loans and overdrafts	**218**	672
On all other loans	**863**	446
Interest premium on early redemption	**-**	500
Finance charges payable in respect of finance leases and hire purchase contracts	**3**	2
	1,084	1,620

8. Taxation

	2002 £'000	2001 £'000
(a) Analysis of charge in the year		
Current tax		
UK corporation tax on profits for the year	**2,046**	648
Adjustments in respect of prior years	**(22)**	-
	2,024	648
Deferred tax		
Origination and reversal of timing differences	**(173)**	-
Taxation charge on profits	**1,851**	648
(b) Factors affecting the tax charge		
Profit before tax	**4,680**	699
Tax charge at standard rate of 30%	**1,404**	*210*
Effects of:		
Intangible amortisation	**951**	347
Other non-deductible items	**143**	91
Excess capital allowances over depreciation charge	**43**	-
Benefit from funding of employee benefit trusts	**(496)**	-
Other sundry items	**1**	-
Prior year adjustments	**(22)**	-
Current tax charge for the year	**2,024**	648

(c) The Group is not currently aware of any factors which may materially affect the effective rate of tax going forward, other than existing reconciling items.

9. Earnings per share

	2002	2001
Basic		
Earnings for year (£'000)	**2,829**	51
Weighted average number of shares outstanding (number)	**37,341,790**	17,702,995
Basic earnings per share (pence)	**7.6p**	0.3p
Diluted		
Earnings for year (£'000)	**2,829**	51
Weighted average number of shares in issue including dilutive shares		
Basic weighted average number of shares in issue (number)	**37,341,790**	17,702,995
Employee share options (number)	**1,416,272**	-
Shares to be issued in respect of deferred consideration (number)	**4,155,763**	*638,838*
Adjusted number of shares outstanding	**42,913,825**	18,341,833
Diluted earnings per share (pence)	**6.6p**	0.3p
Adjusted basic before goodwill amortisation and EBT costs		
Earnings for year (£'000)	**2,829**	51
Goodwill amortisation (£'000)	**2,903**	1,156
EBT costs net of tax (£'000)	**346**	58
Adjusted earnings before goodwill amortisation and EBT costs (£'000)	**6,078**	1,265
Weighted average number of shares in issue (number)	**37,341,790**	17,702,995
Adjusted basic earnings per share (pence)	**16.3p**	7.1p
Adjusted diluted before goodwill amortisation and EBT costs		
Adjusted earnings before goodwill amortisation and EBT costs (£'000)	**6,078**	1,265
Weighted average number of shares in issue including dilutive shares (number)	**42,913,825**	18,341,833
Adjusted diluted earnings per share (pence)	**14.2p**	6.9p

The adjusted basic and adjusted diluted earnings per share figure shown on the profit and loss account on page 30 is included as the directors believe that it provides a better understanding of the underlying trading performance of the Group.

Notes to the financial statements *(continued)*

10. Intangible fixed assets - goodwill

	2002	2001
	£'000	£'000
Cost		
At beginning of year	37,391	9,172
Additions	58,549	26,691
Acquired with subsidiaries	816	1,528
At end of year	96,756	37,391
Amortisation		
At beginning of year	1,156	-
Charged in year	2,903	1,156
At end of year	4,059	1,156
Net book value		
At 31 March 2002	**92,697**	36,235
At 31 March 2001	36,235	9,172

The directors consider that for all significant acquisitions the useful economic life of goodwill is 20 years. This is based on future profit forecasts and the length of time over which commercial knowledge is expected to be effectively utilised.

11. Intangible fixed assets – development expenditure

	2002	2001
	£'000	£'000
Cost		
At beginning of year	-	-
Additions	60	-
Acquired with subsidiaries	460	-
At end of year	520	-
Amortisation		
At beginning of year	-	-
Charged in year	109	-
Acquired with subsidiaries	167	-
At end of year	276	-
Net book value		
At 31 March 2002	**244**	-
At 31 March 2001	-	-

Notes to the financial statements *(continued)*

12. Tangible fixed assets

	Short term leases £'000	Computer equipment £'000	Furniture & fittings £'000	Motor vehicles £'000	Total £'000
Group					
Cost					
At beginning of year	42	396	254	72	764
Additions	29	500	523	75	1,127
Acquired with subsidiaries	32	2,582	364	710	3,688
Disposals	-	(127)	-	(105)	(232)
At end of year	103	3,351	1,141	752	5,347
Depreciation					
At beginning of year	5	107	40	11	163
Charge for year	14	307	183	59	563
Acquired with subsidiaries	21	1,934	212	342	2,509
Disposals	-	(81)	-	(68)	(149)
At end of year	40	2,267	435	344	3,086
Net book value					
At 31 March 2002	**63**	**1,084**	**706**	**408**	**2,261**
At 31 March 2001	37	289	214	61	601

Included in the total net book value of motor vehicles is £271,000 (2001: £52,000) in respect of assets held under finance leases. Depreciation for the year on these assets was £36,000 (2001: £10,000).

