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Tribal Group plc Report and Accounts 2006

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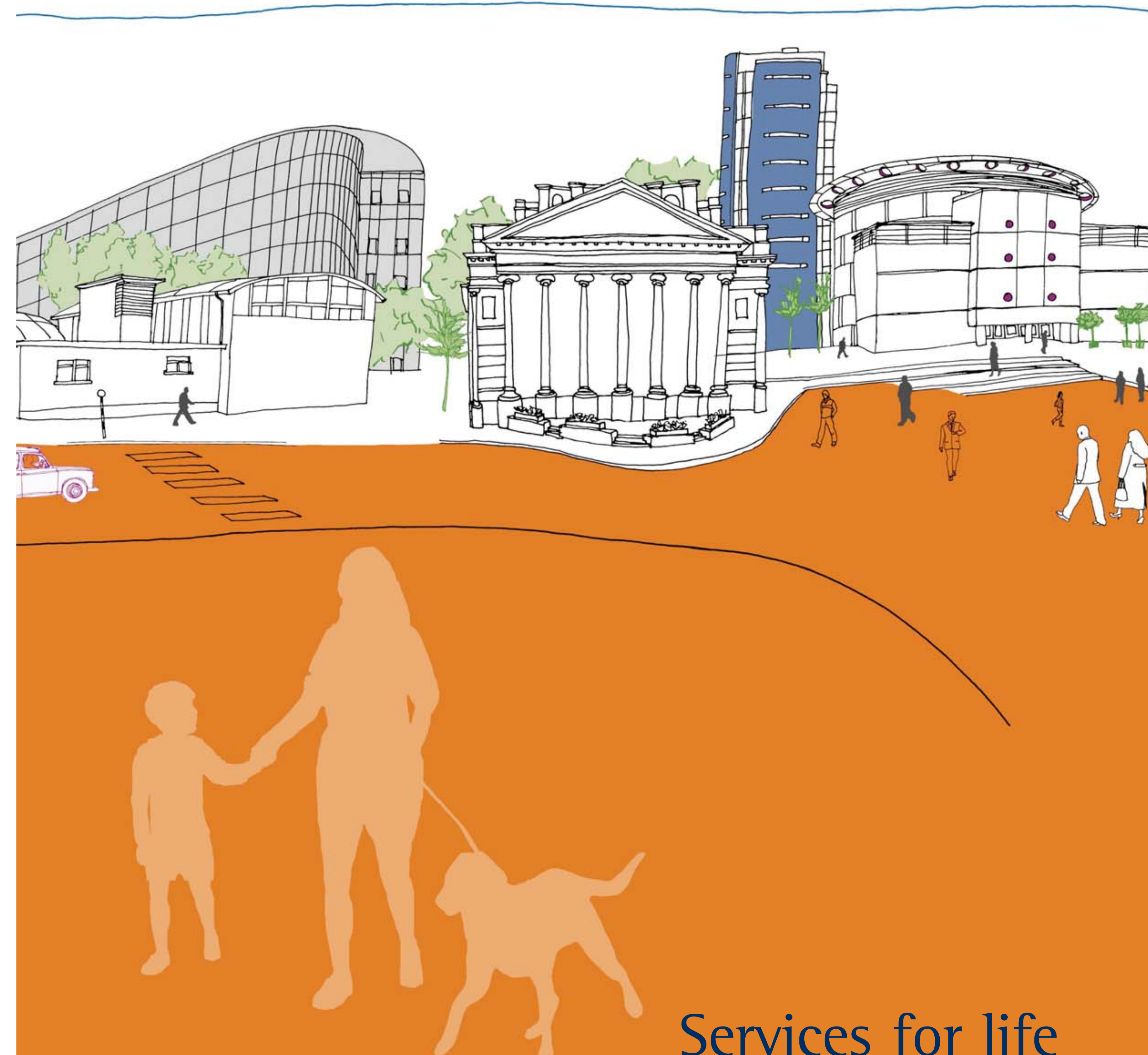

Services for life

When Tribal Group was established in 1999, our vision was to build a business that would make a difference to the quality and delivery of public services, and through them, make a difference to people's lives and life chances.

Today, thanks to our 2,300 talented and committed staff, we have together created something of which we can be very proud, and we are truly carrying out our vision. Every day we are helping to regenerate communities, raise standards in schools and colleges, improve housing and treat patients in hospital. Services that matter to everyone. Services for life.

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Highlights of the year

- Strong organic revenue growth during the year, up by 19 per cent.
- Profit before tax* up 6.7 per cent at £19.0m.
- Full year dividend up 10 per cent to 3.3p.
- Excellent cash conversion of 123 per cent and free cash flow of £19.1m.
- Successful integration into six divisions has delivered a robust operating structure.
- Strong financial and operational performance by Mercury Health.

Financial highlights

Year ended 31 March	2006	2005	
Turnover	**£259.9m**	£229.5m	**+13.2%**
Revenue	**£214.8m**	£179.9m	**+19.4%**
Operating profit	**£23.3m**	£13.4m	
Adjusted operating profit*	**£24.1m**	£22.3m	**+8.1%**
Operating margins*	**11.2%**	12.4%	
Profit before tax*	**£19.0m**	£17.8m	**+6.7%**
Profit on ordinary activities before taxation	**£17.5m**	£9.0m	
Profit on ordinary activities after taxation	**£12.8m**	£3.6m	
Adjusted diluted earnings per share*	**17.2p**	15.3p	**+12.4%**
Basic earnings per share	**16.2p**	4.6p	
Free cash flow	**£19.1m**	£2.9m	
Operating profit to cash conversion*	**123%**	60%	

Note: *The adjusted operating profit, operating margins, profit before tax and adjusted diluted earnings per share are stated before goodwill impairment of £nil (2005: £6.7m), intangible asset amortisation of £0.3m (2005: £0.3m), share option costs of £0.4m (2005: £0.1m), IAS 32/39 finance costs of £0.8m (2005: £nil) and exceptional bid costs of £nil (2005: £1.7m) (see page 43 and page 52).

Chairman's statement

I am pleased to report on the results of Tribal Group plc for the year ended 31 March 2006. This has been a successful period for the Group, during which we have further strengthened our position as a leading professional support services and consultancy business, predominantly operating in the UK public sector.

During the year, the Group has generated strong organic growth through its core consultancy and support services businesses in education; local government, housing and regeneration; health and social care; and central government; and has successfully developed its healthcare delivery business, Mercury Health.

We have delivered strong turnover growth for the year, up 13 per cent at £259.9m (2005: £229.5m). Operating profit* was £24.1m (2005: £22.3m) and operating margins* were 11.2 per cent (2005: 12.4 per cent). Profit before tax* was up 6.7 per cent at £19.0m (2005: £17.8m), profit after tax was £12.8m (2005: £3.6m) and adjusted diluted earnings per share* were 17.2p (2005: 15.3p).

During the year, the Group generated free cash flow of £19.1m (2005: £2.9m), representing an operating profit* to cash conversion rate of 123 per cent (2005: 60 per cent). Net debt at the year end was £75.9m including the non-recourse Mercury Health project debt of £20.2m. Our gearing was 47 per cent and our interest cover was 4.7 times. At 31 March 2006, the Group s committed revenue was £333m.

NOTE: *The operating profit, operating margins, profit before tax and adjusted diluted earnings per share are stated before goodwill impairment of £nil (2005: £6.7m), intangible asset amortisation of £0.3m (2005: £0.3m), share option costs of £0.4m (2005: £0.1m), IAS 32/39 finance costs of £0.8m (2005: £nil) and exceptional bid costs of £nil (2005: £1.7m) see page 43 (consolidated income statement) and page 52 (earnings per share note).

Operating structure

We now have three reporting segments: consulting services, education and technology services, and healthcare delivery. Within this structure, we have continued to strengthen management and financial reporting arrangements and have further invested in our business development teams. We are seeing significant benefits from an ever strengthening Tribal brand and from offering a more integrated package of services across our customer base. Our ability to do this will increasingly differentiate Tribal from other competitors in our markets, opening up more opportunities and increasing barriers to entry.

Mercury Health

During the year, the major focus for Mercury Health was the implementation of the £214m contract we signed with the NHS in December 2004 to design, build and manage a regional network of treatment centres for elective surgery and diagnostic procedures. The first three centres in Wycombe, Medway and Portsmouth are now open, on time and to budget, and performing well. The fourth and largest centre, in mid-Sussex, will open at the end of June.

Mercury Health has a significant market share of this emerging market and is well placed to develop into a major UK healthcare provider. We are currently bidding for several contracts as part of the £3.5bn Phase 2 procurements for diagnostics and elective surgery.

We are also bidding for a number of primary care opportunities and we announce today our first primary care contract in City & Hackney. This contract is an important first step in the development of our primary care business.

Dividend

The board is pleased to announce that it is recommending a final dividend of 2.25p per share, making a total of 3.3p per share for the year (2005: 3.0p). Subject to approval at Tribal s 2006 annual general meeting, this dividend will be paid on 13 October 2006 to Tribal s shareholders on the register at 22 September 2006.

People

Tribal 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 2,300 staff at all levels. Their efforts have ensured that Tribal continues to be one of the most respected and dynamic companies in its markets.

Seasonal weighting

Our business has always been weighted to the second half and in particular to the final quarter of the year. The weighting towards the second half of the year will be even more pronounced this year with first half profits and earnings expected to be below last year.

This is partly due to the increasing seasonal weighting of revenue to the second half, in line with government spending. However, this year, the first half will also be impacted by higher Mercury Health bid costs, higher interest costs (as a result of the Group s investment in Mercury Health) and only a partial contribution from Mercury Health s largest centre in mid-Sussex.

Prospects

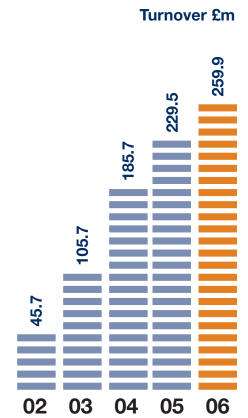
Tribal is firmly established as a major supplier of high value-added consulting, education and healthcare delivery services. We have a robust business model with a balanced and extensive range of services operating across public sector markets. We are well placed to capitalise on the increasing number of opportunities arising from the Government s public sector reform agenda.

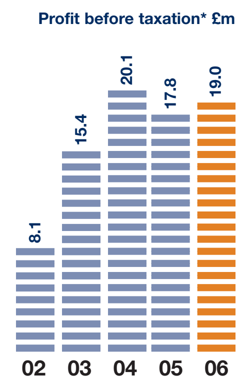
We continue to diversify our service offering, focusing primarily on delivering organic growth, increasing the level of committed revenue by winning long term contracts, and by leveraging our relationships and advisory expertise to develop delivery services in our principal markets.

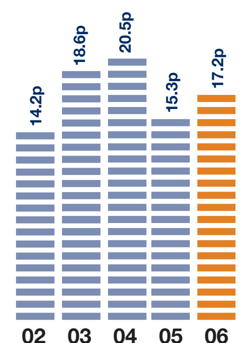
We have strengthened our divisional management structure during the year and are now in a stronger position to achieve further improvements in margins through both operational efficiency and the centralisation of support services.

The board is confident about the Group s prospects.

Strone Macpherson
Chairman
20 June 2006







Chief Executive's statement

During the year, our businesses have continued to strengthen their service offerings and deliver 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 £275bn of annual government spending. The main driver for our business continues to be the expanding role of the private sector in both advising the public sector and delivering services on its behalf.

In the year ended 31 March 2006, 95 per cent (2005: 94 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 good opportunities to transfer and apply the skills we have developed to the private sector.

Operating review

Tribal s businesses now report in three segments: consulting services, education and technology services and healthcare delivery.

All divisional operating profit and operating profit margins are stated before amortisation of IFRS 3 intangibles, goodwill impairment, share option charges and exceptional bid costs.

Consulting services

Consulting services is managed through four divisions: consulting, resourcing, communications and property.

	Year ended 31 March 2006 £'000	Year ended 31 March 2005 £ 000
Revenue	**122,743**	110,750
Operating profit	**15,464**	16,912
Operating profit margin	**12.6%**	15.3%

Consulting

	Year ended 31 March 2006 £'000	Year ended 31 March 2005 £ 000
Revenue	**63,242**	55,238
Operating profit	**6,965**	6,677
Operating profit margin	**11.0%**	12.1%

Consulting achieved good levels of revenue growth, up 14 per cent to £63.2m.

Operating profit was up by 4 per cent, but operating margins were lower compared with 2005.

We have now developed into one of the top six major consulting practices operating in the public sector, with expertise across health, local government, regeneration, housing and central government. Overall the market for consultancy remains strong, with demand driven by the Government s efficiency agenda and the increasing pace and complexity of its reforms.

During the year, we delivered a solid performance across the portfolio, with very strong performances in central government off-setting lower than planned levels of utilisation in health, housing and local government.

In central government, we have recruited some very high quality consultants into the Group, growing numbers from 35 to over 60. We continue to widen our portfolio of clients, with work won at the Ministry of Defence, Environment Agency, Revenue & Customs, Forensic Science Service, Office for National Statistics, Department for Rural Affairs and several high profile departments within the Home Office.

We have made a significant investment in the re-tendering of the Office of Government Commerce s Catalist consultancy framework (formerly S-Cat). Tribal Consortium has now been awarded a total of 15 Catalist consultancy framework agreements by OGC buying solutions, an executive agency of the Office of Government Commerce in the Treasury. We have been awarded more consultancy agreements under this framework than any other company.

Top of the class

Over the next four years, we will inspect 7,000 primary, secondary and special schools on behalf of the Office for Standards in Education (Ofsted), more than any other provider in England. We have invested heavily in the provision of training for both our inspectors and schools, and in our market-leading regional web portals, a resource for inspectors, schools, local authorities, pupils and parents. With Ofsted due to take on more responsibilities, including early years and childcare inspection, we are well positioned to play an increasing role in the delivery of inspection services.

Five star treatment

Now you choose the date, time and place of your first outpatient appointment, from a choice of hospitals or clinics, either there and then in the surgery or later on the telephone or internet. Choose and Book was introduced in 2004 and will soon be available to all patients in England. It is one of a number of patient choice initiatives we have been helping the NHS deliver from the planning stage onwards. Other examples include the NHS Care Records Service, where we continue to work in partnership with the NHS to support the development of the most ambitious database of patient information anywhere in the world.

Chief Executive's statement

In healthcare, utilisation rates have fallen in health planning and financial management. This is, in large part, the result of the reorganisation of strategic health authorities and primary care trusts, which has delayed decision making and increased uncertainty over the future of PFI schemes and funding issues generally across the NHS. Now that the picture is clearer and PFI projects are moving ahead, we are more confident about the outlook for these parts of the business. Both the informatics and equipping areas have performed strongly. In informatics, we continue to win a number of important contracts including support to the National Programme for IT within the NHS in England, and a contract to support the development of IT for the NHS in Wales. We have won equipping consultancy work with West Hertfordshire NHS Trust and with several PFI consortia.

In local government, regeneration and housing, market conditions have overall remained strong, although utilisation rates have been impacted by the reorganisation of our management arrangements and investment in additional teams to service new areas of opportunity. During the year, we continued to win a range of consulting assignments in local government for performance management, capital projects and organisational learning. We have also won a wide range of economic development and regeneration projects, including a three year contract as the private sector partner to the Boston Area Regeneration Company; further high profile housing stock transfer assignments across England, Scotland and Wales; and a major long term programme for administration of grants to the voluntary sector.

The integration of the division has now been completed, enabling us to provide a strong and unified brand proposition to the marketplace. Coupled with our new operational structure, this will considerably strengthen both our profile and delivery capability, and ensure we offer our customers a fully integrated portfolio of advisory and transformational services.

The appointment of Ian McCagherty as the new chief executive will further strengthen overall divisional management and our shared service arrangements for finance, IT and HR have started to yield savings as well as improve operational efficiency.

Resourcing

	Year ended 31 March 2006 £'000	Year ended 31 March 2005 £ 000
Turnover	**71,296**	74,297
Revenue	**26,193**	24,603
Operating profit	**4,276**	5,231
Operating profit margin	**16.3%**	21.3%

Resourcing increased revenues to £26.2m, up 6 per cent.

Operating profit has fallen by 18 per cent to £4.3m and operating margins have fallen by five percentage points to 16.3 per cent.

This is a satisfactory result in a more difficult recruitment market. Our recruitment advertising business has had a particularly challenging year, during which turnover has fallen, despite winning new contracts worth an annualised £14m.
The NHS market has been particularly weak.
The reorganisation of primary care trusts and funding deficits in several NHS trusts has resulted in a 34 per cent fall in our recruitment advertising volumes, with some trusts reducing their spend by up to 45 per cent. In the last quarter of the financial year, advertising volumes have stabilised and we expect the market in the current year to be less turbulent.

In response to the increasing shift of recruitment advertising to the internet, we have now increased our investment in our web-based recruitment products. During the year, our recruitment job site for senior management, careers for leaders , moved into profit and, since the year end, we have launched a dedicated job site for head teachers and senior management in schools. We will launch other products in due course.

Chief Executive's statement

During the year, the performances of our executive and interim search businesses have been very strong, and we have reinforced our position as one of the leading consultancies in local government, housing and education. We continue to develop services in other parts of the public sector.

As in other areas of our business, there are now increasing barriers to entry. During the year, we won three preferred supplier contracts with Luton Council and the London Boroughs of Hackney and Lambeth; and were awarded framework contracts with Wolverhampton Council, London Borough of Waltham Forest, Nottingham City Council and Birmingham City Council.

Looking forward, we intend to focus on delivering an integrated HR offering and on new service provision such as neutral vendor contracts, where there are opportunities to bid for large scale contracts to manage temporary and permanent staffing supply services, and work in partnership with local authorities to reduce expenditure on staffing overall.

Communications

	Year ended 31 March 2006 £'000	Year ended 31 March 2005 £ 000
Revenue	**10,571**	9,958
Operating profit	**2,887**	2,364
Operating profit margin	**27.3%**	23.7%

Communications achieved good levels of revenue growth, up 6 per cent to £10.6m.

During the year, operating profit increased by 22 per cent to £2.9m with margins up to 27.3 per cent.

The integration of the business has been successful and we are now able to offer our customers a comprehensive package of services. We are already seeing the benefits of this approach.

With £5.7m of fee income derived from consumer campaigns, we are now the number one independent agency in PR Week s rankings for consumer PR and number eight in its overall rankings.

We have continued to win high profile new contracts during the year with the National Lottery Promotions Unit, the Department for Education and Skills (DfES) and the Department of Trade and Industry.

Framework contracts are becoming increasingly important. We are now on the rosters for the Central Office of Information, the DfES, the Department for Work and Pensions and the Department of Health.

While we will continue to focus on organic growth, we are in parallel looking at a small number of acquisitions which will enable us to strengthen and broaden our proposition to customers.

Property

	Year ended 31 March 2006 £'000	Year ended 31 March 2005 £ 000
Revenue	**23,603**	21,331
Operating profit	**1,336**	2,640
Operating profit margin	**5.7%**	12.4%

Property achieved good revenue growth, up 11 per cent to £23.6m.

Operating profits were down 49 per cent to £1.3m with a large fall in margins to 5.7 per cent.

The market for architectural services has been very strong in education with progressively larger projects in the further education, universities and schools markets. During the year, we won contracts with Colchester College of Further Education and Bournemouth University. We have also been successful in the academy programme, where we are now appointed as project managers and designers on a number of academies including the Arcadia Fashion Academy in London.

In healthcare, it has been a difficult year in which there has been considerable uncertainty over the future of PFI. Several large projects have been delayed, resulting in revenue slippage and impacting margins in 2006. Following clarification of the Government s position, we are hopeful that projects will move forward again and that margins will improve in 2007. We expect our consortium to reach financial close on the £220m Peterborough Hospital PFI scheme in late 2006. We have been awarded a place, as one of three consortia, on the £1.2bn NHS All Wales Designed for Life capital spend framework contract to be delivered over the next four to six years, working as the architectural partner of HBG Construction.

Over the medium term, we expect fewer major acute hospitals to be built as more healthcare is delivered through primary care and in independent sector, and NHS, treatment centres. As a result, we are adjusting our focus to reflect this change. During the year, significant new work has been won through the LIFT primary care programme. We have now reached financial close on the Accrington LIFT scheme and our consortia are preferred bidders on various other schemes. We have also designed four independent sector treatment centres for Mercury Health.

Our architectural business, which has an extensive reach across education and health, is now ranked as the third largest in the UK by the Architect s Journal.

Our project management, surveying and town planning businesses have had a good year, particularly in education. A number of significant contracts have been won over the period including Herefordshire College and Suffolk College. In 2006/7, we will add capacity to our property services business by increasing our project management headcount. This will enable us to strengthen our position in education and extend our services into other public sector markets.

The divisional management has been strengthened by the appointment of Simon Hall as the divisional chief executive. The shared service arrangements in finance, IT and HR will improve business efficiency and the newly formed divisional business development function will help us to market a fully integrated property service to our clients.

Our established presence in education and health means we remain well placed to benefit from the high levels of capital spend in these markets.

Education and technology services

	Year ended 31 March 2006 £'000	Year ended 31 March 2005 £ 000
Revenue	**79,184**	70,397
Operating profit	**13,735**	10,893
Operating profit margin	**17.3%**	15.5%

Education and technology achieved good levels of revenue growth, up 12 per cent to £79.2m.

Operating profit has increased by 26 per cent to £13.7m, with operating margins increasing to 17.3 per cent.

This has been an outstanding year for the division, with good performances across the board. We are now firmly established as one of the UK s leading education businesses, offering a broad range of services to schools, local education authorities, further education colleges, the Learning and Skills Council (LSC), universities and to the DfES and its agencies.

