

Tribal Group plc

Annual Report and Accounts 2005

Company Registered Number: 4128850



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Highlights of the year

- Strong sales growth during the year, up by 24 per cent.
- Successful integration into seven divisions is producing early benefits and greater opportunities for large-scale contract wins.
- Reached financial close on a £214m contract to design and operate a regional network of independent sector treatment centres for the NHS.
- Secured two contracts valued at £50m from Ofsted to provide school inspections in two English regions.
- Committed revenue increased from £94m to £350m.

Financial highlights:

	Year ended 31 March		
	2005	2004	
Turnover	£229.5m	£185.7m	up 24%
Gross revenue	£179.9m	£152.2m	up 18%
Operating profit*	£22.4m	£23.2m	down 3%
Operating margins on gross revenue*	12.4%	15.2%	
Profit before tax*	£17.9m	£20.1m	down 11%
(Loss)/profit on ordinary activities before taxation	(£0.2m)	£5.3m	
Loss on ordinary activities after taxation	(£5.6m)	(£0.9m)	
Adjusted diluted earnings per share*	15.6p	20.5p	down 24%
Operating cash flow before Mercury Health	£17.5m	£34.3m	
Operating profit to cash conversion*	78%	148%	

Note: *The operating profit, operating margins, profit before tax and adjusted diluted earnings per share are stated before goodwill amortisation and impairment and of £16.6m (2004: £10.7m), employee benefit trust credit of £0.2m (2004: costs of £1.0m) and exceptional items of £1.7m (2004: £3.0m) (see page 44 and page 57).

Chairman's statement

I am pleased to report on the results of Tribal Group plc for the year ended 31 March 2005. During this period, we strengthened our position as a leading professional support services and consultancy business, predominantly operating in the UK public sector. The Group is now well positioned in its core markets of education; local government, housing and regeneration; health and social care; and central government. The year also saw our successful move into the direct delivery of healthcare services through Mercury Health.

Results This was a challenging year for the Group with significant organisational change which, as previously indicated, adversely affected margins.

Nevertheless, we continued to deliver revenue growth with turnover for the year up 24 per cent at £229.5m (2004: £185.7m). Operating profit* was £22.4m (2004: £23.2m) and operating margins* were 12.4 per cent (2004: 15.2 per cent). Profit before taxation* was £17.9m (2004: £20.1m), loss after tax was £5.6m (2004: £0.9m), and adjusted diluted earnings per share* were 15.6p (2004: 20.5p). Goodwill amortisation was £16.6m (2004: £10.7m) and included an impairment write down of £5.2m (2004: £0.6m) relating to a review of the carrying value of two businesses.

During the year, the Group generated operating cash flow before Mercury Health of £17.5m (2004: £34.3m), representing an operating profit* to cash conversion rate of 78 per cent. Net debt at the year end was £53.0m, representing gearing of 35 per cent, with interest cover of over five times. Our gross return on capital employed was 12.3 per cent (2004: 15.0 per cent).

* The operating profit, operating margins, profit before tax and adjusted diluted earnings per share are stated before goodwill amortisation and impairment of £16.6m (2004: £10.7m), employee benefit trust credit of £0.2m (2004: cost of £1.0m) and exceptional items of £1.7m (2004: £3.0m) see page 44 (consolidated profit and loss account) and page 57 (earnings per share note).

Organisational restructuring During the year, the Group continued the process of implementing its new corporate structure. Our businesses are now managed as seven divisions: consulting, education, resourcing, technology, property, communications and healthcare delivery. The integration of businesses into this structure has enabled us to strengthen management and financial reporting arrangements and provide a better focus for business development. There has been a very positive response across the Group to this reorganisation and we are already seeing the benefits of offering an integrated package of services across our customer base. The ability to do this will increasingly differentiate Tribal from other competitors in our markets, opening up more opportunities and creating barriers to entry.

Major contracts During the year, we signed our largest contract to date, a £214m contract with the NHS to design, build and manage a regional network of treatment centres for elective surgery and diagnostic procedures. Implementation is progressing well and the first centre is expected to open in August 2005. This contract has given Mercury Health, the Group's healthcare delivery business, a significant market share and places us in a strong position to bid for the next wave of contracts, which are expected to be procured during the next 12 months.

Since the year end, the Group has announced two contracts with a combined value of £50m with Ofsted to provide school inspection services. We are currently preferred bidders on further significant contracts. As a result of our contract wins, our committed revenue has increased to £350m, up from £94m.

Dividend The Group paid a dividend of 1.0p per share following the announcement of the interim results last November. The Board is pleased to announce that it is recommending a final dividend of 2.0p per share, making a total of 3.0p per share for the year.

Board changes I would like to record the Board's gratitude to Dominic Collins who stood down as non-executive director on 24 March 2005 and Miles Hunt who retired at our last Annual General Meeting on 14 September 2004. Both Dominic and Miles made significant contributions to the Group and we thank them for their guidance and support. There have been no other board changes during the period.

Staff The Group is a people-based business and its success is a result of the broad base of talented employees across the Group. We would like to put on record the thanks of the Board to our 2,000 employees at all levels. Their efforts have ensured that Tribal continues to be one of the most respected, dynamic and fast-growing companies in its markets.

Chairman's statement *(continued)*

Prospects Tribal is firmly established as a major supplier of high value-added consultancy and professional support services to the public sector. We are well placed to take advantage of opportunities to build and extend our service offering, to increase the level of committed revenue by successfully bidding for longer-term contracts, and to leverage our relationships and advisory experience to develop delivery services in our principal markets.

With the reorganisation largely completed, investment in business development, account management and bidding for long-term contracts is being increased to ensure long-term revenue growth across the Group. The focus continues to be on improving profitability, margins and operational efficiency.

We are now starting to see the benefits of the significant investment we have made over the last 18 months in developing the Group's infrastructure and in our divisional and central management.

The Group has started the year well and, although first half results will be influenced by the increased weighting of trading to the second half and by our continuing investment in products, services and capacity building, the Board is confident about the Group's future prospects.

Strone Macpherson

Chairman

21 June 2005

Chief Executive's statement

During the year, our businesses have continued to strengthen their service offering and have increasingly been able to offer customers an integrated package of services drawn from across the Group. This capability, alongside our excellent relationships with public sector organisations, positively differentiates Tribal from its competitors.

Markets We continue to operate in expanding markets and to benefit from increasing government expenditure, particularly in education and health. We now work in sectors that account for over £250bn of annual government spending. While Tribal has benefited from increasing public expenditure, the main driver to our business continues to be the growing acceptance and use of the private sector in reforming and delivering public services.

The Government's election manifesto and subsequent Queen's Speech confirmed the continuing and increasing use of the private sector in public service reform, particularly in education and health. In her first speech following the election, the Secretary of State for Health, Patricia Hewitt, announced the procurement of £3bn of elective surgery procedures from the private sector through the extension of the independent sector treatment centre (ISTC) initiative.

There continue to be other major opportunities as a result of a number of specific government initiatives. The 'Building Schools for the Future', academies and hospital private finance initiative programmes together present very significant capital investment plans until at least 2010; the Gershon Review will introduce cost efficiencies across government through improved supply chain and business process management and lead to a radical re-design of many services; the Lyons Review, which recommends the relocation of government departments and agencies to areas outside London and the south-east, is generating the requirement for improved technology and resourcing solutions; and the Children Act is re-shaping education and social services departments.

In the year ended 31 March 2005, 94 per cent (2004: 96 per cent) of our revenues were from the public sector and we expect to retain this focus in the immediate future. We are, however, starting to see opportunities to increase our presence in the private sector as we transfer and apply the skills that we have developed in the public sector.

Operating review Tribal provides a range of consultancy and professional support services and, through Mercury Health, is moving into the delivery of public services.

Tribal Consulting

	Year ended 31 March 2005 £000	Year ended 31 March 2004 £000
Gross revenue	55,238	42,130
EBITA**	6,669	7,121
EBITA margin **	12.1%	16.9%
** before goodwill and employee benefit trust costs		

Consulting achieved revenue growth of 31 per cent due, in part, to a full year contribution from HACAS, which was acquired in July 2003.

Chief Executive's statement *(continued)*

Operating profit** was down by six per cent and operating margins** were significantly lower compared to 2004. This was, in part, a consequence of organisational restructuring but also as a result of lower utilisation rates in parts of our healthcare practice, increasing competitive pressures in certain areas and higher associate costs due to skill shortages, particularly in the first half of the year. Areas of underperformance were addressed and margins across the division improved in the second half of the year.

We have now built one of the largest consultancy businesses operating in the public sector with expertise across local government, housing and regeneration, health and social care, and central government. Generally, the market for consultancy remains buoyant and average fee rates remain firm.

During the year, we have continued to build our local government practice by expanding our regional coverage and developing our advisory services in areas such as PFI and performance improvement. Our housing and regeneration consultancy has expanded into economic development, establishing two new teams in Edinburgh and Manchester, both of which have achieved notable contract successes, including business planning for the National Nuclear Academy, the evaluation of Hull Citybuild, the city's urban regeneration company, and securing a substantial high profile contract with English Partnerships to provide consultancy support to the Government's first-time buyers initiative. This business area will be further developed in 2005/06. Our housing consultancy remains the leading adviser to registered social landlords. The Government's agenda for 'sustainable communities' will ensure that this remains an expanding market for us. A major contract completed during the year was the setting up of Wakefield Housing Trust, the largest housing stock transfer to a single organisation.

In our health and social care consultancy, we continue to be involved in ground-breaking areas of activity, including advising existing and aspirant foundation hospital trusts; continuing support for the implementation of the NHS National Programme for IT (NPfIT); developing the first 'productive time delivery framework', and planning a new model for contract management to enable GP practice-based commissioning work. Other successes include the closure of our nineteenth PFI project as corporate finance adviser, membership of winning teams on four major PFI developments, including Sherwood Forest and Colchester, and further growth of our project support for primary care local improvement finance trusts (LIFT).

At the end of the year, we established a Centre for Organisational Learning as a focal point for our HR consultancy activities. The centre has already won work with clients such as the Forensic Science Service, Hull and East Yorkshire NHS Trust and Merton Council.

In central government, we have made excellent progress, having now grown to 50 consultants from a standing start two years ago. Major assignments have been won with the Ministry of Defence, Environment Agency, Pensions Regulator, Cabinet Office and the Foreign and Commonwealth Office. A number of recent wins, such as a senior management training programme within the Ministry of Defence, have been against competition from the major international consultancy groups.

Management processes have been strengthened and, as a result of our divisional integration exercise, all support services have been brought together in a shared service centre that will also deliver improved financial management arrangements.

Tribal Resourcing

	Year ended 31 March 2005 £000	Year ended 31 March 2004 £000
Gross revenue	24,684	20,909
EBITA**	5,252	5,406
EBITA margin **	21.3%	25.9%
** before goodwill and employee benefit trust costs		

Chief Executive's statement (continued)

Resourcing achieved good levels of turnover growth, up 36 per cent to £74m, with gross revenue growth of 18 per cent in a competitive public sector market. There has been some pressure in certain areas on consultancy fee rates and advertising commission rates which, combined with increased investment in infrastructure, has resulted in lower operating margins**.

The opportunities for our resourcing business continue to be driven by organisational change within our client organisations. Our recruitment advertising business has continued to grow its contractual base. We now work with over 50 local authorities and over 100 health trusts, with an additional £9m new advertising turnover secured this financial year. Whilst we saw some slowdown in advertising spend by the NHS, the market in local government and education has remained strong. During the year, we won several major local authority advertising contracts including Camden, Westminster and the Cambridgeshire councils' consortium; new NHS contracts with Sheffield and Nottingham Primary Care Trusts and a new university contract with Nottingham Trent.

Our resourcing proposition has been further developed and now includes a web-based product, 'careers for leaders'. Although it is still early days, this is showing good potential and we will continue to increase our investment in this area.

We are experiencing strong growth in our healthcare supply business, where profit and margins have increased. We have recently opened a new office in the north-west and will continue to invest in this area in 2006.

During the year, we established a new interim management business to target senior management roles in local government and housing. This has had a successful start and will make a good contribution in 2005/06. We expect to extend this service into other Tribal markets over the next 12 months.

Although our executive resourcing business has experienced challenging market conditions with increased competition, we continue to see good levels of growth. Over the last 12 months we have made over 30 chief executive appointments across the local government and housing sectors, work that has been important in raising the Group's profile in these markets. We are now differentiating ourselves from most of our competitors by agreeing three year preferred supplier contracts for executive resourcing services, as we have done recently with Wolverhampton Council. We also continue to develop new markets in the central government and not for profit areas.

Over the next year, we will be launching several new resourcing products which will extend our range of services and will help to further increase barriers to entry.

Tribal Communications

	Year ended 31 March 2005 £000	Year ended 31 March 2004 £000
Gross revenue	9,958	6,921
EBITA**	2,382	1,741
EBITA margin **	23.9%	25.2%
** before goodwill and employee benefit trust costs		

Within Communications, both gross revenue (up 44 per cent) and operating profit** (up 37 per cent) showed good growth, with Geronimo and Tribal MPC both making full year contributions following their acquisition by the Group in 2003/04.

The integration of our communications businesses in education, local government and health is now well advanced. Based on the consolidated fee income of the division, we have created a top ten public relations agency as judged by PR Week criteria and are one of the top three companies working in the £300m per annum public sector communications market. Much of this work is procured through framework arrangements. We are on all the main government frameworks including the Department of Health, Central Office of Information, Department for Work and Pensions, Learning and Skills Council and Department for Education and Skills.

Chief Executive's statement *(continued)*

We are currently responsible for developing and delivering a number of public information campaigns. Our contract to deliver the UK-wide 'Aimhigher' campaign, which advises young people on the benefits of going on to higher education, is worth £5m over four years. We are also working with the Department for Work and Pensions on the 'Age Positive' and 'Age Partnership' campaigns which promote age diversity in the workplace and the Edge Employer Awards for the Edge Foundation which raises awareness of the value of practical learning.

Our communications work in local government continues to develop. We now have interim heads of communication in a range of public sector bodies, including the London Fire & Emergency Planning Authority and the London Borough of Tower Hamlets, and are running best value communications reviews for both the Cambridgeshire Constabulary and the Association of Local Government.

Within the NHS and health sector, we have substantially developed our creative businesses with new offices opening in Nottingham and Bury St Edmunds.

We are confident that our new integrated management arrangements put us in a strong position to capitalise on the growing opportunities for PR and communications services in the public sector. We are now well placed to expand both our capacity and geographical coverage.

Tribal Property

	Year ended 31 March 2005 £000	Year ended 31 March 2004 £000
Gross revenue	21,331	18,443
EBITA**	2,658	2,819
EBITA margin **	12.5%	15.3%
** before goodwill and employee benefit trust costs		

Property achieved revenue growth of 16 per cent, seven per cent of which was from the acquisition of Derek Hicks and Thew (DHT) in November 2004.

The decline in operating profit and margins was a consequence of the significant investment made in extending geographic coverage and in developing capacity for capital spending programmes such as 'Building Schools for the Future'.

Our architecture business, now employing close to 300 people, has extended its regional network to include Exeter and Liverpool. We have also set up our first off-shoring centre in Cape Town that will provide the business with the capacity needed to run several major public sector PFI projects in parallel. We have also now fully integrated our education and healthcare practices. Our property services business continues to grow and has, during the year, extended its building surveying operation and the regional spread of its project management business. We will continue to invest in the growth of this business area.

We are currently involved in the major capital programmes in healthcare (PFI, independent sector treatment centres (ISTCs), local improvement finance trusts (LIFT) and Procure 21), and in education (Building Schools for the Future, academies, further education colleges and higher education institutions). We have well-established relationships with many of the major contractors.

Chief Executive's statement (continued)

A number of significant contracts have been won which underpin much of our future revenue growth. In health, we have recently won work at Birmingham Hospital PFI; we are currently preferred bidder on the £250m Peterborough PFI hospital project; and, working with Mercury Health, are involved in the first wave of the ISTC programme. Extending our work in higher education, we have recently won a £40m research facility at Oxford University's Old Road campus. In further education, we have now established a leading market position and are winning both property consultancy and architectural work. For example, we have been appointed to deliver the £40m first phase of the new campus for the Mid-Kent College at Chatham; we are advising on the £25m campus redevelopment at Barking; and within the academies programme, we have won project management contracts in Reading and Leicester.

Increasingly, there are opportunities to provide clients in the property area with an integrated proposition. For Solihull College, we brought together our property and grant funding capability; for the academies programme, we combined our education and property project management skills.

Over the next few years, we will be focusing on developing new services to complement our existing offering and extending our presence in our core sectors while diversifying into related markets such as science and higher education.

Tribal Education

	Year ended 31 March 2005 £000	Year ended 31 March 2004 £000
Gross revenue	36,317	35,884
EBITA**	5,784	6,634
EBITA margin **	15.9%	18.5%
** before goodwill and employee benefit trust costs		

Education achieved overall revenue growth of one per cent despite the decline of our teacher training business. Excluding teacher training, the division's activities delivered organic growth of 20 per cent and an operating margin** of 18 per cent.

The integration of our education services and advisory businesses has strengthened our position as a top five education company. In April 2005, we announced that we had won contracts worth £50m over four years to deliver school inspection services for Ofsted. These contracts, which increased our market share from 21 per cent to approximately 30 per cent, are together the largest educational contract we have won to date. We are seeing increasing signs that we are well placed to win other large scale contracts in education.

During the year, we increased investment in our education benchmarking service, extending our product into higher as well as further education, where it has been used by over 100 colleges. During 2005/06, we will seek opportunities to take this business into other Tribal markets.

Our highly successful school improvement programme 'Pupils' Champions!', which currently provides teaching support through contracts with the Department for Education and Skills and local education authorities to schools in disadvantaged areas, has been expanded to meet the needs of the post-16 sector (Students' Champions) and the professional development requirements of teachers (Teachers' Champions). All are now part of our overall product range 'Tribal's Champions'.

The market for courses and conferences for teachers and further education lecturers, which now accounts for four per cent of our turnover, has remained difficult, with funding changes and switching priorities impacting delegate numbers. However, the market for distance learning continues to be very strong with over 100 colleges now working with us. Our e-learning and 'Skills for Life' services have also been developing well with major contracts won with the Department for Education and Skills, Learning and Skills Council, further education colleges and regional development agencies.

Chief Executive's statement *(continued)*

Good opportunities are emerging to bring together our property and education consultancy expertise to support capital projects. The Building Schools for the Future initiative will now include primary as well as secondary schools and the Government has also announced an extension of the academies programme. In further education, Sir Andrew Foster is undertaking a fundamental review of the future management of colleges, with likely benefits for private sector involvement. All these will create further demand for our services.

Looking ahead, we are confident that opportunities will emerge for the increasing involvement of the private sector in the delivery of education, including the opportunity in the future to run schools and colleges.

Tribal Technology

	Year ended 31 March 2005 £000	Year ended 31 March 2004 £000
Gross revenue	34,391	30,457
EBITA**	5,145	4,308
EBITA margin **	15.0%	14.1%
** before goodwill, employee benefit trust costs		

Operating profit** in Technology was up 19 per cent. The two acquisitions made during the year, Aldcliffe Computer Systems and Strategic Information Technology Services (SITS), contributed 16 per cent to revenue growth.

