



## Services for life

# Financial highlights

	Unaudited six months ended 30 September 2005	Unaudited six months ended 30 September 2004	Percentage change
Revenue	£98.0m	£81.8m	up 19.8%
Operating profit*	£9.4m	£8.8m	up 6.8%
Adjusted profit before tax*	£7.3m	£6.8m	up 7.4%
Profit/(loss) before taxation	£6.4m	£(0.1)m	
Adjusted diluted earnings per share*	6.3p	6.4p	down 1.6%
Profit/(loss) for period	£4.4m	£(2.1)m	
Operating cash flow before Mercury Health**	£4.6m	£2.2m	up 109.1%
Proposed interim dividend	1.05p	1.0p	up 5%

\* Operating profit, adjusted profit before tax and adjusted diluted earnings per share are stated before amortisation of IFRS 3 intangibles of £0.2m (2004: £0.01m), goodwill impairment of £nil (2004: £3.9m), share option charges of £0.2m (2004: £0.9m), exceptional Mercury Health bid costs of £nil (2004: £2.0m). Adjusted profit before tax and adjusted diluted earnings per share are also amended for IAS 39 financial instruments adjustments of £0.5m (2004: £nil) (see page 7 of the interim statement).

\*\* Mercury Health operating cash outflows were £3.3m (2004: £2.0m) (see Note 8).

## Operating highlights

- A solid performance for the first half of the financial year
- Organic revenue growth of 15 per cent
- Implementation of healthcare contract on budget and schedule, with first two treatment centres now operational
- New DfES contract for The National Centre for Excellence in the Teaching of Mathematics

# Chairman's statement

We have had a solid performance for the first half of the financial year, with good progress being made across most of the Group. Our half year figures reflect, as expected, the seasonal weighting of trading to the second half.

Market conditions overall remain buoyant, with strong consulting demand and increasing evidence of longer term outsourcing opportunities, particularly in education and health. There is some softness in the recruitment advertising market and in healthcare PFI, where several architectural contracts have been delayed.

Our integrated divisional structure has enabled us to benefit from increasing joint working across the Group resulting in a number of new contract wins. Since the start of the year, we have won two contracts with Ofsted for school inspections valued at £50m over four years; a contract with the Learning and Skills Council to manage prisoner learning valued at £11m over four years and several contracts with the DfES and LSC to deliver e-learning valued at £4m in all. We today announce that we have signed a prestigious three year contract with the DfES, valued at £12m, to develop and run the National Centre for Excellence in the Teaching of Mathematics.

The implementation of the Independent Sector Treatment Centres is proceeding to schedule and budget. The first two centres in Wycombe and Medway are now open and the third centre in Portsmouth will open shortly. We are now in the process of bidding for further diagnostic and elective surgery contracts.

We recently announced our exclusive strategic alliances with Chilvers McCrea, a leading primary care business and with Frome Medical Practice, one of the leading GP practices in the country. These arrangements position us to participate in the emerging and potentially very sizeable primary care market.

We are confident that trading for the year as a whole will be in line with our expectations.



**Strone Macpherson**  
Chairman

22 November 2005

# Chief Executive's statement

## Results

For the six months ended 30 September 2005, the Group's turnover increased by 14.9 per cent to £123.8m (2004: £107.7m). Organic revenue growth was 15 per cent, operating profit\* was £9.4m (2004: £8.8m); operating margins\* were 9.6 per cent (2004: 10.8 per cent); adjusted profit before taxation\* was £7.3m (2004: £6.8m); and basic earnings per share was 5.7p (2004: loss per share of 3.0p). The Group reports a profit before tax of £6.4m (2004: £0.1m loss).

The adjusted diluted earnings per share\* was 6.3p (2004: 6.4p). The weighted average diluted shares in issue have increased almost 10 per cent from 74.2m to 81.4m.

## Cash and net debt

Cash inflow from operating activities before Mercury Health for the six months to 30 September 2005 was £4.6m (2004: £2.2m) representing an operating profit to cash conversion of 51 per cent (2004: 24 per cent). This has been achieved through improved credit control.

Net debt at 30 September 2005 was £76.6m, representing gearing of 52 per cent, and interest cover (before IAS 39 financial instruments charges of £0.5m) was 4.2 times. Included within net debt is £11.0m drawn down under the non-recourse Mercury Health project finance facility.