Notes to the financial statements *(continued)*

13. Fixed asset investments

	Group Investment in associates		Company Investment in subsidiaries	
	2002	2001	**2002**	2001
	£'000	£'000	**£'000**	£'000
Cost				
At beginning of year	**-**	-	**1,358**	-
Additions	**71**	-	**62,422**	1,358
At end of year	**71**	-	**63,780**	1,358

The directors have considered the value of the above investments and are satisfied that the aggregate value of the investments are not less than the carrying value. Associates relate to 25.0% and 25.8% shareholdings in SfE (Exhibitions) Limited and Bandbreeze Limited respectively. Neither had commenced trading as at 31 March 2002.

14. Debtors

	Group 2002 £'000	Group 2001 £'000	Company 2002 £'000	Company 2001 £'000
Trade debtors	**14,361**	4,923	**-**	-
Amounts owed by group undertakings	**-**	-	**27,931**	10,097
Other debtors	**682**	77	**136**	-
Prepayments and accrued income	**2,892**	872	**-**	-
Deferred tax (note 17)	**128**	-	**-**	-
	18,063	5,872	**28,067**	10,097

15. Creditors: amounts falling due within one year

	Group 2002 £'000	Group 2001 £'000
Trade creditors	**5,692**	1,752
Corporation tax	**2,078**	903
Other taxation and social security	**3,439**	1,247
Other creditors	**1,065**	92
Accruals and deferred income	**9,072**	2,061
Deferred consideration	**2,394**	-
Other loans (see note 16)	**2,000**	-
Obligations under finance leases and hire purchase contracts	**198**	14
	25,938	6,069

16. Creditors: amounts falling due after more than one year

	Group 2002 £'000	Group 2001 £'000	**Company 2002 £'000**	Company 2001 £'000
Bank loans and overdrafts	**-**	951	**-**	-
Other loans	**36,545**	10,380	**27,119**	-
Obligations under finance leases and hire purchase contracts	**69**	22	**-**	-
Deferred consideration	**2,800**	-	**-**	-
	39,414	11,353	**27,119**	-

Maturity of bank and other loans:

	Group 2002 £'000	Group 2001 £'000	**Company 2002 £'000**	Company 2001 £'000
Bank and other loans can be analysed as falling due:				
In one year or less, or on demand	**2,000**	951	**-**	-
Between one and two years	**-**	2,000	**-**	-
Between two and five years	**23,479**	8,380	**22,432**	-
Over five years	**13,066**	-	**4,687**	-
	38,545	11,331	**27,119**	-

The bank loan (which has primary security) is secured at market rates of interest by way of a fixed and floating charge over the assets of the company and its subsidiary undertakings. The interest rates on the other loans are a mixture of fixed and floating and are also at market rates. Repayment terms vary between six and nine years.

Included within cash at bank and in hand is £24,458,000 (2001: £10,380,000) of cash collateralised representing committed facilities that are specifically allocated to repay the other loans above.

Maturity of obligations under finance leases and hire purchase contracts:

	Group 2002 £'000	Group 2001 £'000
Within one year	**198**	14
In the second to fifth years	**69**	22
	267	36

Finance leases and hire purchase contracts are secured on the related assets.

Notes to the financial statements *(continued)*

17. Deferred tax

Group

The amounts provided for deferred taxation and the amounts for which credit has been taken are set out below:

	2002		2001	
	Provided £'000	**Unprovided £'000**	Provided £'000	Unprovided £'000
Capital allowances in excess of depreciation	**29**	**90**	-	31
Other timing differences	**68**	**-**	-	-
Tax losses carried forward	**31**	**-**	-	40
Deferred tax asset (note 14)	**128**	**90**	-	71

Notes to the financial statements *(continued)*

18. Purchase of subsidiary undertakings

1. Trackit Systems Limited (renamed Tribal Data Solutions Limited)

On 20 April 2001, the company acquired 83.5% of the share capital of Tribal Data Solutions Limited.

	Book value at acquisition £'000	Adjustments £'000	Fair value at acquisition £'000
Net assets acquired			
Fixed assets			
Tangible	35	-	35
Current assets			
Stocks	7	-	7
Trade debtors	223	25	248
Prepayments	55	-	55
Cash at bank and in hand	22	-	22
Total assets	342	25	367
Liabilities			
Trade creditors	(69)	-	(69)
Other creditors and accruals	(92)	-	(92)
Corporation tax	(81)	(54)	(135)
Net assets	100	(29)	71
Goodwill			2,815
			2,886

Satisfied by:	
Cash	160
Shares	100
Loan notes – *non convertible*	1,415
Acquisition costs	142
Deferred consideration paid in year:	
Loan notes	500
Shares	116
Contingent consideration	453
	2,886

Notes to the financial statements *(continued)*

18 Purchase of subsidiary undertakings *(continued)*

1. Tribal Data Solutions Limited *(continued)*

The contingent consideration reflects the fair value of the obligation to purchase the minority interest shares based on forecast future trading performance. The amounts above reflect the directors' best estimate of contingent consideration payable. The liability will be satisfied by the issue of shares and is included within the shares to be issued disclosed in note 21.

The provisional fair value adjustments represent a re-assessment of the value of trade debtors and the taxation charge on profits achieved up to the date of acquisition, not recorded in the accounts of Tribal Data Solutions Limited

The profit and loss accounts of Tribal Data Solutions Limited for the six month period ended 31 March 2001 and the year ended 30 September 2000 are summarised below.