We have now integrated our education software businesses, managed services activities, and information management services and systems operations. We are now the market leader in many of our sectors, providing services to over 35 per cent of FE colleges, 60 per cent of universities, over 50 per cent of local education authorities and more than 30 per cent of work-based learning providers.

We are becoming increasingly successful at winning contracts which incorporate our complete service offering of technology, consultancy and managed services. In particular, we are making strong headway in taking on the management of learning delivery.

Significant contracts during the year include a £4m contract with Total for information management services; a £1.5m contract with the Science Learning Centres to deliver and support an online learning environment; a £9m contract with Ufi learndirect to manage its learning centres across the south-west; and a Learning and Skills Council contract to manage the information, advice and guidance (IAG) service in Dorset. These wins are a direct result of investment in our bidding capabilities and our combined service offering as an integrated division.

We are now well-positioned to bid for progressively larger contracts, predominantly in the education and skills market, but also from the private sector where there is growing demand for our information management services.

Mercury Health – healthcare delivery

	Year ended 31 March 2005 £000	Year ended 31 March 2004 £000
Gross revenue	349	7
EBITA**	(343)	-
** before goodwill, employee benefit trust costs and exceptional items		

Chief Executive's statement *(continued)*

The revenue and operating loss reported for this division is in line with expectations reflecting the start-up nature of Mercury Health and the associated business development overheads. We expensed bid costs of £1.7m in accordance with UITF34 'Pre-Contract Costs' as an exceptional item.

In December 2004, we signed a £214m contract with the NHS to design, build, staff and operate a regional network of treatment centres. This contract, which runs until June 2011, was part of the £2.5bn first wave of contracts procured under the Government's independent sector treatment centre (ISTC) initiative. This was developed to seek private sector capacity to develop treatment centres to carry out over 250,000 elective surgery procedures per annum.

The contract provides Mercury Health with guaranteed volumes and there will also be opportunities to secure additional volumes from both the NHS and the private sector.

Financing for the contract totalled £57.5m. The Group has provided equity of £17.5m and secured additional funding of £40.0m comprising non-recourse senior debt of £33.5m and equipment lease finance of £6.5m.

The implementation of the contract is well advanced and the centres located in High Wycombe, Haywards Heath, Portsmouth and Gillingham are scheduled to open between Summer 2005 and Summer 2006. A fifth centre in Havant is due to open in early 2008.

We have made excellent progress with the establishment of the Mercury Health management team, recruiting some experienced managers from the NHS and private sector healthcare companies.

As a result of this contract, Mercury Health has a significant share of this progressive new market. The Government has already announced that there will be further procurements, commencing over the coming months, with a combined value of more than £4bn over five years. Mercury Health intends to bid selectively for a number of these contracts. Mercury Health will be supported in these bids, and in the development of its existing business, by the Hospital for Special Surgery, one of the leading orthopaedic hospitals in the US.

We expect that the NHS market for independent healthcare will grow very strongly over the next few years, driven in part by the move to 'payment by results'. We believe that Mercury Health is well placed to take advantage of these developments.

Customers The majority of the Group's customers continue to be at the delegated level of government. For example, in education: schools, colleges and universities; and in health: primary care trusts, acute trusts and strategic health authorities. However, we have continued to make very good progress in developing our customer base in central government.

Now that the re-organisation of our business is completed, we are increasing our investment in business development, account management and in bidding for longer-term contracts. We have developed bidding resource in each of our divisions and have also increased the size of our central team. We are particularly targeting contract opportunities that allow us to provide an integrated service offering, deploying skills from across the Group. The major example of this has been the Mercury Health contract, which brought together our consulting, resourcing, property and communications services. There are now many other examples of different parts of the business successfully working together.

Branding and profile From 1 April 2005, with very few exceptions, businesses across the Group commenced trading as Tribal. This re-branding has been received positively by staff and customers and it will help to raise further Tribal's profile in its markets. It will also assist by enabling us to present a fully integrated proposition to our customers.

Growth During the financial year, we announced three acquisitions: SITS, a student administration software business in the higher education market, Aldcliffe, a trainee administration software business in the work-based learning market, and DHT, a healthcare architectural practice based in Liverpool. These businesses are now integrated into our technology and property divisions respectively and are all performing ahead of our expectations. The acquisitions made in the year cost an aggregate initial consideration of £16.0m, paid for by a combination of cash and shares. Deferred consideration of up to £5.9m is payable in respect of these acquisitions, principally in shares, based on increases in operating profits.

Chief Executive's statement *(continued)*

At the year end, our total estimated earn-out liability in respect of the period to 31 March 2007 was £21.8m, of which we expect to pay £14.3m in 2005/06 and £7.5m in 2006/07. Although these liabilities are primarily to be satisfied in shares, the Group always retains sufficient headroom in its banking facilities to finance the remaining earn-outs in cash. As previously announced, in a number of cases we have already crystallised earn-out payments in order to facilitate our integration process.

While we do still consider there to be interesting consolidation opportunities in our markets, we are currently focused on delivering organic growth through increasing headcount, developing new services and winning new contracts.

Over the year, the businesses owned for two full years or more have increased headcount by 12 per cent and demonstrated underlying organic revenue growth of five per cent. We have continued to broaden and strengthen our management teams with an increasing number of high quality senior managers joining us from major support services and consultancy competitors. We have adopted a very proactive approach to the recruitment of consultants and senior managers.

We are seeing an acceleration of cross-selling, with many examples of the Group providing our customers with an integrated package of services from across the business. Our five sector service groups (education; health and social care; local government and housing; regeneration; and central government) are now well established and are becoming more influential in developing the Group's strategy, marketing approach and brand profile in their respective markets. The operational head office in London and the network of regional hub offices are making a significant contribution to joint working as well as enabling us to consolidate our office network, reducing the number of individual locations over the next two years.

Management The Group is now managed through a divisional structure. We are confident that the benefits of integration have been achieved whilst retaining much of our entrepreneurial culture.

We have now appointed divisional CEOs to lead each of the seven divisions. We are starting to see benefits from cost efficiencies, brand leverage, shared best practice, enhanced recruitment and staff development initiatives and from shared services provided from the Group's eight hub offices.

The Group's executive management board, consisting of divisional CEOs and other key Group directors, is responsible for the strategic and operational management of Tribal, assessing investment priorities and managing the Group's risk profile.

People We are a business that relies on the quality and commitment of our people and our success is due to the hard work and professional integrity of our management and employees across the Group. We have created a culture 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. Our staff believe they are making a substantial contribution to improving public services and to the lives of those affected by those services.

We have exceptionally talented individuals amongst our middle and senior management teams. Many of our directors are nationally leading figures in their specialist areas. We will continue to recruit ambitious and talented individuals who will contribute to the growth of the business. These will be from a variety of backgrounds, both public and private sector.

In October 2004, we launched the second Tribal management development programme in conjunction with Henley Management College. In the last two years, 50 individuals have attended. We will continue to invest further in the development of our senior managers and staff during 2005/06.

Tribal is committed to positive and proactive communications with our employees. We have embraced the 'Information and Consultation Rights' directive and introduced elected staff forums which are currently being rolled-out across the business. During the year we have also introduced an independent and confidential counselling service for our staff and are currently reviewing our employee assistance programme to ensure it is delivering a valuable service in a range of areas.

We are grateful to staff at all levels of the company for their effort throughout the year and for their contribution to our continuing success.

Chief Executive's statement *(continued)*

Prospects We have now completed our organisational restructuring and are well advanced with our integration process. We have won several major contracts which demonstrate the potential of the Tribal business model. The Group is now in a strong position to take advantage of the many opportunities arising in its key markets.

Henry J Pitman
Chief Executive

21 June 2005

Review of our markets

Outsourcing generally continues to be a dominant activity in the UK. In the public sector alone, an additional £20bn worth of services are likely to be contracted out to external suppliers in the next three years. This means that by 2006/07, about £67bn worth of services are likely to be managed in this way, compared with just under £45bn this year*.

The increasing use by the public sector of external consultancy and support services is unlikely simply to be a short-term consequence of the recent focus on modernisation of and investment in public services, but part of a gradual and overall trend which is unlikely to be reversed.

The increased emphasis on service improvement, efficiency gains and new technology are all opportunities for us to help provide additional support. We are well placed to respond to recent service delivery trends, while still offering more traditional forms of consultancy. We now have the critical mass and multi-disciplinary expertise to respond to complex and larger-scale opportunities across our markets, particularly for managed services and direct delivery.

* Public Finance/Nelson Hall 2005

Health and social care

The largest single area of current government investment is in the health service which is experiencing an unprecedented level of growth. One in ten of the working population is employed in the UK health and social care sectors.

Throughout the health service, the continuing focus is on patient-led services and the modernisation of all aspects of delivery. As the leading consultancy in the health and social care sector, we are continuing to advise and support hospital and primary care trusts, strategic health authorities and the Department of Health on a wide range of strategic and delivery issues. We work with the majority of NHS trusts and strategic health authorities.

Ambitious targets to reduce waiting times for elective surgery means that by 2010, 15 per cent of all non-emergency surgery will be carried out by private providers under the independent sector treatment centre programme. This is a major growth area for our healthcare delivery business which has secured a £214m contract to design and operate a regional network of centres in the south-east. This represents a significant market share and ensures that we are well placed for the second stage of procurement, worth another £3bn over five years.

By 2010, 40 per cent of the NHS estate will be less than 15 years old and will include 100 new hospitals, most of them constructed under the framework of the private finance initiative (PFI). With about £6.5bn of capital value yet to be invested - or about two-thirds of the overall projected cost - the outlook for construction in the health sector remains very positive. Our architectural practice is the recognised European leader for design of healthcare facilities, and has well-established relationships with the major contractors and consortia active in PFI.

We are also offering design and project management services to primary care trusts in Colchester, Hampshire and Liverpool under the LIFT (Local Improvement Finance Trusts) joint ventures, which have been set up to provide new or upgraded primary care facilities. To date, LIFT has absorbed about £200m out of a total of £1bn so the programme will continue to provide substantial long-term opportunities.

The NHS National Programme for IT, worth over £6bn, is the largest IT transformation project in Europe, aiming to standardise systems for clinical services and communications infrastructure throughout the health service in England. Investment will be spread over several years and will continue to generate the need for substantial external support. Tribal has been involved in a consultancy capacity from the early stages of this initiative.

Review of our markets *(continued)*

We have a strong track record in NHS recruitment, particularly in recruitment advertising and executive search, and have established a new interim resourcing business. We are a market leader for the supply of allied health professionals to the NHS.

Peterborough Hospital PFI Our architectural practice is part of the winning consortium selected to design and build Peterborough's new £250m acute hospital and mental health unit on the Edith Cavell site, together with an integrated care centre in the heart of the city. Our successful design has a number of highly innovative features, including our cross-shaped 'cruciform' bed layouts in multi-bed areas which we are also using in PFI developments in Guernsey and Colchester. This pioneering and unique design manipulates the existing space differently, giving patients an additional bed-to-bed distance of 1.5 metres more than the NHS requirement. This is an important step towards resolving many of the cross-infection issues common in multi-bed areas.

Department of Health. We have secured one of the three 'pathfinder hub' contracts to support the introduction of collaborative purchasing arrangements across the NHS. We are currently working with the Shropshire and Staffordshire Collaborative Procurement Hub to deliver over £4m of savings by the end of 2005.

Good Hope Hospital NHS Trust Following our selection as a management partner for poorly performing NHS trusts in England, we are the first private company to have been appointed as franchise managers of a hospital trust. We are currently mid-way through our three year franchising contract with Good Hope Hospital NHS Trust in Sutton Coldfield. The trust has now achieved a one star rating, up from a zero star the year before, and "significant improvements in several areas" according to the Healthcare Commission.

The NHS National Programme for IT We are working on a wide range of projects for the National Programme for IT, including providing extensive national level support to the development both of the planned online appointments system, 'Choose and Book', and the NHS Care Records Service. At the local level, we are working with strategic health authorities, NHS and primary care trusts to help them develop local implementation strategies and provide related support.

Education and training

Continuing investment is planned for primary and secondary schools, further education, and the broader learning and skills sector. Over £12bn of additional expenditure has been allocated over the next three years. The majority of these resources will be focused on raising standards and improving infrastructure. Our services are designed to offer additional capacity and specialist consultancy or technical skills.

The Building Schools for the Future initiative is one of the country's largest ever investment programmes in education. It envisages the rebuilding or renovating of every school in England over the next 15 years and offers the private sector the opportunity to engage in large-scale and long-term partnerships with local education authorities. Our integrated capacity, offering a deep and wide knowledge base across education consultancy, IT and property services, means that we are now viewed by the Department for Education and Skills (DfES) and other customers as one of the major providers in this sector. We are currently on four of seven DfES framework agreements for this programme.

We are also actively involved with the academies initiative. Our property division, working in association with our education division, is an approved supplier of overall project management, construction project management and design services. With the planned construction of over 200 academies by 2010, we look forward to making a significant contribution.

The further education sector is also undergoing a transformation through a combination of increased investment and fundamental reform. Both the Foster Review and the Learning and Skills Council 'Agenda for Change' will present new opportunities for our consultancy businesses.

The focus on standards and efficiency has established a climate in which our consultancy, inspection and benchmarking services can thrive. We are now the largest provider of Ofsted inspection services in England and the market leader for benchmarking in the post-16 and adult learning sector.

Review of our markets *(continued)*

There are clear signs that the Government intends to increase the role and involvement of the private sector in the direct provision of educational services. The academies initiative gives an indication of this but much wider involvement in the management of schools and colleges is likely to be encouraged. Our three year contract with Swindon Borough Council to manage its education service has led to a greatly improved Ofsted re-inspection rating and is one very successful example of how our educational expertise could be used more widely.

The focus on lifelong and personalised learning continues to present a range of opportunities for our e-learning and technology businesses. The Department for Education and Skills' £4bn 'Skills for Life' programme – basic literacy, numeracy and language – continues to be a central component of the Government's national skills strategy. We have market leadership in this area.

Department for Education and Skills Following on from the success of our school improvement programme, 'Pupils' Champions!', in the London Boroughs of Greenwich and Richmond, we have been awarded a £2.1m contract by the Department for Education and Skills to work with selected schools to raise the attainment standards of pupils in years 6, 9 and 11. 'Pupils' Champions!' combines specialist teaching, academic mentoring and revision programmes. We now have over 120 consultants working on the project.

Ofsted We have been awarded two four year Ofsted contracts to inspect schools in two English regions, the south-west and the West Midlands, representing a third of the overall total. Tribal has been providing inspection services for Ofsted since 1996 and is now the largest of the five providers in England.

Sector Skills Councils We are working with ten of the new Sector Skills Councils, the DfES and four Learning and Skills Council regions to target potential learners in key regional employment sectors. Our innovative range of resources, over 50 products in all including text messaging tests, mobile phone games and scratchcards, are designed to help employees improve their literacy and numeracy skills.

learnirect In April 2004, we were selected as a regional 'hub operator' for learnirect. The £9.2m contract covers Dorset, Somerset, Devon and Cornwall, an area in which 14,000 learners are enrolled at over 50 centres. learnirect is the largest e-learning service in the world and Tribal has been supporting its development over a number of years.

Leicester Academy: The Samworth Enterprise Academy will offer a 'through-school' education to 3-16 year olds, a specialist curriculum and state-of-the-art facilities and building design. As project managers, we will be offering our combined property and educational expertise, and working closely with the DfES and co-sponsors, David Samworth and the Church of England Diocese of Leicester, to drive the concept forward. We are also acting as overall project manager on academies in Bristol, Reading, Westminster and Southwark and as construction project manager in Hackney.

Local government

The highest level of fee income recorded for consulting services in the public sector during 2004 was from local government, ahead of both health and central government*. Change management, turnaround programmes and the implementation of the Gershon Efficiency Review all remain key drivers.

We have been supporting local government for 20 years and work with over 75 per cent of local authorities to provide additional capacity and technical skills across a range of disciplines including social services, housing, environmental services, leisure, regeneration, libraries and corporate services.

Service re-design has been prompted by a number of policy reviews, the need for substantial efficiency savings, the Comprehensive Performance Assessment (CPA) inspection regime, and legislation such as the recent Children Act, stipulating the need for increased joint-departmental working. These developments all present continuing opportunities for our consulting and resourcing businesses.

The local authority sector spends in excess of £120m on recruitment advertising and executive search and selection per annum. As the largest resourcing consultancy in local government, we will continue to extend our market presence.

Review of our markets *(continued)*

Compliance with the Freedom of Information Act and the requirement to achieve electronic delivery of an increasing number of services are growth areas for our technology division. Our management systems are used in 170 local authorities, and we are working closely with many councils to support the transition to integrated children's services departments by providing ICT solutions for information sharing and management planning.

*The UK Consulting Industry: MCA 2005

Hertfordshire County Council The £10m five year contract to provide advertising recruitment services was won in partnership with Manpower. The council employs over 18,000 staff and the contract covers all staff vacancies from cleaners to senior executives. In the first year of the contract, we have launched the highly successful and award-winning 'Hertfordshire Heroes' campaign, the aim of which was to present careers in social care more positively in order to attract a wider selection of candidates.

City and County of Swansea We undertook an HR and organisational review on behalf of the authority, culminating in the development of a future strategy, and supported its implementation. "This was a critical piece of work for the authority" said its assistant chief executive, "Swansea's HR service now has a clear strategic direction and is well placed to meet the challenging agenda ahead. The involvement of Tribal Resourcing was invaluable."

Association of London Government We have been appointed by the Association of London Government (ALG) to carry out a best value review of its communications and public affairs division. The results of the review will assist the ALG to set priorities for the division and ensure that it is properly equipped to communicate successfully on behalf of 33 London boroughs and other partners.

Housing and regeneration

Housing remains high on the political agenda. We are the UK's leading specialist consultancy for local authority housing departments, social housing organisations and regeneration partnerships. Rationalisation of stock and the transfer of homes from local authority ownership to registered social landlords continues. We are providing advice to the many UK local authorities involved in stock transfers, regeneration and asset management initiatives.

The Government's Sustainable Communities Plan sets out a blueprint to create regenerated communities and deliver neighbourhood renewal. In response to the government regeneration agenda, we have set up Tribal Urban Futures to bring together our expertise in this area. We are already managing over 20 regeneration programmes funded by the single regeneration budget, working with a third of all the New Deal for Communities programmes across the country, and supporting the development of local strategic partnerships in the London boroughs of Newham and Lambeth.

We have market leadership in the area of interim management and recruitment of housing and regeneration staff. Our consultancy specialising in identifying and securing UK and European funding opportunities for economic and community regeneration projects is well-established.

City of Edinburgh Council We have been appointed as lead consultants for Edinburgh's ambitious community ownership project 'Better Homes for Edinburgh'. The initiative will generate a total of around £2bn of public and private investment for the city's affordable housing stock over the next ten years. It is the largest and most complex stock transfer and regeneration project in Scotland.