The implementation of our largest education initiative to date, a £50m contract with the Office for Standards in Education (Ofsted), was completed to plan, and during this financial period we have inspected a total of 1,300 schools. Over the next few years, we expect that Ofsted will assume responsibility for the work of other inspectorates including the Adult Learning Inspectorate and for early years education and childcare inspections. This will give us the opportunity to develop further our inspection services.

Chief Executive's statement

We continue to have considerable success with our school improvement programme, Pupils Champions , which now provides teacher support to 51 schools in disadvantaged areas through contracts with the DfES and local authorities. We have seen some excellent results; 90 per cent of schools improved their percentage of five A* to C grades this year.

Our education consulting and benchmarking business has continued to develop its services, winning significant new work in further and higher education. We have recently announced an important contract with the Quality Improvement Agency (QIA) to provide a national improvement service to the learning and skills sector. We will identify, train, support and deploy a network of around 100 specialist advisers. We have also won a contract to benchmark expenditure in all further education colleges in Wales through ELWa, the Welsh learning and skills body.

During the year, we secured an important £15m contract from the DfES to develop and manage, in partnership with Plymouth University, the National Centre for Excellence in Teaching Mathematics. This work will be aligned with a more recent £2m assignment we have also secured with the QIA to provide networks of subject learning coaches for maths teachers in post-16 education.

Our student administration software businesses in the further education, work-based learning, children s services and university sectors have had a successful year, increasing market share and launching new products. A number of new contracts have been won including Regent College (an independent institution) and Doncaster College. We have also won a number of new asset management contracts.

We have continued to build on our successful distance learning and e-learning offering. Since 2001 we have supplied distance learning to over 300,000 learners through more than 150 FE colleges and training providers. We have won a number of important new e-learning contracts, many of which involve the development of industry leading learning technologies such as m-learning, the delivery of learning through mobile phones. Recent contract wins include the Access to Employment Programme, a European funded project to support access to employment and career development for minority ethnic people.

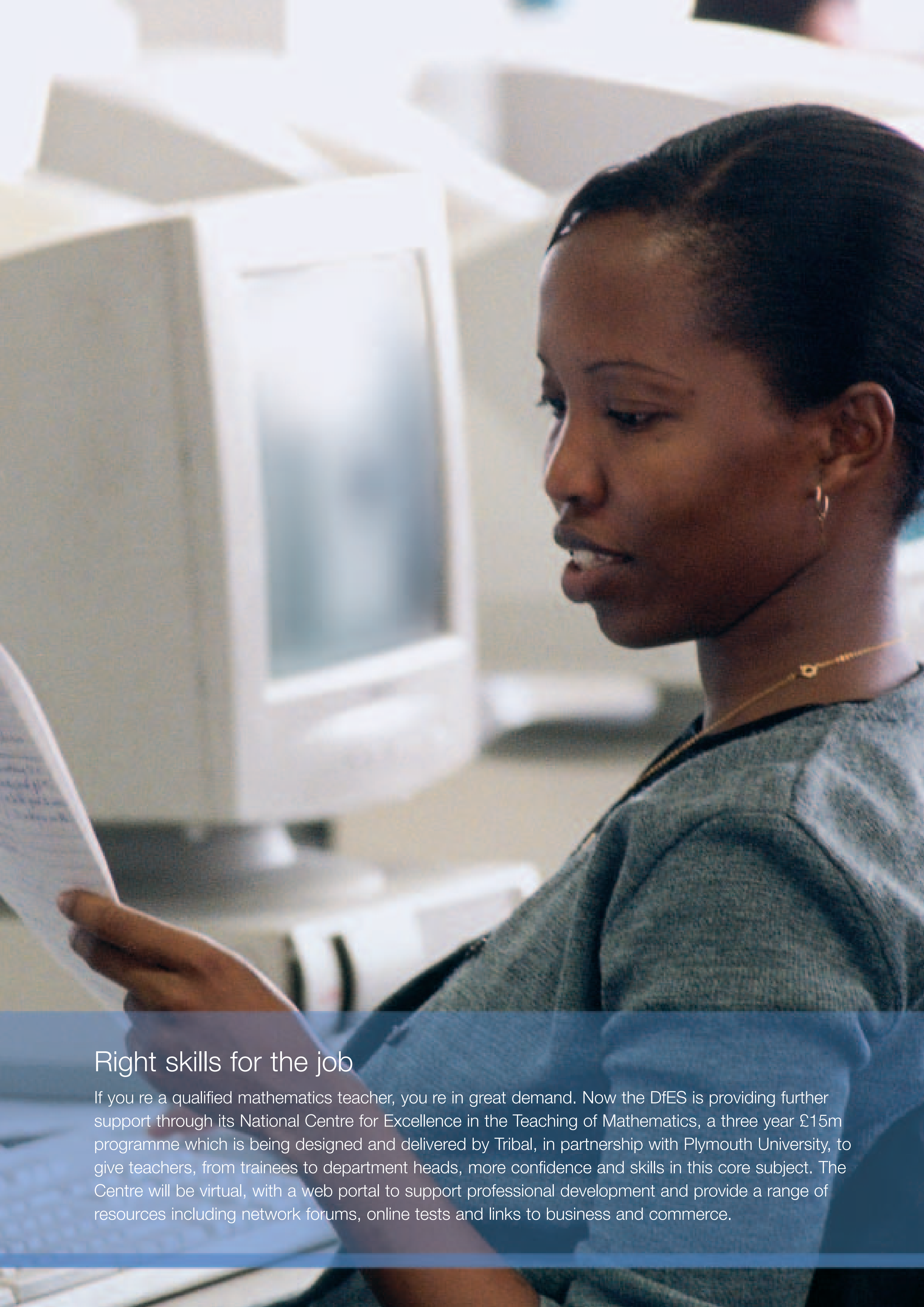
The market in teacher and lecturer training remains difficult. However, this has been compensated by several new training contract wins during the year including a £10.7m contract with the LSC to deliver learning to offenders in prison and during probation. Since the year end we have signed a £3m three year contract with Thames Valley Police to support the training of probationer police officers.

We continue to develop our information management capability with a number of new customers won in the local government and private sectors.

Our education and technology business is very well positioned in the sector. We have developed an extensive range of high value niche education services: e and m-learning; information, advice and guidance; curriculum design; professional development; and distance learning. We are able to offer these to our customers, along with other services from across the Group, as a bundled service offering. For example, by combining education curriculum advice with property and architectural advice, or education consultancy with software products. The breadth of our service offering, the range of our technical skills and our in-depth knowledge of our markets, increasingly differentiates us from our competitors.

Healthcare delivery - Mercury Health

	Year ended 31 March 2006 £'000	Year ended 31 March 2005 £ 000
Revenue	**14,550**	349
Operating profit	**1,476**	(345)



Right skills for the job

If you re a qualified mathematics teacher, you re in great demand. Now the DfES is providing further support through its National Centre for Excellence in the Teaching of Mathematics, a three year £15m programme which is being designed and delivered by Tribal, in partnership with Plymouth University, to give teachers, from trainees to department heads, more confidence and skills in this core subject. The Centre will be virtual, with a web portal to support professional development and provide a range of resources including network forums, online tests and links to business and commerce.

Plenty to smile about

The most important fact about our treatment centres is that they help the NHS reduce waiting times for patients. But there are plenty of other benefits. Quick and easy, and all absolutely spotless. The staff were very friendly too. Can t fault it really , was the verdict from one satisfied customer. Our services, which include elective surgery, diagnostic testing, minor injuries and walk-in facilities are helping to transform the way patients experience the NHS, offering them timely and efficient treatments, conveniently located close to their homes and local amenities.

Chief Executive's statement

Mercury Health, the Group s healthcare delivery subsidiary, performed strongly with revenue of £14.6m and operating profit of £1.5m after bid costs.

This has been a very successful first year of trading for Mercury Health, during which we have exceeded all our financial and operational expectations.

In December 2004, we signed a £214m contract with the NHS to design, build, staff and manage a regional network of five treatment centres. We have now opened a diagnostic centre in Wycombe, an elective surgery centre in Medway and an elective surgery, diagnostic and minor injuries unit, and walk-in centre in Portsmouth. All these centres have opened on time and to budget. The fourth and largest centre, an elective orthopaedic facility, will open at the end of June in Haywards Heath, Sussex. The fifth and smallest centre in Havant is expected to open in 2008.

To date, the clinical performance of the centres has been excellent and the response from the NHS and from patients has been very encouraging.

Last year, the Secretary of State for Health, Patricia Hewitt, announced Phase 2 of the national procurement of independent sector treatment centres (ISTC). The procurement embraces both diagnostic and elective surgery capacity and has an overall value of £700m per annum, some £3.5bn over the five year contract period. Mercury Health is currently short-listed on a number of contracts. Preferred bidder announcements are expected later this year.

In parallel with developing a diagnostic and elective surgery business, Mercury Health is also starting to build a primary care business. In November 2005, we announced that we had formed two strategic partnerships with organisations involved in running GP practices. At the end of last year, the Department of Health issued the first national procurement in primary care, with six pilot schemes. We are pleased to announce today that Mercury Health has been successful in winning a five year contract with City & Hackney PCT to operate a GP practice and walk-in centre. The contract is strategically important for Mercury Health, placing us in a strong position to participate in this emerging market.

There is increasing consensus within the NHS that the independent sector will play a significant role in the delivery of healthcare. Having secured more than 10 per cent of the first wave of ISTC contracts, Mercury Health is well placed to become one of the largest providers of clinical services to the NHS.

People

Tribal continues to employ and attract some of the most talented people in our markets. Our headcount has increased through organic growth by 16 per cent during the year. Our success is a result of the high quality of advice and services that our 2,300 employees and over 1,000 associates deliver for our customers. I would like to thank them all for their hard work over the last year and for their contribution to ensuring Tribal is one of the most exciting businesses to work for in our sector.

Prospects

We have developed a comprehensive service offering and have a very strong position in our public sector markets. Our divisional operating structure is now helping us to deliver improved operational performance and win contracts which involve several parts of the Group. We are in an excellent position to build on this strong platform. We have also made good progress in developing Mercury Health, which is well positioned to become a major healthcare business. We believe that the prospects for the Group are encouraging.

Henry J Pitman
Chief Executive
20 June 2006

Business review

Strategy

Tribal Group currently delivers a range of consultancy and support services, predominantly to the UK public sector. Through Mercury Health, the business has diversified into healthcare delivery.

Business model

Tribal has three main business areas: consulting services, education and technology services, and healthcare delivery.

Through our consulting businesses, we provide an extensive range of management consultancy, PR and communications, resourcing and property services. Working with over 2,500 different clients across all major public sector markets, we are able to offer our customers a fully integrated package of services.

Our education business, which has customers across the whole education and training sector, provides education consulting, products and services, which help our clients manage their organisations efficiently and respond to the developing government agenda.

Mercury Health, the Group s healthcare delivery business, works with the NHS to deliver clinical services.

Organic growth

The Group has developed a robust and scaleable operating structure which enables us to achieve good levels of organic growth by expanding our service offering, increasing our consultant headcount and the range of services we sell to our customers. Increasingly, we are able to differentiate ourselves by offering our customers a bundled package of services, bringing together skills from across the Group to respond to a specific contract opportunity.

Acquisitions

Now we have a robust operating structure, with our businesses run through fully integrated divisions, we are in a position to make a limited number of small acquisitions. Our criteria for acquisitions will continue to be businesses that: extend our product or skills offering; deepen or extend our market positioning; have a robust profit history and significant growth potential, and are a good cultural fit with Tribal. Businesses we acquire will be fully integrated into our divisional structure.

Margin

The Group s objective is to maintain or improve operating margins each year. This will be achieved through the careful selection of opportunities and job costing, tight project management and rigorous control of our cost base. As Tribal grows, we are seeing the benefits from delivering increasing revenue through our management and physical infrastructure, as well as from consolidated procurement across the Group.

Values

Tribal s positioning in its markets is strengthened by the Group being closely aligned to our public sector clients. Our people are known to have a deep understanding of our clients organisations, local, regional and national agendas, and empathy for the public sector they support. Our employees believe that the work they do helps to improve the lives of the citizens it affects. This sense is underpinned by our core purpose and a set of Group values which flow through all the work we do.

Our core purpose is to enhance people's lives and life chances.

Our five values:

- **Passionate about improvement**
- **Stronger together**
- **Inspiring people**
- **Unleashing talent**
- **Prepared to be different**

Management structure

The Group is operated through strong stand-alone divisions, each with a divisional chief executive, divisional finance director and support service arrangements. The divisional chief executives are members of the executive board.

We continue to strengthen the management arrangements across our business. During the year, we have recruited a number of high quality individuals from both the private and public sectors. Tribal has established a reputation as a dynamic business with a high level of integrity, where managers are given considerable operational autonomy within a supportive Group framework. This business environment, and the company s strong underlying values, makes Tribal a very attractive place to work.

Business review

Our markets

Our main public sector markets have considerable growth potential. Overall, the outsourcing of core services is still at a relatively early stage and the pace of public sector reform combined with the funding pressures up to 2008 will accelerate this. Our customers are looking to contract with larger businesses, with strong balance sheets and the ability to provide a range of services.

This trend, along with an ever more complex and expensive procurement process, has created barriers to entry which are beneficial for Tribal.

While the public sector will remain our core market, we intend over time to apply the skills we have developed in the public sector to the private sector market. We will look to increase the percentage of our private sector work each year.

Health and social care

Having significantly increased investment in the NHS since the publication of the NHS plan in July 2000, the Government is now focused on the reform of health services.

The community services white paper Our health, our care, our say sets out how care will increasingly shift from hospitals into the community, with more funding following the patient. The intention is that over the next ten years, around five per cent of resources will shift from secondary to primary care. Increasingly long-term conditions will be managed outside hospitals by GPs, incentivised through the new Quality and Outcomes Framework.

The NHS s reorganisation has now been announced, with a reduction of strategic health authorities from 28 to 10 and primary care trusts (PCTs) from 303 to 152. PCTs will increasingly become commissioners of services, with more than 70 per cent sharing their boundaries with local authorities, allowing improved working between the NHS and social services.

The NHS is in the midst of a major capital investment programme, with significant investment in IT and in the building of new acute hospitals and primary care facilities procured through PFI and LIFT.

Tribal has a very strong position in this NHS market and is involved with a number of the key initiatives underway — advising on PFI projects and on the National Programme for IT, providing property services to PFI consortia and NHS trusts, supporting procurement and helping the recruitment and development of NHS staff.

Ambitious targets to reduce waiting times for elective surgery and offer NHS patients genuine choice of where and when they receive medical treatment, means that by 2010, 15 per cent of all diagnostic and elective procedures will be carried out by independent providers, including Mercury Health, our healthcare delivery arm.

Education

The reform agenda in education has led to some further restructuring of organisations and an increasing emphasis on the personalisation of learning. For instance, the Children Act is reshaping education and social care departments, encouraging councils to see their main role as a commissioner rather than a provider of services. In further education, the recent white paper indicates a clear intention to extend contestability in this sector and the increasing funding for the education of the 14-19 age group will require new approaches to learning.

The academies and Building Schools for the Future initiatives (now involving primary as well as secondary education) are very substantial capital programmes, extending to at least 2015 and offer continuing opportunities for our property, education and technology businesses.

Increasingly, the Government is looking to work with strategic partners for the delivery of major national education projects. As one of the leading education businesses in the UK, with a strong track record, Tribal is well placed to support its clients across the sector.

Local government, housing and regeneration

Demand continues for local government to transform the way in which it delivers services. National reviews, including Gershon and Lyons, have set a benchmark of what can be realised from service improvements and cost efficiencies, and have clarified the future role of authorities in the shaping of their communities.

In particular, there is an expectation that councils will develop local partnership models, create innovative shared service arrangements, and focus on economic and social regeneration.

The housing sector is seeing a continuing shift in housing stock from local government to registered social landlords (RSL) and to arms length management organisations (ALMOs). There is ongoing consolidation, with the sector becoming dominated by a smaller group of well resourced large RSL organisations which are able to play an enhanced role in the community.

With a broad range of expertise across local government, housing and regeneration, Tribal is very well positioned to benefit from these opportunities.

Business review

Our markets continued

Central government

The Government s third term agenda is focused on the reform of public services and in particular the personalisation of services. As part of this policy, the Government is encouraging competition and contestability as drivers for performance improvement. For example, the Department of Health has developed the independent sector treatment centre programme and the Home Office, following the Carter review, has established the National Offender Management Service to open up the running of prisons and probation services to competition.

As part of this agenda, the Gershon and Lyons reviews have set efficiency targets which have led to a number of mergers and collaborations between government agencies, and the development of shared service arrangements and joint procurement initiatives.

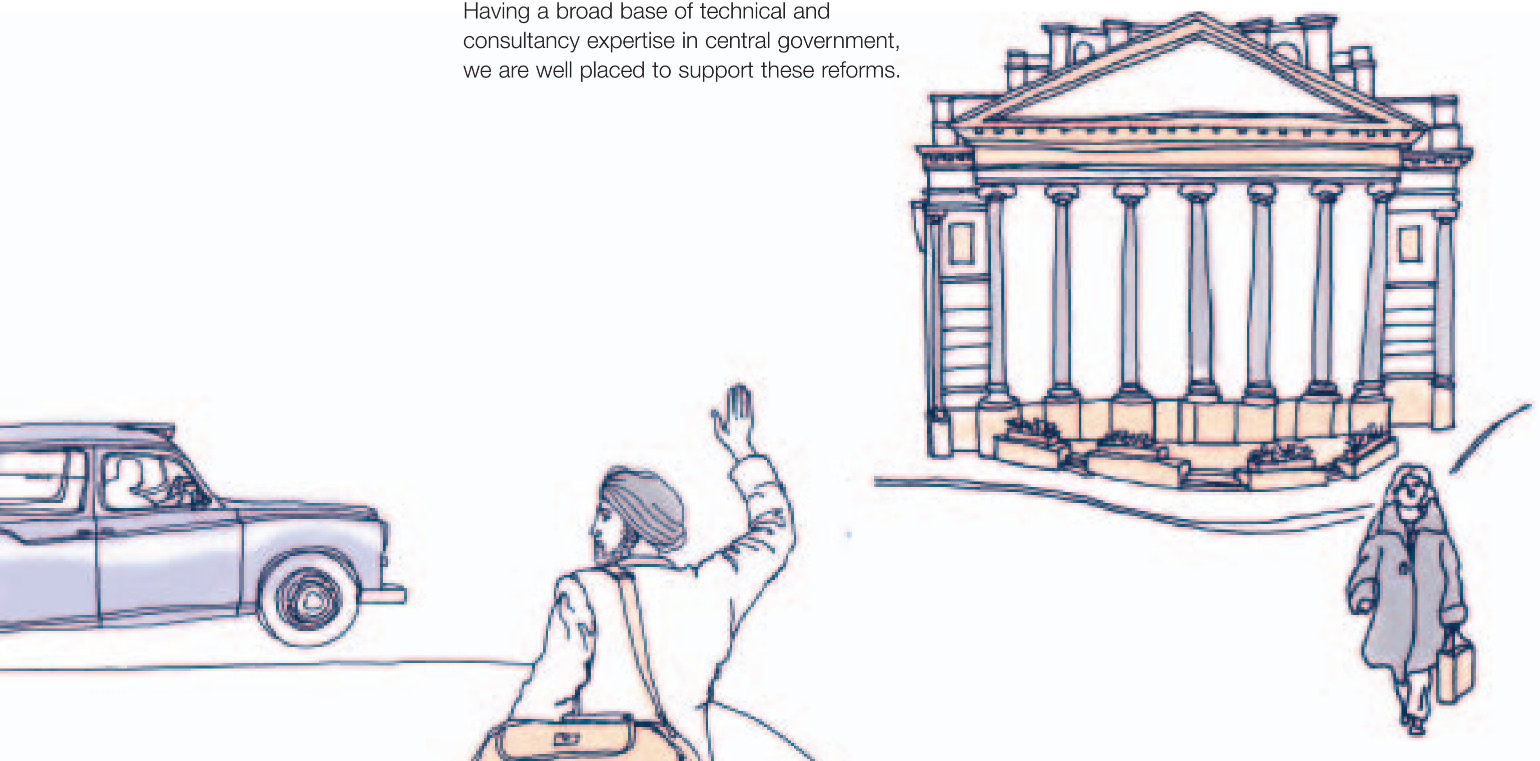
There is increasing focus on homeland security, bringing greater co-ordination between government departments and agencies. There are a number of initiatives underway in response to this agenda, including large scale programmes such as the introduction of identity cards.

Having a broad base of technical and consultancy expertise in central government, we are well placed to support these reforms.

Private sector

Although we work primarily with the public sector, our business with the private sector is considerable and growing. Over the next few years, we intend to extend the services that we have developed in the public sector into the private sector.

We have made particular progress with our property services, and with our resourcing, technology and information management businesses. Many of our customer relationships have been established over several years, particularly in the retail, rail, supply chain management, banking, leisure, and oil and gas sectors.



Our people

At Tribal, we believe we have an unusual and interesting mix of people. Our new joiners often remark on the extent of the technical, intellectual and management ability within the Group, whether recruitment consultants, town planners or architects, software and IT developers, clinical practitioners or educators.

We celebrate this diversity and recognise that it is one of our strengths. Working with other colleagues from different disciplines to enhance our offering and develop new services is a central part of our philosophy, and because we offer one of the most comprehensive product and service offerings in our markets, there are good opportunities for career progression and development.