	6 months to 31 March 2001 £'000	12 months to 30 September 2000 £'000
Turnover	633	1,271
Operating profit	150	270
Net profit before tax	155	282
Taxation	(47)	(81)
Net profit after tax	108	201

Tribal Data Solutions Limited had no other gains or losses in either period.

18 Purchase of subsidiary undertakings *(continued)*

2. GWT Group Limited

On 17 August 2001, the company acquired 85% of the share capital of GWT Group Limited.

	Book value at acquisition £'000	Adjustments £'000	Fair value at acquisition £'000
Net assets acquired			
Fixed assets			
Intangible - goodwill	234	-	234
Tangible	139	(41)	98
	373	(41)	332
Current assets			
Trade debtors	555	-	555
Other debtors	36	-	36
Cash at bank and in hand	298	-	298
Total assets	1,262	(41)	1,221
Liabilities			
Trade creditors	(49)	-	(49)
Other creditors	(425)	-	(425)
Corporation tax	(263)	-	(263)
Loan notes	(244)	-	(244)
Deferred tax	(27)	-	(27)
Net assets	254	(41)	213
Goodwill			6,314
			6,527

Satisfied by:	
Cash	340
Shares	400
Loan notes – non convertible	4,154
Acquisition costs	139
Deferred consideration paid in year:	
Loan notes – non convertible	532
Contingent consideration	962
	6,527

Notes to the financial statements *(continued)*

18 Purchase of subsidiary undertakings *(continued)*

2. GWT Group Limited *(continued)*

The contingent consideration reflects the fair value of the obligation to purchase the minority interest shares based on forecast future trading performance. The amounts above reflect the directors' best estimate of contingent consideration payable. The liability will be satisfied by the issue of shares and is included within the shares to be issued disclosed in note 21.

The provisional fair value adjustments represent the conversion of depreciation rates to the Group's accounting policy.

The profit and loss account of GWT Group Limited for the year ended 31 July 2001 is summarised below.

	12 months to 31 July 2001
	£'000
Turnover	3,028
Operating profit	893
Net profit before tax	896
Taxation	(282)
Net profit after tax	614

GWT Group Limited had no other gains or losses in the period.

Notes to the financial statements *(continued)*

18 Purchase of subsidiary undertakings *(continued)*

3. Ben Johnson-Hill Associates Limited

On 31 August 2001, the company acquired the entire share capital of Ben Johnson-Hill Associates Limited.

	Book value at acquisition £'000	Adjustments £'000	Fair value at acquisition £'000
Net assets acquired			
Fixed assets			
Tangible	88	-	88
Current assets			
Stock – work in progress	-	60	60
Trade debtors	95	-	95
Prepayments	7	-	7
Other debtors	7	-	7
Cash at bank and in hand	666	-	666
Total assets	863	60	923
Liabilities			
Trade creditors	(19)	-	(19)
Other creditors	(207)	-	(207)
Corporation tax	(59)	-	(59)
Net assets	578	60	638
Goodwill			5,810
			6,448

Satisfied by:	
Cash	400
Shares	550
Loan notes – non convertible	2,375
Acquisition costs	123
Contingent consideration	3,000
	6,448

Notes to the financial statements *(continued)*

18 Purchase of subsidiary undertakings *(continued)*

3. Ben Johnson-Hill Associates Limited *(continued)*

The contingent consideration reflects earn outs payable to the previous owners and is based on trading performance up to 31 March 2004. The amounts above reflect the directors' best estimate of contingent consideration payable. The maximum earn out payable is £4.25 million. The liability will be satisfied by the issue of shares and is included within the shares to be issued disclosed in note 21.

The provisional fair value adjustments represent the conversion of work in progress in line with the Group's accounting policy.

The profit and loss accounts of Ben Johnson-Hill Associates Limited for the five month period ended 31 August 2001 and the year ended 31 March 2001 are summarised below.

	5 months to acquisition on 31 August 2001 £'000	**12 months to 31 March 2001 £'000**
Turnover	350	1,199
Operating profit	1	243
Net profit before tax	9	284
Taxation	(2)	(57)
Net profit after tax	7	227

Ben Johnson-Hill Associates Limited had no other gains or losses in either period.

Notes to the financial statements *(continued)*

18 Purchase of subsidiary undertakings *(continued)*

4. Cambridge Training and Development Limited

On 31 October 2001, the company acquired the entire share capital of Cambridge Training and Development Limited.

	Book value at acquisition £'000	Adjustments £'000	Fair value at acquisition £'000
Net assets acquired			
Fixed assets			
Intangible – development expenditure	-	252	252
Tangible	65	-	65
	65	252	317
Current assets			
Stock – work in progress	52	-	52
Trade debtors	432	-	432
Prepayments	25	-	25
Other debtors	176	-	176
Cash at bank and in hand	830	-	830
Total assets	1,580	252	1,832
Liabilities			
Trade creditors	(220)	-	(220)
Other creditors	(936)	-	(936)
Corporation tax	(151)	(29)	(180)
Net assets	273	223	496
Goodwill			4,365
			4,861
Satisfied by:			
Cash			1,172
Shares			536
Loan notes – non convertible			2,530
Acquisition costs			123
Contingent consideration			500
			4,861

18 Purchase of subsidiary undertakings *(continued)*

4. Cambridge Training and Development Limited *(continued)*

The contingent consideration reflects earn outs payable to the previous owners and is based on trading performance up to 31 March 2003. The amounts above reflect the directors' best estimate of contingent consideration payable. The maximum earn out payable is £0.5 million. The liability will be satisfied by the issue of shares and is included within the shares to be issued disclosed in note 21.