English Partnerships We have recently been selected to join the consultancy panel for English Partnerships, the Government's national regeneration agency. We have also now secured the first contract procured through the panel arrangement, consultancy support to the 'First Time Buyers Initiative' (FTBI), which aims to remove barriers to home ownership and increase the supply of affordable homes.

Review of our markets *(continued)*

Central government

Central government remains under increasing pressure to re-engineer services and release funding to frontline delivery. E-government, joined-up services and the planning of large-scale IT projects, many of which are still in the pipeline with implementation cycles of several years, represent a major challenge for key government departments. Policy reviews will continue to trigger a shake-up of services. The Gershon Efficiency Review and the Lyons Review have set challenging targets for service transformation. Both will continue to generate substantial opportunities for our consultancy, IT and HR businesses.

We work with all of the key spending departments and national agencies to support service modernisation and cross-departmental programmes. We provide a range of information and IT services within central government, and as an *accredited member of the S-Cat framework (the government-sponsored list of preferred suppliers)*, our services are easy to procure and quality assured. Our consultants are being used to help develop, implement and measure the success of policy initiatives, as well as to provide additional capacity where in-house shortages exist.

Our communications division is an acknowledged specialist in central government public information and PR campaigns, and is currently involved in a number of high profile contracts for the Department for Education and Skills, the Department for Work and Pensions and the Foreign and Commonwealth Office. PR and communications is a growth area for the public sector.

Department for Education and Skills and the Royal Bank of Scotland Group We are delivering a four year communications campaign for the Department for Education and Skills Aimhigher programme, providing information to young people aged 13-18 on the benefits of higher education, with a particular emphasis on reaching people from communities and backgrounds with no history of going on to university. Our roadshows visit 3,000 young people in England every week, and take place on state-of-the-art mobile trailers, with an informative and fast-paced presentation. Evaluation has shown this method is highly effective, shifting attitudes towards higher education by 64 per cent.

Ministry of Defence (MoD) We are currently delivering resource and performance management training to senior military staff and civil servants across the MoD. The training programme, based around classroom teaching with online support, will be delivered over the next five years in association with Henley Management College. Resource management courses are also being run at the Home Office for both financial and non-financial managers.

Home Office We are working with the Home Office's Immigration and Naturalisation Directorate on a major data management initiative. The assignment involves building a corporate file plan and introducing best practice electronic records management (ERM) throughout the directorate.

Private sector

Outsourcing of non-core activities continues to be the major driver for our private sector work, particularly in business processing and information and data management.

Organisations are increasingly looking for expert providers to take over the running of their records and information management services in order to improve performance and efficiency. Our library and information management business is well established and we provide on-site and outsourced solutions to companies across a range of industries including the energy, construction, leisure, automotive and transport sectors. We also provide these clients and other public and private sector organisations with both interim and permanent staff through our recruitment consultancy service.

Review of our markets *(continued)*

Our private sector resourcing portfolio, both in executive search and recruitment advertising, is expanding. Based on a strong track-record across the public sector, we are securing and retaining work from a range of private sector organisations, including Securicor and TNT. We are also finding our public sector expertise is helping us secure private to public sector recruitment assignments.

We design and support management information and learner tracking systems for over 300 work-based learning providers and corporate in-house training departments.

We have a strong private sector client base for our property advice, particularly in surveying and town planning, where we have long-term relationships with a wide range of commercial clients including Woolworths, Halfords, Dixons Stores Group, Canada Life, Royal London and Center Parcs.

We also deliver asset management solutions for major property and construction companies, ranging from consultants and third party building and facilities management contractors to those managing their assets in-house.

Total In December 2004, we were selected as information management partner to French oil company, Total, in a contract worth £4m over five years. We will be responsible for ensuring that the company meets its objective of delivering an integrated information management service from its Aberdeen headquarters.

Securicor We have been Securicor's executive search recruitment partner since 2003 and in the last year have helped the company recruit ten directors for its operations throughout Europe.

Center Parcs We have been advising Center Parcs on the planning and development of its Forest Holiday Villages since 1990. As town planners with a reputation for both sensitive and complex planning applications, we are currently advising the company on its £165m planned development of its fifth Forest Holiday Village on Bedford Estate land in Bedfordshire.

Corporate responsibility

Our CR framework

This year, we set up a corporate responsibility (CR) working party in order to establish a CR framework. This will form a baseline against which we will measure our performance in a number of areas.

The framework is required to be compatible with the overall corporate strategy of the Group. The working party will present its preliminary conclusions to the executive board by the end of 2005 and will report on the progress of the framework in next year's annual report.

Our baseline framework contains a number of principles which encapsulate our own approach to CR and cover all the key material issues for the Group. The working party agreed the framework should cover six areas: customers, staff, the community, the environment, shareholders and suppliers. We have already made significant progress in a number of these areas, and some parts of the Group are well advanced in terms of best practice.

The FTSE4Good Index

The FTSE4Good Index was established in 2001 as a tool for socially responsible investors (SRI) to identify companies that meet globally recognised corporate responsibility standards. For inclusion, eligible companies must meet stringent criteria in three areas:

- working towards environmental sustainability;
- developing positive relationships with stakeholders;
- upholding and supporting universal human rights.

Tribal has been included in the FTSE4Good Index for the third consecutive year.

Tribal Group Foundation

The Tribal Group Foundation was registered as a charity in August 2003. Its charitable objectives are to advance health, both physical and mental, and education and training, both in the UK and the developing world. In the last financial year, our principal donation, funding of £40,000, has been given to our nominated charity, Skillshare International. This successful partnership will be continued during 2005/06. In order to raise additional funds for the Foundation, a payroll-giving scheme will be launched by the end of 2005. This will give staff the opportunity to make tax-efficient donations either to the Foundation's nominated charity or to any other charities of their choice.

Skillshare International

Skillshare International has been supporting skills development programmes in Africa and Asia since the end of the First World War. Its projects are always determined by locally identified needs and are run and managed by local people in partnership with skilled overseas volunteers. The majority of funding for these programmes is supplied by the Department for International Development in the UK and the European Commission. Tribal is currently supporting two projects, one in South Africa and the other in southern India.

The first provides basic skills education for adults with disabilities in the region of KwaZulu-Natal, which has the highest number of people with physical disabilities in South Africa. Many of these people have received no schooling and have encountered many barriers to work and training. A key objective of the project is to change attitudes as well as develop skills and sustainable employment.

The second project supports community health initiatives in four states in Southern India. These programmes have had a vast impact since they began in 1998. In one project, three Skillshare International volunteers have provided community health training to over 200 individuals in 203 villages. During this period, infant and maternal mortality have been dramatically reduced. In another similar project, 99 per cent immunisation against malaria has been achieved.

As a result of our sponsorship of these projects, substantial matched funding has been secured from the European Commission.

Financial review

This financial review analyses the performance of Tribal Group in the financial year ended 31 March 2005. It also explains other aspects of the Group's results and operations, including our financial objectives and risk management.

Group trading summary

	2005 £'000	2004 £'000	Change %
Turnover (gross earnings)	229,470	185,744	+23.5
Gross revenue	179,857	152,221	+18.2
Operating profit	4,239	8,398	
Goodwill amortisation and impairment	16,636	10,690	
Employee benefit trust (credit)/costs	(244)	1,025	
Exceptional items	1,747	3,040	
Adjusted underlying EBITA	22,378	23,153	-3.3
Net interest	(4,451)	(3,076)	+44.7
Adjusted underlying profit before tax	17,927	20,077	-10.7
Adjusted underlying effective tax rate*	30.0%	30.8%	
Adjusted underlying earnings per share*	15.6p	20.5p	-23.9

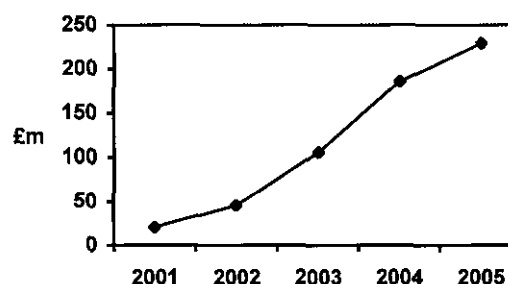
* Before goodwill amortisation, employee benefit trust costs and exceptional items (see notes 6 and 10).

Tribal Group has seven divisional businesses and the segmental analysis is shown below.

Division	Gross revenue		Adjusted underlying EBITA	
	2005 £'000	2004 £'000	2005 £'000	2004 £'000
Communications	9,958	6,921	2,382	1,741
Consulting	55,238	42,130	6,669	7,121
Education	36,317	35,884	5,784	6,634
Property	21,331	18,443	2,658	2,819
Resourcing	24,684	20,909	5,252	5,406
Technology	34,391	30,457	5,145	4,308
Mercury Health	349	7	(343)	-
Central and bid costs	-	-	(5,169)	(4,876)
Inter segment sales	(2,411)	(2,530)	-	-
Total	179,857	152,221	22,378	23,153

The operating performance of each division is discussed in the Chief Executive's statement.

Group sales performance



Our compound sales growth over the last four years has been 190 per cent.

Financial objectives

We have now completed our restructuring into six trading divisions plus Mercury Health and strengthened management and financial controls.

Looking forward we will focus on organic growth, strong cash generation, maintaining high margins, earnings growth and return on capital.

Group performance

Group turnover increased by 24 per cent to £229.5m (2004: £185.7m). Turnover from continuing operations increased by 19 per cent to £221.0m (2004: £185.7m).

Our primary measure of sales is gross revenue (net of pass through agency costs relating to recruitment advertising costs). Gross revenue increased by 18 per cent to £179.9m (2004: £152.2m).

Gross revenue for businesses owned on a like-for-like basis for two or more years grew by 5.0 per cent.

Adjusted underlying EBITA decreased by 3.3 per cent to £22.4m (2004: £23.2m) due to the significant level of organisational change. This restructuring added cost to the Group split between redundancy costs of £0.7m and investment costs of £2.0m (including £0.4m of operating costs to set-up Mercury Health). This impacted the overall Group operating margins which reduced from 15.2 per cent to 12.4 per cent.

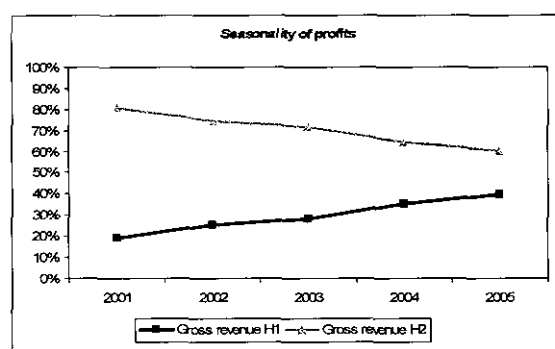
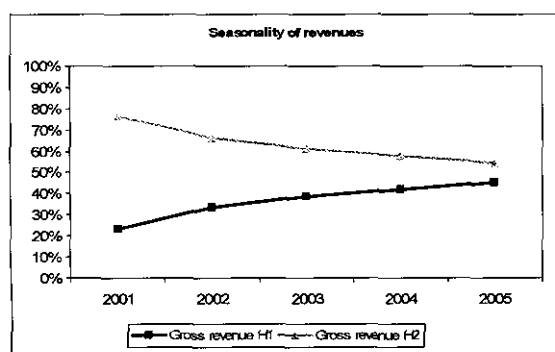
Financial review (continued)

The goodwill amortisation charge increased from £10.7m to £16.6m due to the four acquisitions made in the year plus an impairment write down of £5.2m relating to a review of the carrying value of certain assets.

The exceptional items of £1.7m (2004: £3.0m) mainly relate to bid costs on the NHS Independent Sector Treatment (ISTC) contract which was awarded in December 2004. The Group consistently applies UITF 34 'Pre-Contract Costs' and only capitalises bid costs from the point at which it becomes virtually certain that costs will be recovered. At 31 March 2005 capitalised costs for the ISTC contract were £7.6m.

Seasonality The Group trading continues to be seasonally weighted towards the second half of the year.

The graphs below demonstrate our seasonality.



We expect our profit seasonality to be more pronounced in 2005/06 due to Mercury Health's ISTC contract start date, anticipated bid costs for the Wave 2 programme, investment in headcount in H1 and a higher interest cost due to the increase in Group debt.

Group interest and tax Net interest payable for the year increased by 45 per cent to £4.5m (2004: £3.1m) reflecting the increase in the Group's net debt position. We invested £7.7m into Mercury Health to fund the implementation and mobilisation of the ISTC contract.

Tax on operating profit before goodwill amortisation, EBT costs and exceptional items has been charged at an effective tax rate of 30.0 per cent (2004: 30.8 per cent). The charge for the current year prudently assumes no tax relief on the ISTC contract whereas we intend to build this business into a major healthcare delivery partner to the NHS with multiple contracts.

The loss on ordinary activities after taxation was £5.6m (2004: loss of £0.9m).

Shareholder returns and dividends Underlying adjusted diluted earnings per share (excluding goodwill, EBT costs and exceptional items) decreased by 24 per cent to 15.6p (2004: 20.5p) due to the decline in profitability and the rise in diluted weighted average number of shares by 17 per cent to 78.5m (2004: 67.2m).

The Board has proposed a final dividend of 2p (2004: 2p) giving a total dividend for the year of 3p (2004: 3p). Our dividend is covered 5.2 times by adjusted earnings per share.

Shareholders' funds, before minority interests, decreased by £6.6m. This was due to the higher goodwill amortisation and impairment charge. As a result, our return on shareholder funds, based on adjusted PBT was 12.0 per cent (2004: 12.9 per cent).

Acquisitions and start-ups We made four acquisitions during the year for a combined initial consideration of £16.0m, of which £1.1m was satisfied by debt. Further consideration of up to £5.9m is payable to the vendors based on future profit growth.

The combined acquisitions contributed £8.4m to gross revenue and £2.3m to EBITA.

We also started up a number of new businesses which delivered break-even profits for the year but we expect a positive contribution in 2005/06.

Financial review (continued)

Outstanding deferred consideration

The estimated deferred consideration payable as at 31 March 2005 was £16.5m payable in shares and £1.6m in loan notes / cash.

During Q1 of 2005/06 the Group is accelerating certain earn outs and acquiring minority share interests to limit further dilution and to accelerate divisional integration. The cost of £8.4m is included in the total below of £21.8m.

Following these transactions the estimated deferred consideration payable is as follows:

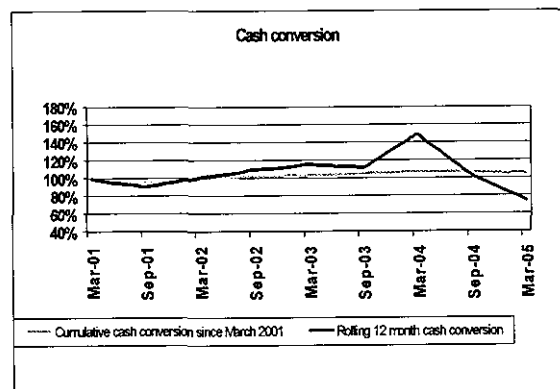
	2005/06 £'000	2006/07 £'000	Total £'000
Shares	9,800	6,600	16,400
Loan notes/cash	4,500	900	5,400
Total	14,300	7,500	21,800

Of the £16.4m shares to be issued, £8.7m are included in the weighted average number of diluted shares as part of the adjusted diluted EPS for 2004/05 (see note 10). All current earn outs will be determined by 31 March 2007 leaving a small number of minority interests in start-up companies.

Cash management After a disappointing H1 cash conversion of just 24 per cent, due to the unwinding of our exceptional 2003/04 performance, cash conversion for the full year, before the Mercury Health investment, was 78 per cent (2004: 148 per cent).

Cumulative cash conversion over the four years to March 2005 was 105 per cent (2004: 107 per cent).

The graph below illustrates the rolling 12 month cash conversion and the cumulative cash conversion.



Free cash flow defined as operating cash flow less interest and taxation was £2.9m (2004: £19.9m). Capital expenditure in the year was £3.1m (2004: £3.4m) for the core group and a net £2.7m invested in Mercury Health.

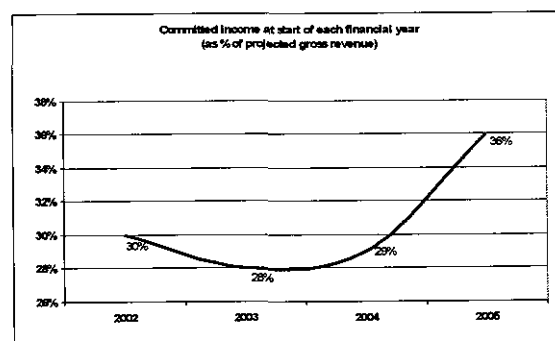
Group net debt increased from £37.9m to £53.0m after investing £7.7m in Mercury Health (including bid costs) and £7.9m for acquisitions. We have ring-fenced a further £10.0m from our cash and bank facilities to invest into the ISTC contract. After allowing for contingent deferred consideration of £1.2m, the Group has only used 51 per cent of available facilities.

A new non-recourse (outside of Group bank covenants) senior debt facility of £33.5m has been secured from our bank syndicate to fund the construction of the treatment facilities as part of the ISTC contract. Funds will be drawn down over the next two financial years. This debt will be fully consolidated on to the Group's balance sheet.

Our gearing at 31 March 2005 was 35 per cent (2004: 24 per cent).

Post-tax return on capital employed decreased to 12.3 per cent from 15.0 per cent last year. This compares to our weighted average cost of capital of 8.7 per cent.

The forward order book of the Group as at 31 March has increased by 261 per cent to £339m compared to £94m at the start of last year. Mercury Health's ISTC contract accounts for £214m of this total.



Financial risks and treasury management The main financial risks faced by the Group relate to the availability of funds to meet business needs, credit risk arising from customer defaults and fluctuations in interest rates.

These risks are managed as described below.

Financial review *(continued)*

Funding The Group finances its operations by a combination of cash reserves from retained profits, bank borrowings and leases. Our policy is to maintain sufficient headroom in undrawn committed bank facilities and banking covenants. The Group is funded by a £100m revolving credit facility until 29 May 2007 and a working capital facility of £6m, with four major UK banks.

Treasury management is led by Group Finance and operates within policies and procedures approved and reviewed by the Board.

Credit risk The objective is to reduce the risk of bad debts arising from non-payment from our customers. This risk is tightly managed across the Group led by the Group finance team. We incurred no material bad debts during the year due to the strong relationships with our customers. Debtor days outstanding was 46 days (2004: 45 days) and our age profile of older debts significantly improved.

Interest rate risk The Group's policy is to minimise interest charges. Forward rate agreements and interest rate swaps are used to achieve the desired mix of fixed and floating rate debt. At the year end £40m, 75 per cent of net debt, was at a fixed rate as detailed in note 29. The balance of our net debt is in floating rate form.

The non-recourse Mercury Health facility of £33.5m is fully hedged over the term.

The average rate of interest paid during the year was 6.4 per cent (2004: 5.3 per cent).

International Financial Reporting Standards ('IFRS') All European Union listed companies are required to prepare their consolidated financial statements in accordance with IFRS for accounting periods beginning on or after 1 January 2005. The Group will therefore adopt IFRS for the first time for the financial year ending 31 March 2006 and the first set of accounts under IFRS will be our interim results for the half year to 30 September 2005.