Supporting our people

Continuing engagement with our staff is key to ensuring we become and remain the employer of choice. This year we have established staff forums at divisional and Group level to enable colleagues to have an increasing say, not only in the way we look after them, but also in the way we manage our business. This constructive sharing of views is already having a direct impact on our people and our business. In addition to divisional surveys, this year we are introducing a Group-wide staff survey to enable all of our people to tell us how we could do things better in the future.

Supporting our staff properly is paramount. We have now appointed HR managers or directors in each operating division and have introduced a single HR database to provide up to date personnel information and the option for staff to manage their own records online. Building our people management framework has allowed us to integrate our legacy structures into a divisional organisation, monitor the composition of our workforce and in particular its diversity, improve our people performance management and identify personal development needs. Providing a range of training and development opportunities at every level of the workforce will be a key target for 2006/7.

We have also launched Tribal Forward, a new graduate group within our consulting division. The group focuses on new and younger talent within the company and on their development as well-rounded and commercially-focused consultants. Supported by the divisional management team, the group is self-governing, thus allowing our younger consultants to develop their interpersonal as well as business skills. We believe this approach may be appropriate across the rest of Tribal.

Rewarding our people

We continually strive to improve and broaden the range of benefits we offer, both to reward success and encourage participation in, and ownership of, the business. We intend progressively to develop a menu-based range of benefits offering staff a choice in the number and type that make up their own package. We are seeking to standardise our terms and conditions of employment but in the majority of cases we exceed statutory requirements.

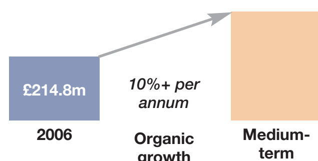
Recognising achievement

This year, our company awards will be extended more widely across the Group to ensure we reward and recognise effort and commitment at every level of the business. The awards will recognise both individual and team achievements in each of our five corporate values: passionate about improvement, stronger together, inspiring people, unleashing talent and prepared to be different.

Business review

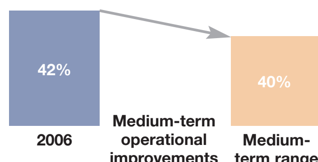
Risk management and key performance indicators

Organic revenue growth



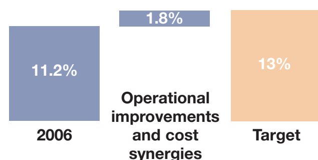
The organic revenue growth target represents a blended rate of 10%. 2006 growth was 19% due to some exceptional growth in our Education and Healthcare delivery divisions.

Labour costs as % of gross revenue



Labour costs as a percentage of revenue represents a blended rate of 42%. Labour costs comprise Tribal employed staff only and not our pool of associate staff.

Operating profit margin



In 2006 we achieved a blended operating margin of 11.2%. The medium term target is 13% which will be achieved by operational improvements and cost saving synergies.

Risk management

Over the past six years Tribal has grown rapidly. It is now a large group that spans several markets and different income streams. This can provide a challenge for a fast developing business, and we believe the key to success is a combination of strong central direction and good management talent within our divisions and businesses. We combine this leadership structure with robust processes and controls to ensure that we have detailed operational plans in place and we review performance by conducting regular monthly divisional meetings to ensure that the businesses are on track. This enables us to take appropriate action at the right time should any issues arise.

While the corporate centre sets the overall Group strategy, including targets and frameworks, we believe each business should exercise autonomy in the development of their own strategic plans with clear goals and milestones for future growth. Our management teams are experts in understanding customer requirements and market opportunities, and adapting their plans to achieve the best possible performance.

Reputational risk

We consider reputational risk and changes in government policy to be our most significant risks.

Since we have moved the majority of our businesses to a single brand, we are increasingly aware of the importance of managing our corporate reputation. As we win larger and more complex contracts, particularly in our education and health markets, we need to ensure we carefully select the contracts we bid for, price them correctly, fully understand all the contractual requirements and then deliver them effectively, since any such failure has a potential impact on the Group as a whole.

While a change in government policy is always a risk, our balanced portfolio of services across several public sector markets offers us a certain degree of protection, and in this respect we have some advantage over a number of our competitors. In the year to 31 March 2006, no customer accounted for more than 5.5 per cent of our revenue.

Other risks to which the Group is exposed can be categorised as financial or operational.

Financial risk

Financial risks are key for the Group as a whole. The impact of interest rate fluctuations is reduced by our treasury management policies. There is a likelihood that the Group's current tax rate of 25 per cent, well below the standard rate of corporation tax due to the resolution of prior year matters, will increase over time more in line with the standard 30 per cent rate. The Group will continue to mitigate its tax liabilities whenever and wherever appropriate. These and other financial risks are covered in the financial review section below.

Operational risk

Tribal operates in extremely competitive markets which can be significantly affected by the number and size of our competitors, pricing policies and knowledge of our customer requirements. Procurement cycles for large delivery and management service contracts are becoming more complex and involve clear justification of value for money to government bodies. The Group board signs off all major contracts to ensure these meet our core competencies, capabilities and financial targets.

We are a people based business and any increased costs of employment, including pension costs, could significantly impact our operating costs and profitability. The Group has limited exposure to defined benefit pension plans and sets clear direction as part of annual pay reviews. We have a clear strategy to reduce our labour cost bill as a percentage of gross revenue.

Day to day risks are all managed within our divisional management structure. Through the Executive Board, management teams, and corporate centre, we are regularly putting in place new processes and task groups to support divisional initiatives which can be of benefit to a number of business units — these cover areas such as branding, marketing, recruitment, procurement, bid support and review processes, pricing and technical expertise. Our divisional structure enables us to develop and spread best practice throughout the Group and to learn from developments in our different markets.

With this balance of central direction and review, combined with divisional management expertise and entrepreneurship, we are confident that our risk management framework will continue to support our growth targets.

Risk management is discussed in more detail in the Corporate Governance section.

Key performance indicators (KPIs)

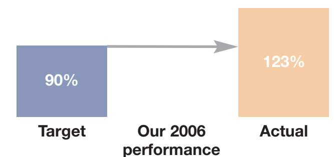
The Board uses a range of performance measures to monitor and manage the business. Each division has established their own performance measures specific to their business lines, however there are a number of KPIs which are applied across the Group. These Group KPIs fall into two categories, financial metrics that measure past performance and operational measures that allow us to manage the business into the future.

Our key financial KPIs are organic revenue growth, labour cost as a percentage of gross revenue, operating profit margin and operating cash conversion. These measures indicate the volume of work we have done, its profitability and the efficiency with which we have turned profits into cash.

Our KPIs for managing the business looking forward are committed income (irrevocable contracted orders) and staff turnover. The proportion of committed income to our budgeted turnover at the start of the financial year gives us visibility to our planning. Staff turnover measures our key resource and indicates our effectiveness in retaining staff.

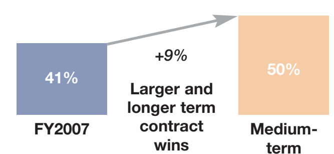
The Group has set some challenging but achievable targets for each of the KPIs. We aim to achieve these targets over the next three years.

Operating cash conversion



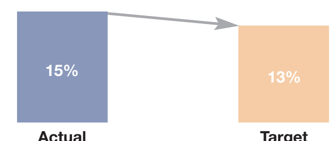
The ability to turn our operating profit into cash is measured by our cash conversion ratio. Our sustainable target is 90% and in 2006 we achieved an excellent performance of 123%.

Committed income



Committed income measures the contracted work in hand as a proportion of budgeted turnover at the start of the financial year. Our target is 50% and we start FY2007 with over 41% of firm orders.

Staff turnover



Staff turnover measures our ability to retain staff. This is achieved by generating a strong team ethos throughout the Group where employees trust management, are motivated and excited by the work we do and are rewarded for their commitment to quality and professional integrity.

Business review

Financial review

The financial review analyses the performance of Tribal Group in the financial year ended 31 March 2006. It also explains other aspects of the Group s results and operations, including our financial objectives and risk management.

International financial reporting standards ('IFRS')

The European Union issued a regulation in 2002 requiring all listed companies to prepare their consolidated financial statements in accordance with IFRS for accounting periods beginning on or after 1 January 2005. These consolidated financial statements are the first annual financial statements that the Group has prepared in accordance with IFRS and consequently the Group has complied with IFRS 1 'First time adoption of International Financial Reporting Standards'.

On transition the Group took advantage of several exemptions available:-

Share-based payments The Group has retrospectively applied IFRS 2 'Share-based payments' to the non-vested equity instruments granted on or after 7 November 2002 and has applied 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 April 2005.

Business combinations The Group has adopted 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 as permitted under IFRS 1.

Employee benefits The provisions of IAS 19 'Employee benefits' have been applied from the date of transition when the full actuarial deficit was recognised. Since that date the Group has applied the rules of the amendment to IAS 19 which allows actuarial gains and losses to be recognised immediately in the Statement of Recognised Income and Expense.

Financial instruments The Group has prospectively adopted IAS 32 'Financial Instruments Disclosure and Presentation' and IAS 39 'Financial Instruments: Recognition and Measurement' from 1 April 2005. Accordingly, comparative information has not been restated.

Net assets have been adversely affected by the introduction of IAS 32 and IAS 39. At 31 March 2006, £6.2m in respect of shares to be issued for contingent deferred consideration payments is now included within liabilities. Also included within liabilities are derivative financial instruments totalling £0.5m at fair value which represents the total cost of buying out all the Group's interest rate swaps at market prices prevailing on 31 March 2006.

Following the introduction of IAS 38, Intangible assets , development costs of £472,000 were capitalised only after technical and commercial feasibility of the asset had been established. These costs will be amortised over three years subject to regular reviews of the carrying values.

A full explanation of the impact of adopting IFRS is provided in the Group's announcement 'Transition to International Financial Reporting Standards' which was released on 28 October 2005. Further details are set out on pages 67 and 70 of these accounts.

All comparatives throughout the report have been restated under IFRS. The effect of implementing IFRS on adjusted operating profit is set out below:-

Adjusted operating profit

	2006 £'000	2005 £ 000	Increase
Previous accounting policies	**23,828**	22,378	6.5%
Investment properties	**20**	91	
Employee benefits	**(242)**	(178)	
Capitalised development costs	**472**	-	
IFRS	**24,078**	22,291	8.0%

Financial objectives

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

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

Group trading summary

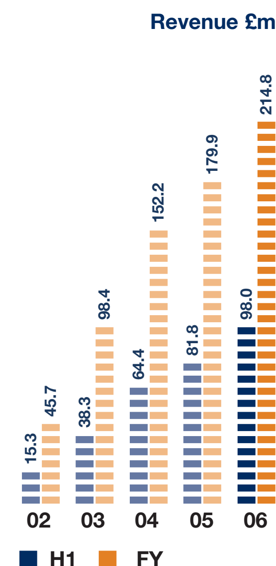
	2006 £'000	2005 £ 000	Increase
Revenue	**214,794**	179,857	19.4%
Operating profit	**23,313**	13,423	
Share option charges	**449**	134	
Amortisation of IFRS 3 intangibles	**316**	322	
Goodwill impairment	**-**	6,665	
Exceptional bid costs	**-**	1,747	
Adjusted EBITA	**24,078**	22,291	8.0%
Net Interest	**(5,841)**	(4,466)	
Financial instruments charges	**765**	-	
Adjusted profit before tax	**19,002**	17,825	6.6%
Adjusted effective tax rate*	**25.0%**	30.8%	
Adjusted earnings per share*	**17.2p**	15.3p	12.4%
Dividend per share (based on proposed final dividend)	**3.3p**	3.0p	10.0%

* Before goodwill impairment, amortisation of IFRS intangibles, share option charges, exceptional bid costs and IAS 32/39 finance costs (see notes 8 and 12)

Revenue

Revenue increased by 19 per cent to £214.8m (2005: £179.9m). Organic revenue growth for businesses owned on a like-for-like basis for two or more years was 19 per cent.

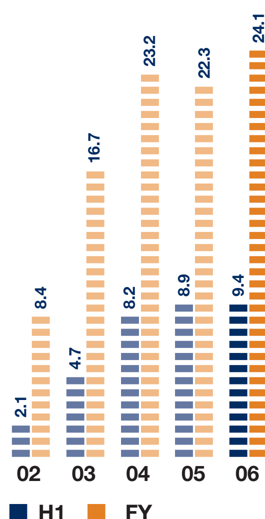
Compound revenue growth over the last five years has been 65 per cent.



Business review

Financial review continued

Adjusted EBITA £m



Profit

Adjusted EBITA increased by 8 per cent to £24.1m (2005: £22.3m). The Group's operating margins reduced from 12.4 per cent to 11.2 per cent partly as a result of higher expensed bid costs of £3m (2005: £1m).

The Group's trading continues to be seasonally weighted towards the second half of the year, 61 per cent (2005: 60 per cent) of the annual profit being generated in H2. This seasonality will be more pronounced for the half year to 30 September 2006.

Segmental analysis

Tribal Group now operates through six divisional businesses and the segmental performance is shown below.

	Revenue		Adjusted EBITA	
	2006 £'000	2005 £ 000	**2006 £'000**	2005 £ 000
Communications	**10,571**	9,958	**2,887**	2,364
Property	**23,603**	21,331	**1,336**	2,640
Resourcing	**26,193**	24,603	**4,276**	5,231
Consulting	**63,242**	55,238	**6,965**	6,677
Education and technology services	**79,184**	70,397	**13,735**	10,893
Healthcare delivery	**14,550**	349	**1,476**	(345)
Central and bid costs	**-**	-	**(6,597)**	(5,169)
Inter segment revenue eliminated	**(2,549)**	(2,019)	**-**	-
Total	**214,794**	179,857	**24,078**	22,291

Mercury Health commenced trading the NHS independent sector treatment (ISTC) GC8 contract during the year. Three centres have now been opened on time and within budget. At 31 March 2006 capitalised implementation costs for the contract were £10.2m. The business is trading profitably and is currently investing significant bidding resource for further healthcare delivery contract opportunities due to be awarded in 2006/7. These bid costs are being written off as incurred.

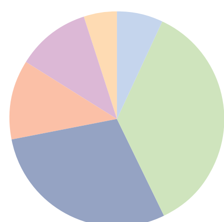
The operating performance of each division is discussed in the Chief Executive s statement.

Group finance costs

	2006 £'000	2005 £ 000	Increase
Finance income	**(446)**	(914)	
Finance charges	**5,522**	5,380	
	5,076	4,466	13.7%
Discounting	**443**	-	
	5,519	4,466	
Financial instruments	**322**	-	

Net finance costs for the year increased by 14 per cent to £5.1m (2005: £4.5m) before IAS 32/IAS 39 financial instrument charges of £0.8m (2005: nil) reflecting the increase in the Group's net debt position. We have invested a further £29m into Mercury Health to fund the implementation and mobilisation of the ISTC contract.

Revenue



Healthcare delivery	7%
Education and technology services	36%
Consulting	29%
Resourcing	12%
Property	11%
Communications	5%

The IAS 32 charge relates to a notional charge in respect of discounting deferred consideration. As almost all deferred consideration is typically settled through the issue of new shares this will not result in a significant cash cost.

The IAS 39 charge is due to the inability of the Group to obtain perfect hedge accounting for its discounted swap. This means that the movement in the fair value of the swap in the period is recognised in the finance charge for the period. Whilst this charge could potentially be highly volatile in line with movements in UK interest rates, the volatility will not be reflected in the cash flows of the Group, which are determined by the underlying hedge interest rate. The volatility introduced to the income statement as a result of this imperfect swap is not considered to be representative of the performance of the business, and has therefore been excluded when calculating adjusted earnings.

Taxation

The Group adopts a proactive approach to manage its tax bill. Our effective tax rate based on our adjusted profit before tax dropped from 30.8 per cent to 25.0 per cent due to releases of prudent prior year tax provisions no longer required.

The profit on ordinary activities after taxation was £12.8m (2005: £3.6m).

Shareholder returns and dividends

Adjusted diluted earnings per share (excluding amortisation, impairment, share option and IAS 32/39 charges) increased by 12 per cent to 17.2p (2005: 15.3p).

The Board has proposed a final dividend of 2.25p (2005: 2p) giving a total dividend for the year of 3.3p (2005: 3.0p). Our dividend is covered 5.2 times by adjusted earnings per share.

Retained earnings for the year to equity holders increased by £12.5m. Our return on equity and reserves, based on adjusted profit before tax was 11.3 per cent (2005: 11.2 per cent).

Acquisitions and deferred consideration

During the year, we acquired 51 per cent of Sportsvine Holdings Limited, a learning and training business, for a total consideration of £0.6m, satisfied by the issue of a guaranteed loan note.

The Group also acquired the outstanding minorities in Tribal Education and Tribal Technology for £4.4m, satisfied by shares and debt.

With the exception of one business, all earn outs are now closed and the final settlement of £6.2m payable in shares and £0.3m in loan notes / cash will be made by the end of November 2006.

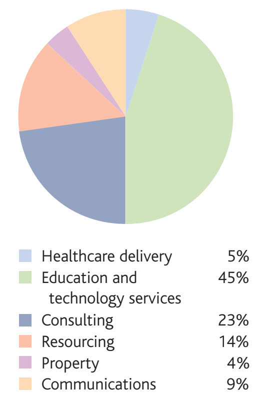
Cash management

Cash conversion for the year was 123 per cent (2005: 60 per cent). Excluding the Mercury Health investment cash conversion was 143 per cent (2005: 78 per cent).

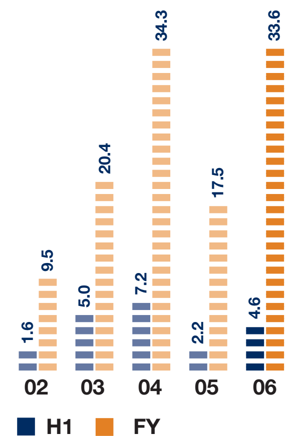
Free cash flow, defined as operating cash flow less interest and taxation, was £19.1m (2005: £2.9m).

Capital expenditure in the year was £4.0m (2005: £3.1m) for the Consulting and Education services divisions and £26.6m (2005: £2.7m) was incurred by Mercury Health.

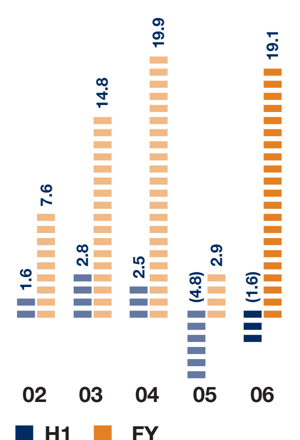
Adjusted underlying EBITA



Operating cash flow £m (excluding Mercury Health)



Free cash flow £m



Business review

Financial review continued

The Group's cash flow for the year is shown below:-

	2006 £'000	2005 £ 000
Cash generated from operations		
- excluding Mercury Health working capital	**33,604**	17,534
- Mercury Health	**(4,045)**	(5,294)
	29,559	12,240
Interest	**(7,078)**	(4,641)
Corporation tax	**(3,365)**	(4,655)
Free cash flow	**19,116**	2,944
Capital expenditure		
- Mercury Health	**(26,569)**	(2,652)
- Other divisions	**(4,005)**	(3,050)
Other financial investment (net)	**(1,048)**	(505)
Acquisition and deferred consideration	**(3,642)**	(7,921)
Dividends paid	**(2,362)**	(2,135)
Financing	**14,315**	5,856

Net debt

Group net debt increased from £53.0m to £75.9m as shown below:-

	2006 £'000	2005 £ 000
Cash at bank and in hand	**22,615**	26,810
Cash collateralised	**1,392**	1,525
Gross cash	**24,007**	28,335
Short term loans	**(2,907)**	(3,802)
Syndicated bank facility (net of bank arrangement fees)	**(72,277)**	(77,518)
Non-recourse bank facility (net of bank arrangement fees)	**(22,554)**	-
Share option facility	**(1,725)**	-
Finance leases	**(429)**	(46)
Gross debt	**(99,892)**	(81,366)
Net debt	**(75,885)**	(53,031)
Gearing	**47%**	33%
Interest cover	**4.7**	5.0

On 14 October 2005, the Group agreed a new £180m syndicated bank facility until 2010. Under the terms of the facility £125m is available under a revolving loan, £40m under a new performance bond facility and £15m for loan note guarantees. The working capital facility remains at £6m. The new performance bond facility will allow us to support Mercury Health in bidding for new elective surgery, diagnostic and primary care contracts.

Excluding the Mercury Health facilities, the recourse net debt at 31 March 2006 was £55.7m (2005: £53.0m).

In addition a further facility has been agreed for £5m to enable the Company to purchase shares through its Employee Share Ownership Trust. These shares are to be allocated to settle the exercise of certain share options. At 31 March 2006, £1.7m has been drawn down under the facility, the shares acquired are shown as a deduction from equity in the consolidated balance sheet.

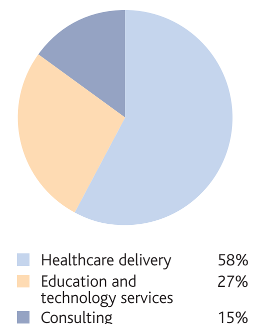
At 31 March 2006 Mercury Health had drawn down £23.9m (2005: £nil) of the £33.5m non-recourse (outside of Group bank covenants) senior debt facility secured from our bank syndicate to fund the construction of the treatment facilities as part of the ISTC contract.

Our gearing at 31 March 2006 was 47 per cent (2005: 33 per cent).

Committed income

The forward order book of the Group as at 31 March 2006 was £333m representing 41 per cent (2005: 36 per cent) of our projected revenue for 2006/7.

Commited income by segment



Healthcare delivery	58%
Education and technology services	27%
Consulting	15%

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.

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 £125m revolving credit facility until 2010 and a working capital facility of £6m, with six major UK banks.