The provisional fair value adjustments represent the capitalisation of certain research and development products in line with the Group's accounting policy and adjustments to the prior year taxation charge.

The profit and loss accounts of Cambridge Training and Development Limited for the seven month period ended 31 October 2001 and the year ended 31 March 2001 are summarised below.

	7 months to acquisition on 31 October 2001 £'000	**12 months to 31 March 2001 £'000**
Turnover	1,155	3,458
Operating profit	293	382
Net profit before tax	293	391
Taxation	(145)	(88)
Net profit after tax	148	303

Cambridge Training and Development Limited had no other gains or losses in either period.

Notes to the financial statements *(continued)*

18 Purchase of subsidiary undertakings *(continued)*

5. APD Technical Limited (renamed Tribal APD Limited)

On 21 November 2001, the company acquired the entire share capital of Tribal APD Limited.

	Book value at acquisition £'000	Adjustments £'000	Fair value at acquisition £'000
Net assets acquired			
Fixed assets			
Intangible - goodwill	72	(72)	-
Tangible	48	-	48
	120	(72)	48
Current assets			
Stock – work in progress	32	-	32
Trade debtors	282	-	282
Other debtors	3	-	3
Cash at bank and in hand	304	-	304
Total assets	741	(72)	669
Liabilities			
Trade creditors	(73)	-	(73)
Other creditors	(407)	-	(407)
Corporation tax	(141)	-	(141)
Deferred tax	(27)	-	(27)
Net assets	93	(72)	21
Goodwill			7,893
			7,914

Satisfied by:	
Cash	166
Shares	550
Loan notes – non convertible	3,334
Acquisition costs	137
Deferred consideration paid in year:	
Shares	450
Contingent consideration	3,277
	7,914

Notes to the financial statements *(continued)*

18 Purchase of subsidiary undertakings *(continued)*

5. Tribal APD Limited *(continued)*

The contingent consideration reflects earn outs payable to the previous owners and is based on trading performance up to 31 March 2006. The amounts above reflect the directors' best estimate of contingent consideration payable. The maximum earn out payable is £5.5 million. The liability will be satisfied by the issue of shares and is included within the shares to be issued disclosed in note 21.

The provisional fair value adjustments represent the write off of research and development work in line with the Group's accounting policy.

The profit and loss account of Tribal APD Limited for the year ended 31 October 2001 is summarised below.

	12 months to 31 October 2001
	£'000
Turnover	1,630
Operating profit	520
Net profit before tax	522
Taxation	(168)
Net profit after tax	354

Tribal APD Limited had no other gains or losses in the period.

Notes to the financial statements *(continued)*

18 Purchase of subsidiary undertakings *(continued)*

6. FD Learning Limited

On 8 February 2002, the company acquired 99.61% of the share capital of Tribal Learning Limited which owned 100% of the share capital of FD Learning Limited.

	Book value at acquisition £'000	Adjustments £'000	Fair value at acquisition £'000
Net assets acquired			
Fixed assets			
Tangible	471	-	471
Current assets			
Stocks	487	-	487
Trade debtors	2,039	-	2,039
Prepayments	101	-	101
Other debtors	56	-	56
Cash at bank and in hand	341	-	341
Total assets	3,495	-	3,495
Liabilities			
Trade creditors	(299)	-	(299)
Other creditors	(3,297)	87	(3,210)
Corporation tax	(68)	-	(68)
Net liabilities	(169)	87	(82)
Goodwill			12,708
			12,626

Satisfied by:	
Cash	445
Loan notes – non convertible	6,939
Acquisition costs	249
Contingent consideration	4,993
	12,626

Notes to the financial statements *(continued)*

18 Purchase of subsidiary undertakings *(continued)*

6. FD Learning Limited *(continued)*

The contingent consideration reflects earn outs payable to the previous owners and is based on trading performance up to 31 May 2003. The amounts above reflect the directors' best estimate of contingent consideration payable. The maximum earn out payable is £4.99 million. The liability will be satisfied by the issue of non-convertible loan notes of £3.79 million and shares of £1.2 million which are included within creditors and the shares to be issued disclosed in note 21.

The provisional fair value adjustments represent the reversal of excess provisions.

The profit and loss accounts of FD Learning Limited for the eight month period ended 31 January 2002 and the year ended 31 May 2001 are summarised below.

	8 months to 31 January 2002 £'000	**12 months to 31 May 2001 £'000**
Turnover	5,612	7,442
Operating profit	739	629
Net profit before tax	726	624
Taxation	(283)	(190)
Net profit after tax	443	434

FD Learning Limited had no other gains or losses in either period.