A project team has been working with Deloitte & Touche LLP performing a high level review of the difference between IFRS and our current accounting practices, and we are now quantifying the financial impacts of convergence with IFRS. We are also looking at the wider implementation aspects, including how we will communicate the changes resulting from IFRS.

Based on our work to date, the major areas of impact on the net profit and shareholders' funds are expected to be due to differences in accounting for share-based payments, business combinations, pensions, deferred tax and goodwill amortisation. The presentation of our financial statements and note disclosures will also be affected.

Other information Additional financial and non-financial information, including press releases and year end presentations can be accessed on our website, www.tribalgroup.co.uk.

Simon M Lawton
Group Finance Director
21 June 2005

Board of directors

P Strone S Macpherson (aged 56) - Non-Executive Chairman

Strone Macpherson was appointed as an independent non-executive chairman of Tribal Group in March 2004. He was formerly executive deputy chairman of Misys plc which he joined in 1989 after 15 years at Flemings. He is currently a non-executive director of Axa UK plc and Close Brothers Group plc, and a member of the Investment Committee and of the General Council of the King's Fund.

Henry J Pitman (aged 42) - Chief Executive

Henry Pitman founded Tribal Group in September 1999. He was formerly managing director of JHP Group Limited, a UK vocational training and business services company, which he joined in 1995. Prior to this, he worked for the Property Corporation of South Africa from 1990 to 1995.

Simon M Lawton FCA (aged 44) - Group Finance Director

Simon Lawton joined Tribal Group in March 2000. He was formerly director of finance at Securicor Electronics Limited, a subsidiary of Securicor Group plc, and before that, finance director of Dawes Group Limited. Simon originally qualified at KPMG where he became a senior manager in audit and advisory services.

Peter J Martin (aged 47) – Executive Director - Chief Executive of Mercury Health

Peter Martin joined Tribal Group in June 2001 as corporate development director. He became chief executive of Mercury Health in April 2004. Peter was formerly a founding partner of corporate finance firm, Anvil Partners, and prior to that a director of the corporate finance division of Kleinwort Benson Limited.

Other Non-Executive Directors

David G F Thompson (aged 50)

David Thompson joined Tribal Group in March 2004 and is chairman of the Audit Committee. He is chairman of The Wolverhampton & Dudley Breweries plc which he joined in 1977, chairman of The Income and Growth Trust plc, and a non-executive director of Caledonia Investments plc and JPMorgan Fleming Smaller Companies Investment Trust plc.

Timothy E P Stevenson OBE (aged 57)

Tim Stevenson joined Tribal Group as a non-executive director in May 2004 and is chairman of the Remuneration Committee and senior independent director. Tim worked for Burmah Castrol Group plc from 1975 until 2000, latterly as group chief executive. He is currently chairman of Travis Perkins plc and a director of National Express Group. He was formerly a director of the DfES and Partnerships UK plc.

Sheila M Forbes CBE (aged 58)

Sheila Forbes joined Tribal Group in May 2004 as a non-executive director. Since 1996, she has held a number of non-executive positions including Lloyds TSB Group plc and the British Library, having previously served as group personnel director at Storehouse plc and then director of human resources at Reed Elsevier plc.

Directors' report

The directors have pleasure in presenting their annual report on the affairs of the Group, together with audited consolidated financial statements and independent auditors' report for the year ended 31 March 2005.

Principal activities

Tribal Group plc is a holding company with a number of trading subsidiaries.

The principal activities of the Group are the provision of a broad range of consultancy and professional support services. The majority of our customers are in the UK public sector, predominantly within education, health and social care, local government housing and regeneration, and central government. We work with 80 per cent of secondary schools; 50 per cent of local education authorities; 75 per cent of local authorities; 90 per cent of further education colleges and 75 per cent of NHS trusts.

Our services are delivered in the areas of management consulting, technology, resourcing, property, education and communications. We also have a healthcare delivery business.

Business review

A detailed review of the Group's performance and likely future developments is provided within the Chief Executive's statement.

Results

The results of the Group are shown on page 44 and show a decrease of 3 per cent in group operating profit before goodwill amortisation, employee benefit trust costs and exceptional items from £23.2m to £22.4m. Group profit before tax has decreased from £5.3m to a loss of £0.2m and the adjusted diluted earnings per share has decreased by 24 per cent to 15.6p (note 10).

Proposed dividend

The directors recommend a final dividend of 2.0p per share which, together with the interim dividend of 1.0p paid on 14 January 2005, makes a total of 3.0p for the year (2004: 3.0p).

The final dividend will be paid on 14 October 2005 to shareholders on the register on 23 September 2005.

Research and development

The Group continues to invest in research and development. This has resulted in a number of new products being launched recently which are expected to contribute to the growth of the business.

Employment policies

We are a people business. We seek to attract, develop and retain high calibre staff – and, as a consequence, our customers can be assured that the service they receive is among the best available.

We have exceptionally talented individuals amongst our middle and senior management teams, many of whom are leading figures in their specialist areas.

It is our policy to provide an environment in which individual talents can excel. The directors encourage employee involvement with wide share ownership and participation in share option schemes.

Tribal Group are committed to positive and proactive communications with our employees, we have embraced the Information and Consultation Rights directive and introduced elected Staff Forums which are being rolled out across the business.

Employees are kept informed of the performance of the Group and all matters affecting them as employees by means of regular briefings, the Group's internal magazine published three times per year and the in-house managed Group intranet and internet web sites.

We have a counselling service in place for our staff to ensure they have access to a support network outside the business and we are currently reviewing our whole Employee Assistance Programme to ensure it is delivering a valuable service to our staff across a range of areas.

We are introducing a Group wide induction programme which will bring together all new starters across the divisions to foster their knowledge of the Group, its values and strategy and to create effective networks within our business to maximise our capability to deliver enhanced services.

Directors' report (continued)

The Group is an equal opportunities employer and bases all decisions on individual ability regardless of race, religion, gender, sexual orientation, age or disability.

Applications for employment by disabled persons will always be fully considered, having regard to their particular aptitudes and abilities. Should any employee become disabled, every practical effort is made to provide continued employment. 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.

Supplier payment policy

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 43 days (2004: 45 days).

Substantial shareholdings

As at 17 June 2005, 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	%
Caledonia Investments plc	5,061,232	6.72
Mirabaud Investment Management Limited	3,876,829	5.14

Special business at the Annual General Meeting

A separate document accompanying the Annual Report and Accounts 2005 contains the notice convening the Annual General Meeting and an explanation of the special business to be conducted at that meeting.

Environmental

The Group is committed to ensuring its operations have a minimal environmental impact and to the maintenance of continual assessments and awareness of its environmental responsibilities.

A number of initiatives and projects are currently in progress, including waste minimisation, reuse and recycling of products wherever practicable, energy efficiency and conservation.

The Group has a clearly documented policy that is promoted throughout the organisation and regularly reviewed.

Health and safety

The Group is conscious of the importance of providing a safe working environment for both its employees and its customers and to comply with current legislation. Each company in the Group has a health and safety representative who is regularly trained and provides basic induction training to new staff on health and safety issues. The Group has comprehensive health and safety policies, procedures and documentation that are regularly reviewed and updated in line with statutory obligations.

Political and charitable contributions

The Group remains committed to support local development, community, education, training and health that relate to the Group's activities. The Group made charitable donations during the year of £44,160 (2004: £35,866). There were no political contributions.

The Group has established a registered charity called The Tribal Group Foundation which received £30,000 of the above donation. The objectives and charitable purpose have been determined in consultation with employees, and include promoting sustainable development overseas by sharing and developing skills and encouraging organisational best practice, plus supporting any specific charitable activities in which our employees are involved.

Directors' report *(continued)*

Auditors

A resolution for the re-appointment of Deloitte & Touche LLP as auditors of the Company is to be proposed at the forthcoming Annual General Meeting.

On behalf of the Board



Richard H Collins
Company Secretary
21 June 2005

165 Queen Victoria Street
London
EC4V 4DD
Registered number 4128850

Corporate governance

Introduction

Tribal Group plc is committed to achieving high standards of corporate governance, integrity and business ethics. The Group supports the Principles of Good Corporate Governance and Code of Best Practice appended to the Listing Rules of the Financial Services Authority (the 'Combined Code'). In July 2003 the Financial Reporting Council published the 'FRC 2003 Combined Code', which has been applicable to the Group in the year under review.

The remainder of this report sets out how the Group applied the FRC 2003 Combined Code during the year.

Compliance with the Code of Best Practice

The Group has complied throughout the year with the Code provisions set out in Section 1 of the FRC 2003 Combined Code on Corporate Governance with the exception of provision B2.3: the aggregate remuneration of non-executive directors has exceeded the limit in the Company's Articles of Association. A resolution to increase this limit is to be proposed at the 2005 Annual General Meeting.

Board of Directors

The Board currently comprises seven directors: Sheila Forbes, Simon Lawton, Strone Macpherson (non-executive Chairman), Peter Martin, Henry Pitman, Tim Stevenson and David Thompson. Excluding the chairman, the Board comprises three non-executive and three executive directors. In the year under review Dominic Collins resigned as a non-executive director and Tim Stevenson agreed to act in his place as Senior Independent Director. Miles Hunt retired as a non-executive director at the 2004 Annual General Meeting. The terms and conditions of non-executive directors are available for inspection on request from the company secretary. The directors' profiles are set out on page 26.

The Board believes that all the non-executive directors are independent. David Thompson is also an independent non-executive director of Caledonia Investments plc, which has become a significant shareholder in the Group. This connection between the Group and one of its current shareholders does not affect the director's objectivity, particularly as he is independent of executive decision-making processes at both companies. All of the non-executive directors bring a wide range of experience to the Board including building large and mid-cap public company businesses, hands-on operational CVs, strategy and human resources. The Chairman has other significant time commitments, as indicated in his profile. These have not changed materially during the year and they do not affect his ability to devote sufficient time to the Company's activities. The senior independent non-executive director is Tim Stevenson, who is also Chairman of the Remuneration Committee. David Thompson is Chairman of the Audit Committee and has the relevant experience to chair this Committee as required by the Combined Code. The non-executive directors and Chairman are initially appointed for a three-year term.

The Board exercises full and effective control over the Group. The Board maintains a formal schedule of matters reserved for the Board's decision, and its responsibilities include strategy and management of performance, acquisitions, capital expenditure and 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. Executive members of the Board meet formally with divisional and 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.

A procedure exists for the Board of directors, in the furtherance of their duties, to take independent professional advice if necessary, at the Company's expense. All directors have access to the advice and services of the company secretary who is responsible to the Board for ensuring agreed procedures, rules and regulations are observed. Richard Collins, an experienced public company secretary and a qualified solicitor, was appointed in November 2004.

On appointment, and throughout their tenure, directors receive appropriate training.

The roles of the Chairman and chief executive are separate and clearly defined.

Information is provided to the Board on a timely basis. In advance of each board meeting, directors receive a board pack including detailed monthly management accounts, proposed acquisitions, a corporate governance update and major capital expenditure requests.

Corporate governance *(continued)*

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 has a service contract greater than 12 months.

During the year under review a performance evaluation of the Board, its committees and its individual directors was conducted, by means of a combination of written and oral processes, under the control of the Chairman and facilitated by the company secretary. The Senior Independent Director, with input from the other directors, evaluated the Chairman's performance.

Board committees

The Board has established three committees to deal with matters in accordance with written terms of reference. They are an Audit Committee, a Nomination Committee and a Remuneration Committee. The chairmen of the Board committees will be available to answer questions at the Annual General Meeting.

Audit Committee

The Audit Committee meets at least twice each year. The Committee is chaired by David Thompson. Current members comprise Sheila Forbes and Tim Stevenson. The Group finance director also attends all meetings. The Committee monitors the effectiveness of internal financial controls and considers matters relating to accounting, financial reporting, accounting policies, business risks and the external audit. To do this, it receives and considers written and oral reports from company officers, the Group finance director and the auditors. Procedures to correct weaknesses identified in these reports are put in place by the Group finance director and reviewed at subsequent meetings. The Audit Committee holds discussions with the auditors without the Group finance director present at least once a year. The Audit Committee considers annually the need for an internal audit function. It currently believes that the Group is not of sufficient size or complexity to obtain value from such a function at this stage. In order to safeguard auditor objectivity and independence, the Committee keeps these matters under review and also reviews the cost effectiveness of the external auditors and the nature of the non-audit services provided by them.

Nomination Committee

The Nomination Committee is chaired by Strone Macpherson and current members comprise Sheila Forbes, Henry Pitman, Tim Stevenson and David Thompson. The Committee deals with appointments to the Board, monitors potential conflicts of interest and reviews annually the independence of the non-executive directors. The Committee is responsible for proposing candidates for appointment to the Board having regard to the balance and structure of the Board. Suitable candidates for non-executive roles have in the past been identified by use of external recruitment consultancies, and the Committee would expect to use a similar process in the future.

Remuneration Committee

The Remuneration Committee is chaired by Tim Stevenson and current members comprise Sheila Forbes and David Thompson.

The Committee meets at least twice a year and on behalf of the Board sets the remuneration packages for the directors, including basic salary, bonuses and other compensation payments. The Committee ratifies policy and framework proposals made by executive directors in respect of the remuneration for senior executives within the Group. The Committee also ratifies any share option nominations under the various share option schemes of the Group including any grants to the executive directors.

The Committee is assisted by the company secretary and the Group HR director and the remuneration report is set out on pages 34 to 40.

Corporate governance (continued)

Attendance at Board and Committee meetings

Board/Committee name	Board*	Audit	Nomination	Remuneration	Notes
Number of meetings in year	6	2	2	7	
Number of meetings attended by members:					
Strone Macpherson	6	n/a	2	n/a	Chairman of Board and Nomination Committee
Henry Pitman	6	n/a	2	n/a	Executive Chief Executive
Simon Lawton	6	n/a	n/a	n/a	Executive Group Finance Director
Peter Martin	6	n/a	n/a	n/a	Executive Director/CEO of Mercury Health
Sheila Forbes	5	2	2	7	Non Executive Director Appointed 25 May 2004
Tim Stevenson	5	2	2	7	Non Executive Director, Chairman of Remuneration Committee Appointed 25 May 2004
David Thompson	6	2	2	6	Non Executive Director, Chairman of Audit Committee
Dominic Collins	4	n/a	1	1	Non Executive Director Resigned 24 March 2005
Miles Hunt	2	1	n/a	1	Non Executive Director Resigned 14 September 2004

* Note: excludes unscheduled or purely administrative meetings

Executive Management Board

During the last year the Group established a newly appointed executive management board following the restructuring of the business into six divisions (excluding Mercury Health). The executive management board comprise the executive directors, the divisional chief executives, the Group business development director, the Group HR director and Group company secretary. This board meets every month and has responsibility to set, communicate and monitor the application of policies, procedures and standards in areas including operations, bid activities, finance, legal, commercial and regulatory compliance, human resources and health and safety, information technology and security, property management, corporate social responsibility and the environment. The executive management board met five times last year.

Maintenance of a sound system of internal control

The directors undertake a semi-annual review of the effectiveness of the Group's system of internal controls using a common strategic risk framework.

The Group's assessment includes a review of the major financial and non-financial risks to the business and the corresponding internal controls. The output is continuously reviewed by the executive directors and executive management board to enhance further the internal control and risk management culture of the Group throughout its subsidiaries. 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 and executive management board 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 form a process for identifying, evaluating and managing risks faced by the Group. Such a process has been in place for the year under review and up to the date of approval of the audited financial statements and conforms to the requirements of the Turnbull guidance.

Corporate governance *(continued)*

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 divisional and 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 divisional and operating companies' chief executives and managing directors regularly review their responsibilities and compliance with the Group's policies and procedures. The Group operates a quarterly letter of representation reporting framework for divisional and operating companies' chief executives/managing directors and finance directors/controllers to assess and report on the adequacy of internal financial controls and completeness and accuracy of the management accounts.

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. Budgets and plans are prepared at the individual business unit level and summarised at the divisional and group level. Key operational performance indicators including weekly cash flow forecasts and daily cash balances are continuously monitored by the executive and divisional directors.

Group procedures manual

Responsibility levels are communicated throughout the Group as part of the Group procedures manual, which sets out delegation of authority and authorisation levels and other control procedures, together with accounting and reporting procedures. The manual is updated regularly to take account of new Accounting Standards, performance criteria, operational effectiveness, investment returns and other regulatory requirements. All senior finance professionals are provided with training and guidance to ensure that the current and future needs of the Group are met.

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. Access is available to the Chairman and/or the Senior Independent Director and other non-executive directors if this is required. The full Board is kept informed about shareholder relations and in particular the Senior Independent Director is kept informed of the views of major shareholders. This is done by a combination of reports to the Board on meetings held and feedback to the Board from the Group's financial PR and other advisers. The Group holds briefing meetings 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. These results and all other Stock Exchange announcement 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.

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.

Remuneration report

Introduction

The remuneration report has been prepared in accordance with the Directors' Remuneration Report Regulations 2002. The report also meets the relevant requirements of the Listing Rules of the Financial Services Authority and describes how the Board has applied the Principles of Good Governance relating to directors' remuneration. As required by the Regulations, a resolution to approve the report will be proposed at the Annual General Meeting of the Company at which the financial statements will be approved.

The Regulations require the auditors to report to the Company's members on the 'auditable part' of the remuneration report. The report has therefore been divided into separate sections for audited and unaudited information.

Information not subject to audit

Composition and terms of reference

The Committee is currently comprised of three independent non-executive directors: Sheila Forbes, David Thompson and Tim Stevenson (Chairman). It operates in accordance with written terms of reference, which are determined by the Board and take account of best practice and the requirements of the Combined Code. The terms of reference will be available at the Annual General Meeting.

Advisers to the Remuneration Committee

The Committee commissioned from New Bridge Street Consultants an independent review of executive remuneration and in the light of this the salaries of executive directors for the year under review were adjusted to be in line with median market rates. During the year the Committee has also received advice from New Bridge Street Consultants on the structure of new share scheme and bonus arrangements. The Committee expects to implement changes as a result of this work during the current financial year.

Remuneration policy

The key objective of the Group's policy on executive directors' remuneration is that the overall package should be sufficiently competitive to attract, retain and motivate high quality executives to achieve the Group's business objectives and reward them for enhancing shareholder value.

The package consists of basic salary, benefits, share options, performance related bonuses and pension contributions. In line with the Group's growth strategy, a significant proportion of the package is based on performance and dependent upon the achievement of growth in adjusted diluted earnings per share.

The Group has a range of share incentive plans in place to provide the necessary mechanisms for employees and executive directors to participate in the long term success of the Group.

The Committee believes that the schemes align the interests of key staff with those of shareholders.

Non-executive directors

The fees for non-executive directors are determined by the Board and are reviewed periodically. They do not participate in any bonus scheme, share option scheme, pension scheme or receive any other benefits.

Executive directors

A summary of each element of the executive directors' remuneration is set out below.