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

Credit risks

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 were 42 days (2005: 46 days) and our age profile of older debts has significantly improved.

Interest rate risks

Forward rate agreements and interest rate swaps are used to achieve the desired mix of fixed and floating rate debt. At the year end the Group held a hedged fixed interest rate swap over £25m of core borrowings and an unhedged discount rate swap over a further £25m of core debt. The non-recourse Mercury Health facility of £33.5m is fully hedged over the term through two fixed rate swaps.

An analysis of our interest rate swap instruments is shown below:

Instrument	Expiry date	Tribal pay	Tribal receive
£25m hedge against core debt	30.09.2010	4.99%	6 month LIBOR
£25m discount swap not designated as a hedge	30.09.2010	6 month LIBOR less 75 bps to 30.09.2006 4.99% or LIBOR less 10 bps thereafter	6 month LIBOR
£21m structural swap to hedge Mercury senior debt facility	31.03.2009	5.00%	6 month LIBOR
£21.5m hedge for balance of Mercury Health senior debt facility	31.03.2009	4.98%	6 month LIBOR

Business review

Corporate responsibility

Corporate responsibility framework

Following the reorganisation and integration of our businesses in 2005, we have now completed an extensive corporate responsibility (CR) audit across all of our divisions. This has allowed us to assess our current CR status and all the key material issues for our business. The audit confirmed that we have some outstanding examples of good practice across the business and our priority now is to adopt agreed standards and measures for the whole Group. Based on the audit recommendations, we have developed a CR framework which will demonstrate our performance in a number of key areas. Our framework has four elements, each with associated standards and relevant key performance indicators (KPIs). The four elements are:

Our customers

Following the integration of our businesses in 2005/6, the challenge for this next financial year is to develop an integrated package of services to clients and adopt agreed values and a consistent approach to service improvement. In a number of areas, we are in the process of sharing existing best practice and formalising it across the business. One such example, now completed, is our customer relationship programme, which we piloted with valued customers in the health and social care sectors. We intend to extend this successful programme to other parts of the business where appropriate.

Our people

In the last twelve months, we have moved on significantly from the position of individual contracts to Group-wide terms and conditions and enhanced our overall package of benefits in this process. Consultation has also been formalised through the introduction of staff forums and a Group-wide staff employee satisfaction survey in addition to individual business and divisional feedback. A key issue for the next twelve months is how best to address a competitive recruitment market place in order to attract and retain the best people with the relevant skills.

Our community

The Tribal Group Foundation has now been established for over a year and we have made considerable progress in terms of greater staff involvement. During the year we launched a Group-wide payroll giving scheme, with the added incentive that staff who choose to support the Foundation will have their donation matched £ for £. We have also introduced a Foundation Champion network. These are volunteers in every office and division willing to organise fundraising events and encourage colleagues to donate through the payroll giving scheme.

A high proportion of our staff already give freely of their time for charitable causes and we are currently looking at ways to formalise volunteering arrangements throughout the business.

Our environment

While we are a low impact business in several respects, our intention is to reduce our overall environmental impact year on year. We are currently developing KPIs and agreed policies and procedures in respect of all utilities, waste, recycling and transport. In respect of travel and transport reduction, we have in the last twelve months introduced video-conferencing in all our regional business centres and increased our use of teleconferencing through improved technology. We expect to make progress in these areas during the next year.

FTSE4Good Index Series

FTSE4Good

Tribal Group is a member of the FTSE4Good Index Series, the index for companies which meet globally recognised corporate responsibility standards. We have been a member for the last four years.

The Tribal Group Foundation
The Foundation was established as a registered charity to support activities which reflect our expertise in areas such as education and health, both in the UK and the developing world. We will do this through both financial support and the sharing of our skills and expertise.

In view of last year s worldwide campaign to Make Poverty History , we decided to concentrate initially on projects in the developing world, where our support can have a real impact. We selected the long-standing charity, Skillshare International, as our strategic partner, not least because it receives very significant match funding from the Department for International Development (DfID) and the European Union.

In our first year, we have supported two programmes and established one secondment.

- South Africa programme: a physical disabilities project in the Kwazulu Natal region which provides basic education opportunities for disabled adults. We have to date helped over 300 learners in six local projects through the provision of premises, tutors and vital equipment including Braille machines.
- South-east India programme: a community health project promoting disease prevention information and training, particularly in respect of malaria and infant mortality. Our donation has helped train 414 village health workers, benefiting 70,000 people in 400 villages.
- Secondment programme: our first staff secondee is advising health professionals on suitable IT systems and software for monitoring HIV treatment in Lesotho, South Africa.

Board of directors

Main board

Strone Macpherson (57)
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. His current positions include 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 (43)
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 (45)
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 (48)
Executive Director and 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.

Executive board*

*The executive board also includes main board directors, Henry Pitman, Simon Lawton and Peter Martin, and Richard Collins.

Jim Chambers MBA (52)
Chief Executive, Education and technology

Jim Chambers joined Tribal in 2002 at the time of the acquisition of FD Learning, where he was managing director, and subsequently formed the technology division of Tribal through the merger of seven companies. He has now recently completed the merger of the education and technology divisions.

Julie Towers MIPA (40)
Chief Executive, Resourcing

Julie Towers joined Tribal in 2002 and has since then led the growth of the resourcing division. She began her career in personnel at Nottinghamshire County Council, before joining the recruitment advertising agency, Riley Group (now Euro RSCG Riley), where she worked for 17 years, latterly as a board director.

Simon Hall (50)
Chief Executive, Property

Simon Hall joined Tribal as the first chief executive of the property division in 2005. Prior to that, he was managing director of the business services division of Amey plc, where he also held other financial and operational roles. He has also held senior positions in the service and manufacturing divisions of William Holdings plc.

David G F Thompson (51)
Non-Executive Director

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, and a non-executive director of Caledonia Investments plc and Persimmon plc.

Sheila M Forbes CBE (59)
Non-Executive Director

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.

Timothy E P Stevenson OBE (58)
Non-Executive Director

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 of the board of governers of Oxford Brookes University. He was formerly a director of National Express plc, Partnerships UK plc and the DfES.

Richard Collins (43)
Group Company Secretary

Richard Collins joined Tribal in 2004. He qualified as a solicitor in 1988 and practised in the City of London, before joining CAMAS plc (subsequently Aggregate Industries plc) in 1995 as head of legal, also becoming company secretary in 1997. In 1998 he joined support services company Blick plc where he was group solicitor and company secretary.

Ian McCagherty (40)
Chief Executive, Consulting

Ian McCagherty joined Tribal in 2006. Prior to that, he held director roles in several divisions of Serco Group, including as a founding director of Serco Consulting. Ian was previously a consulting partner at Deloitte, where he worked principally with UK public sector clients for more than ten years. Ian began his career at Unilever and is a chartered management accountant.

Karen Harris (37)
Chief Executive, Communications

Karen Harris joined Tribal in 2003 at the time of the acquisition of Geronimo Public Relations, which she founded in 1999, and which became the UKs fastest growing PR agency by 2002. Post acquisition, Karen led the integration of Geronimo with two other Tribal PR subsidiaries, MPC and Atlas, to form Geronimo Communications.

Chris Pope OBE (45)
Group Projects Director

Chris Pope joined Tribal in 2005 after a 27 year career in the Army. He was formerly change and transformation director in the Army's major command. Prior to that, he commanded an engineer regiment providing worldwide infrastructure support for the RAF. He has lectured in defence management at Cranfield University and played a key role in the 1998 Strategic Defence Review.

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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 2006.

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 and training, health and social care, local government housing and regeneration, and central government.

The review of the year s operations, key risks and future developments are contained in the Chairman s statement, the Chief Executive s statement, the business review and the Corporate governance statement. The Group s policy with regards to financial instruments and the risk to the Group is discussed in the business review.

Our services are delivered through our consultancy and advisory businesses, and our education business. We also have a healthcare delivery business.

Business review
A detailed review of the Group s performance is provided in the section headed Business review on pages 14 to 29.

There are no significant events since the balance sheet date.

Results
The results of the Group are shown on page 43 and show an increase of 8 per cent in group operating profit before amortisation, impairment, share option charges and exceptional bid costs from £22.3m to £24.1m. Group profit before tax has increased from £9.0m to £17.5m and the adjusted diluted earnings per share has increased by 12 per cent from 15.3p to 17.2p (see note 12).

Proposed dividend
The directors recommend a final dividend of 2.25p per share which, together with the interim dividend of 1.05p paid on 13 January 2006, makes a total of 3.3p for the year (2005: 3.0p).

The final dividend will be paid on 13 October 2006 to shareholders on the register on 22 September 2006.

Directors and Directors interests
The Board of directors interests are detailed on page 40.

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.

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 44 days (2005: 43 days).

Substantial shareholdings
As at 20 June 2006, 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	6,561,232	8.2
Hermes UK Small Companies Focus Fund	5,328,560	6.6
Trustees of BT Pension Scheme	2,785,791	3.5

Special business at the Annual General Meeting
A separate document accompanying the Annual Report and Accounts 2006 contains the notice convening the Annual General Meeting and an explanation of the special business to be conducted at that meeting.

At the Company s 2005 Annual General Meeting the shareholders authorised the purchase by the Company of up to 7,500,000 of its shares, which authorisation remained unused at the end of the period under review.

Audit information
In the case of each of the persons who are directors of the Company at the date when this report was approved:

- so far as each of the directors is aware, there is no relevant audit information of which the Company s auditors are unaware; and
- each of the directors has taken all the steps that he/she ought to have taken as a director to make himself/herself aware of any relevant audit information and to establish that the Company s auditors are aware of that information.

This confirmation is given and should be interpreted in accordance with the provisions of section 234ZA of the Companies Act 1985.

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
20 June 2006

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.

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. 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 30.

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.

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 with a notice period 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 sndependent 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 takes advice as appropriate from external advisers. The remuneration report is set out on pages 37 to 40.

Attendance at board and committee meetings

Board/Committee name	Board*	Audit	Nomination	Remuneration	Notes
Number of meetings in year	8	2	1	6	
Number of meetings attended by members:					
Strone Macpherson	8	n/a	1	n/a	Chairman of Board and Nomination Committee
Henry Pitman	8	n/a	1	n/a	Chief Executive
Simon Lawton	8	n/a	n/a	n/a	Group Finance Director
Peter Martin	8	n/a	n/a	n/a	Executive Director/CEO of Mercury Health
Sheila Forbes	8	2	1	5	Non Executive Director
Tim Stevenson	8	2	1	6	Non Executive Director, Chairman of Remuneration Committee
David Thompson	8	2	1	5	Non Executive Director, Chairman of Audit Committee

*Note: excludes unscheduled or purely administrative meetings

Executive Management Board
The Group has an executive management board comprising the executive directors, the divisional chief executives, the Group projects director, and the 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 10 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. For the first time the Group held an analyst and shareholder site visit in February 2006 to one of the ISTC s at Portsmouth to learn more about our fast developing healthcare delivery business. This visit and presentation were led by the CEO of Mercury Health.

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 are 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
During the year under review the Committee commissioned and received advice on remuneration matters from New Bridge Street Consultants.

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.

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 12. Bonus payments are made if the threshold target is exceeded, and for certain directors there is also an element of the total bonus that is dependent upon performance measured against personal targets 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.

Any bonus payments are detailed in the remuneration report on page 39. In respect of the year under review contractual bonus payments were achieved by directors to reflect the improvement in adjusted diluted earnings per share, and as appropriate payments were also received for achieving personal targets.

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

Remuneration report (continued)

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), a savings related share option scheme (SAYE) and a share incentive plan (SIP). The executive schemes were established to provide a continuing incentive for executive directors and selected key employees. During the year under review the Group discontinued use of the Executive Equity Participation Plan (EEPP).

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 HMR&C approved and unapproved parts.

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 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 comprise 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 31 March 2005, 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; for awards granted after 31 March 2005 the growth rates are RPI +4 per cent and RPI +12 per cent respectively; 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.

In the year under review LTIP awards were made to the executive directors, as detailed in the note on page 40.

c) *SAYE*

The Group s HMR&C approved 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 January 2006, 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.

d) *SIP*

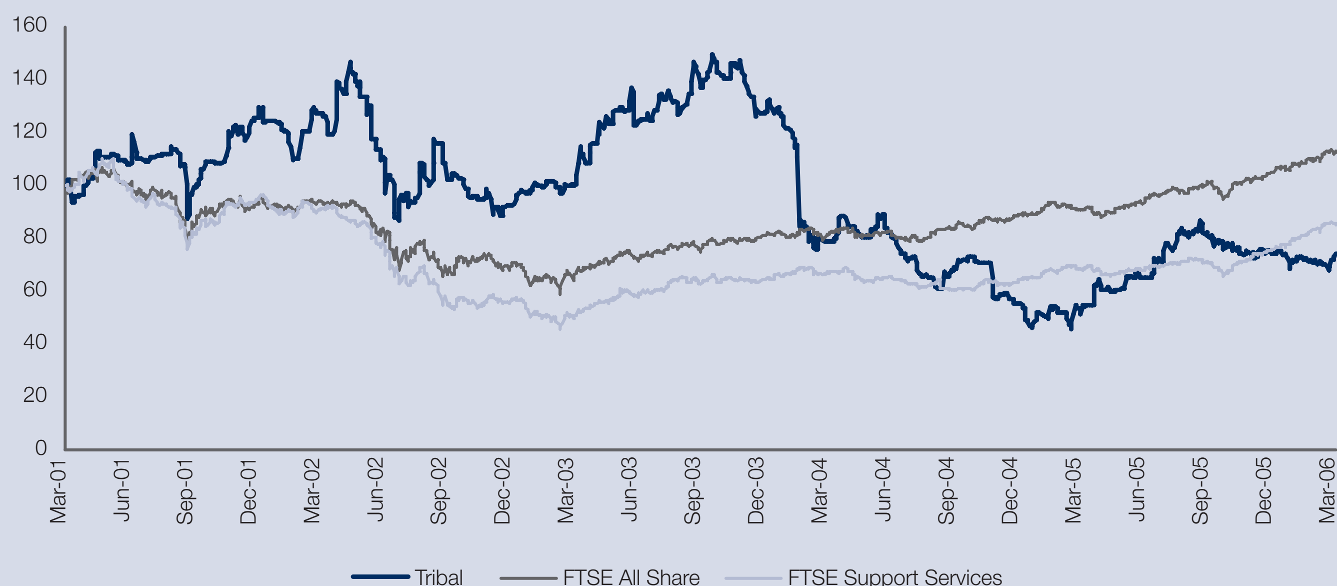
During the previous year the Committee reviewed the position as regards to all employee share schemes and accordingly at the 2005 Annual General Meeting the Company proposed and shareholders approved the establishment of a new all-employee Share Incentive Plan.

The SIP is HMR&C approved. It currently provides all employees with the opportunity to acquire partnership shares in a tax-efficient manner.

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 five 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 £74 compared to £112 for an investment in the FTSE All Share Index or £85 for an investment in the FTSE Support Services Index as at 31 March 2006.

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	2006 Total £ 000	2005 Total £ 000
Chairman						
P S S Macpherson	100	—	—	—	**100**	100
Executive directors						
H J Pitman	270	138	11	32	**451**	313
S M Lawton	175	90	10	21	**296**	206
P J Martin	175	106	10	21	**312**	306
Non-Executive directors						
A D J B Collins (resigned 24 March 2005)	—	—	—	—	—	20
S M Forbes	21	—	—	—	**21**	21
M W R Hunt (resigned 14 September 2004)	—	—	—	—	—	6
T E P Stevenson	30	—	—	—	**30**	30
D G F Thompson	35	—	—	—	**35**	35
Aggregate emoluments	806	334	31	74	**1,245**	1,037

During the year, Peter Martin served as a non-executive director of WIN plc. The Board agreed that he should be allowed to retain the director s fees paid to him by WIN plc, which during the year were £20,500 (2005: £11,667).

Remuneration report (continued)

The interests of directors in share options were as follows:

	At 31 March 2005	Granted	Lapsed	Exercised	At 31 March 2006	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	01.03.2008	01.08.2008
LTIP	—	120,250	—	—	**120,250**	£nil	30.06.2008	30.09.2009
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	31.03.2006	30.09.2006
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
LTIP	—	77,940	—	—	**77,940**	£nil	30.06.2008	30.09.2009
P J Martin								
PLC scheme	40,000	—	—	—	**40,000**	£2.83	30.06.2003	26.06.2011
LTIP	60,000*	—	—	—	**60,000**	£nil	31.03.2006	30.09.2006
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
LTIP	—	77,940	—	—	**77,940**	£nil	30.06.2008	30.09.2009
SAYE scheme	—	2,422	—	—	**2,422**	£1.93	01.03.2009	01.09.2009

There have been no variations to the terms and conditions or performance criteria for share options during the financial year. The LTIP awards marked with an asterisk (*) 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. The performance criteria for these awards have been achieved and they are fully exercisable at the option of the holder. 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.

The market value of Tribal Group plc shares at the date of grant was £2.09 for the LTIP awards granted during the year to Henry Pitman, Simon Lawton and Peter Martin.

Options granted under the SAYE schemes are not subject to performance criteria. The performance criteria, as detailed on page 38, 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.

Options granted under the EEPP scheme are subject to performance criteria. 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. During the year all three executive directors withdrew their investment shares from the Employee Share Ownership Trust (ESOT), which resulted in the EEPP options lapsing.

The market value of the Company s shares at the year end was £1.92. The highest market value during the year was £2.24 and the lowest market value £1.41.

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	600,724	570,000
P J Martin	375,888	345,164
P S S Macpherson	50,000**	nil
T E P Stevenson	26,000	nil
D G F Thompson	17,500***	nil

* *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.*

** *Of these, 25,000 ordinary shares are held by members of his family.*

*** *All held by members of his family.*

At the beginning 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 (2005: 7,488 shares) and P J Martin 7,488 shares (2005: 7,488 shares).

During the year the Company 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. The sale of the C shares by S M Lawton and P J Martin was conditional upon shareholder approval at the 2005 Annual General Meeting. This approval was obtained and accordingly the C shares were acquired by the Company for a consideration of £118,089 payable to each of S M Lawton and P J Martin (see also note 35 to the financial statements).

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 20 June 2006 and signed on its behalf by:

Timothy E P Stevenson OBE
Chairman, Remuneration Committee

Statement of directors' responsibilities

The directors are required by law to prepare consolidated financial statements of Tribal Group plc and its subsidiaries (together, the Group) in accordance with the Companies Act 1985, International Financial Reporting Standards and Article 4 of the IAS Regulation.

The directors are responsible for the preparation of the Annual Report and the financial statements. The directors are required to prepare financial statements for the Group in accordance with International Financial Reporting Standards (IFRS) and have elected to prepare the financial statements for the Company in accordance with UK GAAP.

IAS 1 Presentation of Financial Statements requires that financial statements present fairly for each financial year, the Group s financial position, financial performance and cash flows. This requires the faithful representation of the effects of transactions, other events and conditions in accordance with the definition and recognition criteria for assets, liabilities, income and expenses set out in the International Accounting Standards Board s Framework for the Preparation and Presentation of Financial Statements . In virtually all circumstances, a fair presentation will be achieved by compliance with all applicable IFRS. Directors are also required to:

- properly select and apply accounting policies;
- present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information; and
- provide additional disclosures when compliance with the specific requirements of International Financial Reporting Standards is insufficient to enable users to understand the impact of particular transactions, other events and conditions on the Group s financial position and financial performance.

The directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the Group, for safeguarding the assets, for taking reasonable steps for the prevention and detection of fraud and other irregularities and for the preparation of a Directors Report and Directors Remuneration Report which comply of the Companies Act 1985.

The directors are also responsible for the maintenance and integrity of the company website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Independent auditors' report to the members of Tribal Group plc

We have audited the Group financial statements of Tribal Group plc for the year ended 31 March 2006 which comprise the consolidated income statement, the consolidated balance sheet, the consolidated cash flow statement, the consolidated statement of recognised income and expense and the related notes 1 to 37. These Group financial statements have been prepared under the accounting policies set out therein. We have also audited the information in the directors remuneration report that is described as having been audited.

We have reported separately on the individual company financial statements of Tribal Group plc for the year ended 31 March 2006.

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
The directors responsibilities for preparing the annual report, the directors remuneration report and the Group financial statements in accordance with applicable United Kingdom law and International Financial Reporting Standards (IFRSs) as adopted for use in the European Union are set out in the statement of directors responsibilities.

Our responsibility is to audit the Group 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 International Standards on Auditing (UK and Ireland).

We report to you our opinion as to whether the Group financial statements give a true and fair view in accordance with the relevant financial reporting framework and whether the Group 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 and Article 4 of the IAS Regulation. We report to you if, in our opinion, the directors report is not consistent with the Group financial statements. We also report to you if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors transactions with the Company and other members of the Group is not disclosed.

We also report to you if, in our opinion, the Company has not complied with any of the four directors remuneration disclosure requirements specified for our review by the Listing Rules of the Financial Services Authority. These comprise the amount of each element in the remuneration package and information on share options, details of long term incentive schemes, and money purchase and defined benefit schemes. We give a statement, to the extent possible, of details of any non-compliance.

We review whether the corporate governance statement reflects the Company s compliance with the nine provisions of the 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 statement on internal control covers 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 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 we consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the Group financial statements.

Basis of audit opinion
We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the Group 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 Group financial statements, and of whether the accounting policies are appropriate to the Company s circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the Group 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 Group financial statements and the part of the directors remuneration report described as having been audited.

Opinion
In our opinion:

- the Group financial statements give a true and fair view, in accordance with IFRSs as adopted for use in the European Union, of the state of the Group s affairs as at 31 March 2006 and of its profit for the year then ended;
- the Group 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 and Article 4 of the IAS Regulation; and
- the information given in the directors report is consistent with the Group financial statements.