Notes to the financial statements *(continued)*

18 Purchase of subsidiary undertakings *(continued)*

7. Secta Group Limited

On 28 February 2002, the company acquired the entire share capital of Secta Group Limited

	Book value at acquisition £'000	Adjustments £'000	Fair value at acquisition £'000
Net assets acquired			
Fixed assets			
Tangible	331	-	331
Investments	27	-	27
	358	-	358
Current assets			
Stock – work in progress	29	-	29
Trade debtors	2,595	-	2,595
Prepayments	241	-	241
Other debtors	6	-	6
Cash at bank and in hand	916	-	916
Total assets	4,145	-	4,145
Liabilities			
Trade creditors	(679)	-	(679)
Other creditors	(1,154)	-	(1,154)
Corporation tax	125	(399)	(274)
Net assets	2,437	(399)	2,038
Goodwill			14,606
			16,644

Satisfied by:	
Cash	1,559
Shares	2,050
Loan notes – non convertible	5,041
Acquisition costs	394
Additional consideration paid in April 2002:	
Loan notes	325
Cash	75
Contingent consideration	7,200
	16,644

Notes to the financial statements *(continued)*

18 Purchase of subsidiary undertakings *(continued)*

7. Secta Group Limited *(continued)*

The contingent consideration reflects earn outs payable to the previous owners and is based on trading performance up to 31 March 2005. The amounts above reflect the directors' best estimate of contingent consideration payable. The maximum earn out payable is £7.2 million. The liability will be satisfied by the issue of non-convertible loans of £1.0 million and shares of £6.2 million which are included within creditors and shares to be issued disclosed in note 21.

The provisional fair value adjustment represents the taxation charge on profits achieved up to the date of acquisition not recorded in the accounts of Secta Group Limited.

The profit and loss accounts of Secta Group Limited for the eleven month period ended 28 February 2002 and the year ended 31 March 2001 are summarised below.

	11 months to acquisition on 28 February 2002 £'000	**12 months to 31 March 2001 £'000**
Turnover	5,791	5,771
Operating profit	989	699
Net profit before tax	1,007	723
Taxation	(426)	(230)
Net profit after tax	581	493

Included in the operating profit above is a loss of £39,000 (2001: loss of £30,000) from discontinued activities which were not acquired.

Secta Group Limited had no other gains or losses in either period.

8. Other subsidiary undertakings acquired

The company acquired seven other subsidiary undertakings as follows:

		Holding
11 May 2001	The Cambridge Partnership*	-
18 May 2001	Network Training Publishing Limited	100%
29 May 2001	Austin Mayhead & Company Limited	100%
30 September 2001	Engineering Information Services Limited	100%
9 November 2001	Network Consulting Limited	60%
11 February 2002	Hipkins Associates Limited	100%
26 February 2002	Dundas PIC Limited	60%

* The company acquired trade and assets only

18 Purchase of subsidiary undertakings *(continued)*

8. Other subsidiary undertakings acquired *(continued)*

	Book value at acquisition £'000	Adjustments £'000	Fair value at acquisition £'000
Net assets acquired			
Fixed assets			
Intangible - goodwill	29	-	29
Tangible	57	(10)	47
Investments	40	-	40
	126	(10)	116
Current assets			
Stocks	32	-	32
Trade debtors	416	-	416
Prepayments	138	-	138
Other debtors	5	-	5
Cash at bank and in hand	222	-	222
Total assets	939	(10)	929
Liabilities			
Trade creditors	(179)	-	(179)
Other creditors	(186)	-	(186)
Corporation tax	(15)	(42)	(57)
Directors' loans	(137)	-	(137)
Net assets	422	(52)	370
Goodwill			5,503
			5,873

Satisfied by:	
Cash	1,111
Shares	650
Loan notes – non convertible	835
Acquisition costs	237
Contingent consideration	3,040
	5,873

18 Purchase of subsidiary undertakings *(continued)*

8. Other subsidiary undertakings acquired *(continued)*

The contingent consideration reflects earn outs payable to the previous owners and is based on forecast future trading performance to various dates. The amounts above reflect the directors' best estimate of contingent consideration payable. The maximum earn out payable is £5.04 million. The liabilities will be satisfied by the issue of loan notes and shares and are included within creditors and shares to be issued disclosed in note 21.

The provisional fair value adjustments represent the conversion of depreciation rates to the Group's accounting policy and the taxation charge on profits achieved up to the date of acquisition, not previously recorded.

All subsidiaries are accounted for as 100% acquisitions following the principles set out in FRS 5 'Reporting the substance of transactions'.

19. Called up share capital

	2002	2001
	£'000	£'000
Authorised		
90,000,000 Ordinary shares of 5p each (2001: 75,000,000)	**4,500**	3,750

	Ordinary shares of 5p each	£'000
Allotted, called up and fully paid		
At 1 April 2001	34,133,521	1,707
Issued under placing on 18 December 2001	7,729,553	386
Issued as consideration for acquisitions	3,357,295	168
At 31 March 2002	**45,220,369**	**2,261**

On 14 December 2001, the authorised share capital was increased from £3,750,000 to £4,500,000 by the creation of 15,000,000 ordinary shares of 5p each.

On 18 December 2001, the company issued 7,729,553 ordinary shares of 5p each pursuant to a Placing and Open Offer. Total consideration received amounted to £21,643,000 and issue costs amounted to £714,000. These costs have been offset against the share premium account.