Basic salaries and benefits

Basic salaries and benefits are determined by reference to market levels for similar jobs in comparable companies based on independent surveys. Salaries are reviewed annually at the start of each financial year and when an individual changes position or responsibility.

Benefits (normally a car allowance, pension, permanent health cover, private medical insurance and a death in service benefit of four times salary) are set at a comparable level with those granted to executives at a similar level in like companies.

Remuneration report (continued)

Performance related bonuses

Bonus entitlement is a contractual calculation set out in each director's service agreement and is based on the growth in the Group's adjusted diluted earnings per share but, in all cases, subject to the overriding discretion of the Remuneration Committee. The terms are reviewed and determined annually. The threshold earnings per share target is adjusted each year to the audited figure disclosed in note 10. Bonus payments are made if the threshold target is exceeded, subject to a fixed maximum of 75 per cent of individual's basic salary. Bonus payments do not form part of salary for pension purposes.

In addition to any contractual bonus entitlement, the Committee has the discretion to make ad hoc bonus payments, on such terms and subject to such performance or other targets as it sees fit. Typically, an ad hoc bonus payment could be made to reflect exceptional performance.

The Committee is currently reviewing the bonus arrangements for divisional directors and other key employees.

Any bonus payments are detailed in the remuneration report on page 38. In respect of the year under review no contractual bonus payments were made to directors due to the reduction in adjusted diluted earnings per share. The Committee agreed to pay an ad hoc bonus to Peter Martin to reflect the successful winning and implementation by Mercury Health of its independent treatment centre contract.

Executive directors' service contracts

It is Group policy to fix notice periods for executive directors for a period of no more than 12 months. The Committee believes that the entitlement of directors to the security of 12 months notice of termination of employment is in line with practice in many comparable companies.

Copies of each director's service agreement will be available for inspection at the Annual General Meeting.

The Committee aims always to deal fairly with cases of termination, whilst attempting to limit compensation. The service agreements currently do not make allowance for specific amounts of compensation in the event of early termination of contracts in order to enable the Committee to respond appropriately to particular circumstances. The Committee will continue to review the appropriateness of this practice.

Details of service agreements and notice periods are as follows:

Name of director	Effective date of contract	Expiry/retirement date	Notice period for company (months)	Notice period for directors (months)
H J Pitman	08.02.2001	Ongoing	12	12
S M Lawton	08.02.2001	Ongoing	12	12
P J Martin	25.06.2001	Ongoing	12	12

Non-executive directors' contracts

Non-executive directors have a three-month notice period and no compensation or other benefits are payable. Details of their agreements and notice periods are as follows:

Name of director	Effective date of contract	Expiry/retirement date	Notice period for company (months)	Notice period for directors (months)
S M Forbes	25.05.2004	2007 AGM	3	3
P S S Macpherson	10.03.2004	2007 AGM	3	3
T E P Stevenson	25.05.2004	2007 AGM	3	3
D G F Thompson	22.03.2004	2007 AGM	3	3

Current share incentive schemes

The Group currently operates five share incentive schemes: two employee share option schemes ('option schemes'), a long term incentive plan ('LTIP'), an Executive Equity Participation Plan ('EPPP') and a savings related share option scheme ('SAYE'). The executive schemes were established to provide a continuing incentive for executive directors and selected key employees.

Remuneration report (continued)

a) Employee share option 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.

At the discretion of the Committee, grants are normally made under the option schemes on an annual basis. Such grants are subject to scheme limits, and in particular there is a cap of £30,000 on the market value of tax approved options. Both the option schemes contain an Inland Revenue approved and unapproved part.

The exercise of options granted under the option schemes is conditional on the annual growth in adjusted diluted earnings per share exceeding the rise in the retail prices index (RPI) +8 per cent compound over the two-year period from grant. Options commence vesting after the publication of results (interim and finals) at an equal amount (1/24th) over a further two-year period. Options are exercisable in one tranche between four and ten years from the later of the date of grant and the results announcement date.

b) LTIP

The plan was designed to provide an incentive for selected executive directors and senior key employees.

Two changes to the plan were effected in 2003 following approval at that year's Annual General Meeting. The total length of the award period was reduced from five years to four years, and participants are able to acquire free loyalty shares.

Awards from 19 September 2003 under the LTIP will be comprised of two elements:

- i) a nil cost option over ordinary shares, referred to as 'performance shares', which participants will be able to acquire on a fully vested basis at the end of a three-year performance period, subject to satisfying the performance targets.

The performance target is linked to the growth in adjusted diluted earnings per share exceeding the annual growth in the RPI over the three-year period from grant. For awards granted to date, vesting will be on a straight line basis with zero per cent if the annual adjusted diluted earnings per share growth is less than RPI +10 per cent compound, up to 100 per cent if the annual adjusted diluted earnings per share growth is equal to RPI +20 per cent compound or more; and

- ii) a nil cost option over additional ordinary shares, referred to as 'loyalty shares', which participants will be able to acquire at the end of a holding period of one year, subject to remaining in employment.

The number of loyalty shares that can be awarded to any participant will be 25 per cent of the number of performance shares which vest in favour of each participant at the end of the performance period.

The Committee is currently reviewing the suitability of previously used performance targets for future LTIP awards, and is considering making new LTIP awards.

c) Executive Equity Participation Plan

The Group adopted the EEPP at the 2003 Annual General Meeting. Following extensive consultation with our major institutional shareholders and PIRC, the Committee incorporated an underpin Total Shareholder Return ('TSR') threshold as part of the performance targets.

Senior executives are invited by the Committee to contribute investment shares into the EEPP which are held in the Company's existing Employee Share Ownership Trust ('ESOT'). A participant may contribute up to a maximum of 300 per cent of basic salary over a three-year period, subject to an annual limit of 200 per cent of basic salary in any one year.

The Committee matches the participant's investment shares by awarding nil cost options over matching shares. The maximum number of matching shares that can be awarded by the Committee is limited to six times the number of investment shares contributed by a participant.

Remuneration report *(continued)*

Awards of matching shares to participants are subject to two performance targets:

- i) a TSR hurdle test – the Company's TSR performance over a three-year period must exceed the median TSR position of other companies in the FTSE Support Services sector. TSR is defined as the return shareholders would receive if they hold a notional number of shares, and receive dividends on those shares over the three year performance period. It measures growth in the Company's share price together with the value of any dividends paid, assuming the dividends are re-invested into the Company's shares; and
- ii) the level of growth in the adjusted headline diluted earnings per share plus RPI over the three-year period. 0.75 of a matching share for every investment share occurs when the annual growth in adjusted earnings per share exceeds 7.5 per cent compound + RPI over three years. The maximum award of six matching shares occurs when the growth in adjusted earnings per share exceeds 30 per cent compound + RPI over the three year period.

No matching shares are awarded unless the TSR hurdle test has been met.

All participants in the EEPP intend to withdraw their investment shares from the ESOT. If this happens there will be no shares that are subject to the EEPP. As part of a wider review of remuneration and incentivisation arrangements the Committee is reviewing the future role of the EEPP and is considering granting new LTIP awards to each participant within the next six months.

d) SAYE and SIP

The Group's SAYE scheme is open to all employees and full time directors who have been in continuous service for such minimum period as determined by the 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.

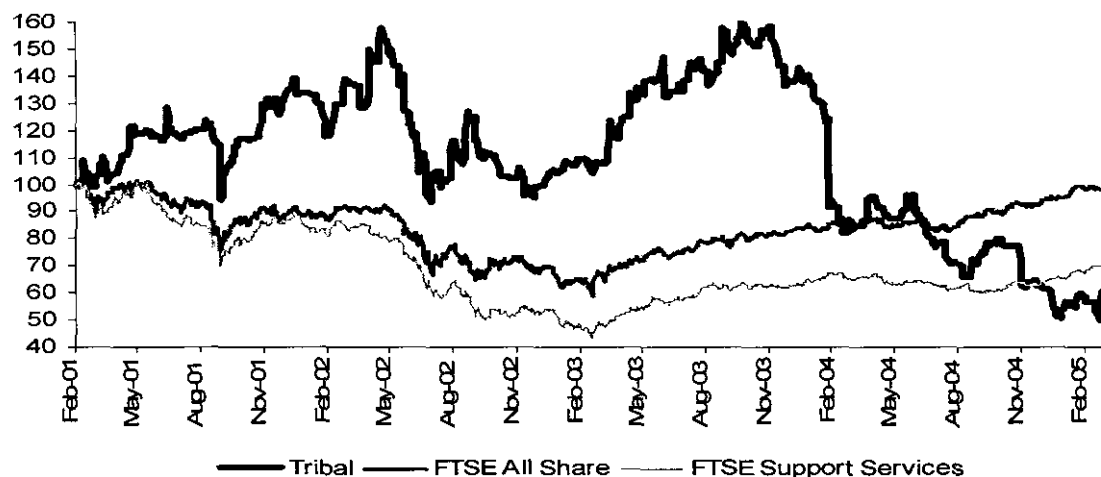
The option price for previous grants has been set at 20 per cent below the market value at the date of grant. However there was no discounted option price for the SAYE contracts entered into in January 2005, and participation had to be scaled back because of pressures on available shares for use by the scheme. In the light of these pressures the Committee has decided that there may be limited future SAYE contracts. During the year the Committee has reviewed the position as regards all employee share schemes and the Company wishes to establish a new all-employee Share Incentive Plan ('SIP'). A resolution to establish a SIP will be put to the 2005 Annual General Meeting.

Remuneration report (continued)

Performance graph

The following graph compares the value of an investment of £100 in Tribal shares with an investment in the FTSE All Share Index and the FTSE Support Services Index over three years since the Group's flotation on 23 February 2001.

The Committee believes that this comparison provides a clear picture of how well the Company has performed relative to both a wide range of companies in the UK and also a specific group of companies in the same sector.



A £100 investment in Tribal shares on 23 February 2001 would be worth £60, compared to £97 for an investment in the FTSE All Share Index or £69 for an investment in the FTSE Support Services Index as at 31 March 2005.

Information subject to audit

Directors' remuneration

The remuneration of individual directors was as follows:

	Salary or fees £'000	Performance related bonus £'000	Benefits £'000	Pension costs £'000	2005 Total £'000	2004 Total £'000
Chairman						
P S S Macpherson	100	-	-	-	100	8
D M Telling (resigned 26 September 2003)	-	-	-	-	-	7
Executive directors						
H J Pitman	270	-	11	32	313	277
S M Lawton	175	-	10	21	206	242
P J Martin	175	100	10	21	306	242
Non-Executive directors						
A D J B Collins (resigned 24 March 2005)	20	-	-	-	20	15
S M Forbes	21	-	-	-	21	-
M W R Hunt (resigned 14 September 2004)	6	-	-	-	6	12
W Roots (resigned 19 September 2003)	-	-	-	-	-	6
T E P Stevenson	30	-	-	-	30	-
D G F Thompson	35	-	-	-	35	-
Aggregate emoluments	832	100	31	74	1,037	809

In September 2004 the Board agreed that Peter Martin could accept an appointment as a non-executive director of WIN plc and that he should be allowed to retain the director's fees paid to him by WIN plc, which during the year under review were £11,667.

Remuneration report (continued)

The interests of directors in share options were as follows:

	At 31 March 2004	Granted	Exercised	At 31 March 2005	Exercise price £	Date from which exercisable	Expiry date
H J Pitman							
EEPP	447,510	-	-	447,510	£nil	30.06.2006	18.11.2013
SAYE scheme	4,567 *	-	-	4,567	£2.08	01.12.2004	01.06.2005
SAYE scheme	-	3,289	-	3,289	£1.44	01.02.2008	01.08.2008
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
EEPP	372,924	-	-	372,924	£nil	30.06.2006	18.11.2013
SAYE scheme	3,653 *	-	-	3,653	£2.08	01.12.2004	01.06.2005
SAYE scheme	945	-	-	945	£2.00	01.02.2006	01.08.2006
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
EEPP	372,924	-	-	372,924	£nil	30.06.2006	18.11.2013
SAYE scheme	4,567 *	-	-	4,567	£2.08	01.12.2004	01.06.2005

There have been no variations to the terms and conditions or performance criteria for share options during the financial year. The LTIP awards relate to a five-year period and do not qualify for any loyalty shares as the awards were granted prior to the changes passed at the Annual General Meeting on 19 September 2003.

Options granted under the SAYE schemes are not subject to performance criteria. All SAYE options marked with an asterisk (*) above lapsed on 1 June 2005.

The performance criteria, as detailed on page 36, have been met for the Limited Scheme and the PLC scheme as far as these awards relate to Simon Lawton and Peter Martin. These options vest at a rate of 1/24th per month from July 2003.

The performance period for the LTIP shares is the three years ended 31 March 2004 and the performance criteria for these options have also been met. The market value of Tribal Group plc shares at the date of grant was £1.65 and £2.80 for the LTIP awards granted to Simon Lawton and Peter Martin respectively.

Options granted under the EEPP scheme are subject to the performance criteria set out on page 37. The market value of Tribal Group plc shares at the date of grant was £3.62 for the EEPP awards granted to each executive director. Since the year end all three executive directors have stated their intention to withdraw their investment shares from the ESOT and when this happens all the EEPP options will lapse.

The market value of the Company's shares at the year end was £1.41. The highest market value during the year was £2.31 and the lowest market value £1.175.

Directors' interest in shares of Tribal Group plc

The directors who held office 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
H J Pitman	11,691,871*	11,691,871*
S M Lawton	570,000	570,000
P J Martin	345,164	345,164

* Of these, 1,200,000 ordinary shares are held by his wife and 811,760 ordinary shares by the trustees of the Henry Pitman 2001 Accumulation and Maintenance Trust.

Remuneration report *(continued)*

As at the end of the year the following directors had an interest in the ordinary 'C' shares of Tribal Technology Limited, a 76.61 per cent owned subsidiary undertaking: S M Lawton 7,488 shares (2004: 7,488 shares) and P J Martin 7,488 shares (2004: 7,488 shares). During the year both directors received a dividend of £801.

Since the year end the Company has agreed to acquire all of the shares of Tribal Technology Limited not already owned by it, including the 'C' shares held by S M Lawton and P J Martin. Details of this transaction are set out in note 32. The sale of the 'C' shares by S M Lawton and P J Martin is conditional upon shareholder approval at the 2005 Annual General Meeting, and resolutions to this effect are included in the notice of the meeting.

Directors' retirement benefits

All of the executive directors' pension arrangements are of the defined contribution type. No pension arrangements are provided for non-executive directors.

During the year the Company made employer contributions of 12 per cent of basic salary into the Company's defined contribution scheme or equivalent personal pension plan.

Approval

This report was approved by the Board of directors on 21 June 2005 and signed on its behalf by:

Timothy E P Stevenson OBE
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 as at the end of the financial year and of the profit or loss of the Group 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; and
- 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 the Group and to enable them to ensure that the financial statements comply with the Companies Act 1985. They are also responsible for the system of internal control, for safeguarding the assets of the Company and the Group and hence for taking reasonable steps for the prevention and detection of 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 2005 which comprise the consolidated profit and loss account, the balance sheets, the consolidated cash flow statement, consolidated statement of total recognised gains and losses and the related notes 1 to 33, together with the reconciliation of net cash flow to movement in net debt and the reconciliation of movements in shareholders' funds. These financial statements have been prepared under the accounting policies set out therein. We have also audited the information in the part of the directors' remuneration report that is described as having been audited.

This report is made solely to the Company's members, as a body, in accordance with section 235 of the Companies Act 1985. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditors' report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

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. They are also responsible for the preparation of the other information contained in the annual report including the directors' remuneration report. Our responsibility is to audit the financial statements and the part of the directors' remuneration report described as having been audited in accordance with relevant United Kingdom legal and regulatory requirements and auditing standards.

We report to you our opinion as to whether the financial statements give a true and fair view and whether the financial statements and the part of the directors' remuneration report described as having been audited have been properly prepared in accordance with the Companies Act 1985. We also report to you 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 regarding directors' remuneration and transactions with the Company and other members of the Group is not disclosed.

We review whether the corporate governance statement reflects the Company's compliance with the nine provisions of the July 2003 FRC Combined Code specified for our review by the Listing Rules of the Financial Services Authority and we report if it does not. We are not required to consider whether the Board's statements on internal control cover all risks and controls, or form an opinion on the effectiveness of the Group's corporate governance procedures or its risk and control procedures.

We read the directors' report and the other information contained in the annual report for the above year as described in the contents section including the unaudited part of the directors' remuneration report 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 and the part of the directors' remuneration report described as having been audited. 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 circumstances of the Company and the Group, 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 and the part of the directors' remuneration report described as having been audited 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 and the part of the directors' remuneration report described as having been audited.

Independent auditors' report to the members of Tribal Group plc *(continued)*

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 2005 and of the loss of the Group for the year then ended; and
- the financial statements and part of the directors' remuneration report described as having been audited have been properly prepared in accordance with the Companies Act 1985.

Deloitte & Touche LLP

Deloitte & Touche LLP
Chartered Accountants and Registered Auditors
Bristol

21 June 2005

Consolidated profit and loss account
for the year ended 31 March 2005

	Note	2005	2004
		Before goodwill, EBT and exceptional items	Goodwill, EBT and exceptional items
		£'000	£'000
		2005	2004
		Before goodwill, EBT and exceptional items	Goodwill, EBT and exceptional items
		£'000	£'000
		Total	Total
Turnover (gross earnings)	2		
Continuing operations		221,035	-
Acquisitions		8,435	-
		<u>229,470</u>	<u>-</u>
Direct agency costs		(49,613)	-
		<u>179,857</u>	<u>-</u>
Gross revenue	2		
Cost of sales		(102,772)	-
		<u>77,085</u>	<u>-</u>
Gross profit			
Net administrative expenses		(54,707)	-
Goodwill amortisation and impairment		-	(16,636)
Employee benefit trust credit/(costs)		-	244
Exceptional items	6	-	(1,747)
Total administrative expenses		<u>(54,707)</u>	<u>(18,139)</u>
		<u>22,378</u>	<u>(18,139)</u>
Operating profit	2		
Continuing operations		20,044	(17,694)
Acquisitions		2,334	(445)
		<u>22,378</u>	<u>(18,139)</u>
Net interest payable	7	(4,451)	-
		<u>17,927</u>	<u>(18,139)</u>
Profit/(loss) on ordinary activities before taxation	3		
Taxation	8	(5,367)	-
		<u>12,560</u>	<u>(18,139)</u>
Profit/(loss) on ordinary activities after taxation			
Minority interest (equity)		(303)	-
		<u>12,257</u>	<u>(18,139)</u>
Profit/(loss) for the financial year			
Dividends (equity)	9	(2,280)	-
		<u>9,977</u>	<u>(18,139)</u>
Retained profit/(loss) for the year			
Earnings/(loss) per share			
Basic	10	17.2p	(25.4)p
Diluted	10	15.6p	(23.8)p


Notes 1 to 33 form part of these financial statements.