Deloitte & Touche LLP
Chartered Accountants and Registered Auditors
Bristol, United Kingdom
20 June 2006

Notes: An audit does not provide assurance on the maintanance and integrity of the website, including controls used to achieve this, and in particular on whether any changes may have occured to the financial statements since first published. These matters are the responsibility of the directors but no control procedures can provide absolute assurance in this area.

Legislation in the United Kingdon governing the prepartion and dissemintation of financial statements differs from legislation in other jurisdictions.

Consolidated income statement

for the year ended 31 March 2006

Continuing operations	Note	Before other administrative expenses and financial instruments costs £ 000	Other administrative expenses and financial instruments costs £ 000	2006 Total £ 000	Before other administrative expenses and financial instruments costs £ 000	Other administrative expenses and financial instruments costs £ 000	2005 Total £ 000
Turnover		**259,897**	**—**	**259,897**	229,470	—	229,470
Direct agency costs		**(45,103)**	**—**	**(45,103)**	(49,613)	—	(49,613)
Revenue	3	**214,794**	**—**	**214,794**	179,857	—	179,857
Cost of sales		**(122,008)**	**—**	**(122,008)**	(102,772)	—	(102,772)
Gross profit		**92,786**	**—**	**92,786**	77,085	—	77,085
Net administrative expenses		**(68,708)**	**—**	**(68,708)**	(54,794)	—	(54,794)
Other administrative expenses:							
Share option charges		**—**	**(449)**	**(449)**	—	(134)	(134)
Amortisation of IFRS 3 intangibles		**—**	**(316)**	**(316)**	—	(322)	(322)
Goodwill impairment		**—**	**—**	**—**	—	(6,665)	(6,665)
Exceptional bid costs	8	**—**	**—**	**—**	—	(1,747)	(1,747)
Total administrative expenses		**(68,708)**	**(765)**	**(69,473)**	(54,794)	(8,868)	(63,662)
Operating profit		**24,078**	**(765)**	**23,313**	22,291	(8,868)	13,423
Finance income	3	**446**	**—**	**446**	914	—	914
Finance charges		**(5,522)**	**—**	**(5,522)**	(5,380)	—	(5,380)
Financial instruments		**—**	**(765)**	**(765)**	—	—	—
Finance costs	9	**(5,522)**	**(765)**	**(6,287)**	(5,380)	—	(5,380)
Net finance costs		**(5,076)**	**(765)**	**(5,841)**	(4,466)	—	(4,466)
Profit before taxation	5	**19,002**	**(1,530)**	**17,472**	17,825	(8,868)	8,957
Taxation	10	**(4,751)**	**97**	**(4,654)**	(5,498)	97	(5,401)
Profit for the year from continuing operations		**14,251**	**(1,433)**	**12,818**	12,327	(8,771)	3,556
Attributable to:							
Equity holders of the parent				**12,544**			3,253
Minority interest				**274**			303
				12,818			3,556
Earnings per share from continuing operations							
Basic	12	**18.1p**	**(1.9p)**	**16.2p**	16.8p	(12.2)p	4.6p
Diluted	12	**17.2p**	**(1.8p)**	**15.4p**	15.3p	(11.2)p	4.1p

Notes 1 to 37 form part of these financial statements.

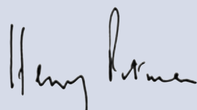
Consolidated balance sheet

at 31 March 2006

	Note	2006 £ 000	2005 £ 000
Non-current assets			
Goodwill	13	**206,392**	205,247
Other intangible assets	14	**3,255**	3,479
Property, plant and equipment	15	**40,962**	12,538
Investment property	16	**200**	180
Investments	17	**151**	151
Deferred tax assets	23	**823**	1,282
		251,783	222,877
Current assets			
Inventories	18	**11,495**	9,102
Trade and other receivables	19	**59,170**	56,315
Cash and cash equivalents		**22,615**	26,810
Collateralised cash		**1,392**	1,525
		94,672	93,752
Total assets		**346,455**	316,629
Current liabilities			
Trade and other payables	20	**(69,938)**	(65,254)
Tax liabilities		**(5,399)**	(5,758)
Obligations under finance leases	21	**(78)**	(20)
Bank overdrafts and loans	22	**(2,907)**	(3,802)
Shares to be issued	29	**(6,102)**	—
		(84,424)	(74,834)
Net current assets		**10,248**	18,918
Non-current liabilities			
Bank loans	22	**(96,556)**	(77,518)
Pension liabilities	31	**(1,977)**	(1,370)
Deferred tax liabilities	23	**(939)**	(1,058)
Obligations under finance leases	21	**(351)**	(26)
Shares to be issued	29	**(135)**	—
Deferred consideration		—	(411)
		(99,958)	(80,383)
Total liabilities		**(184,382)**	(155,217)
Net assets		**162,073**	161,412
Equity			
Share capital	26	**4,008**	3,748
Share premium account	27	**80,771**	80,156
Capital reserve	28	**9,545**	9,545
Merger reserve	28	**52,164**	43,387
Own shares reserve	28	**(1,668)**	—
Share based payment reserve	28	**889**	597
Hedging reserve	28	**6**	—
Shares to be issued	29	—	16,517
Retained earnings	28	**15,173**	5,568
Equity attributable to equity holders of the parent		**160,888**	159,518
Minority interest		**1,185**	1,894
Total equity		**162,073**	161,412

Notes 1 to 37 form part of these financial statements.

These financial statements were approved by the Board of directors and authorised for issue on 20 June 2006 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 2006

	Note	£ 000	2006 £ 000	£ 000	2005 £ 000
Net cash from operating activities	32		**26,194**		7,585
Investing activities					
Interest paid			**(7,524)**		(5,555)
Interest received			**446**		914
Proceeds on disposal of investments			—		170
Proceeds on disposal of property plant and equipment			**34**		2,265
Purchases of property plant and equipment - other		**(4,039)**		(5,315)	
Purchases of property plant and equipment - Mercury Health		**(26,569)**		(2,652)	
Purchases of property plant and equipment			**(30,608)**		(7,967)
Purchases of trading investments			—		(35)
Expenditure on product development			**(1,048)**		(640)
Acquisitions (deferred consideration and minority interests)			**(3,642)**		(7,921)
Net cash outflow from investing activities			**(42,342)**		(18,769)
Financing activities					
Equity dividend paid			**(2,362)**		(2,135)
Issue of shares			**304**		106
Repayment of borrowings			**(15,400)**		(6,231)
Repayments of obligations under finance lease			**(57)**		(56)
New bank loans			**31,538**		6,095
Movements in collateralised cash			**133**		5,942
Purchase of own shares			**(1,668)**		—
Loan to third party			**(535)**		—
Net cash from financing activities			**11,953**		3,721
Net decrease in cash and cash equivalents			**(4,195)**		(7,463)
Cash and cash equivalents at beginning of year			**26,810**		34,273
Cash and cash equivalents at end of year			**22,615**		26,810

Notes 1 to 37 form part of these financial statements.

Consolidated statement of recognised income and expense

for the year ended 31 March 2006

	2006 £ 000	2005 £ 000
Actuarial (loss)/gain on defined benefit plans	**(594)**	105
Transfer to cash flow hedge reserve	**51**	—
Deferred tax	**163**	—
Net (expense)/income recognised directly to equity	**(380)**	105
Profit for the year	**12,818**	3,556
Total recognised income and expense for the year	**12,438**	3,661
Attributable to:		
Equity holders of the parent	**12,164**	3,358
Minority interest	**274**	303
	12,438	3,661
Change in accounting policy to adopt IAS32 and IAS39:		
Equity holders of the parent	**(248)**	—

Notes 1 to 37 form part of these financial statements.

Notes to the financial statements

1. Accounting policies

Basis of accounting
The financial statements on pages 43 to 45 have been prepared in accordance with International Financial Reporting Standards (IFRS) adopted for use in the European Union.

The financial information has been prepared on the historical cost basis, modified to include the revaluation of certain fixed assets and financial instruments.

First-time adoption of International Financial Reporting Standards
The financial statements have been prepared in accordance with the accounting policies adopted under IFRS for the first time with a transition date of 1 April 2004. The disclosures required by IFRS 1 First-time Adoption of International Financial Reporting Standards concerning the transition from UK GAAP to IFRS can be found in our announcement of 28 October 2005 Transition to International Financial Reporting Standards . Reconciliations to IFRS from the previously published UK GAAP financial statements are shown in note 37.

The Group adopted IAS 32 Financial Instruments: Disclosure and Presentation , and IAS 39 Financial Instruments: Recognition and Measurement prospectively from 1 April 2005. Accordingly, comparative information has not been restated. Had it been restated, the impact would have been to create a financial liability of £248,000 and shares to be issued of £16,517,000 would have been reclassified as a liability.

The Group has also elected to take advantage of the exemption which allows cumulative actuarial gains or losses on defined benefit pension schemes at the date of transition to IFRS to be recognised immediately.

The Group has adopted 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 as permitted under IFRS 1.

Basis of consolidation
The consolidated financial statements incorporate the financial statements of the Company and all its subsidiary undertakings made up to 31 March each year.

All intra group transactions, balances, income and expenses are eliminated on consolidation.

Revenue and turnover recognition
Turnover comprises the gross amounts billed to clients in respect of commission-based income together with the total of other fees earned. Revenue comprises commission and fees earned in respect of turnover and is measured at the fair value of the consideration derived from the provision of goods and services to third party customers in the normal course of business. Turnover and revenue are stated exclusive of VAT, sales tax and trade discounts. The particular policies applied are:

- Consultancy — on performance of the contracted services;
- Courses and training — over the provision of the related services;
- Healthcare delivery — on discharge of patients back to NHS care;
- 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. 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.

Interest income is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable.

Business combinations
On acquisition, the assets and liabilities and contingent liabilities of a subsidiary are measured at their fair values at the date of acquisition. Any excess of the cost of acquisition over the fair values of the identifiable net assets acquired is recognised as goodwill. Any deficiency of the cost of acquisition below the fair values of the identifiable net assets acquired is credited to income and expense in the period of acquisition.

The interests of minority shareholdings are stated at the minority s proportion of the fair values of the assets and liabilities recognised. Subsequently, any losses applicable to the minority interest in excess of the minority interest are allocated against the interest of the parent.

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 income statement and the consolidated cash flow statement from the date of acquisition or up to the date of disposal.

Goodwill
Goodwill arising on consolidation represents the excess of the cost of acquisition over the Group s interest in the fair value of the identifiable assets and liabilities of a subsidiary.

Goodwill is recognised as an asset and reviewed for impairment at least annually. Any impairment is recognised immediately in the income statement and is not subsequently reversed.

Goodwill arising on acquisitions before the date of transition to IFRSs has been retained at the previous UK GAAP amounts subject to being tested for impairment at that date.

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.

On disposal of a subsidiary, the attributable amount of goodwill is included in the determination of the profit and loss on disposal.

1. Accounting policies (continued)

Acquired intangibles
Intangible assets acquired in business combinations are accounted for in accordance with IFRS 3 Business combinations . Such intangible assets are recognised separately if they meet the criteria for recognition, and are amortised over their expected useful economic lives unless these are indefinite in which case they are reviewed regularly for impairment in accordance with IAS 38 Intangible assets .

Impairment of tangible and intangible assets excluding goodwill
At each balance sheet date, the Group reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment (if any). An intangible asset with an indefinite useful life is tested for impairment annually and whenever there is an indication that the asset may be impaired.

Recoverable amount is the higher of fair value less costs to sell and the value in use. The estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised as an expense immediately, unless the relevant asset is carried at a revalued amount, in which case the impairment loss is treated as a revaluation decrease.

Where an impairment loss subsequently reverses, the carrying amount of the asset (cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (cash-generating unit) in prior years. A reversal of an impairment loss is recognised as income immediately, unless the relevant asset is carried at a revalued amount, in which case the reversal of the impairment loss is treated as a revaluation increase.

Corporate information systems
In accordance with IAS 38, the Group s corporate information systems are treated as an intangible asset. Costs included are those directly attributable to the design, construction and testing of new systems (including major enhancements) from the point of inception to the point of satisfactory completion, namely where the probable future economic benefits arising from the investment could be assessed with reasonable certainty at the time the costs are incurred. Maintenance and minor modifications are expensed against the income statement as incurred.

Internally generated intangible assets — research and development expenditure.
Expenditure on research activities is recognised as an expense in the period in which it is incurred.

An internally generated intangible asset arising from the Group s product development is recognised only if all of the following conditions are met:

- an asset is created that can be identified;
- it is probable that the asset created will generate future economic benefits; and
- the development cost of the asset can be measured reliably.

Internally generated intangible assets are amortised on a straight-line basis over their useful lives. Where no internally generated intangible asset can be recognised, development expenditure is recognised as an expense in the period in which it is incurred.

Property, plant and equipment
Property, plant and equipment are stated at cost, net of depreciation and any recognised impairment loss. Depreciation is charged so as to write off the cost of each asset, other than properties in the course of construction, by equal instalments over their estimated useful economic lives as follows:

Leasehold — life of the lease
Fixtures, fittings and other equipment — 15 to 33 per cent

Assets held under finance leases are depreciated over their expected useful lives on the same basis as owned assets or, where shorter, over the term of the relevant lease.

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 at their fair value or, if lower, at the present value of the minimum lease payments, each determined at the inception of the lease. The outstanding future lease obligations are shown in the balance sheet as a finance lease obligation. The finance charges are allocated over the period of the lease in proportion to the capital amount outstanding and are charged directly against income.

Operating lease rentals are charged against income on a straight line basis over the period of the lease.

Borrowing costs
Borrowing costs directly attributable to the construction of qualifying 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. All other borrowing costs are recognised in income or expense in the period in which they are incurred.

Investment properties
Investment property, which is property held to earn rentals and/or capital appreciation, is stated at its fair value at the balance sheet date. Gains or losses arising from changes to the fair value of investment property are included in income or expense for the period in which they arise.

Investments
Investments are initially measured at cost, including transaction costs. Investments are classified as either held-for-trading or available-for-sale. They are measured at subsequent reporting dates at cost where they relate to unquoted equity investments where fair value cannot be readily determined and at fair value otherwise.

Notes to the financial statements (continued)

1. Accounting policies (continued)

Inventories
Inventories, 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 revenue, less foreseeable losses and payments on account not matched with revenue. Contract work in progress is recognised as revenue by reference to the value 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 inventories and amortised over the contract period. All other pre-contract costs are expensed as incurred.

Retirement benefit 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 cost of providing benefits is determined using the Projected Unit Credit Method, with actuarial valuations being carried out at each balance sheet date. Actuarial gains and losses are recognised in full in the period in which they occur. They are recognised in the statement of recognised income and expense.

Past service cost is recognised immediately to the extent that the benefits are already vested, and otherwise is amortised on a straight-line basis over the average period until the benefits become vested.

The retirement benefit obligation recognised in the balance sheet represents the present value of the defined benefit obligation as adjusted for unrecognised past service cost, and as reduced by the fair value of scheme assets. Any asset resulting from this calculation is limited to past service cost, plus the present value of available refunds and reductions in future contributions to the plan.

Share-based payments
The Group has applied the requirements of IFRS 2 Share-based payments . In accordance with the transitional provisions of IFRS 2 no charge has been applied to all grants of equity instruments after 7 November 2002 that were unvested as of 1 April 2005. No charge is made in respect of instruments awarded before this date because under the terms of IFRS 2 the Group is not permitted to apply the standard to these instruments. The Group issues equity-settled share-based payments to certain employees. Equity settled share based payments are measured at fair value at the date of grant. This is expensed on a straight-line basis over the vesting periods of the instruments based on the Group s estimate of the number of shares that will vest.

Fair value is measured by use of a Black-Scholes model. There is no effective 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
The tax expense represents the sum of the tax currently payable and deferred tax.

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.

Deferred tax is the tax expected to be payable or recoverable on differences between the carrying values of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the tax profit nor the accounting profit.

The carrying value of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realised. Deferred tax in the income statement tax is charged or credited, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity.

Shares to be issued
In accordance with IAS 32 Financial Instruments: Disclosure and Presentation shares to be issued are recognised as a financial liability as they relate to obligations to settle acquisition related deferred consideration in Tribal Group plc shares. The number of shares to be issued will vary depending upon the share price at the date of settlement.

1. Accounting policies (continued)

Cash, cash equivalents and collateralised cash
Cash, for the purpose of the cash flow statement, comprises cash in hand and deposits repayable on demand, less overdrafts payable on demand. These instruments are readily convertible to a known amount of cash and are subject to an insignificant risk of change in value. Collateralised cash comprises funds reserved for financial guarantee contracts and are carried at fair value.

Derivative financial instruments
The Group s activities expose it primarily to the financial risks of changes in interest rates. The Group uses interest rate swap contracts to hedge these exposures.

The use of financial derivatives is governed by the Group s policies approved by the Board, which provides written principles on the use of financial derivatives.

Changes in the fair value of derivative financial instruments that are designated and effective as hedges of future cash flows are recognised directly in equity and the ineffective portion is recognised immediately in the income statement. If the cash flow hedge of a firm commitment or forecasted transaction results in the recognition of an asset or a liability, then, at the time the asset or liability is recognised, the associated gains or losses on the derivative that had previously been recognised in equity are included in the initial measurement of the asset of liability. For hedges that do not result in the recognition of an asset or a liability, amounts deferred in equity are recognised in the income statement in the same period in which the hedged item affects net profit or loss.

For an effective hedge of an exposure to changes in fair values, the hedged item is adjusted for changes in fair value attributable to the risk being hedged with the corresponding entry in equity. Gains or losses from re-measuring the derivative are recognised in equity, except for any ineffective element which is recognised in income or expense.

Changes in the fair value of derivative financial instruments that do not qualify for hedge accounting are recognised in the income statement as they arise.

Hedge accounting is discontinued when the hedging instrument expires or is sold, terminated, or exercised, or no longer qualifies for hedge accounting. At that time, any cumulative gain or loss on the hedging instrument recognised in equity is retained in equity until the forecasted transaction occurs. If a hedging transaction is no longer expected to occur, the net cumulative gain or loss recognised in equity is transferred to net income or expense for the period.

Derivatives embedded in other financial instruments or other host contracts are treated as separate derivatives when their risks and characteristics are not closely related to those of host contracts and the host contracts are not carried at fair value with unrealised gains or losses reported in the income statement.

Trade receivables
Trade receivables are measured at initial recognition at fair value, and are subsequently measured at amortised cost using the effective interest rate method. Appropriate allowances for estimated irrecoverable amounts are recognised in profit or loss when there is objective evidence that the asset is impaired. The allowance recognised is measured as the difference between the asset s carrying amount and the present value of estimated future cash flows discounted at the effective interest rate computed at initial recognition.

Trade payables
Trade payables are initially measured at fair value, and are subsequently measured at amortised cost, using the effective interest rate method.

Bank borrowings
Interest-bearing bank loans and overdrafts are recorded at the proceeds received, net of direct issue costs. Finance charges, including premiums payable on settlement or redemption and direct issue costs, are accounted for on an accrual basis in profit or loss using the effective interest rate method and are added to the carrying amount of the instrument to the extent that they are not settled in the period in which they arise.

Equity instruments
Equity instruments issued by the Company are recorded at the proceeds received, net of direct issue costs.

New standards and interpretations not applied
During the year, the IASB and IFRIC have issued the following standards and interpretations with an effective date after the date of these financial statements which will have a disclosure impact in future periods:

	Issued/ Revised	Effective Date
IFRS 7 — Financial Instruments: disclosures	2005	Annual periods beginning on or after 1 January 2007
IAS 1 — Amendment: Presentation of Financial Statements: capital disclosure	2005	Annual periods beginning on or after 1 January 2007

2. Critical accounting judgements

In the process of applying the Group s accounting policies, which are described in note 1, management has made the following judgements that have the most significant effect on the amounts recognised in the financial statements.

Goodwill
The carrying value of goodwill at the year end is £206.4m (2005: £205.2m). An annual impairment review is required under IFRS 3 Business combinations involving judgement of the future cash flows for cash generating units. The Group prepares such cash flow forecasts derived from the most recent budgets approved by management for the next two years. Further details of the other assumptions used are given in note 13.

Mercury Health assets
The implementation phase of the main delivery contract has commenced in the period and this has resulted in significant expenditure on fixed assets and working capital in order to provide the contracted services. These assets are a requirement of the contract and this leads to judgements regarding the appropriate capitalisation and amortisation rates of these assets.

Revenue recognition
The Group s revenue recognition policies are disclosed in note 1. In some cases, judgement is required in order to determine the appropriate level of income to recognise where delivery of services is performed over time or where the basis of delivery may vary from the contractually agreed terms.

Notes to the financial statements (continued)

3. Revenue

An analysis of the Group s revenue is as follows:

	2006 £ 000	2005 £ 000
Continuing operations		
Sales of services	**214,785**	179,848
Property rental income	**9**	9
	214,794	179,857
Finance income	**446**	914
Total revenue	**215,240**	180,771

4. Business segments

The Group is currently organised into three business streams — Consulting services, Education and technology services and Healthcare delivery.

Principal activities are as follows:

Consultancy services —the division is one of the largest consultancy businesses operating in the public sector providing a broad range of management consultancy, PR and communications, resourcing and property services.

Education and technology services —the division is one of the largest providers of education services to the public sector including software, managed services school inspection services, consultancy, benchmarking, publishing and training.

Healthcare delivery —the division comprises Mercury Health, the Group s healthcare delivery business providing diagnostic, elective, GP and primary care services.