19. Called up share capital *(continued)*

Details of options in respect of shares outstanding at 31 March 2002 are as follows:-

	Number outstanding	Price payable	Date from which exercisable
Employee share option schemes:			
Limited scheme	723,804	£1.33	30.06.2003
	345,756	£1.65	30.06.2003
	1,069,560		
PLC scheme	35,808	£2.50	30.06.2003
	118,653	£2.83	30.06.2003
	138,882	£2.86	30.06.2004
	348,710	£3.10	30.06.2004
	642,053		
LTIP	653,922	£ nil	07.02.2006
	60,000	£ nil	26.06.2006
	56,450	£ nil	19.12.2006
	770,372		
Savings Related option scheme:			
SAYE	409,142	£2.08	01.12.2004

20. Share premium and reserves

Group

	Capital reserve £'000	Share premium £'000	Profit and loss account £'000
At beginning of year	9,545	9,748	(34)
Retained profit for the year	-	-	2,829
Premium on shares issued (net of expenses)	-	29,848	-
At end of year	**9,545**	**39,596**	**2,795**

Company

	Share premium £'000	Profit and loss account £'000
At beginning of year	9,748	-
Retained profit for the year	-	4,779
Premium on shares issued (net of expenses)	29,848	-
At end of year	**39,596**	**4,779**

21. Shares to be issued

	Group 2002 £'000	Group 2001 £'000	**Company 2002 £'000**	Company 2001 £'000
Deferred shares to be issued in future periods	**30,182**	17,099	**18,092**	-
Credit in relation to share awards	**419**	-	-	-
	30,601	17,099	**18,092**	-

Shares to be issued in future periods represents the directors' estimate of the fair value of the shares to be issued. It represents additional consideration that is payable to the original vendors of some of the businesses (now subsidiaries) acquired by the company. The final value of the shares to be issued is dependent upon the future financial performance of the subsidiaries. The maximum value of shares to be issued under earn-outs payable is £39 million.

22. Contingent liabilities

A cross-guarantee exists between the Group companies in respect of bank facilities totalling £29,380,000 at the year end (2001: £20,580,000).

23. Commitments

(a) There are capital commitments at 31 March 2002 of £101,000 (2001: £nil).

(b) Annual commitments under non-cancellable operating leases are as follows:

Group	**2002 Land and buildings £'000**	**2002 Other £'000**	2001 Land and buildings £'000	2001 Other £'000
Operating leases which expire:				
Within one year	**111**	**72**	45	3
In the second to fifth years inclusive	**461**	**261**	120	23
Over five years	**50**	**2**	73	-
	622	**335**	238	26

24. Pension scheme

The Group operates a number of defined contribution pension schemes within individual subsidiaries and contributes to certain employees' personal pension plans. The pension cost charge for the year represents contributions payable by the Group and amounted to £397,000 (2001: £112,000).

Contributions amounting to £48,000 (2001: £2,000) were payable to the funds and are included in creditors.

25. Reconciliation of operating profit to operating cash flows

	2002 £'000	2001 £'000
Operating profit	**4,963**	1,925
Depreciation	**563**	251
Amortisation of goodwill	**2,903**	1,156
Amortisation of development expenditure	**109**	-
Profit on disposal of fixed assets	**(32)**	-
Contribution to employee share awards	**419**	-
Amortisation of employee benefit trust	**75**	37
Increase in debtors	**(4,789)**	(2,388)
Increase in creditors	**5,494**	2,006
Increase in stocks	**(203)**	(50)
Net cash inflow from operating activities	**9,502**	2,937

Notes to the financial statements *(continued)*

26. Analysis of net debt

	At beginning of year £'000	Cash flow £'000	Arising from acquisitions (excluding cash) £'000	Other non-cash changes £'000	At end of Year £'000
Cash at bank and in hand	12,649	23,135	-	-	35,784
Overdrafts	-	-	-	-	-
Cash collateralised	(10,380)	(14,078)	-	-	(24,458)
	2,269	9,057	-	-	11,326
Debt due after one year	(11,331)	(24,971)	(243)	-	(36,545)
Debt due within one year	-	(2,000)	-	-	(2,000)
Finance leases	(36)	42	(235)	(38)	(267)
Cash collateralised	10,380	14,078	-	-	24,458
Total	**1,282**	**(3,794)**	**(478)**	**(38)**	**(3,028)**

Included within cash at bank and in hand is £24,458,000 (2001: £10,380,000) of cash collateralised representing committed facilities that are specifically allocated to repay loan liabilities in respect of non-convertible loan notes issued to the previous owners of certain entities acquired (see note 18).

This cash is not available to Tribal Group plc for any other use and is not sufficiently liquid to meet the definition of cash and cash equivalents set out in FRS 1.

27. Purchase of subsidiary undertakings

The larger subsidiaries acquired during the year contributed the following cash flows to the Group:

	Operating cash flow £'000	Returns on investments £'000	Taxation £'000	Capital expenditure £'000
Tribal Data Solutions Limited	252	-	(78)	(34)
GWT Group Limited	29	-	-	(98)
Ben Johnson-Hill Associates Limited	75	-	(50)	(78)
Cambridge Training and Development Limited	420	-	(90)	(8)
Tribal APD Limited	(172)	-	-	-

A number of the acquisitions made in the year involved non-cash consideration, including non-convertible loan notes and contingent consideration. Further details are supplied in note 18.