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 and diagnostic contracts.

We have now closed out almost all of our earn-out arrangements. The 2005 earn-out obligations will be settled shortly leaving an estimated £6.9m outstanding of which £0.6m will be settled in cash and the remainder through the issue of shares (or cash, at our option) through to November 2007.

## Dividend

The interim dividend is 1.05p per share (2004: 1.0p) which will be paid on 13 January 2006 to shareholders on the register on 16 December 2005.

## Adoption of International Financial Reporting Standards ('IFRS')

The results previously reported for the first half to 30 September 2004, and for our financial year to 31 March 2005, have been restated following our adoption of IFRS in place of the UK Generally Accepted Accounting Practices (UK GAAP) used previously. The principal effect on our historic accounts arises from differences in the treatment of defined benefit pension costs, goodwill, share based payment and the timing of recognition of dividends. These are explained in more detail in a separate document 'Transition to International Financial Reporting Standards' that was published on the Tribal website ([www.tribalgroup.co.uk](http://www.tribalgroup.co.uk)) on 28 October 2005 and which is also available on request. In addition, we have adopted IAS 32 'Financial Instruments: Disclosure and Presentation' and IAS 39 'Financial Instruments: Recognition and Measurement' from 1 April 2005.

## Divisional trading

We have decided to rationalise further the reporting of our activities (from seven segments into four). We shall report under these new segments from 1 April 2006 but will continue to show comparatives under the old sub-segments as part of these interim results and in our full current year results.

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

\* Operating profit, adjusted profit before tax and adjusted diluted earnings per share are stated before amortisation of IFRS 3 intangibles, goodwill impairment, exceptional Mercury Health bid costs, and share option charges. Adjusted profit before tax and adjusted earnings per share are also amended for IAS 39 charges.

## Consulting services

	Six months ended 30 September 2005 £000	Six months ended 30 September 2004 £000	Year ended 31 March 2005 £000
Revenue	29,564	25,582	55,238
Operating profit	3,017	2,489	6,677
Operating profit margin	10.2%	9.7%	12.1%

Our **consultancy** services division comprises all of the Group's consultancy activities.

Consultancy achieved revenue growth of 16 per cent, all of which is organic. Operating profit improved strongly, up 21 per cent to £3.0m (2004: £2.5m). This translated through to higher operating margins of 10.2 per cent (2004: 9.7 per cent).

The improvement is due to higher utilisation rates, lower use of associates and cost control through the divisional shared service centre. Utilisation rates across the business range from 67 per cent to 72 per cent. We have made good progress in our central government market increasing our fee earners from 25 to 50 over the period. Our average daily fee rates rose 5 per cent despite keen competition, particularly from the major international consultancy groups.

In healthcare, we continue to be very actively involved with NHS Connecting for Health, the NHS national IT programme and we have recently won an important contract for Integrated Service Improvement with the DoH.

In local government and housing we have won contracts with Renfrewshire Council for housing stock transfer and are advising Bath and North Somerset Council on the Bath Spa project.

In central government, we have become one of the largest consultancy providers to the Environment Agency and won business with several other major departments, such as Revenue & Customs, for the first time. In October, we were awarded a contract by the Home Office's Active Communities Directorate to administer a significant proportion of their grant programmes.

Our consultancy markets remain buoyant in response to the Government's reform agenda. Although this has attracted greater competition from major consultancies, we are pleased to see overall gains in our market share.

In particular, we have made significant progress in being short-listed in our first four submissions within the new IT services and consultancy procurement framework (Catalist). This is replacing the existing S-CAT framework from 2006.

## Support services

	Six months ended 30 September 2005 £000	Six months ended 30 September 2004 £000	Year ended 31 March 2005 £000
Revenue	35,382	31,154	70,397
Operating profit	4,725	3,559	10,893
Operating profit margin	13.4%	11.4%	15.5%

## Education

	Six months ended 30 September 2005 £000	Six months ended 30 September 2004 £000	Year ended 31 March 2005 £000
Revenue	17,986	16,029	36,317
Operating profit	2,017	1,743	5,766
Operating profit margin	11.2%	10.9%	15.9%

## Technology

	Six months ended 30 September 2005 £000	Six months ended 30 September 2004 £000	Year ended 31 March 2005 £000
Revenue	17,446	15,303	34,391
Operating profit	2,708	1,816	5,127
Operating profit margin	15.5%	11.9%	14.9%

Our support services division comprises education and technology.