For the purpose of the Group s segmental reporting, Consulting services is divided into four segments in line with internal management reporting to give six primary business segments.

Segment information about the businesses is presented below:

Year ended 31 March 2006

	Communications 2006 £ 000	Property 2006 £ 000	Resourcing 2006 £ 000	Consultancy 2006 £ 000	Education and technology services 2006 £ 000	Healthcare delivery 2006 £ 000	Eliminations 2006 £ 000	Consolidated 2006 £ 000
Revenue								
External revenue	10,099	23,190	25,587	62,568	78,800	14,550	—	214,794
Inter-segment revenue	472	413	606	674	384	—	(2,549)	—
Total revenue	10,571	23,603	26,193	63,242	79,184	14,550	(2,549)	214,794
Segment profit	2,887	1,336	4,276	6,965	13,735	1,476	—	30,675
Unallocated corporate expenses								(6,597)
Amortisation of IFRS3 intangibles								(316)
Share option charges								(449)
Operating profit								23,313
Finance income								446
Finance costs								(6,287)
Profit before taxation								17,472
Taxation								(4,654)
Profit for the period								12,818

Inter-segment revenue are charged at prevailing market prices.

4. Business segments (continued)

Balance sheet information

	Communications 2006 £ 000	Property 2006 £ 000	Resourcing 2006 £ 000	Consultancy 2006 £ 000	Education and technology services 2006 £ 000	Healthcare delivery 2006 £ 000	Unallocated 2006 £ 000	Consolidated 2006 £ 000
Assets								
Segment assets	19,359	28,661	36,291	88,981	94,351	46,349	32,463	346,455
Liabilities								
Segment liabilities	2,236	3,800	13,977	12,475	30,051	33,071	88,772	184,382
Other segment information								
Capital additions	87	508	260	944	6,381	28,006	1,025	37,211
Depreciation and amortisation	81	586	295	603	1,506	632	648	4,351

The Group s operations are wholly undertaken in the United Kingdom and hence, no secondary business segment by geography is presented.

Year ended 31 March 2005

	Communications 2005 £ 000	Property 2005 £ 000	Resourcing 2005 £ 000	Consultancy 2005 £ 000	Education and technology services 2005 £ 000	Healthcare delivery 2005 £ 000	Eliminations 2005 £ 000	Consolidated 2005 £ 000
Revenue								
External revenue	9,772	21,119	24,379	54,624	69,614	349	—	179,857
Inter-segment revenue	186	212	224	614	783	—	(2,019)	—
Total revenue	9,958	21,331	24,603	55,238	70,397	349	(2,019)	179,857
Segment profit	2,364	2,640	5,231	6,677	10,893	(345)	—	27,460
Unallocated corporate expenses								(5,169)
Amortisation of IFRS3 intangibles								(322)
Goodwill impairment								(6,665)
Share option charges								(134)
Exceptional bid costs								(1,747)
Operating profit								13,423
Finance income								914
Finance costs								(5,380)
Profit before taxation								8,957
Taxation								(5,401)
Profit for the period								3,556

Inter-segment revenue are charged at prevailing market prices.

Balance sheet information

	Communications 2005 £ 000	Property 2005 £ 000	Resourcing 2005 £ 000	Consultancy 2005 £ 000	Education and technology services 2005 £ 000	Healthcare delivery 2005 £ 000	Unallocated 2005 £ 000	Consolidated 2005 £ 000
Assets								
Segment assets	18,275	31,916	37,979	95,034	91,463	14,175	27,787	316,629
Liabilities								
Segment liabilities	1,866	7,006	16,222	14,866	26,368	7,736	81,153	155,217
Other segment information								
Capital additions	55	3,103	337	466	14,145	8,258	3,900	30,264
Depreciation, amortisation and impairment	90	502	280	639	8,159	—	544	10,214

The Group s operations are wholly undertaken in the United Kingdom and hence, no secondary business segment by geography is presented.

Notes to the financial statements (continued)

5. Profit for the year

	2006 £ 000	2005 £ 000
Profit for the year is stated after charging/(crediting):		
Auditors remuneration:		
Group — audit	**323**	343
— other services	**344**	447
Depreciation and other amounts written off property, plant and equipment:		
Owned	**3,474**	2,699
Leased	**126**	16
Increase in fair value of investment property	**(20)**	(91)
Staff costs (see note 7)	**92,510**	76,023
Amortisation of acquired intangible assets	**316**	322
Amortisation of business systems	**78**	55
Goodwill impairment	**—**	6,665
Cost of inventories recognised as an expense	**1,962**	1,993
Write down of inventories recognised as an expense	**48**	17
Amortisation of development costs	**357**	457

Included within other services payable to the auditors are amounts relating to the preparation of other statutory reports of £5,000 (2005: £6,000) and other fees of £285,000 (2005: £327,000), which include tax compliance fees of £180,000 (2005: £114,000) and IFRS related fees of £49,000 (2005: £nil). In addition, fees as reporting accountants of £52,000 (2005: £36,000) paid to the auditors have been capitalised as part of the cost of acquisitions in accordance with IFRS 3.

6. Remuneration of directors

	2006 £ 000	2005 £ 000
Directors emoluments	**1,245**	1,037

Included within directors emoluments are pension costs of £74,000 (2005: £74,000) in respect of payments made to three (2005: three) directors individual defined contribution pension schemes.

Disclosures on directors remuneration, share options, long-term incentive schemes, and pension contributions are contained in the Directors remuneration section within the audited part of the Remuneration report and form part of these audited financial statements.

7. Staff numbers and costs

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

	2006 No.	2005 No.
Selling, operations and marketing	**1,690**	1,491
Finance and administration	**433**	358
	2,123	1,849

The aggregate payroll costs of these persons were as follows:

	2006 £ 000	2005 £ 000
Wages and salaries	**80,253**	65,605
Social security costs	**8,005**	6,985
Pension costs	**3,803**	3,299
Share option charges	**449**	134
	92,510	76,023

8. Exceptional Mercury Health bid costs

In the year ended 31 March 2005 the Group incurred exceptional Mercury Health bid costs of £1,747,000 in relation to bid and implementation costs on the NHS independent treatment sector contract.

9. Finance costs

	2006 £ 000	2005 £ 000
Finance charges		
Interest on bank overdrafts and loans	**6,500**	5,285
Interest on loan notes	**249**	215
Interest on obligation under finance leases	**23**	7
Net interest payable on retirement benefit obligations	**26**	15
Total borrowing costs	**6,798**	5,522
Less: amounts included in the cost of qualifying assets	**(1,276)**	(142)
	5,522	5,380
Financial instruments		
Loss arising on derivatives	**322**	—
Discounting charge for deferred consideration	**443**	—
	765	—
	6,287	5,380

Borrowing costs included in the cost of qualifying assets during the year arose on the Mercury Health ISTC contract for which the related borrowings are separately identifiable and are capitalised at the average rate incurred of 6.9%.

10. Taxation

	2006 £ 000	2005 £ 000
Current tax		
UK corporation tax	**5,495**	5,758
Adjustments in respect of prior years	**(1,493)**	(125)
	4,002	5,633
Deferred tax		
Current year	**652**	109
Adjustments in respect of prior years	**—**	(341)
Taxation charge on profits	**4,654**	5,401

The charge for the year can be reconciled to the profit per the income statement as follows:

	2006 £ 000	2005 £ 000
Profit before tax	**17,472**	8,957
Tax charge at standard rate of 30% (2005: 30%)	**5,242**	2,687
Effects of:		
Intangible amortisation and impairment	**242**	1,866
Non-deductible start up costs	**—**	704
Expenses not deductible for tax purposes	**396**	170
Adjustments in respect of prior years	**(1,493)**	(466)
Taxable release of accrued contributions to Employee Share Ownership Trust	**—**	270
Share based payments and discounting charges	**267**	170
Tax expense for the year	**4,654**	5,401

In addition to the income tax charged to the income statement, a deferred tax credit of £163,000 (2005: £nil) has been taken directly to equity (see consolidated statement of recognised income and expense on page 45).

11. Dividends

	2006 £ 000	2005 £ 000
Amounts recognised as distributions to equity holders in the period:		
Final dividend for the year ended 31 March 2005 of 2.0 pence (2004: 2.0 pence) per share	**1,530**	1,400
Interim dividend for the year ended 31 March 2006 of 1.05 pence (2005: 1.0 pence) per share	**832**	750
	2,362	2,150
Proposed final dividend for the year ended 31 March 2006 of 2.25 pence (2005: 2.0 pence) per share	**1,804**	1,530

The proposed final dividend is subject to approval by shareholders at the Annual General Meeting and has not been included as a liability in these financial statements.

Notes to the financial statements (continued)

12. 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:

	2006 thousands	2005 thousands
Weighted average number of shares outstanding:		
Basic weighted average number of shares in issue	**77,255**	71,421
Employee share options	**763**	890
Shares to be issued in respect of deferred consideration	**3,255**	6,164
Weighted average number of shares outstanding for dilution calculations	**81,273**	78,475

The adjusted basic and adjusted diluted earnings per share figures shown on the consolidated income statement on page 43 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:

	2006		2005	
	Earnings £ 000	Earnings per share pence	Earnings £ 000	Earnings per share pence
Basic and adjusted basic earnings per share:				
Profit and basic earnings per share	**12,544**	**16.2p**	3,253	4.6p
Adjustments:				
Share option charges	**449**	**0.6p**	134	0.2p
Amortisation of IFRS 3 intangibles (net of tax)	**316**	**0.4p**	225	0.3p
Goodwill impairment	**—**	**—**	6,665	9.3p
Exceptional bid costs	**—**	**—**	1,747	2.4p
Financial instruments charge (net of tax)	**668**	**0.9p**	—	—
Adjusted earnings and adjusted basic earnings per share	**13,977**	**18.1p**	12,024	16.8p
Diluted and adjusted diluted earnings per share:				
Profit and diluted earnings per share	**12,544**	**15.4p**	3,253	4.1p
Adjustments:				
Share option charges	**449**	**0.6p**	134	0.2p
Amortisation of IFRS 3 intangibles (net of tax)	**316**	**0.4p**	225	0.3p
Goodwill impairment	**—**	**—**	6,665	8.5p
Exceptional bid costs	**—**	**—**	1,747	2.2p
Financial instruments charge (net of tax)	**668**	**0.8p**	—	—
Adjusted earnings and adjusted diluted earnings per share	**13,977**	**17.2p**	12,024	15.3p

13. Goodwill

	2006 £ 000	2005 £ 000
Cost		
At beginning of year	**232,949**	221,835
Additions — including minority interests	**4,136**	15,387
Revisions to prior years	**(2,991)**	(4,273)
At end of year	**234,094**	232,949
Accumulated impairment losses		
At beginning of year	**27,702**	21,037
Impairment	**—**	6,665
At end of year	**27,702**	27,702
Net book value		
At end of year	**206,392**	205,247
At start of year	**205,247**	200,798

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.

13. Goodwill (continued)

Goodwill acquired in a business combination is allocated, at acquisition, to the cash generating units that are expected to benefit from the business combination. The carrying amount of goodwill has been allocated as follows:

	2006 £ 000	2005 £ 000
Consultancy services		
Communications	**17,677**	17,521
Consulting	**71,207**	70,154
Property	**21,245**	22,312
Resourcing	**26,927**	28,834
Education and technology services	**69,336**	66,426
Healthcare delivery	**—**	—
	206,392	205,247

The Group tests goodwill annually for impairment, or more frequently if there are indications that goodwill might be impaired.

The recoverable amounts of the cash generating units are determined from value in use calculations. The key assumptions for the value in use calculations are those regarding the discount rates, growth rates and expected changes to selling prices and direct costs during the period. Management estimates discount rates using pre-tax rates that reflect current market assessments of the time value of money and the risks specific to the cash generating units. The growth rates are based on industry growth forecasts. Changes in selling prices and direct costs are based on past practices and expectations of future changes in the market.

The Group prepares cash flow forecasts derived from the most recent financial budgets approved by management for the next two years and extrapolates cash flows into perpetuity based on an estimated growth rate of 2.5%. This rate does not exceed the average long-term growth rate for the relevant markets.

The rate used to discount the forecast cash flow is 8.5%.

At 31 March 2005, before impairment testing, goodwill of £73.5m was allocated to the Education and technology services segment. Following a review of the carrying value of two underperforming business streams, the Education and technology services segment reduced its recoverable amount through recognition of an impairment loss against goodwill of £6.7m.

14. Other intangible assets

	Business combinations £ 000	Development costs £ 000	Business systems £ 000	Total £ 000
Cost				
At 1 April 2004	—	1,353	—	1,353
Additions	2,732	640	384	3,756
At 1 April 2005	2,732	1,993	384	5,109
Additions	—	1,048	7	1,055
Acquired	197	—	—	197
Fair value adjustments	(725)	—	—	(725)
At 31 March 2006	**2,204**	**3,041**	**391**	**5,636**
Amortisation				
At 1 April 2004	—	796	—	796
Charge for the year	322	457	55	834
At 1 April 2005	322	1,253	55	1,630
Charge for the year	316	357	78	751
At 31 March 2006	**638**	**1,610**	**133**	**2,381**
Carrying amount				
At 31 March 2006	**1,566**	**1,431**	**258**	**3,255**
At 31 March 2005	2,410	740	329	3,479
At 31 March 2004	—	557	—	557

The intangible assets acquired on business combinations comprise software maintenance revenue, trading relationships, intellectual property and contract pipeline. They are amortised over their estimated useful lives, which on average is five years.

The amortisation period for development costs incurred on the Group s software development and product development is two to three years based on the expected life cycle of the product.

The Group s corporate business systems software is amortised over five years.

Notes to the financial statements (continued)

15. Property, plant and equipment

	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 1 April 2004	584	1,679	10,967	—	13,230
Additions	—	702	4,590	5,829	11,121
Acquired with subsidiaries	—	—	1,149	—	1,149
Disposals	—	—	(3,537)	—	(3,537)
At 31 March 2005	584	2,381	13,169	5,829	21,963
Additions	_	1,352	4,849	25,819	32,020
Reclassification	20,780	—	—	(20,780)	—
Acquired with subsidiaries	—	—	230	—	230
Disposals	—	(24)	(769)	—	(793)
At 31 March 2006	**21,364**	**3,709**	**17,479**	**10,868**	**53,420**
Depreciation					
At 1 April 2004	7	360	6,596	—	6,963
Charge for year	23	268	2,424	—	2,715
Acquired with subsidiaries	—	—	720	—	720
Disposals	—	—	(973)	—	(973)
At 31 March 2005	30	628	8,767	—	9,425
Charge for year	379	433	2,788	—	3,600
Acquired with subsidiaries	—	—	155	—	155
Disposals	—	(18)	(704)	—	(722)
At 31 March 2006	**409**	**1,043**	**11,006**	**—**	**12,458**
Net book value					
At 31 March 2006	**20,955**	**2,666**	**6,473**	**10,868**	**40,962**
At 31 March 2005	554	1,753	4,402	5,829	12,538
At 31 March 2004	577	1,319	4,371	—	6,267

Included in the total net book value of fixtures, fittings and other equipment is £362,000 (2005: £46,000) in respect of assets held under finance leases. Depreciation for the year on these assets was £126,000 (2005: £16,000). Of the fixed asset additions of £32.0m (2005: £11.1m) during the period, £28.8m (2005: £5.7m) relates to the Mercury Health delivery business.

16. Investment property

	2006 £ 000	2005 £ 000
Fair value		
At the beginning of the year	**180**	89
Increase in fair value during the year	**20**	91
At end of the year	**200**	180

The fair value of the Group s investment property at 31 March 2006 has been arrived at on the basis of a valuation carried out at that date by Bernard Marcus, independent valuers not connected with the Group. The valuation was arrived at by reference to market evidence of transaction prices for similar properties.

The property rental income earned by the Group from its investment property, all of which is leased out under operating leases, amounted to £9,000 (2005: £9,000). Direct operating expenses arising on the investment property in the period amounted to £3,000 (2005: £3,000).

17. Investments

	Investment in associates	
	2006 £ 000	2005 £ 000
Cost		
At beginning of year	**151**	190
Additions	**—**	35
Acquired with subsidiaries	**—**	1
Disposals	**—**	(75)
At end of year	**151**	151

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.

18. Inventories

	2006 £ 000	2005 £ 000
Work in progress	**213**	926
Long term contract balances	**10,365**	7,574
Finished goods and goods for resale	**917**	602
	11,495	9,102

Long term contract balances of £10.4m (2005: £7.6m) relate to directly attributable pre-contract costs incurred after the point when there was virtual certainty that the Mercury Health ISTC contract would be awarded. The costs are being amortised over the period of the contract, which is approximately five years.

19. Trade and other receivables

	2006 £ 000	2005 £ 000
Trade receivables	**45,431**	45,537
Other receivables	**1,675**	1,037
Prepayments and accrued income	**12,020**	8,350
Amounts recoverable on contracts	**44**	1,391
	59,170	56,315

The directors consider that the carrying amount of trade and other receivables approximates their fair value. The amounts presented in the balance sheet are net of allowances for doubtful receivables.

20. Trade and other payables

	2006 £ 000	2005 £ 000
Trade payables	**24,147**	25,457
Other taxation and social security	**12,503**	9,264
Other payables	**1,892**	1,539
Accruals and deferred income	**30,623**	27,796
Deferred cash consideration	**254**	1,198
Fair value of interest rate swaps	**519**	—
	69,938	65,254

The directors consider that the carrying amount of trade and other payables approximates to their fair value.

Notes to the financial statements (continued)

21. Obligations under finance leases and hire purchase contracts

The Group uses finance leases and hire purchase contracts to acquire fixtures, fittings and other equipment.

The value of future minimum lease payments and their present values are analysed as follows:

	Minimum lease payments 2006 £ 000	Present value of minimum lease payments 2006 £ 000	Minimum lease payments 2005 £ 000	Present value of minimum lease payments 2005 £ 000
Within one year	**92**	**78**	24	20
In second to fifth years inclusive	**398**	**340**	30	26
After five years	**15**	**11**	—	—
	505	**429**	54	46

The Group has certain computer equipment and a motor vehicle held under finance leases. The average lease term is five years. For the year ended 31 March 2006, the average effective borrowing rate was 7.1% (2005: 7.2%). Interest rates are fixed at the contract date. All leases are on a fixed repayment basis and no arrangements have been entered into for contingent rental periods.

The Group s obligations under finance leases are secured by the lessors rights over the leased assets.

The fair value of the Group s lease obligations approximates to their carrying value.

22. Bank overdrafts and loans

	2006 £ 000	2005 £ 000
Bank loans	**96,556**	77,518
Loan notes	**2,907**	3,802
	99,463	81,320

Maturity of bank and loan notes:

	2006 £ 000	2005 £ 000
Bank and loan notes can be analysed as falling due:		
On demand or within one year	**2,907**	3,802
In the third to fifth year inclusive	**96,556**	77,518
	99,463	81,320

The bank arrangements are all nominated in UK sterling.

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 Group and its subsidiary undertakings. The interest rates on the loans notes are a mixture of fixed and floating and are also at market rates. Repayment terms vary between one and five years.

Cash collateralised of £1.4m (2005: £1.5m) represents committed cash facilities that are specifically allocated to pay the loan notes above.

	Fixed rate £ 000	Floating rate £ 000	2006 Total £ 000	Fixed rate £ 000	Floating rate £ 000	2005 Total £ 000
Bank loans	**46,000**	**50,556**	**96,556**	20,000	57,518	77,518
Loan notes	**116**	**2,791**	**2,907**	158	3,644	3,802
	46,116	**53,347**	**99,463**	20,158	61,162	81,320
Finance leases	**429**	**—**	**429**	46	—	46
Total	**46,545**	**53,347**	**99,892**	20,204	61,162	81,366

The weighted average interest rate paid were as follows:	2006	2005
Bank loans	**7.2%**	6.9%
Loan notes	**3.5%**	3.7%

The weighted average fixed rate is 5.0% (2005: 4.5%) and the weighted average period for which interest rates on fixed rate liabilities are fixed is four years (2005: two years). There are £51.3m (2005: £28.5m) undrawn committed borrowing facilities which all expire in two to five years.

The Group has two principal bank loans:

a) £125m is available under a revolving facility until 14 October 2010. The interest rate is reset for a period of one, three or six months at LIBOR plus a variable margin determined by covenant calculations. This rate is managed through interest rate swaps.

b) £33.5m non-recourse senior debt facility secured by Mercury Health to fund the construction of the treatment facilities as part of the ISTC contract. The interest rate is reset for a period of three months at a rate of 1% above LIBOR. This facility is fully hedged by interest rate swaps.

22. Bank overdrafts and loans (continued)

Interest rates on loan notes are determined by each separate agreement with typical interest rates being one per cent below base rate.

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

23. Deferred tax

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

	2006 £ 000	2005 £ 000
Deferred tax assets		
Depreciation in excess of capital allowances	**—**	471
Other timing differences	**81**	136
Tax losses carried forward	**—**	37
Retirement benefit schemes	**594**	411
Holiday pay accrual	**300**	227
Capital allowances in excess of depreciation	**(137)**	—
Derivative financial instruments	**(15)**	—
	823	1,282
Deferred tax liabilities		
Intangible assets	**728**	853
Fair value adjustment on investment property	**36**	30
Leasehold property not qualifying for tax allowances	**175**	175
	939	1,058

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.