28. Financial Instruments

The Group's policies as regards derivatives and financial instruments are as described in note 1. The Group does not trade in financial instruments. Short term debtors and creditors have been omitted from all disclosures.

The company has not entered into any derivative or other hedging instruments.

Liquidity

The company's policy is to finance its operations and expansion through the use of overdrafts, bank loans, vendor loan notes and the issue of new equity share capital. Contingent consideration is used to manage the liquidity risk of the company. Some assets are purchased using finance leases where it is commercially advantageous to do so.

Foreign currency

The company has no transactional exposure in respect of costs denominated in currencies other than sterling and therefore does not currently hedge against foreign currency risk.

Financial assets

Financial assets comprise cash and cash deposits held at floating market rates linked to the Bank of England base rates. The split of cash and collateralised cash is presented in note 26.

Financial liabilities

Financial liabilities comprise loan notes and finance leases. Loan notes total £38,545,000 of which £10,492,000 attract fixed rate interest and £28,053,000 attract floating rate interest. Finance leases total £267,000, all at fixed rates. The weighted average fixed interest rate is 5.3% (2001: 5.8%) and the weighted average period for which interest rates on fixed rate liabilities are fixed is two years (2001: three years).

The Group's maturity profile of financial liabilities is as shown in note 16.

There are £27.8 million (2001: £15.2 million) undrawn committed borrowing facilities expiring of which £1.0 million expires in one year and £26.8 million in three years.

Fair value

There are no differences between the book value and fair value of the financial instruments described above.

29. Post Balance Sheet events

On 27 May 2002 the company acquired 100% of Nightingale Architects for an initial consideration of £6.75 million. Additional and deferred consideration will become payable in the three years ending 31 March 2005 based on the future trading performance. The maximum earn out payable in loan notes and/or shares is £8.75 million.

On 30 May 2002 the company acquired 100% of Malcolm Judd and Partners for an initial consideration of £3.21 million. Deferred consideration will become payable in the three years ending 31 March 2005 based on the future trading performance. The maximum earn out payable in loan notes and/or shares is £1.65 million.

Notes to the financial statements *(continued)*

30. Related party disclosures

All subsidiary undertakings except Tribal Data Solutions Limited and GWT Group Limited are more than 90 per cent controlled within the Group and any transactions with those subsidiaries are not disclosed as permitted under FRS 8. During the year Tribal Data Solutions Limited and GWT Group Limited provided services to other group companies totalling £48,000 and £55,000 respectively. These sales have been eliminated on consolidation.

No material contract or arrangement has been entered into during the year, nor subsisted at 31 March 2002 in which a director had a material interest.

31. Principal subsidiary undertakings

The principal subsidiary undertakings at 31 March 2002 are shown below. All subsidiary undertakings are registered in the United Kingdom and prepare accounts to 31 March each year.

	Principal activity	**Holding**
Austin Mayhead and Company Limited	Management consultancy services for the local authority sector	100%
Ben Johnson-Hill Associates Limited	Benchmarking service	100%
Cambridge Training and Development Limited	Design and production of multi-media training resources	100%
Dundas Consultancy Services Limited*	Funding consultancy for the further education sector	100%
FD Learning Limited	Software and support services to the further education sector	99.61%
GWT Group Limited	Recruitment advertising, search and selection and HR services for the local authority sector	85%
Hipkins Associates Limited	Property consultancy	100%
Instant Library Limited*	Library and information management	100%
Network Training Publishing Limited	Production of distance learning materials	100%
Network Training (Taunton) Limited*	Professional development and management consultancy for the further education sector	100%
PPI Group Limited*	OfSTED inspections	100%
Secta Group Limited	Management consultancy services to the health sector	100%
SfE Limited*	Professional development and distance learning for the schools sector	100%
Tribal Data Solutions Limited	Data collection and database IT services	83.5%
Tribal APD Limited	Asset management software and property consultants	100%
Tribal Education Limited	Education consultancy	100%
Tribal Holdings Limited*	Holding company	100%
Tribal Property Services Limited and subsidiaries*	Property and architectural consultants	100%

* Investment held by Tribal Holdings Limited

The proportion of voting rights held is equivalent to the equity shareholdings.

Notice of Annual General Meeting

Notice is hereby given that the second Annual General Meeting of Tribal Group plc will be held at 9.30am on 12 September 2002 at 1 Portland Square, Bristol BS2 8RR, for the following purposes:

Ordinary business

1. To receive and adopt the report of the Directors and the audited financial statements for the year ended 31 March 2002.
2. To re-appoint as a director Mr Henry Pitman who retires by rotation.
3. To re-appoint as a director Mr Simon Lawton who retires by rotation.
4. To re-appoint as a director Mr David Telling who retires by rotation.
5. To re-appoint Deloitte & Touche as Auditors of the Company and to authorise the Directors to fix their remuneration.

Special business

To consider and, if thought fit, pass the following resolution as an Ordinary Resolution (refer to explanatory notes):

6. That the authorised share capital of the Company be hereby increased from £4,500,000 to £6,250,000 by the creation of 35,000,000 ordinary shares of 5 pence each in the capital of the Company having attached thereto the rights and privileges and being subject to the limitations and restrictions set out in the Articles of Association of the Company.
7. That, in substitution for any existing such authority, the directors be and they are hereby generally and unconditionally authorised to act in accordance with section 80 of the Companies Act 1985 ("the Act") to exercise any power of the Company to allot relevant securities (within the meaning of the said section 80) up to an aggregate nominal amount of £1,661,723, provided that such authority shall expire at the conclusion of the Annual General Meeting of the Company to be held in 2003 and the Directors may during that period make offers or arrangements which could or might require the allotment of securities after the expiry of such period.