Consolidated balance sheet
at 31 March 2005

	Note	2005 £'000	2005 £'000	2004 £'000	2004 £'000
Fixed assets					
Intangible assets					
- goodwill	11		197,188		200,798
- development expenditure	12		740		557
Tangible assets	13		13,047		6,356
Investments	14		151		190
			<hr/>		<hr/>
			211,126		207,901
Current assets					
Stocks	15	9,102		2,058	
Debtors	16	56,959		45,245	
Cash at bank and in hand	27	28,335		41,740	
			<hr/>	<hr/>	
Creditors: amounts falling due within one year	17	94,396 (75,734)		89,043 (67,784)	
			<hr/>	<hr/>	
Net current assets			18,662		21,259
			<hr/>		<hr/>
Total assets less current liabilities			229,788		229,160
Creditors: amounts falling due after more than one year	18		(78,489)		(72,015)
			<hr/>		<hr/>
Net assets			151,299		157,145
			<hr/> <hr/>		<hr/> <hr/>
Capital and reserves					
Called up share capital	21		3,748		3,448
Share premium account	22		86,928		79,548
Revaluation reserve	22		91		-
Capital reserve	22		9,545		9,545
Merger reserve	22		36,615		33,444
Shares to be issued	23		17,934		27,172
Profit and loss account	22		(5,456)		2,861
			<hr/>		<hr/>
Equity shareholders' funds			149,405		156,018
Equity minority interests	22		1,894		1,127
			<hr/>		<hr/>
Total capital employed			151,299		157,145
			<hr/> <hr/>		<hr/> <hr/>

Notes 1 to 33 form part of these financial statements.

These financial statements were approved by the Board of directors on 21 June 2005 and were signed on its behalf by:


Henry J Pitman
Director


Simon M Lawton
Director

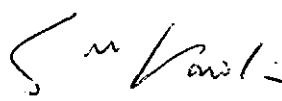
Company balance sheet
at 31 March 2005

	<i>Note</i>	2005 £'000	2005 £'000	2004 £'000	2004 £'000
Fixed assets					
Investments	14		175,624		180,399
Current assets					
Debtors: amounts due within one year		1,892		22,737	
Debtors: amounts falling due after more than one year		80,669		25,501	
Total debtors	16	82,561		48,238	
Cash at bank and in hand		1,525		5,497	
		84,086		53,735	
Creditors: amounts falling due within one year	17	(23,726)		(8,191)	
Net current assets			60,360		45,544
Total assets less current liabilities			235,984		225,943
Creditors: amounts falling due after more than one year	18		(77,929)		(72,013)
Net assets			158,055		153,930
Capital and reserves					
Called up share capital	21		3,748		3,448
Share premium account	22		86,928		79,548
Merger reserve	22		36,615		33,444
Shares to be issued	23		16,517		25,088
Profit and loss account	22		14,247		12,402
Equity shareholders' funds			158,055		153,930

Notes 1 to 33 form part of these financial statements.

These financial statements were approved by the Board of directors on 21 June 2005 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 2005

	Note	2005 £'000	2005 £'000	2004 £'000	2004 £'000
Cash inflow from operating activities	26		12,240		31,293
Returns on investments and servicing of finance					
Interest paid		(5,547)		(4,957)	
Interest element of finance lease rental payments		(8)		(14)	
Interest received		914		1,347	
Net cash outflow from returns on investments and servicing of finance			(4,641)		(3,624)
Taxation					
Corporation tax paid			(4,655)		(7,772)
Capital expenditure and financial investment	13				
Payments to acquire tangible fixed assets		(5,315)		(3,399)	
Payments in respect of items in the course of construction		(2,652)		-	
Development costs capitalised		(640)		(502)	
Payments to acquire investments		(35)		(10)	
Sales of investments		170		865	
Sale of tangible fixed assets		2,265		718	
Net cash outflow from capital expenditure and financial investment			(6,207)		(2,328)
Acquisitions					
Purchase of subsidiary undertakings	20	(12,988)		(55,813)	
Net cash acquired with subsidiary undertakings	20	5,067		7,350	
Net cash outflow from acquisitions			(7,921)		(48,463)
Equity dividend paid			(2,135)		(688)
Cash outflow before financing			(13,319)		(31,582)
Financing					
Issue of ordinary share capital less issue costs		106		20,123	
Repayment of borrowings		(6,231)		(11,617)	
New secured loans less issue costs		6,095		35,243	
Capital element of finance lease rental payments		(56)		(98)	
Net cash (outflow)/inflow from financing			(86)		43,651
(Decrease)/increase in cash in the year	27		(13,405)		12,069

Notes 1 to 33 form part of these financial statements.

Consolidated cash flow statement *(continued)*
for the year ended 31 March 2005

	<i>Note</i>	2005 £'000	2004 £'000
Reconciliation of net cash flow to movement in net debt			
(Decrease)/increase in cash in the year	27	(13,405)	12,069
Cash outflow from movement in debt		(1,680)	(27,615)
		<hr/>	<hr/>
Change in net debt resulting from cash flows	27	(15,085)	(15,546)
Finance leases acquired with subsidiaries		(31)	(1)
Debt acquired with subsidiaries		-	(267)
New finance leases		(18)	-
		<hr/>	<hr/>
Movement in net debt in the year		(15,134)	(15,814)
Net debt at the start of the year		(37,897)	(22,083)
		<hr/>	<hr/>
Net debt at the end of the year	27	(53,031)	(37,897)
		<hr/> <hr/>	<hr/> <hr/>

Notes 1 to 33 form part of these financial statements.

Consolidated statement of total recognised gains and losses
for the year ended 31 March 2005

	2005 £'000	2004 £'000
Loss for the financial year	(5,882)	(962)
Unrealised surplus on revaluation of investment properties	91	-
Realised deficit on exercise of share options	(155)	-
Total recognised gains and losses relating to the year	(5,946)	(962)

Reconciliation of movements in shareholders' funds
for the year ended 31 March 2005

	Group 2005 £'000	Group 2004 £'000	Company 2005 £'000	Company 2004 £'000
(Loss)/profit for the financial year	(5,882)	(962)	4,125	4,315
Dividends	(2,280)	(2,090)	(2,280)	(2,090)
New share capital subscribed (net of issue costs)	7,680	36,995	7,680	36,995
Increase in revaluation reserve	91	-	-	-
Movement in merger reserve	3,171	17,605	3,171	17,605
Movement in shares to be issued	(8,571)	(10,355)	(8,571)	(6,908)
Share related awards	(244)	912	-	-
Share related awards acquired	-	248	-	-
Share option exercises	(578)	-	-	-
Net (reduction)/addition to shareholders' funds	(6,613)	42,353	4,125	49,917
Opening shareholders' funds	156,018	113,665	153,930	104,013
Closing shareholders' funds	149,405	156,018	158,055	153,930

Notes 1 to 33 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 under the historical cost convention, modified to include the revaluation of certain fixed assets, and in accordance with applicable United Kingdom accounting standards.

The Group continues to apply FRS 18 'Accounting Policies' which is concerned with the selection, application, disclosure and regular review of accounting policies in the accounts.

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 £4,125,000 (2004: £4,315,000).

Turnover

Turnover represents the amounts (excluding value added tax) derived from the provision of goods and services to third party customers and includes the gross amounts billed in respect of commission based income. The particular policies applied are:

- Consultancy – on performance of the contracted services;
- Courses and training – over the provision of the related services;
- Product sales – on delivery of the related goods; and
- Commission based income – on provision of the service to which the commission relates.

Direct agency costs comprise media payments and production costs in respect of commission based income. Gross revenue comprises commission and fees earned in respect of turnover.

Cost of sales includes the direct expenditure incurred in providing the goods and services described above, including the cost of associates and the salary costs of employed fee earners. Administrative expenses include the salary cost of non-fee earners. The comparative results for cost of sales and administrative expenses have been shown on a consistent basis and this has resulted in a net reclassification of £16.5m (2004: £15.3m) from administrative expenses to cost of sales. There is no impact on operating profit or net assets in either period.

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 under the acquisition method in FRS 6 'Acquisitions and Mergers'. 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.

Notes to the financial statements (continued)

1. Accounting policies (continued)

Intangible assets - 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 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.

Intangible assets - 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, subject to earlier amortisation if profitable commercial exploitation cannot be foreseen.

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

Tangible fixed assets

Tangible fixed assets are stated at cost or valuation, net of depreciation and any provision for impairment. Depreciation is provided on all tangible fixed assets, other than investment properties at rates calculated to write off the cost or valuation, less estimated residual value, of each asset by equal instalments over their estimated useful economic lives as follows:

Freehold land and buildings	- 2 per cent
Short term leases	- life of the lease
Fixtures, fittings and other equipment	- 15-33 per cent

Assets in the course of construction relate to Mercury Health sites and are not depreciated until brought into use by the business.

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. They are depreciated over the shorter of the lease term and their useful economic lives.

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

Notes to the financial statements *(continued)*

1. Accounting policies *(continued)*

Finance costs

Finance costs which are directly attributable to the construction of tangible fixed assets and long term contract costs are capitalised as part of the cost of those assets. The commencement of capitalisation begins when both finance costs and expenditures for the asset are being incurred and activities that are necessary to get the assets ready for use are in progress. Capitalisation ceases when substantially all the activities that are necessary to get the asset ready for use are complete.

Investment properties

Investment properties are revalued every five years. Surpluses or deficits on individual properties are transferred to the investment revaluation reserve, except that a deficit which is expected to be permanent and which is in excess of any previously recognised surplus over cost relating to the same property, or the reversal of such a deficit, is charged (or credited) to the profit and loss account. Depreciation is not provided in respect of freehold investment properties. The directors consider that this accounting policy, which represents a departure from the statutory accounting rules, is necessary to provide a true and fair view as required under SSAP 19 'Accounting for Investment Properties'. The financial effect of the departure from the statutory accounting rules is not material.

Investments

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

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.

Long term contracts

Long term contracts 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. 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 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 virtual 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.

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.

A small number of employees participate in various defined benefit schemes. The expected costs of providing retirement pensions under these plans are charged against profits over the period benefiting from the employees' service in accordance with the recommendations of independent qualified actuaries.

Notes to the financial statements *(continued)*

1. Accounting policies *(continued)*

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.

There is no liability in relation to national insurance on share options at the year end as the Company has obtained tax indemnities from employees in relation to employers' national insurance.

Taxation

Current tax is provided at amounts expected to be paid or recovered using the tax rates and laws that have been enacted or substantially enacted by the balance sheet date.

In accordance with FRS 19 'Deferred Tax', 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 the 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.

A net deferred tax asset is regarded as recoverable and therefore recognised only when, on the basis of all available evidence, it can be regarded as more likely than not that there will be suitable taxable profits from which the future reversal of the underlying timing differences can be deducted.

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, collateralised cash and deposits repayable on demand, less overdrafts payable on demand.

Derivative financial instruments

Derivative financial instruments are used to reduce exposure to interest rate movements. The Group does not hold or issue derivative financial instruments for speculative purposes.

For an interest rate swap to be treated as a hedge the instrument must be related to actual assets or liabilities or a probable commitment and must change the nature of the interest rate by converting a fixed rate to a variable rate or vice versa. Interest differentials under these swaps are recognised by adjusting net interest payable over the periods of the contracts.

Notes to the financial statements (continued)

2. Segmental analysis

The Group operates through seven divisions, Tribal Communications, Tribal Consulting, Tribal Education, Tribal Property, Tribal Resourcing, Tribal Technology and Mercury Health.

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

	Turnover		Gross revenue		Operating profit before goodwill, EBT and exceptional items		Net assets	
	2005 £'000	2004 £'000	2005 £'000	2004 £'000	2005 £'000	2004 £'000	2005 £'000	2004 £'000
Communications	9,958	6,921	9,958	6,921	2,382	1,741	16,409	18,484
Consulting	55,238	42,130	55,238	42,130	6,669	7,121	74,941	73,908
Education	36,317	35,884	36,317	35,884	5,784	6,634	31,258	31,929
Property	21,331	18,443	21,331	18,443	2,658	2,819	24,910	24,130
Resourcing	74,297	54,432	74,297	54,432	5,252	5,406	21,757	22,202
Technology	34,391	30,457	34,391	30,457	5,145	4,308	31,012	26,070
Mercury Health	349	7	349	7	(343)	-	6,483	(1,257)
Central and bid costs	-	-	-	-	(5,169)	(4,876)	(55,471)	(38,321)
Inter segment sales	(2,411)	(2,530)	(2,411)	(2,530)	-	-	-	-
	229,470	185,744	229,470	185,744	22,378	23,153	151,299	157,145

Items below operating profit before goodwill amortisation, EBT and exceptional items are not analysed by segment.

3. Profit/(loss) on ordinary activities before taxation

	2005 £'000	2004 £'000
<i>Profit/(loss) on ordinary activities before taxation is stated after charging/(crediting):</i>		
Auditors' remuneration:		
Group - audit	343	331
- other services	447	355
Company - audit (included above)	62	55
Depreciation and other amounts written off tangible fixed assets:		
Owned	2,699	2,110
Leased	16	24
Goodwill amortisation and impairment	16,636	10,690
Amortisation of shares held by employee benefit trusts	-	113
(Credit)/contribution to employee share awards	(244)	912
Operating lease rentals:		
Land and buildings	1,325	1,813
Other	803	647
Research and development expenditure:		
Amortisation charge	457	255
Expensed in year	891	905

Included within other services payable to the auditors are amounts relating to the preparation of other statutory reports of £6,000 (2004: £44,000) and other fees of £327,000 (2004: £219,000). Also included are tax compliance fees of £114,000 (2004: £92,000). In addition, fees as reporting accountants of £36,000 (2004: £407,000) paid to the auditors have been capitalised as part of the cost of acquisitions in accordance with FRS 7.

Notes to the financial statements (continued)

3. Profit/(loss) on ordinary activities before taxation (continued)

The total figures for continuing operations as stated in the consolidated profit and loss account for the year ended 31 March 2005 include the following amounts in relation to subsidiaries acquired in the period: direct agency costs £nil, cost of sales £3,390,000, gross profit £5,045,000 and administrative expenses £3,156,000.

4. Remuneration of directors

	2005 £'000	2004 £'000
Directors' emoluments	1,037	809

Included within directors' emoluments are pension costs of £74,000 (2004: £58,000) in respect of payments made to three (2004: three) 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 'Directors' remuneration' section within the audited part of the Remuneration Report and form part of these audited financial statements

5. Staff numbers and costs

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

	2005 No.	2004 No.
Selling, operations and marketing	1,491	1,330
Finance and administration	358	260
	<u>1,849</u>	<u>1,590</u>

The aggregate payroll costs of these persons were as follows:

	2005 £'000	2004 £'000
Wages and salaries	65,605	51,389
Social security costs	6,985	5,818
Pension costs	3,299	2,087
	<u>75,889</u>	<u>59,294</u>

6. Exceptional items

The exceptional items of £1,747,000 (2004: £3,040,000) are in relation to further bid and implementation costs incurred on the NHS Independent Sector Treatment Centre contract. In September 2004 the Board received sufficient assurance to believe the contract would reach financial close (which occurred on 10 December 2004) and has capitalised subsequent bid costs post September 2004 in accordance with UITF 34.

Notes to the financial statements (continued)

7. Net interest payable

	2005 £'000	2004 £'000
Bank interest receivable	914	889
Interest payable on bank loans and overdrafts	(5,143)	(3,457)
Interest payable on all other loans	(215)	(494)
Finance charges payable in respect of finance leases and hire purchase contracts	(7)	(14)
	<u>(5,365)</u>	<u>(3,965)</u>
Net interest payable	<u>(4,451)</u>	<u>(3,076)</u>

8. Taxation

	2005 £'000	2004 £'000
(a) Analysis of charge in the year		
Current tax		
UK corporation tax on profits for the year	5,758	6,497
Adjustments in respect of prior years	(125)	(385)
	<u>5,633</u>	<u>6,112</u>
Deferred tax		
Origination and reversal of timing differences	75	(82)
Adjustments in respect of prior years	(341)	146
	<u>5,367</u>	<u>6,176</u>
(b) Factors affecting the tax charge		
(Loss)/profit before tax	(212)	5,322
Tax (credit)/charge at standard rate of 30%	(64)	1,597
Effects of:		
Intangible amortisation	4,769	3,002
Non-deductible start up costs	704	944
Expenses not deductible for tax purposes	218	284
Difference between capital allowances and depreciation charge	78	118
Non-deductible UITF 17 share option (credits)/charges	(73)	308
Release of EBT contribution accruals	271	154
Timing differences	(115)	14
Unrelieved current period losses	-	76
Utilisation of prior period losses	(30)	-
Prior year adjustments	(125)	(385)
Current tax charge for the year	<u>5,633</u>	<u>6,112</u>

(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.

Notes to the financial statements (continued)

9. Dividends

	2005 £'000	2004 £'000
Interim paid 1.0 pence per share (2004: 1.0 pence)	750	690
Final proposed 2.0 pence per share (2004: 2.0 pence)	1,530	1,400
	<hr/>	<hr/>
Total 3.0 pence per share (2004: 3.0 pence)	2,280	2,090
	<hr/> <hr/>	<hr/> <hr/>

10. Earnings per share

Earnings per share and diluted earnings per share are calculated by reference to a weighted average number of ordinary shares calculated as follows:

	2005 thousands	2004 thousands
Weighted average number of shares outstanding:		
<i>Basic weighted average number of shares in issue</i>	71,421	62,622
Employee share options	890	1,926
Shares to be issued in respect of deferred consideration	6,164	2,695
	<hr/>	<hr/>
Weighted average number of shares outstanding for dilution calculations	78,475	67,243
	<hr/> <hr/>	<hr/> <hr/>

The adjusted basic and adjusted diluted earnings per share figures shown on the profit and loss account on page 44 are included as the directors believe that they provide a better understanding of the underlying trading performance of the Group. A reconciliation of how these figures are calculated is set out below:

	2005		2004	
	Earnings £'000	(Loss)/earnings per share pence	Earnings £'000	(Loss)/earnings per share pence
Basic and adjusted basic earnings per share:				
Loss and basic loss per share	(5,882)	(8.2)p	(962)	(1.5)p
Adjustments:				
Goodwill amortisation and impairment	16,636	23.3p	10,690	17.1p
EBT costs net of tax	(244)	(0.3)p	1,025	1.6p
Exceptional items	1,747	2.4p	3,040	4.8p
	<hr/>	<hr/>	<hr/>	<hr/>
Adjusted earnings and adjusted basic earnings per share	12,257	17.2p	13,793	22.0p
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>
Diluted and adjusted diluted earnings per share:				
Loss and diluted loss per share	(5,882)	(8.2)p	(962)	(1.5)p
Adjustments:				
FRS 14 adjustment*	-	0.7p	-	0.1p
Goodwill amortisation and impairment	16,636	21.2p	10,690	15.9p
EBT costs net of tax	(244)	(0.3)p	1,025	1.5p
Exceptional items	1,747	2.2p	3,040	4.5p
	<hr/>	<hr/>	<hr/>	<hr/>
Adjusted earnings and adjusted diluted earnings per share	12,257	15.6p	13,793	20.5p
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>

* FRS 14 requires presentation of diluted earnings per share when a company could be called upon to issue shares that would decrease net profit or increase net loss per share. For a loss making company, net loss per share would only be increased by the exercise of out-of-the-money options. Hence, no adjustment is made to diluted earnings per share.