The movement in deferred tax assets and liabilities during the year was as follows:

	Temporary differences on fixed assets £ 000	Share-based payment and holiday pay £ 000	Retirement benefit schemes £ 000	Derivative financial instruments £ 000	Other temporary differences £ 000	Total £ 000
At 1 April 2005	(587)	227	411	—	173	224
(Credited)/charged to income statement	(478)	73	5	—	(92)	(492)
Acquisitions	(11)	—	—	—	—	(11)
Items taken directly to equity	—	—	178	(15)	—	163
At 31 March 2006	**(1,076)**	**300**	**594**	**(15)**	**81**	**(116)**

The movement in deferred tax assets and liabilities during the previous year was as follows:

	Temporary differences on fixed assets £ 000	Share-based payment and holiday pay £ 000	Retirement benefit schemes £ 000	Other temporary differences £ 000	Total £ 000
At 1 April 2004	141	178	79	59	457
(Credited)/charged to income statement	(418)	49	23	114	(232)
Acquisitions	(4)	—	355	—	351
Items taken directly to equity	(306)	—	(46)	—	(352)
At 31 March 2005	(587)	227	411	173	224

24. Share-based payments

The Group recognised the following expenses related to equity-settled share based payment transactions:

	2006 £ 000	2005 £ 000
Employee Share Option Scheme (ESOS)	—	(260)
LTIP	**107**	(49)
SAYE	**337**	719
Acquired schemes	**5**	38
EEPP	—	(314)
	449	134

Notes to the financial statements (continued)

24. Share-based payments (continued)

Employee Share Option Scheme (ESOS)

Options granted under the ESOS prior to 17 July 2003 have an award period of four years. The options are granted at market value. The extent to which an award vests is measured by the reference to the growth in the company s adjusted diluted earnings per share over two financial years. Options granted since 17 July 2003 have an award period of three years and vest based on the growth in the adjusted diluted earnings per share over three financial years.

LTIP

Awards made to eligible employees under the LTIP are nil cost options with an award period of four years. The extent to which an award vests is measured by reference to the growth of the company s adjusted diluted earnings per share over the performance period of three financial years.

SAYE

The SAYE scheme provides for a purchase price equal to mid market value at date of grant. For grants prior to January 2005, a discount to market value of 20% was applied. All schemes are three year saving schemes.

Acquired schemes

The acquired schemes relate to share option schemes existing when the Group acquired certain businesses. These option schemes have rolled into Tribal options and have no performance criteria.

EEPP

During the year under review the Group discontinued use of the Executive Equity Participation Plan.

Options outstanding during the year are as follows:

	ESOS		LTIP		SAYE		Acquired schemes	
	Number of options thousands	Weighted average exercise price	Number of options thousands	Weighted average exercise price	Number of options thousands	Weighted average exercise price	Number of options thousands	Weighted average exercise price
Outstanding at 1 April 2005	2,741	£2.40	701	£nil	1,675	£1.99	281	£1.65
Exercised during the year	(214)	£1.36	—	—	—	—	(9)	£1.33
Granted during the year	—	—	276	£nil	348	£1.93	—	—
Lapsed during the year	(381)	£2.50	(8)	£nil	(523)	£2.21	(29)	£2.32
Outstanding at 31 March 2006	2,146	£2.49	969	£nil	1,500	£1.90	243	£1.59
Exercisable at 31 March 2006	1,231	£2.28	481	£nil	427	£2.00	243	£1.59
Remaining contractual life	6.2		1.5		1.9		5.8	

In the year ended 31 March 2006 and 31 March 2005, the Group used the Black-Scholes model for measuring the fair value of the options granted. The following table sets out the information about how the fair value of the grant is calculated for each of the schemes:

	ESOS		LTIP		SAYE	
	2006	2005	2006	2005	2006	2005
Share price	**—**	£1.96	**£2.09**	£1.96	**£1.925**	£1.44
Exercise price	**—**	£1.96	**£nil**	£nil	**£1.93**	£1.44
Expected dividend yield	**—**	1.5%	**1.44%**	1.5%	**1.58%**	2.1%
Risk free interest rate	**—**	5.1%	**4.10%**	5.0%	**4.18%**	4.5%
Expected volatility	**—**	35.9%	**37.5%**	35.5%	**33.7%**	35.6%
Term (years)	**—**	6	**3.6**	3	**3.25**	3.25

The expected life used in the model has been adjusted, based on management s best estimate, for the effects of non-transferability, exercise restrictions and behavioural considerations.

Expected volatility was determined by calculating the historical volatility of the Group s share price over the term commensurate with the expected term immediately prior to the date of grant (i.e. 3.6 years for the LTIP award and 3.25 years for the SAYE award).

For SAYE valuations, the model reflects the fact that the options are exercisable only for a short period of six months following their vesting. An expected life of three years and three months is the mid point between the vesting and expiry dates.

The following options over shares have not been recognised in accordance with IFRS 2 as the options were granted on or before 7 November 2002. These options have not been subsequently modified and therefore do not need to be accounted for in accordance with IFRS 2.

	ESOS		LTIP		SAYE		Acquired schemes	
	2006 thousands	2005 thousands	2006 thousands	2005 thousands	2006 thousands	2005 thousands	2006 thousands	2005 thousands
Options granted before 7 November 2002	**1,231**	1,700	**584**	593	**—**	285	**107**	129

25. Acquisition of subsidiary

Sportsvine Holdings Limited

On 19 October 2005, the Group acquired 51% of the share capital of Sportsvine Holdings Limited for a total consideration of £0.6m, satisfied by loan notes and with goodwill of £0.7m arising.

26. Called up share capital

	2006 £ 000	2005 £ 000
Authorised		
125,000,000 (2005: 125,000,000) ordinary shares of 5p each	**6,250**	6,250

	2006 number	2006 £ 000	2005 number	2005 £ 000
Allotted, called up and fully paid				
At 1 April	**74,964,271**	**3,748**	68,966,818	3,448
Issued as consideration for acquisitions	**4,970,908**	**249**	5,799,821	290
Share option exercises	**223,734**	**11**	197,632	10
At 31 March	**80,158,913**	**4,008**	74,964,271	3,748

The Company has one class of ordinary shares which carry no right to fixed income.

During the year, 223,734 ordinary 5p shares with an aggregate nominal value of £11,000 were issued under share option schemes for a total consideration of £304,000.

During the year, 4,970,908 ordinary 5p shares with an aggregate nominal value of £249,000 were issued as consideration for acquisitions for a total consideration of £9,277,000.

27. Share premium

	2006 £ 000	2005* £ 000
At 1 April	**80,156**	79,548
Premium on share issues (net of expenses)	**615**	608
At 31 March	**80,771**	80,156

* The share premium and merger reserve as at 31 March 2005 have been partially reallocated so that £7,383,000 of share premium is reclassified as merger reserve in accordance with the requirements of section 131 of the Companies Act 1985. There is no impact on profit or net assets as a result of this reallocation.

28. Reserves

	Capital reserve £ 000	Merger reserve £ 000	Own shares reserve £ 000	Share based payment reserve £ 000	Hedging reserve £ 000	Retained earnings £ 000
At 1 April 2004	9,545	33,444	—	969	—	4,600
Credit in relation to share based payment	—	—	—	134	—	—
Profit for the year	—	—	—	—	—	3,253
Dividends paid	—	—	—	—	—	(2,150)
Premium on share issues	—	9,943	—	—	—	—
Net income recognised directly to equity in the year	—	—	—	—	—	105
Share option exercises	—	—	—	—	—	(578)
Recognition of employee benefits acquired	—	—	—	—	—	(168)
Transfers	—	—	—	(506)	—	506
At 1 April 2005	9,545	43,387	—	597	—	5,568
Impact of adoption of IAS 39	—	—	—	—	(30)	(218)
Restated as at 1 April 2005	9,545	43,387	—	597	(30)	5,350
Profit for the year	—	—	—	—	—	12,544
Dividends paid	—	—	—	—	—	(2,362)
Premium on share issues	—	8,777	—	—	—	—
Net income/(expense) recognised directly to equity in the year	—	—	—	—	36	(416)
Share option exercises	—	—	—	—	—	(100)
Own shares acquired	—	—	(1,668)	—	—	—
Credit in relation to share based payment	—	—	—	449	—	—
Transfers	—	—	—	(157)	—	157
At 31 March 2006	**9,545**	**52,164**	**(1,668)**	**889**	**6**	**15,173**

The merger reserve of £52.2m (2005: £43.4m) relates to the premium arising on shares issued subject to the provisions of section 131 of the Companies Act 1985 (see also note 27).

The capital reserve of £9.5m (2005: £9.5m) resulted from a share exchange when Tribal Group plc was listed in February 2001.

The own share reserve of £1.7m represents the cost of 853,091 shares in Tribal Group plc held by the Employee Share Ownership Trust to satisfy certain options under the Group s share option schemes.

The Hedging reserve represents movements relating to cash flow hedges.

Notes to the financial statements (continued)

29. Shares to be issued

IAS 32 Financial Instruments: disclosure and presentation has been prospectively adopted from 1 April 2005. IAS 32 requires shares to be issued totalling £6.2m in respect of contingent deferred consideration, to be treated as liabilities since the value of the estimated liability can be assessed, rather than the number of shares that will be issued. The comparative figures show shares to be issued with equity in accordance with previous GAAP.

	2006 £ 000	2005 £ 000
At 1 April	**16,517**	25,088
Fair value adjustments	**(2,449)**	(5,400)
Acquisitions	**—**	3,800
Issued	**(7,831)**	(6,917)
At 31 March	**6,237**	16,517

30. Capital and other commitments

There are capital commitments at 31 March 2006 of £6,599,000 (2005: £25,800,000). The current year commitments primarily relate to Mercury Health and their obligations to construct one further treatment centre.

The Group as lessee	2006 £ 000	2005 £ 000
Minimum lease payments under operating lease recognised in income in the year	**2,676**	2,128

At the balance sheet date, the Group had outstanding commitments for future minimum lease payments under non-cancellable operating leases which fall due as follows:

	2006 £ 000	2005 £ 000
Within one year	**744**	492
In second to fifth year inclusive	**5,998**	5,282
After five years	**11,774**	8,939
	18,516	14,713

31. Retirement benefit schemes

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 £3,803,000 (2005: £3,299,000).

Contributions amounting to £372,000 (2005: £275,000) 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 four active members at the year end. Employer contributions amounting to £65,897 were paid in the year to 31 March 2006. 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 29 active members and 20 deferred pensioners at the year end. Employer contributions amounting to £128,000 were paid in the year to 31 March 2006.

The assets of the funds have been taken at market value and the actuarial assumptions used to calculate scheme liabilities under IAS 19 Employee Benefits are:

	2006 % per annum	2005 % per annum	2004 % per annum
Inflation	**3.10**	2.75	2.75
Salary increases	**4.60**	3.75	3.75
Rate of discount	**4.90**	5.50	5.50
Pension in payment increases	**3.10**	2.75	2.75
Revaluation rate for deferred pensioners	**3.10**	2.75	2.75

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:

	2006 %	2006 £ 000	2005 %	2005 £ 000
Equities	**7.50**	**140**	7.75	878
Bonds	**5.00**	**126**	5.50	87
Total fair value of assets		**266**		965
Present value of scheme liabilities		**(591)**		(1,142)
Deficit in the scheme		**(325)**		(177)
Related deferred tax asset		**98**		53
Net pension liability		**(227)**		(124)

31. Retirement benefit schemes (continued)

LPFA Pension Fund:

	2006 %	2006 £ 000	2005 %	2005 £ 000
Equities	**7.30**	**1,919**	7.75	1,792
Bonds	**6.00**	**580**	5.50	238
Property	**6.50**	**359**	6.50	169
Cash	**4.60**	**187**	3.50	181
Total fair value of assets		**3,045**		2,380
Present value of scheme liabilities		**(4,697)**		(3,573)
Deficit in the scheme		**(1,652)**		(1,193)
Related deferred tax asset		**496**		358
Net pension liability		**(1,156)**		(835)

The contribution rate for 2006 was 25% of pensionable earnings for the TfL Pension Fund and 18.1% 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 recognised to the consolidated income statement:

	TfL 2006 £ 000	LPFA 2006 £ 000	TfL 2005 £ 000	LPFA 2005 £ 000
Current service cost	**28**	**153**	44	176
Past service cost	—	**—**	—	150
Recognised in arriving at operating profit	**28**	**153**	44	326
Other finance costs				
Interest on pension scheme liabilities	**41**	**201**	59	179
Expected return on pension scheme assets	**(45)**	**(171)**	(62)	(161)
Net finance (income)/charge	**(4)**	**30**	(3)	18
Total charge to income statement	**24**	**183**	41	344

Analysis of actuarial gain in the consolidated statement of recognised income and expense:

	TfL 2006 £ 000	LPFA 2006 £ 000	TfL 2005 £ 000	LPFA 2005 £ 000
Actual return less expected return on pension scheme assets	**(7)**	**388**	42	56
Experience gains and losses arising on the scheme liabilities	**(8)**	**(1)**	7	—
Changes in assumptions underlying the present value of scheme liabilities	**(175)**	**(791)**	—	—
Total actuarial (loss)/gain recognised in the consolidated statement of recognised income and expense	**(190)**	**(404)**	49	56

Cumulative actuarial loss recognised in the consolidated statement of recognised income and expense since 1 April 2004 is £489,000 (2005: gain £105,000).

Changes in the deficit are analysed as follows:

	TfL 2006 £ 000	LPFA 2006 £ 000	TfL 2005 £ 000	LPFA 2005 £ 000
At 1 April	**(177)**	**(1,193)**	(262)	(1,184)
Movement in the year:				
Current employer service cost	**(28)**	**(153)**	(44)	(176)
Employer contributions	**66**	**128**	77	279
Actuarial (loss)/gain	**(190)**	**(404)**	49	56
Net finance income/(charge)	**4**	**(30)**	3	(18)
Past service cost	—	**—**	—	(150)
At 31 March	**(325)**	**(1,652)**	(177)	(1,193)
Experience adjustments arising on scheme liabilities				
Amount	**(8)**	**(1)**	7	—
Percentage of the present value of the scheme liabilities	**1%**	**0%**	1%	—

No assets are invested in the Group s own financial instruments, properties or other assets used by the Group.

Notes to the financial statements (continued)

32. Notes to the cash flow statement

	2006 £ 000	2005 £ 000
Operating profit from continuing operations	**23,313**	13,423
Depreciation of property, plant and equipment	**3,600**	2,715
Amortisation of development expenditure	**435**	457
Amortisation of intangible assets	**316**	322
Impairment of goodwill	**—**	6,665
Net pension charge	**13**	29
Gain on disposal of available for sale investments	**—**	(95)
Gain on disposal of property, plant and equipment	**(24)**	(30)
Increase in fair value of investment property	**(20)**	(91)
Share based payments	**449**	134
Decrease/(increase) in receivables	**1,539**	(6,636)
Increase/(decrease) in payables	**4,008**	(1,649)
(Increase)/decrease in inventories	**(25)**	543
Exceptional items	**—**	1,747
Tax paid	**(3,365)**	(4,655)
Net cash from operating activities (excluding Mercury Health)	**30,239**	12,879
Mercury Health:		
— increase in inventories	**(2,330)**	(7,574)
— increase in receivables	**(2,224)**	(379)
— increase in payables	**509**	4,406
Exceptional items	**—**	(1,747)
Net cash from operating activities	**26,194**	7,585
Tax paid	**3,365**	4,655
Net cash from operating activities before tax	**29,559**	12,240

33. Contingent liabilities

During the year companies within the Group have received notifications of potential claims, as described below. Each claim has been investigated by our lawyers and each is being contested robustly as to both liability and quantum:-

- breach of contract arising out of the provision of services to a further education college
- negligence in the provision of services as architect on a hospital construction project
- the return of funding received for the provision of learning assessment and delivery for job seekers

Accruals of £150,000 (2005: £nil) have been made in these financial statements relating to these claims.

Contingent liabilities relating to deferred consideration are described further in note 29.

A cross-guarantee exists between the Group companies in respect of bank facilities totalling £53,337,000 (2005: £53,031,000).

34. Financial instruments

The Group has entered into the following interest rate swaps:

Amount	Expiry date	Tribal pays	Tribal receives	Fair value at 31 March 2006 £ 000
£25m	30.09.2010	4.99%	6 month LIBOR	(151)
£25m*	30.09.2010	6 month LIBOR less 75 bps to 30.09.2006 4.99% or LIBOR less 10 bps thereafter at bank option	6 month LIBOR	(216)
£21m	31.03.2009	5%	6 month LIBOR	(98)
£12.5m	31.03.2009	4.98%	6 month LIBOR	(54)
Net liability (see note 20)				**(519)**

* This financial instrument does not meet the criteria for a hedge instrument, the other interest rate swaps are hedge accounted.

The fair value of the interest rate swaps is based on market values of equivalent instruments at the balance sheet date.

Financial risk
Treasury management is led by Group Finance and is responsible for managing the Group s exposure to financial risk. It operates within a defined set of policies and procedures reviewed and approved by the Board.

Interest rate risk
The Group s exposure to interest rate fluctuations on its interest bearing assets and liabilities is selectively managed, using interest rate swaps.

Lenders of non-recourse debt generally require that the debt is maintained on fixed rate terms or is swapped to fixed rate terms.

The Group therefore hedges its interest rate risk on non-recourse debt and part of its recourse debt by using interest rate swaps to exchange floating interest cash flows to fixed interest cash flows.

Credit risk
The Group s principal financial assets are cash and cash equivalents and trade and other receivables.

The Group s credit risk is relatively low because a high proportion of trade and other receivables have a sovereign or close to sovereign credit rating.

35. Related party disclosures

During the year ended 31 March 2005, 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 and P J Martin 7,488 shares. During the year ended 31 March 2005, both directors received a dividend of £801. During the year ended 31 March 2006, 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 2006 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 were substantial property transactions for the purposes of section 320 of the Companies Act 1985 and were 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 the transactions were 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 could be redeemed by the issue of Tribal Group plc shares. A twelve month lock-up arrangement applies to 60% of any shares issued.

Included in the acquisition of minority shareholdings in Tribal Technology Limited described above were holdings of 7,488 C ordinary shares held by each of S M Lawton and P J Martin, two Group directors. These acquisitions were subject to shareholder approval (as described above). Each of these directors received, 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 was £1,400,000. The consideration was satisfied by the issue of £1,400,000 in loan notes. Tribal Group plc exercised its option to redeem up to 50% of the loan notes by the issue of 410,073 new Group shares, based on the market value of these shares at the time of the redemption, following the announcement of the Group s results for the year ended 31 March 2005. All shares issued are subject to lock-up arrangements for a minimum of twelve months from the date of issue.

Notes to the financial statements (continued)

35. Related party disclosures (continued)

Remuneration of key management personnel
The remuneration of the directors, who are the key management personnel of the Group, is set out below in aggregate for each of the categories specified in IAS 24 Related Party Disclosures .

	2006 £ 000	2005 £ 000
Short-term employee benefits	**1,059**	825
Share based payment	**107**	(313)
	1,166	512

36. Principal subsidiary undertakings

The principal subsidiary undertakings at 31 March 2006 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%
Avail Consulting Limited	Management consultancy, IT services and solutions	61.88%
Cambridge Training and Development Limited*	Design and production of multi-media training resources	100%
Geronimo Communications 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%
Tribal Consulting Limited	Management consultancy services to local government	100%
Tribal Education Limited	Education consultancy, training and Ofsted inspections	100%
Tribal Holdings Limited	Holding company	100%
Tribal Property Limited*	Property consultants	100%
Tribal Resourcing Limited	Recruitment advertising in the public sector	98%
Tribal Technology Limited	Software support and IT services	100%
Tribal TGC Limited	Management consultancy, learning and training	63.72%
Yale Data Management Consultants Limited	Management and IT consultancy	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.

Full details of related undertakings will be attached to the Company s Annual Return to be filed with the Registrar of Companies.

37. Explanation of transition to IFRS

This is the first year that the company has presented its financial statements under IFRS. The following disclosures are required in the year of transition. The last financial statements under UK GAAP were for the year ended 31 March 2005 and date of transition to IFRS was therefore 1 April 2004.

Reconciliation of equity at 1 April 2004 (date of transition to IFRS)

Note		UK GAAP £ 000	Effect of transition to IFRS £ 000	IFRS £ 000
	Non-current assets			
	Goodwill	200,798	—	200,798
	Other intangible assets	557	—	557
	Property, plant and equipment	6,267	—	6,267
	Investment property	89	—	89
	Investments	190	—	190
1	Deferred tax assets	378	257	635
		208,279	257	208,536
	Current assets			
	Inventories — work in progress	2,058	—	2,058
	Trade and other receivables	44,867	—	44,867
	Cash and cash equivalents	34,273	—	34,273
	Collateralised cash	7,467	—	7,467
		88,665	—	88,665
	Total assets	296,944	257	297,201
	Current liabilities			
2	Trade and other payables	(55,062)	807	(54,255)
	Tax liabilities	(4,510)	—	(4,510)
	Obligations under finance leases	(44)	—	(44)
	Bank overdrafts and loans	(8,168)	—	(8,168)
		(67,784)	807	(66,977)
	Net current assets	20,881	807	21,688
	Non-current liabilities			
	Bank loans	(71,423)	—	(71,423)
3	Pension liabilities	—	(262)	(262)
4	Deferred tax liabilities	—	(178)	(178)
	Obligations under finance leases	(2)	—	(2)
	Other non current liabilities	(590)	—	(590)
		(72,015)	(440)	(72,455)
	Total liabilities	(139,799)	367	(139,432)
	Net assets	**157,145**	**624**	**157,769**
	Equity			
	Share capital	3,448	—	3,448
	Share premium account	79,548	—	79,548
	Equity reserve	42,989	—	42,989
5	Share based payment reserve	—	969	969
6	Shares to be issued	27,172	(2,084)	25,088
	Retained earnings	2,861	1,739	4,600
	Equity attributable to equity holders	156,018	624	156,642
	Minority interest	1,127	—	1,127
	Total equity	**157,145**	**624**	**157,769**

Notes to the reconciliations of equity at 1 April 2004

1 Deferred tax assets recognised on the implementation of IAS 19 Employee benefits and the recognition of the full pension liability.