To consider and, if thought fit, pass the following resolution as a Special Resolution (refer to explanatory notes):

8. That the directors be and they are hereby empowered to allot equity securities (as defined for the purposes of section 95 of the Act) for cash pursuant to the authority conferred by Resolution 7 set out in the Notice of the Meeting at which this resolution is to be proposed as if section 89(1) of the Act did not apply in respect of:

    a) the allotment of equity securities in connection with issues to holders of ordinary shares of 5p each in the Company ("Ordinary Shares") where the equity securities respectively attributable to the interest of such holders are proportionate (as nearly as may be practicable) to the respective numbers of Ordinary Shares held by them, but subject to such exclusions or other arrangements as the directors may deem necessary or expedient to deal with any fractional entitlements or any legal or practical problems under the laws of, or the requirements of any regulatory body or any stock exchange in, any territory; and

    b) the allotment of equity securities for cash (other than pursuant to sub-paragraph (a) above) having a nominal value of up to £114,831.85;

    such power to expire at the conclusion of the Annual General Meeting of the Company to be held in 2003 but so that this authority shall allow the Company to make offers or agreements before the expiry of this authority which would or might require relevant securities to be allotted after such expiry.

By order of the Board
Simon Lawton
SM Lawton
Company secretary

10 July 2002

Registered Office:

165 Queen Victoria Street
London
EC4V 4DD

Notice of Annual General Meeting *(continued)*

Notes

1. Members who hold ordinary shares are entitled to attend and vote at the meeting. Members entitled to attend and vote may appoint one or more proxies to attend, and on a poll, vote on their behalf. A proxy need not be a member of the Company.
2. If you do not intend to be present at the meeting, please sign and return the enclosed form of proxy which, to be valid, must be received by the Company's Registrars, Capita IRG Plc, Bourne House, 34 Beckenham Road, Beckenham, Kent BR3 4TU by 9.30am on Tuesday 10 September 2002. The appointment of a proxy or proxies will not prevent a member from attending and voting at the meeting should he or she decide to do so.
3. The register of Directors' interests in the share capital of the Company maintained under section 325 of the Companies Act 1985 will be available for inspection at the place of the meeting from 9.15am until its conclusion. Particulars of the Directors' interests are given in the Directors' report on page 20.
4. To have the right to attend and vote at the meeting (and also for the purposes of calculating how many votes a person may cast), a person must have his or her name entered on the register of Ordinary shares by no later than 6.00pm on Tuesday 10 September 2002. Changes to entries on the register after this time shall be disregarded in determining the rights of any person to attend or vote at the meeting.

Additional explanatory notes to special business at the Annual General Meeting

1. Increase in authorised share capital (Resolution 6)

At the Annual General Meeting, an ordinary resolution will be proposed to increase the authorised share capital of the Company by 38.89 per cent by the creation of an additional 35,000,000 Ordinary shares. The purpose of this resolution is to avoid the need for the Company to seek fresh shareholder approval within the foreseeable future to increase the authorised share capital of the Company. The authority of the directors to allot the authorised but unissued share capital of the Company will be limited as referred to in paragraph 2 below.

2. Authority to allot shares (Resolution 7)

An Ordinary resolution will be proposed to give the directors authority to allot Ordinary shares comprising:

a) 15,310,913 Ordinary shares representing approximately one third of the issued share capital of the Company as at the date of the directors' report;

b) 15,032,421 Ordinary shares, being the maximum number of Ordinary shares which may be issued by the Company (based on the mid market price of an Ordinary share (as traded on AIM) at close of business on 20 June 2002) pursuant to the earn-out arrangements referred to in note 18 of the financial statements; and

c) 2,891,127 Ordinary shares, being the maximum number of Ordinary shares which the Company may be obliged to issue under its share option schemes.

The authority, when given, will expire at the conclusion of next year's Annual General Meeting. Save as referred to in paragraphs b) and c) above, the directors have no present instructions of exercising this authority.

3. Disapplication of pre-emption rights (Resolution 8)

A special resolution (set out as resolution 8 in the notice of the Annual General Meeting) will be proposed to empower directors to allot securities of the company up to a specified amount in connection with rights issues without having to obtain prior approval from shareholders on each occasion and also to allot a smaller number of these for cash without first being required to offer such shares to existing shareholders. The number of Ordinary shares which may be issued for cash under the latter authority will not exceed 2,296,637 being approximately five per cent of the issued ordinary share capital of the Company as at the date of this report. The proposed power will expire at the conclusion of next year's Annual General Meeting.

Corporate Information

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Company Secretary

Simon M Lawton FCA

Registered Office

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Financial advisor and stockbroker

Dresdner Kleinwort Wasserstein
20 Fenchurch Street
London
EC3P 3DB

Principal bankers

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Bristol
BS99 7JG

Company's Registered Number

4128850

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Queen Anne House
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Solicitors

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