Notes to the financial statements (continued)

11. Intangible fixed assets - goodwill

Group	2005	2004
<i>Cost</i>	£'000	£'000
At beginning of year	221,835	152,662
Additions	17,299	69,173
Revisions to prior years	(4,273)	-
	<hr/>	<hr/>
At end of year	234,861	221,835
	<hr/>	<hr/>
<i>Amortisation</i>		
At beginning of year	21,037	10,347
Charge in year	11,436	10,126
Impairment	5,200	564
	<hr/>	<hr/>
At end of year	37,673	21,037
	<hr/>	<hr/>
<i>Net book value</i>		
At 31 March 2005	197,188	200,798
	<hr/>	<hr/>
At 31 March 2004	200,798	142,315
	<hr/>	<hr/>

The fair value of assets acquired in Hacas Group Limited, which was purchased in July 2003, has been revised from £8,543,000 to £7,882,000 after providing £661,000 in respect of pension liabilities. Other revisions to prior years primarily relate to changes in estimates of the likely final settlement values under various earn out agreements which are dependent on post acquisition performance.

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.

12. Intangible fixed assets – development expenditure

Group	2005	2004
<i>Cost</i>	£'000	£'000
At beginning of year	1,353	849
Additions	640	502
Acquired with subsidiaries	-	2
	<hr/>	<hr/>
At end of year	1,993	1,353
	<hr/>	<hr/>
<i>Amortisation</i>		
At beginning of year	796	541
Charge in year	457	255
	<hr/>	<hr/>
At end of year	1,253	796
	<hr/>	<hr/>
<i>Net book value</i>		
At 31 March 2005	740	557
	<hr/>	<hr/>
At 31 March 2004	557	308
	<hr/>	<hr/>

Notes to the financial statements (continued)

13. Tangible fixed assets

Group	Investment properties £'000	Long term leases £'000	Short term leases £'000	Fixtures, fittings and other equipment £'000	Assets in the course of construction £'000	Total £'000
Cost						
At beginning of year	89	584	1,679	10,967	-	13,319
Additions	-	-	702	4,590	5,829	11,121
Acquired with subsidiaries	-	-	-	1,149	-	1,149
Revaluations	91	-	-	-	-	91
Disposals	-	-	-	(3,153)	-	(3,153)
At end of year	180	584	2,381	13,553	5,829	22,527
Depreciation						
At beginning of year	-	7	360	6,596	-	6,963
Charge for year	-	23	268	2,424	-	2,715
Acquired with subsidiaries	-	-	-	720	-	720
Disposals	-	-	-	(918)	-	(918)
At end of year	-	30	628	8,822	-	9,480
Net book value						
At 31 March 2005	180	554	1,753	4,731	5,829	13,047
At 31 March 2004	89	577	1,319	4,371	-	6,356

Included in the total net book value of fixtures, fittings and other equipment is £46,000 (2004: £46,000) in respect of assets held under finance leases. Depreciation for the year on these assets was £16,000 (2004: £24,000).

Included in additions and disposals of fixtures, fittings and other equipment is the sale and leaseback of medical equipment for Mercury Health comprising cost and proceeds of £2.2m.

Investment properties, which are freehold, were valued on an open market existing use basis at 31 March 2005 by Barnard Marcus, (estate agents, valuers). Such properties are not depreciated.

Notes to the financial statements (continued)

14. Fixed asset investments

	Group		Company	
	Investment in associates		Investment in subsidiaries	
	2005	2004	2005	2004
	£'000	£'000	£'000	£'000
<i>Cost</i>				
At beginning of year	190	86	180,399	115,818
Additions	35	10	24,646	64,581
Acquired with subsidiaries	1	99	-	-
Provisions for impairment	-	-	(4,172)	-
Disposals	(75)	(5)	-	-
Transfers to other Group companies	-	-	(25,249)	-
	<hr/>	<hr/>	<hr/>	<hr/>
At end of year	151	190	175,624	180,399
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>

The directors have considered the value of the above investments and are satisfied that the aggregate value of the investments is not less than their carrying value. The results of associates are excluded as they are not material to the results of the Group.

15. Stocks

	Group	Group
	2005	2004
	£'000	£'000
Work in progress, finished goods and goods for resale	1,528	2,058
Long term contract balances	7,574	-
	<hr/>	<hr/>
	9,102	2,058
	<hr/> <hr/>	<hr/> <hr/>

Included within work in progress, finished goods and goods for resale is £602,000 (2004: £nil) in respect of finished goods and goods for resale.

16. Debtors

	Group	Group	Company	Company
	2005	2004	2005	2004
	£'000	£'000	£'000	£'000
Trade debtors	45,537	38,972	-	-
Amounts owed by group undertakings	-	-	82,561	48,076
Other debtors	1,037	878	-	162
Prepayments and accrued income	8,350	4,629	-	-
Amounts recoverable on contracts	1,391	388	-	-
Deferred tax (note 19)	644	378	-	-
	<hr/>	<hr/>	<hr/>	<hr/>
	56,959	45,245	82,561	48,238
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>

Amounts owed by group companies includes £80,669,000 (2004: £25,501,000) falling due after more than one year. These amounts have no fixed repayment date.

Notes to the financial statements (continued)

17. Creditors: amounts falling due within one year

	Group 2005 £'000	Group 2004 £'000	Company 2005 £'000	Company 2004 £'000
Loan notes (see note 18)	3,802	8,168	3,308	5,164
Obligations under finance leases and hire purchase contracts	20	44	-	-
Trade creditors	25,457	23,209	-	-
Amounts owed to group undertakings	-	-	17,688	-
Corporation tax	5,758	4,510	-	-
Other taxation and social security	9,264	8,500	-	-
Other creditors	1,666	1,176	2	-
Accruals and deferred income	27,039	18,950	-	-
Deferred consideration	1,198	1,827	1,198	1,627
Dividends	1,530	1,400	1,530	1,400
	<u>75,734</u>	<u>67,784</u>	<u>23,726</u>	<u>8,191</u>

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

	Group 2005 £'000	Group 2004 £'000	Company 2005 £'000	Company 2004 £'000
Bank loans	77,518	71,423	77,518	71,423
Obligations under finance leases and hire purchase contracts	26	2	-	-
Deferred consideration	411	590	411	590
Other creditors	534	-	-	-
	<u>78,489</u>	<u>72,015</u>	<u>77,929</u>	<u>72,013</u>

Maturity of bank and loan notes:

	Group 2005 £'000	Group 2004 £'000	Company 2005 £'000	Company 2004 £'000
Bank and loan notes can be analysed as falling due:				
In one year or less, or on demand	3,802	8,168	3,308	5,164
Between two and five years	77,518	71,423	77,518	71,423
	<u>81,320</u>	<u>79,591</u>	<u>80,826</u>	<u>76,587</u>

The bank loan (which has primary security) is at market rates of interest and is secured 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 one and five years.

Notes to the financial statements *(continued)*

18. Creditors: amounts falling due after more than one year *(continued)*

Maturity of obligations under finance leases and hire purchase contracts:

	Group 2005 £'000	Group 2004 £'000
Within one year	20	44
In the second to fifth years	26	2
	<hr/>	<hr/>
	46	46
	<hr/> <hr/>	<hr/> <hr/>

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

19. Deferred tax

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

	Group 2005 £'000	Group 2004 £'000
Capital allowances in excess of depreciation	471	319
Other timing differences	136	59
Tax losses carried forward	37	-
	<hr/>	<hr/>
Deferred tax asset (note 16)	644	378
	<hr/> <hr/>	<hr/> <hr/>

The directors are of the opinion, based on currently available forecasts, that these timing differences will reverse in the near future and when they do there will be sufficient taxable profits. Accordingly, the directors believe that it is more likely than not that the deferred tax assets will be recoverable.

Notes to the financial statements (continued)

20. Purchase of subsidiary undertakings

1. Strategic Information Technology Services Group Limited

On 19 October 2004, the Company acquired the entire share capital of Strategic Information Technology Services Group Limited, ('SITS').

	Book value at acquisition £'000	Adjustments £'000	Fair value at acquisition £'000
Net assets acquired			
<i>Fixed assets</i>			
Tangible	295	(78)	217
<i>Current assets</i>			
Trade debtors	1,671	(144)	1,527
Prepayments and other debtors	383	1,248	1,631
Cash at bank and in hand	3,950	-	3,950
	<hr/>	<hr/>	<hr/>
Total assets	6,299	1,026	7,325
<i>Liabilities</i>			
Trade creditors	(49)	24	(25)
Other creditors	(2,288)	(1,537)	(3,825)
Taxation`	34	-	34
	<hr/>	<hr/>	<hr/>
Net assets	3,996	(487)	3,509
	<hr/>	<hr/>	<hr/>
Goodwill			9,962
			<hr/>
			13,471
			<hr/> <hr/>
Satisfied by:			
Cash			7,475
Shares			2,334
Loan notes – non convertible			706
Acquisition costs			196
Contingent deferred consideration			2,760
			<hr/>
			13,471
			<hr/> <hr/>

Notes to the financial statements *(continued)*

20. Purchase of subsidiary undertakings *(continued)*

1. Strategic Information Technology Services Group Limited *(continued)*

The contingent deferred consideration reflects additional consideration 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 deferred consideration payable. The maximum additional consideration payable is £3.1m. The liability will be satisfied by the issue of shares and is included within the shares to be issued disclosed in note 23.

The provisional fair value adjustments represent a reassessment of the value of balances recorded in the accounts of SITS.

These mainly reflect adjustments to accrued income to bring the income recognition policy on software sales in line with Group policy, deferred income in respect of training and consultancy in line with Group policy and to reflect the liabilities accruing from the exercise of share options immediately prior to acquisition.

The profit and loss accounts of SITS for the 11.6 month period ended 19 October 2004 and the year ended 30 November 2003 are summarised below.

	11.6 months to 19 October 2004 £'000	12 months to 30 November 2003 £'000
Turnover	4,865	5,470
Operating (loss)/profit	(1,398)	1,052
Net (loss)/profit before tax	(1,269)	1,122
Taxation	(218)	(336)
Net (loss)/profit after tax	(1,487)	786

The loss arising in the period prior to acquisition was a result of the write-off of a US investment and exceptional staff bonuses paid immediately prior to sale, totalling £2.4m.

SITS had no other gains or losses in the period.

The contribution to Group turnover since acquisition was £3.7m, £0.9m of cost of sales, £2.8m of gross profit, £1.5m of administrative expenses and £1.3m in respect of operating profit.

Notes to the financial statements (continued)

20. Purchase of subsidiary undertakings (continued)

2. Other subsidiary undertakings acquired

The Group acquired three other subsidiary undertakings as follows:

April 2004	Benchmark Limited	Holding 100%
April 2004	Aldcliffe Computer Systems Limited	100%
November 2004	Derek Hicks & Thew Limited	100%

	Book value at acquisition £'000	Adjustments £'000	Fair value at acquisition £'000
Net assets acquired			
<i>Fixed assets</i>			
Tangible	191	-	191
<i>Current assets</i>			
Stocks – work in progress	51	-	51
Trade debtors	941	(19)	922
Prepayments	122	-	122
Other debtors	59	-	59
Cash at bank and in hand	1,117	-	1,117
	<hr/>	<hr/>	<hr/>
Total assets	2,481	(19)	2,462
<i>Liabilities</i>			
Trade creditors	(264)	-	(264)
Other creditors and accruals	(1,419)	(193)	(1,612)
Corporation tax	(220)	(88)	(308)
	<hr/>	<hr/>	<hr/>
Net assets	578	(300)	278
	<hr/>	<hr/>	<hr/>
Goodwill			7,337
			<hr/>
			7,615
			<hr/> <hr/>
Satisfied by:			
Cash			3,989
Shares			1,105
Loan notes – non convertible			420
Acquisition costs			251
Contingent deferred consideration			1,850
			<hr/>
			7,615
			<hr/> <hr/>

Notes to the financial statements (continued)

20. Purchase of subsidiary undertakings (continued)

2. Other subsidiary undertakings acquired (continued)

The contingent deferred 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 deferred consideration payable. The maximum earn out payable is £2.9m. 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 17 and note 23 respectively.

The provisional fair value adjustments represent a reassessment of the value of balances recorded in the accounts of these subsidiaries.

Included within goodwill is £630,000 which existed as an intangible asset in the balance sheets of the other companies acquired at the date of acquisition.

The contribution to Group turnover of these businesses since acquisition was £4.7m, £2.5m of cost of sales, £2.2m of gross profit, £1.2m of administrative expenses and £1.0m in respect of operating profit.

21. Called up share capital

	2005 £'000	2004 £'000
<i>Authorised</i>		
125,000,000 ordinary shares of 5p each (2004: 125,000,000)	6,250	6,250
	<hr/>	<hr/>
		Ordinary shares of 5p each number £'000
<i>Allotted, called up and fully paid</i>		
At 1 April 2004	68,966,818	3,448
Issued as consideration for acquisitions	5,799,821	290
Share option exercises	197,632	10
	<hr/>	<hr/>
At 31 March 2005	74,964,271	3,748
	<hr/>	<hr/>

Allotment of shares

Between 1 April 2004 and 31 March 2005, new ordinary shares of 5p each in the Company were issued as follows:

Number of shares	Price per share	Value/proceeds £'000	Purpose of issue
321,756	£2.10	675	Acquisition of Aldcliffe
1,269,648	£1.77 to £1.86	2,334	Acquisition of SITS
136,239	£1.84	250	Acquisition of DHT
193,617	£1.72 to £2.22	323	Share option exercises
4,015	£2.00 to £2.08	8	SAYE exercises
1,063,806	£1.76	1,872	Purchase of minorities
3,008,372	£1.49 to £2.29	5,285	Earn outs
5,997,453		10,747	

Notes to the financial statements (continued)

21. Called up share capital (continued)

Details of options in respect of shares outstanding at 31 March 2005 are as follows:

	Number outstanding	Price payable	Date from which exercisable
Employee share option schemes:			
<i>Limited scheme</i>	461,388	£1.33	30.06.2003
	241,604	£1.65	30.06.2003
	<hr/>		
	702,992		
	<hr/>		
<i>PLC scheme</i>	35,808	£2.50	30.06.2003
	77,241	£2.83	30.06.2003
	85,932	£2.86	30.06.2004
	238,562	£3.10	30.06.2004
	558,700	£2.46	30.06.2005
	185,403	£2.29	30.06.2005
	355,986	£3.26	30.06.2006
	100,858	£3.62	30.06.2006
	119,142	£3.45	30.06.2007
	280,855	£1.96	30.06.2007
	<hr/>		
	2,038,487		
	<hr/>		
<i>LTIP</i>	421,208	£nil	07.02.2006
	60,000	£nil	26.06.2006
	56,450	£nil	19.12.2006
	54,878	£nil	31.07.2007
	60,427	£nil	30.06.2007
	47,831	£nil	30.06.2007
	<hr/>		
	700,794		
	<hr/>		
<i>EEPP</i>	1,193,358	£nil	30.06.2006
	<hr/>		
Acquired schemes	20,289	£1.16	14.01.2003
	44,402	£1.90	27.03.2004
	64,746	£2.45	28.02.2005
	78,842	£2.31	24.01.2006
	72,636	£0.22	29.03.2004
	<hr/>		
	280,915		
	<hr/>		
Savings related option scheme:			
<i>SAYE</i>	285,394	£2.08	01.12.2004
	481,337	£2.00	01.02.2006
	296,227	£3.00	01.02.2007
	612,434	£1.44	01.03.2008
	<hr/>		
	1,675,392		
	<hr/>		
Total Tribal Group plc share option schemes	6,591,938		
	<hr/>		

Notes to the financial statements (continued)

22. Share premium and reserves

Group	Share premium account £'000	Revaluation reserve £'000	Capital reserve £'000	Merger reserve £'000	Profit and loss account £'000	Equity minority interest £'000
At beginning of year	79,548	-	9,545	33,444	2,861	1,127
(Loss)/profit for the year	-	-	-	-	(5,882)	303
Premium on share issues (net of expenses)	7,380	-	-	3,171	-	-
Revaluation surplus	-	91	-	-	-	-
Share option exercises	-	-	-	-	(155)	-
Dividends	-	-	-	-	(2,280)	(80)
New minority interests	-	-	-	-	-	720
Purchase of minorities	-	-	-	-	-	(176)
At end of year	86,928	91	9,545	36,615	(5,456)	1,894

Company

	Share premium account £'000	Merger reserve £'000	Profit and loss account £'000
At beginning of year	79,548	33,444	12,402
Profit for the year	-	-	4,125
Dividends	-	-	(2,280)
Premium on share issues (net of expenses)	7,380	3,171	-
At end of year	86,928	36,615	14,247

The merger reserve of £36.6m (2004: £33.4m) relates to the premium arising on shares issued subject to the provisions of section 131 of the Companies Act 1985.

23. Shares to be issued

	Group 2005 £'000	Group 2004 £'000	Company 2005 £'000	Company 2004 £'000
Deferred shares to be issued in future periods	16,517	25,088	16,517	25,088
Credit in relation to share awards	1,417	2,084	-	-
	17,934	27,172	16,517	25,088

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 £34.5m (2004: £41.3m).

Notes to the financial statements (continued)

24. Commitments

- (a) There are capital commitments at 31 March 2005 of £25,800,000 (2004: £275,000). The current year commitments primarily relate to Mercury Health and their obligations to construct five treatment centres.
- (b) Annual commitments under non-cancellable operating leases are as follows:

Group	2005	2005	2004	2004
	Land and buildings £'000	Other £'000	Land and buildings £'000	Other £'000
Operating leases which expire:				
Within one year	320	172	130	157
One to two years	361	40	203	195
In the second to fifth years inclusive	984	728	1,219	400
Over five years	1,277	-	888	-
	2,942	940	2,440	752

25. Pension scheme

The Group operates a number of defined contribution and defined benefit pension schemes within individual subsidiaries and contributes to certain employees' personal pension plans. The pension cost charge for the period represents contributions payable by the Group and amounted to £3,299,000 (2004: £2,087,000).

Contributions amounting to £192,000 (2004: £173,000) were payable to the funds at the year end and are included in creditors.

Defined benefit schemes

One of the Group's subsidiary undertakings, Tribal Technology Limited, participates in the TfL Pension Fund (formerly LRT pension fund), which is a defined benefit arrangement. The last full actuarial valuation of this scheme was carried out by a qualified independent actuary as at 31 March 2003.

The Tribal Technology section of the TfL Pension Fund had seven active members at the year end. Employer contributions amounting to £76,720 were paid in the year to 31 March 2005. As the scheme membership is relatively small, these accounting figures have been calculated using the actual membership and asset data rather than by projecting forward the results of the 31 March 2003 valuation.

Another of the Group's subsidiary undertakings SDP Regeneration Services 2 Limited participates in the London Pensions Fund Authority Pension Fund ('the LPFA Pension Fund'), which is a defined benefit arrangement. The last full actuarial valuation of this scheme was carried out by a qualified independent actuary as at 31 March 2004.