2 Proposed dividends of £1.4m are not recognised under IFRS until the period they are declared and therefore the provision has been written back. The cumulative liability for share based payments of £1.0m is recognised under IFRS 2. Holiday pay accrual of £0.6m is recognised under IAS 19.

3 On the first time adoption of IFRS, the Group has taken advantage of the exemption allowed under IFRS 1 not to apply full retrospective application of IAS 19 Employee benefits . Accordingly, the Group has elected to recognise all cumulative actuarial losses at the date of transition to IFRS. Consequently, the full pension liability of £0.3m is recognised under IFRS.

4 A deferred tax liability has been created in respect of long leasehold and investment properties.

5 The cumulative liability for share based payments of £1.0m is recognised under IFRS 2.

6 The cumulative liability for share based payments of £1.0m is recognised under IFRS 2, as stated in note 5, which replaces the UITF 17 liability of £2.1m, formally included in shares to be issued under UK GAAP.

Notes to the financial statements (continued)

37. Explanation of transition to IFRS (continued)

Reconciliation of equity at 31 March 2005 (date of last UK GAAP financial statements)

Note		UK GAAP £ 000	Effect of transition to IFRS £ 000	IFRS £ 000
	Non-current assets			
1	Goodwill	197,188	8,059	205,247
2	Other intangible assets	740	2,739	3,479
3	Property, plant and equipment	12,867	(329)	12,538
	Investment property	180	—	180
	Investments	151	—	151
4	Deferred tax assets	644	638	1,282
		211,770	11,107	222,877
	Current assets			
	Inventories	9,102	—	9,102
	Trade and other receivables	56,315	—	56,315
	Cash and cash equivalents	26,810	—	26,810
	Collateralised cash	1,525	—	1,525
		93,752	—	93,752
	Total assets	305,522	11,107	316,629
	Current liabilities			
5	Trade and other payables	(66,154)	900	(65,254)
	Tax liabilities	(5,758)	—	(5,758)
	Obligations under finance leases	(20)	—	(20)
	Bank overdrafts and loans	(3,802)	—	(3,802)
		(75,734)	900	(74,834)
	Net current assets	18,018	900	18,918
	Non-current liabilities			
	Bank loans	(77,518)	—	(77,518)
6	Pension liabilities	—	(1,370)	(1,370)
7	Deferred tax liabilities		(1,058)	(1,058)
	Obligations under finance leases	(26)	—	(26)
8	Other non current liabilities	(945)	534	(411)
		(78,489)	(1,894)	(80,383)
	Total liabilities	(154,223)	(994)	(155,217)
	Net assets	**151,299**	**10,113**	**161,412**

37. Explanation of transition to IFRS (continued)

Reconciliation of equity at 31 March 2005 (date of last UK GAAP financial statements) (continued)

Note		UK GAAP £ 000	Effect of transition to IFRS £ 000	IFRS £ 000
	Equity			
	Share capital	3,748	—	3,748
	Share premium account	80,156	—	80,156
9	Revaluation reserve	91	(91)	—
	Equity reserve	52,932	—	52,932
10	Share based payment reserve	—	597	597
11	Shares to be issued	17,934	(1,417)	16,517
	Retained earnings	(5,456)	11,024	5,568
	Equity attributable to equity holders	149,405	10,113	159,518
	Minority interest	1,894	—	1,894
	Total equity	**151,299**	**10,113**	**161,412**

Notes to the reconciliation of equity at 31 March 2005

1 Goodwill under IFRS is not amortised, therefore amortisation of £10.0m is added back. £1.9m of separately identified intangible assets have been recognised in accordance with IFRS 3/IAS 38 (derecognised in goodwill).

2 Identification of intangible assets as mentioned in note 1. Under IAS 38, Intangible assets the remaining value of the Group s corporate information systems of £329,000 has been reclassified on transition as an intangible asset.

3 Under IAS 38, Intangible assets , the remaining value of the Group s corporate information systems of £329,000 has been reclassified on transition as an intangible asset.

4 Deferred tax assets recognised on the implementation of IAS 19 Employee benefits and the recognition of the full pension liability.

5 Proposed dividends of £1.5m are not recognised under IFRS until the period they are declared and therefore the provision has been written back. The cumulative liability for share based payments of £0.6m is recognised under IFRS 2. Holiday pay accrual of £0.6m is recognised under IAS 19.

6 The full pension liability of £1.4m is recognised under IFRS.

7 A deferred tax liability has been created in respect of long leasehold and investment properties.

8 Removal of UITF 17 pension liability.

9 The revaluation of the investment property under IAS 40 is recognised through the income statement rather than directly to reserves under UK GAAP.

10 The cumulative liability for share based payments of £0.6m is recognised under IFRS 2.

11 The cumulative liability for share based payments of £0.6m is recognised under IFRS 2, as stated in note 10, which replaces the UITF 17 liability of £1.4m, formally included in shares to be issued under UK GAAP.

Notes to the financial statements (continued)

37. Explanation of transition to IFRS (continued)

Reconciliation of profit/(loss) for 2005

Note		UK GAAP £ 000	Effect of transition to IFRS £ 000	IFRS £ 000
	Revenue	229,470	—	229,470
	Direct agency costs	(49,613)	—	(49,613)
	Cost of sales	(102,772)	—	(102,772)
1	Administrative expenses	(54,707)	(87)	(54,794)
2	Intangible amortisation	—	(322)	(322)
3	Goodwill amortisation	(11,436)	11,436	—
3	Goodwill impairment	(5,200)	(1,465)	(6,665)
4	Share option charges	244	(378)	(134)
	Exceptional items	(1,747)	—	(1,747)
	Operating profit	4,239	9,184	13,423
5	Net finance costs	(4,451)	(15)	(4,466)
	Profit before tax	(212)	9,169	8,957
6	Tax	(5,367)	(34)	(5,401)
	(Loss)/profit for the year from continuing operations	**(5,579)**	**9,135**	**3,556**

Notes to the reconciliation of profit or loss for 2005

1 IAS 40 recognises the revaluation of investment properties (£91,000) through the income statement, rather than directly to reserves under UK GAAP. Recognition of a charge for holiday pay in accordance with IAS 19.

2 Provision is made for amortisation of £0.3m on separately identifiable intangible assets.

3 Goodwill under IFRS is not amortised, therefore amortisation of £11.4m is added back. An additional impairment of £1.5m being charged for the amortisation previously recorded.

4 UITF 17 credit of £0.2m is derecognised and replaced by IFRS 2 share based payment charge. Provision for share based payments of £0.1m is recognised under IFRS 2.

5 Finance charge arising on deferred consideration per IAS 32.

6 Corporation and deferred tax effect on the above adjustments.

Explanation of material adjustments to the cash flow statement for 2005

The transition from UK GAAP to IFRS has no effect upon reported cashflows generated by the Group. The IFRS cash flow statement is presented in a different format from that required under UK GAAP — operating activities, investing activities and financing activities.

Five year summary

for the years ended 31 March

Summarised consolidated Group profit and loss account

	IFRS		UK GAAP		
	2006 £ 000	2005 £ 000	2004 £ 000	2003 £ 000	2002 £ 000
Revenue	**214,794**	179,857	152,221	98,364	45,651
Profit before interest and goodwill amortisation	**24,078**	22,291	23,153	16,685	8,360
Goodwill and intangibles amortisation and impairment	**(316)**	(6,987)	(10,690)	(6,288)	(2,903)
Share option charges	**(449)**	(134)	(1,025)	(580)	(494)
Exceptional items	**—**	(1,747)	(3,040)	(702)	—
Interest	**(5,841)**	(4,466)	(3,076)	(1,260)	(283)
Taxation	**(4,654)**	(5,401)	(6,176)	(4,737)	(1,851)
Minority interests	**(274)**	(303)	(108)	—	—
Dividends	**(2,362)**	(2,150)	(2,090)	—	—
Retained profit/(loss)	**10,182**	1,103	(3,052)	3,118	2,829
Earnings per share adjusted (diluted)	**17.2p**	15.3p	20.5p	18.6p	14.2p
Dividend per ordinary share	**3.3p**	3.0p	3.0p	—	—
Summarised consolidated Group balance sheet					
Goodwill and intangible fixed assets	**209,647**	208,726	201,355	142,623	92,941
Tangible fixed assets	**42,136**	14,151	6,546	3,635	2,332
Current assets	**94,672**	93,752	89,043	65,145	54,877
Current liabilities	**(84,424)**	(74,834)	(67,784)	(60,737)	(55,964)
Non current liabilities	**(99,958)**	(80,383)	(72,015)	(36,225)	(9,388)
Total capital employed	**162,073**	161,412	157,145	114,441	84,798

The amounts disclosed for 2004 and earlier periods are stated on the basis of UK GAAP because it is not practicable to restate amounts for periods prior to the date of transition to IFRS. The principal differences between UK GAAP and IFRS are explained in note 37 to the financial statements which provides an explanation of the transition to IFRS.

UK GAAP directors' responsibilities – Tribal Group plc – company

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 as at the end of the financial year and of the profit or loss of the Company 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.

The directors are responsible for ensuring proper accounting records are kept which disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the financial statements comply with the Companies Act 1985. They are also responsible for the Company s system of internal control, for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

UK GAAP audit report – Tribal Group plc - company
Independent auditors' report to the members of Tribal Group plc

We have audited the individual Company financial statements of Tribal Group plc for the year ended 31 March 2006 which comprise the balance sheet and the related notes 1 to 8. These individual Company financial statements have been prepared under the accounting policies set out therein.

The corporate governance statement and the directors remuneration report are included in the Group annual report of Tribal Group plc for the year ended 31 March 2006. We have reported separately on the Group financial statements of Tribal Group plc for the year ended 31 March 2006 and on the information in the directors remuneration report that is described as having being 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
The directors responsibilities for preparing the annual report and the individual Company financial statements in accordance with applicable law and United Kingdom accounting standards (UK GAAP) are set out in the statement of directors responsibilities. Our responsibility is to audit the individual Company financial statements in accordance with relevant United Kingdom legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

We report to you our opinion as to whether the individual Company financial statements give a true and fair view in accordance with the relevant financial reporting framework and whether the individual Company financial statements have been properly prepared in accordance with the Companies Act 1985. We report to you if, in our opinion, the directors report is not consistent with the individual Company financial statements. We also report to you 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 is not disclosed.

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

Basis of audit opinion
We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the individual Company financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the individual Company financial statements and of whether the accounting policies are appropriate to the Company s circumstances, consistently applied and adequately disclosed.

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

Opinion
In our opinion:

- the individual Company financial statements give a true and fair view, in accordance with United Kingdom Generally Accepted Accounting Practice, of the state of the Company s affairs as at 31 March 2006; and
- the individual Company financial statements have been properly prepared in accordance with the Companies Act 1985; and
- the information given in the directors report is consistent with the financial statements.

Deloitte & Touche LLP
Chartered Accountants and Registered Auditors
Bristol, United Kingdom
20 June 2006

Notes: An audit does not provide assurance on the maintanance and integrity of the website, including controls used to achieve this, and in particular on whether any changes may have occured to the financial statements since first published. These matters are the responsibility of the directors but no control procedures can provide absolute assurance in this area.

Legislation in the United Kingdon governing the prepartion and dissemintation of financial statements differs from legislation in other jurisdictions.

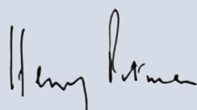
Company balance sheet

at 31 March 2006

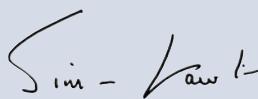
	Note		2006 £ 000		Restated (see note 1) 2005 £ 000
Fixed assets					
Investments	2		**269,362**		256,890
Current assets					
Debtors: amounts falling due within one year	3	**1,746**		1,892	
Debtors: amounts falling due after more than one year	3	**1,220**		—	
Cash at bank and in hand		**1,984**		1,525	
		4,950		3,417	
Creditors: amounts falling due within one year	4	**(44,293)**		(22,196)	
Net current liabilities			**(39,343)**		(18,779)
Total assets less current liabilities			**230,019**		238,111
Creditors: amounts falling due after more than one year	5		**(74,137)**		(77,929)
Net assets			**155,882**		160,182
Capital and reserves					
Called up share capital	6		**4,008**		3,748
Share premium account	7		**80,771**		80,156
Merger reserve	7		**52,164**		43,387
Shares to be issued	8		**—**		16,517
Equity reserve	7		**103**		—
Own shares reserve	7		**(1,668)**		—
Share based payment reserve	7		**889**		597
Profit and loss account	7		**19,615**		15,777
Equity shareholders funds			**155,882**		160,182

Notes 1 to 8 form part of these financial statements.

These financial statements were approved by the Board of directors on 20 June 2006 and were signed on its behalf by:



Henry J Pitman
Director



Simon M Lawton
Director

Notes to the company balance sheet

1. Accounting policies

Accounting policies
The following accounting policies have been applied consistently in dealing with items which are considered material in relation to the individual Company financial statements.

Basis of preparation
The financial information has been prepared on the historical cost basis, modified to include the revaluation of certain fixed assets and in accordance with applicable United Kingdom accounting standards.

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 £6,200,000 (2005: restated £4,497,000).

The auditors remuneration for audit services to the Company was £81,000 (2005: £62,000).

FRS 20 Share based payments has been adopted. It has no impact on the Company.

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

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.

Cash flow statement
The results, assets and liabilities of the Company are included in the consolidated financial statements of Tribal Group plc. Consequently, the Company has taken advantage of the exemption from preparing a cash flow statement under the terms of FRS 1 (revised) Cash flow statements .

Derivative financial instruments and hedging activities
The Company has adopted FRS 25 Financial Instruments: Disclosure and Presentation and FRS 26 Financial Instruments: Measurement with effect from 1 April 2005.

Changes in the fair value of derivative financial instruments that are designated and effective as hedges of future cash flows are recognised directly in equity and the ineffective portion is recognised immediately in the income statement. If the cash flow hedge of a firm commitment or forecasted transaction results in the recognition of an asset or a liability, then, at the time the asset or liability is recognised, the associated gains or losses on the derivative that had previously been recognised in equity are included in the initial measurement of the asset of liability. For hedges that do not result in the recognition of an asset or a liability, amounts deferred in equity are recognised in the income statement in the same period in which the hedged item affects net profit or loss.

Prior year comparatives
The Company has restated the prior year comparatives in accordance with the revisions to UK GAAP under FRS 21 Post balance sheet events .

The effect of adopting FRS 21, and therefore recognising dividends payable in the year during which they are approved, has no impact on the profit for the financial year. The net assets at 31 March 2005 have increased by £1,530,000 as a result of the removal of a year end dividend creditor.

Directors remuneration
Detailed disclosures of directors individual remuneration and share options are given in the audited directors remuneration report on pages 39 and 40 and should be regarded as an integral part of this note. The Company has no employees.

Notes to the company balance sheet (continued)

2. Fixed asset investments

	Shares in subsidiary undertakings £ 000	Long term loans £ 000	Total £ 000
Cost			
At 1 April 2004	180,399	—	180,399
Additions	24,646	—	24,646
Impairment	(4,172)	—	(4,172)
Transfers to other Group companies	(25,249)	—	(25,249)
Capital contribution relating to share based payments	597	—	597
Movement in long term loans	—	80,669	80,669
At 1 April 2005	176,221	80,669	256,890
Additions	5,559	—	5,559
Impairment	(86,514)	—	(86,514)
Fair value adjustment	(816)	—	(816)
Transfers to other Group companies	(9,461)	—	(9,461)
Capital contribution relating to share based payments	292	—	292
Movement in long term loans	—	103,412	103,412
At 31 March 2006	**85,281**	**184,081**	**269,362**

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. Details of the acquisition in the year are provided in note 25 of the Group financial statements and a listing of subsidiaries is included in note 36.

The impairment results from restructuring carried out in the year.

3. Debtors

	2006 £ 000	2005 £ 000
Amounts owed by group undertakings	**2,966**	1,892

Amounts owed by group companies includes £1,220,000 (2005: £nil) falling due after more than one year. These amounts have no fixed repayment date.

4. Creditors: amounts falling due within one year

	2006 £ 000	2005 £ 000
Bank overdraft	**19,944**	—
Loan notes (see note 5)	**2,806**	3,308
Amounts owed to group undertakings	**14,820**	17,688
Other creditors	**—**	2
Deferred consideration	**255**	1,198
Fair value of interest rate swaps	**366**	—
Shares to be issued (see note 8)	**6,102**	—
	44,293	22,196

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

	2006 £ 000	2005 £ 000
Bank loan	**74,002**	77,518
Deferred consideration	**—**	411
Shares to be issued (see note 8)	**135**	—
	74,137	77,929

Maturity of bank and loan notes:

	2006 £ 000	2005 £ 000
Bank and loan notes can be analysed as falling due:		
In one year or less, or on demand	**2,806**	3,308
Between two and five years	**74,002**	77,518
	76,808	80,826

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. For further details see note 22 to the Group financial statements.

6. Called up share capital

	2006 £ 000	2005 £ 000
Authorised		
125,000,000 ordinary shares of 5p each (2005: 125,000,000)	**6,250**	6,250

	2006 Number	2006 £ 000	2005 Number	2005 £ 000
Allotted, called up and fully paid				
At 1 April	74,964,271	3,748	68,966,818	3,448
Issued as consideration for acquisitions	4,970,908	249	5,799,821	290
Share option exercises	223,734	11	197,632	10
At 31 March	**80,158,913**	**4,008**	**74,964,271**	**3,748**

Allotment of shares

Between 1 April 2005 and 31 March 2006, 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
223,127	£1.50 to £2.09	303	Share option exercises
607	£1.44	1	SAYE exercises
3,988,347	£1.56 to £1.99	7,573	Earn outs
982,561	£1.71 to £1.99	1,704	Purchase of minorities
5,194,642		9,581	

Notes to the company balance sheet (continued)

6. Called up share capital (continued)

Details of options in respect of shares outstanding at 31 March 2006 are as follows:

Employee share option schemes:	Number outstanding	Price payable	Date from which exercisable
Limited scheme	255,204	£1.33	30.06.2003
	145,112	£1.65	30.06.2003
	400,316		
PLC scheme	35,808	£2.50	30.06.2003
	62,400	£2.83	30.06.2003
	40,662	£2.86	30.06.2004
	227,274	£3.10	30.06.2004
	464,214	£2.46	30.06.2005
	172,192	£2.29	30.06.2005
	313,623	£3.26	30.06.2006
	86,026	£3.62	30.06.2006
	92,079	£3.45	30.06.2007
	251,424	£1.96	30.06.2007
	1,745,702		
LTIP	421,208	£nil	31.03.2006
	60,000	£nil	31.03.2006
	48,386	£nil	31.03.2006
	54,878	£nil	31.03.2007
	60,427	£nil	31.03.2007
	47,831	£nil	31.03.2007
	276,130	£nil	31.03.2009
	968,860		
Acquired schemes	13,336	£1.16	14.01.2003
	39,511	£1.90	27.03.2004
	53,846	£2.45	28.02.2005
	63,646	£2.31	24.01.2006
	72,636	£0.22	29.03.2004
	242,975		
Savings related option scheme:			
SAYE	426,812	£2.00	01.02.2006
	176,123	£3.00	01.02.2007
	549,958	£1.44	01.03.2008
	346,800	£1.93	01.03.2009
	1,499,693		
Total Tribal Group plc share option schemes	**4,857,546**		

7. Share premium and reserves

	Share premium account* £ 000	Merger reserve* £ 000	Equity reserve £ 000	Own shares reserve £ 000	Share based payment reserve £ 000	Profit and loss account £ 000
At beginning of year (as previously stated)	80,156	43,387	—	—	969	14,247
Prior year adjustment	—	—	—	—	(372)	1,530
At beginning of year (as restated)	80,156	43,387	—	—	597	15,777
Profit for the year	—	—	—	—	—	6,200
Dividends	—	—	—	—	—	(2,362)
Impact of adoption of FRS 25 and FRS 26	—	—	(30)	—	—	—
Fair value movement on cash flow hedges	—	—	190	—	—	—
Deferred tax	—	—	(57)	—	—	—
Premium on share issues (net of expenses)	615	8,777	—	—	—	—
Own share payments	—	—	—	(1,668)	—	—
Credit in relation to share based payment	—	—	—	—	292	—
At end of year	**80,771**	**52,164**	**103**	**(1,668)**	**889**	**19,615**

The merger reserve of £52.2m (2005: £43.4m) relates to the premium arising on shares issued subject to the provisions of section 131 of the Companies Act 1985.

The own share reserve of £1.7m represents the cost of 853,091 shares in Tribal Group plc held by the Employee Share Ownership Trust to satisfy certain options under the Group s share option schemes.

* The share premium and merger reserve as at 31 March 2005 have been partially reallocated so that £7,383,000 of share premium is reclassified as merger reserve in accordance with the requirements of section 131 of the Companies Act 1985. There is no impact on profit or net assets as a result of this reallocation.

8. Shares to be issued

	2006 £ 000	2005 £ 000
Deferred shares to be issued in future periods	**6,237**	16,517

Shares to be issued in future periods represent 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 £12.1m (2005: £34.5m).

FRS 25 Financial Instruments: disclosure and presentation has been prospectively adopted from 1 April 2005. FRS 25 requires shares to be issued totalling £6.2m to be treated as liabilities since the value of the estimated liability can be assessed, rather than the number of shares that will be issued. The comparative figures show shares to be issued with equity in accordance with previous GAAP.

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Place of incorporation
Registered in England and Wales