The SDP Regeneration Services 2 Limited section of the LPFA Pension Fund had 45 active members and 10 deferred pensioners at the year end. Employer contributions amounting to £279,000 were paid in the year to 31 March 2005 (including a one-off payment of £150,000 in respect of an early retirement).

The assets of the funds have been taken at market value and the actuarial assumptions used to calculate scheme liabilities under FRS 17 are:

	2005	2004	2003
	% per annum	% per annum	% per annum
Inflation	2.75	2.75	2.50
Salary increases	3.75	3.75	3.50
Rate of discount	5.50	5.50	5.25
Pension in payment increases (non-GMP component)	2.75	2.75	2.50
Revaluation rate for deferred pensioners	2.75	2.75	2.50

Notes to the financial statements *(continued)*

25. Pension scheme *(continued)*

The fair value of the assets in the scheme, the present value of the liabilities in the scheme and the expected rate of return at each balance sheet date were as follows:

TfL Pension Fund:

	2005 %	2005 £'000	2004 %	2004 £'000
Equities	7.75	878	7.75	710
Bonds	5.50	87	5.50	75
Total fair value of assets		965		785
Present value of scheme liabilities		(1,142)		(1,047)
Deficit in the scheme		(177)		(262)
Related deferred tax asset		53		79
Net pension liability		(124)		(183)

LPFA Pension Fund:

	2005 %	2005 £'000	2004 %	2004 £'000
Equities	7.75	1,792	7.75	1,570
Bonds	5.50	238	5.50	232
Property	6.50	169	6.50	111
Cash	3.50	181	3.50	33
Total fair value of assets		2,380		1,946
Present value of scheme liabilities		(3,573)		(3,130)
Deficit in the scheme		(1,193)		(1,184)
Related deferred tax asset		358		355
Net pension liability		(835)		(829)

Adjustments to Group net assets under FRS 17:

	2005 £'000	2004 £'000
Net assets	151,299	157,145
Pension liability	(959)	(1,012)
Net assets including pension liability	150,340	156,133

Notes to the financial statements (continued)

25. Pension scheme (continued)

Adjustments to Group reserves under FRS 17:

	2005 £'000	2004 £'000
Profit and loss (deficit)/reserve excluding pension liability	(5,456)	2,861
Pension liability	(959)	(1,012)
	<hr/>	<hr/>
Profit and loss (deficit)/reserve	(6,415)	1,849
	<hr/> <hr/>	<hr/> <hr/>

The contribution rate for 2005 was 25% of pensionable earnings for the Tfl Pension Fund and 17% for the LPFA Pension Fund and the agreed contribution rate for the next 10 years is 25% of pensionable earnings for the Tfl Pension Fund and 18.1% for the LPFA Pension Fund.

An additional annual past service contribution of £37,000 is to be paid into the TFL pension fund and additional lump sum payments will be made over the next three years into the LPFA pension fund to address the deficits in the schemes.

Analysis of amounts charged to the profit and loss account under FRS 17:

	Tfl 2005 £'000	LPFA 2005 £'000	Tfl 2004 £'000	LPFA 2004 £'000
Current service cost	44	176	48	168
Past service cost	-	150	-	-
	<hr/>	<hr/>	<hr/>	<hr/>
Total operating charge	44	326	48	168
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>
<i>Other finance charges</i>				
Interest on pension scheme liabilities	59	179	51	146
Expected return on pension scheme assets	(62)	(161)	(44)	(108)
	<hr/>	<hr/>	<hr/>	<hr/>
Net finance charge	(3)	18	7	38
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>
Total charge to profit and loss account	41	344	55	206
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>

Analysis of actuarial gain in the statement of total recognised gains and losses:

	Tfl 2005 £'000	LPFA 2005 £'000	Tfl 2004 £'000	LPFA 2004 £'000
Actual return less expected return on pension scheme assets	42	56	117	265
Experience gains and losses arising on the scheme liabilities	7	-	(7)	-
Changes in assumptions underlying the present value of scheme liabilities	-	-	3	(204)
	<hr/>	<hr/>	<hr/>	<hr/>
Changes in assumptions underlying the present value of scheme liabilities	49	56	113	61
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>

Notes to the financial statements (continued)

25. Pension scheme (continued)

Movement in the deficit during the year:

	TfL 2005 £'000	LPFA 2005 £'000	TfL 2004 £'000	LPFA 2004 £'000
Deficit in fund at 1 April	(262)	(1,184)	(361)	(1,189)
<i>Movement in the year:</i>				
Current employer service cost	(44)	(176)	(48)	(168)
Past service cost	-	(150)	-	-
Net finance charge	3	(18)	(7)	(38)
Employer contributions	77	279	41	150
Actuarial gain	49	56	113	61
Deficit in fund at 31 March	(177)	(1,193)	(262)	(1,184)

The comparative figures have been restated to reflect the LPFA pension fund liability. This information was not available at the time the 2004 accounts were signed.

26. Reconciliation of operating profit to operating cash flows

	2005 £'000	2004 £'000
Operating profit	4,239	8,398
Depreciation	2,715	2,134
Goodwill amortisation and impairment	16,636	10,690
Amortisation of development expenditure	457	255
Profit on sale of investments	(95)	(203)
Profit on disposal of fixed assets	(30)	(25)
(Credit)/contribution to employee share awards	(244)	912
Amortisation of employee benefit trust	-	113
Increase in debtors	(6,636)	(3,717)
(Decrease)/increase in creditors	(1,798)	12,317
Decrease in stocks	543	419
Exceptional items	1,747	3,040
Net cash inflow from operating activities (excluding Mercury Health)	17,534	34,333
Mercury Health:		
- increase in stocks	(7,574)	-
- increase in debtors	(379)	-
- increase in creditors	4,406	-
Exceptional items	(1,747)	(3,040)
Net cash inflow from operating activities	12,240	31,293

Notes to the financial statements (continued)

27. Analysis of net debt

	At beginning of year	Cash flow	Arising from acquisitions (excluding cash)	Other non- cash changes	At end of year
	£'000	£'000	£'000	£'000	£'000
Cash at bank and in hand	34,273	(7,463)	-	-	26,810
Cash collateralised	7,467	(5,942)	-	-	1,525
	<u>41,740</u>	<u>(13,405)</u>	<u>-</u>	<u>-</u>	<u>28,335</u>
Debt due within one year	(8,168)	4,366	-	-	(3,802)
Loans	(71,423)	(6,095)	-	-	(77,518)
Finance leases	(46)	49	(31)	(18)	(46)
	<u>(79,637)</u>	<u>(1,680)</u>	<u>(31)</u>	<u>(18)</u>	<u>(81,366)</u>
Total	<u>(37,897)</u>	<u>(15,085)</u>	<u>(31)</u>	<u>(18)</u>	<u>(53,031)</u>

Included within cash at bank and in hand is £1,525,000 (2004: £7,467,000) 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.

28. Purchase of subsidiary undertakings

The 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
Strategic Information Technology Services Group Limited	722	9	-	(35)
Other	448	3	(468)	(24)

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 20.

Notes to the financial statements (continued)

29. Interest rate swaps

On 1 April 2004, the Group entered into two interest rate swaps:-

- (i) £20m fixed at 5.09% until 31 March 2008;
- (ii) £20m discounted at 75 basis points for the year ended 31 March 2005 and subsequently moved to a fixed rate of 5.29%. The bank has the right to flip this tranche to LIBOR minus 10 basis points for the remaining term to 31 March 2008.

In addition, the Group has entered into interest rate swaps in order to modify the characteristics of the £33.5m limited recourse senior debt facility arranged in relation to Mercury Health DTC(1) Limited from a floating rate to a fixed rate for a period of the loans duration. The first swap relates to £12.5m of the facility and fixes the rate at 4.98% for a period of three years from 1 April 2006. The second swap relates to £21.0m of the facility and fixes the rate at 5.00% for a period of three years from 1 April 2005. None of the £33.5m of this facility has been drawn at 31 March 2005.

30. 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. As permitted by FRS 13, short term debtors and creditors have been omitted from all disclosures.

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 rate. The split of cash and collateralised cash is presented in note 27.

Financial liabilities

FRS 13 defines floating rate liabilities as those that attract an interest charge and have their interest rate reset at least once a year. The profile of financial liabilities, after taking into account interest rate swaps, is as follows:

	2005			2004		
	Fixed rate £'000	Floating rate £'000	Total £'000	Fixed rate £'000	Floating rate £'000	Total £'000
Sterling						
Rates reset at least once a year	-	77,518	77,518	-	72,423	72,423
Loan notes	158	3,644	3,802	205	7,963	8,168
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
	158	81,162	81,320	205	80,386	80,591
Finance Leases	46	-	46	46	-	46
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
Total	204	81,162	81,366	251	80,386	80,637

The weighted average fixed rate is 4.5% (2004: 4.5%) and the weighted average period for which interest rates on fixed rate liabilities is two years (2004: two years). There are £28.5m (2004: £31.6m) undrawn committed borrowing facilities which all expire in two to five years.

Notes to the financial statements *(continued)*

30. Financial instruments *(continued)*

Fair value

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

31. Post balance sheet events

As is more fully described in note 32, on 24 May 2005 the Group acquired all of the minority shareholdings in Tribal Technology Limited and Tribal Education Limited, subject to shareholder approval in respect of the holdings of 7,488 'C' ordinary shares held by each of S M Lawton and P J Martin, directors of Tribal Group plc.

In respect of the purchase of the minority shareholdings in Tribal Technology Limited, the total consideration is £2,985,000 and it is £1,400,000 for the minority shareholdings in Tribal Education Limited.

32. Related party disclosures

All subsidiary undertakings are more than 90% controlled within the Group and any transactions with those subsidiaries are not disclosed as permitted under FRS 8 'Related Party Transactions'.

During the year under review the following directors had an interest in the 'C' ordinary shares of Tribal Technology Limited, a 76.61% owned subsidiary undertaking: S M Lawton 7,488 shares (2004: 7,488 shares) and P J Martin 7,488 shares (2004: 7,488 shares). During the year both directors received a dividend of £801. After the year end these interests were disposed of, as described below in this note.

Save as is described in this note, no material contract or arrangement has been entered into during the year, nor subsisted at 31 March 2005 in which a director had a material interest.

Details of related party transactions

On 24 May 2005 the Company acquired all of the shares in its subsidiaries Tribal Technology Limited and Tribal Education Limited not already owned by it from the holders of the minority shareholdings, who included directors of various Group subsidiary companies (and their spouses) and, in the case of Tribal Technology Limited, S M Lawton and P J Martin, who are executive directors of Tribal Group plc and also directors of each of its subsidiaries. The transactions involving S M Lawton and P J Martin are substantial property transactions for the purposes of section 320 of the Companies Act 1985 and are therefore conditional upon shareholder approval at the Group's 2005 Annual General Meeting. As required by the Listing Rules, an independent adviser has confirmed to the UK Listing Authority that the terms of these transactions are fair and reasonable so far as the shareholders of the Company are concerned.

In respect of the purchase of the minority shareholdings in Tribal Technology Limited, the total consideration was £2,985,000, paid as to £1,238,372 in cash and £1,746,628 in loan notes that can be redeemed by the issue of Tribal Group plc shares. The Company has the option to redeem the loan notes by issuing new Group shares in two tranches, based on the market value of these shares at the time of such redemption. The first redemption period is following the announcement of the Group's results for the year ended 31 March 2005, on 21 June 2005. The second redemption period follows the announcement of the Group's interim results for the six months ending 30 September 2005. Each redemption period will last for ten business days. A twelve month lock-up arrangement will apply to 60% of any shares issued.

Included in the acquisition of minority shareholdings in Tribal Technology Limited described above are holdings of 7,488 'C' ordinary shares held by each of S M Lawton and P J Martin, two Group directors. These acquisitions are subject to shareholder approval (as described above). Each of these directors will receive, in consideration for his shareholding, £59,044 in cash and £59,044 in the same form of loan notes as described above.

In respect of the purchase of minority shareholdings in Tribal Education Limited, the total consideration is £1,400,000. The consideration will be satisfied by the issue of £1,400,000 in loan notes. Tribal Group plc has the option to redeem up to 50% of the loan notes by the issue of new Group shares, based on the market value of these shares at the time of such redemption, following the announcement of the Group's results for the year ended 31 March 2005. Any shares issued will be subject to lock-up arrangements for a minimum of twelve months from the date of issue.

Notes to the financial statements (continued)

33. Principal subsidiary undertakings

The principal subsidiary undertakings at 31 March 2005 are shown below. All subsidiary undertakings are registered in the United Kingdom and prepare accounts to 31 March each year.

	Principal activity	Holding
Action Medical Limited	Recruitment and provision of temporary staff to the medical profession	100%
Aldcliffe Computer Systems Limited	Developer and supplier of work based learning software	100%
Atlas Media Group Limited	PR consultants, publication and website design consultants	100%
Avail Consulting Limited	Management consultancy, IT services and solutions	66.67%
Cambridge Training and Development Limited	Design and production of multi-media training resources	100%
Tribal Dundas Limited*	Further education consultancy	100%
Geronimo Public Relations Limited	Public relations consultancy	100%
Mercury Health DTC(1) Limited*	Healthcare delivery	100%
Network Training Publishing Limited	Production of training course materials	100%
Nightingale Architects Limited	Architects	100%
Strategic Information Technology Services Group Limited	Provider of administrative software to the further education sector	100%
Tribal LGC Limited	Management consultancy services to local government	100%
Tribal Education Limited	Education consultancy, training and OfSTED inspections	80%
Tribal HCH Limited*	Housing regeneration consultancy	100%
Tribal Holdings Limited	Holding company	100%
Tribal MPC Limited	PR, communication and design	100%
Tribal Property Services Limited*	Property consultants	100%
Tribal Resourcing Limited	Recruitment advertising in the public sector	97.84%
Tribal Secta Limited	Management consultancy services to the health sector	100%
Tribal Technology Limited	Software support and IT services	76.61%
Tribal TGC Limited	Management consultancy, learning and training	68.31%
Yale Data Management Consultants Limited	Management and IT consultants	100%

* All investments are held by Tribal Group plc other than those marked, which are held by intermediate holding companies.

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

International Financial Reporting Standards ('IFRS') (unaudited)

The Group will adopt IFRS in its consolidated financial statements for the year ending 31 March 2006.

In compliance with European Union regulations the interim results for the half year to 30 September 2005 will be presented under IFRS.

As required by IFRS 1 'First time adoption of IFRS' the Group will adopt full retrospective application in its accounts, except where it will make use of exemptions permitted by the Standard. These being:

- the Group will take advantage of the exemptions allowed in IFRS 1 regarding IFRS 2 'Share-based Payments'. The Group will apply the exemptions for share-based payments granted on or before 7 November 2002 and for equity settled transactions granted after 7 November 2002, vesting before 1 January 2005. The Group will meet all disclosure requirements of IFRS 2;
- the Group will adopt IFRS 3 'Business Combinations' to the extent that it applies to acquisitions post 1 April 2004. Business combinations prior to that date will be treated under previous accounting standards in accordance with the optional exemption permitted under IFRS 1. All goodwill and intangibles will be tested for impairment as required by International Accounting Standard ('IAS') 36 'Impairment of Assets', on an annual basis;
- the Group will take advantage of the exemption which allows cumulative actuarial gains and losses in defined benefit pension schemes up to the date of transition to IFRS (1 April 2004) to be recognised immediately.

During the year ended 31 March 2005, the Group has made significant advances in assessing the financial impact of convergence with IFRS. In brief, the major areas of impact are:

IFRS 2 – Share-based Payments

This standard deals with the valuation of share awards and their treatment in the financial statements. At present the Group applies UITF 17 'Employee Share Schemes' in so far as it applies to the Group's share schemes. Under IFRS 2 all share awards must be measured at fair value at grant date and recognised as an expense over the vesting period.

Since 31 March 2004, the Group has undertaken a review of methods for valuing share option awards. Advice has been taken from external valuation specialists and all relevant options will be valued using a Black-Scholes model.

IFRS 3 – Business Combinations

This standard deals with accounting for business combinations including goodwill and intangible assets. Goodwill will be recognised as an asset and reviewed for impairment at least annually. Any impairment is recognised immediately and will not subsequently reverse. Goodwill amortisation will cease. Goodwill arising on acquisitions before the date of transition to IFRS will be retained at previous UK GAAP amounts subject to being tested for impairment at that date. Other intangible assets arising from acquisition after 1 April 2004 will be separately identified and amortised over their estimated useful economic lives, which may be over shorter periods than goodwill has previously been amortised.

As a result of this change, the Group's operating profit will be increased by the amount of goodwill amortisation under UK GAAP. For the year to 31 March 2005, this amounted to £11.4m. In addition, operating profit will be reduced by any amortisation on separately identified intangible assets.

IAS 19 – Employee Benefits

This standard covers all forms of employee benefits, but the impact for the Group will be in accounting for defined benefit pension schemes. The Group currently accounts for these schemes using SSAP 24 'Accounting for Pension Costs' and also complies with the transitional rules of FRS 17 'Retirement Benefits'.

The impact on the financial statements will be to introduce a liability on the balance sheet in respect of defined benefit pension schemes and to reduce shareholders' equity by a corresponding amount.

The Group has chosen not to disclose quantified information on the impact of all the changes due to IAS in these statements, though it will do so in the interim financial statements. In accordance with guidance from The Committee of European Securities Regulations, quantitative disclosure will be issued only when it can be measured with sufficient reliability and confidence. There is still significant fluidity in the development of IAS and the Group does not wish to provide quantitative information until it has been tested.

The Group is of the view that no other standard will have a significant impact on the accounting or operations of the Group.

Five year summary
for the years ended 31 March

	2005 £'000	2004 £'000	2003 £'000	2002 £'000	2001 £'000
Summarised consolidated Group profit and loss account					
Turnover	229,470	185,744	105,659	45,651	17,465
Profit before interest and goodwill amortisation	22,378	23,153	16,685	8,360	3,148
Goodwill amortisation and impairment	(16,636)	(10,690)	(6,288)	(2,903)	(1,156)
EBT charges	244	(1,025)	(580)	(494)	(67)
Exceptional items	(1,747)	(3,040)	(702)	-	-
Interest	(4,451)	(3,076)	(1,260)	(283)	(1,226)
Taxation	(5,367)	(6,176)	(4,737)	(1,851)	(648)
Minority interests	(303)	(108)	-	-	-
Dividends	(2,280)	(2,090)	-	-	-
Retained (losses)/profits	(8,162)	(3,052)	3,118	2,829	51
Earnings per share adjusted (diluted)	15.6p	20.5p	18.6p	14.2p	6.9p
Dividend per ordinary share	3.0p	3.0p	-	-	-
Summarised consolidated Group balance sheet					
Intangible fixed assets	197,928	201,355	142,623	92,941	36,235
Tangible fixed assets	13,198	6,546	3,635	2,332	601
Current assets	94,396	89,043	65,145	54,877	18,651
Current liabilities	(75,734)	(67,784)	(60,737)	(55,964)	(16,449)
Non current liabilities	(78,489)	(72,015)	(36,225)	(9,388)	(973)
Total capital employed	151,299	157,145	114,441	84,798	38,065

Company information

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Company's registered number

4128850

Place of incorporation

Registered in England and Wales