With effect from 1 April 2006 we are merging our education and technology divisions to create one of the largest education focused support services businesses in the UK. We expect to see many benefits from the merger including a clear market proposition that eliminates duplication of services, a strengthening of management and of our bid resources, improved business support through shared services and enhanced career opportunities for staff.

Overall revenue growth for the combined divisions was strong at 14 per cent. Operating profit growth was 33 per cent resulting in overall operating margin growth to 13.4 per cent (2004: 11.4 per cent).

We are seeing very positive opportunities in the education and learning market, with three recent large contract wins – Ofsted re-tender (£50m); delivery of prison and youth offender learning in the South-West (£11m); several contracts with the DFES and LSC to deliver e-learning valued at £4m and the National Centre for Excellence in the Teaching of Mathematics (NCETM) (£12m). Tribal is now firmly established as a major partner to the DFES and LSC. We are one of only a few companies who are able to offer a comprehensive and integrated range of services and products across the spectrum of education clients.

Within the **education** division, revenue increased by 12 per cent, all of which was organic. The operating margins improved to 11.2 per cent (2004: 10.9 per cent).

Our distance-learning, e-learning and inspection businesses have performed well and we continue to make good progress in our education consultancy and benchmarking businesses. Our teacher training business is performing close to expectations albeit at much reduced volumes, reflecting, as previously discussed, funding changes in this market.

Within the **technology** division, revenue increased by 14 per cent, although organic revenue fell by 6 per cent. Much of this fall is related to slower demand for new software products in our local education authority market. Operating margins increased strongly to 15.5 per cent (2004: 11.9 per cent).

The pipeline of new bid opportunities is very encouraging.

## Professional services

	Six months ended 30 September 2005 £000	Six months ended 30 September 2004 £000	Year ended 31 March 2005 £000
Revenue	30,394	25,631	55,892
Operating profit	4,638	4,752	10,235
Operating profit margin	15.3%	18.5%	18.3%

## Communications

	Six months ended 30 September 2005 £000	Six months ended 30 September 2004 £000	Year ended 31 March 2005 £000
Revenue	4,859	4,660	9,958
Operating profit	1,435	1,086	2,364
Operating profit margin	29.5%	23.3%	23.7%

## Property

	Six months ended 30 September 2005 £000	Six months ended 30 September 2004 £000	Year ended 31 March 2005 £000
Revenue	11,890	9,935	21,331
Operating profit	725	1,216	2,640
Operating profit margin	6.1%	12.2%	12.4%

## Resourcing

	Six months ended 30 September 2005 £000	Six months ended 30 September 2004 £000	Year ended 31 March 2005 £000
Revenue	13,679	11,084	24,684
Operating profit	2,478	2,450	5,231
Operating profit margin	18.1%	22.1%	21.2%

Our professional services division comprises communications, property and resourcing.

Overall revenue growth across the professional services businesses was 19 per cent but operating profit fell 2 per cent and the overall operating margin was lower at 15.3 per cent (2004: 18.5 per cent).

Our **communications** business is performing very well delivering organic revenue growth of 4 per cent and a 32 per cent growth in operating profit. Operating margins increased to 29.5 per cent (2004: 23.3 per cent).

We have maintained our position as a top ten PR agency and secured a number of new prestigious briefs including the promotion of the DfES London Challenge, administering the Edge Employer Awards for practical learning opportunities for young people and promoting the DTI's 'Enterprising Britain' competition. We continue to manage a number of national campaigns for the DfES, many of which have been extended this year.

Within **property**, revenue increased by 20 per cent with organic revenue growth of 10 per cent.

However, operating profit and operating margins fell significantly due to a loss making business unit, now closed and due to slippage on some health sector PFI and LIFT projects.

We have a strong pipeline of business in both education and healthcare and expect operating margins to improve in H2 as projects come on stream and we benefit from the usual spending pattern of our education clients.

We continue to win work as part of the Academy programme in schools and have recently won the first Skills Academy project, working for Arcadia.

**Resourcing** increased revenue by 23 per cent but operating profit was unchanged and operating margins fell to 18.1 per cent (2004: 22.1 per cent).

The traditional press recruitment advertising market is very challenging with the growth of the free NHS on-line web portal; the recent onset of a recruitment freeze in many of our London NHS clients largely due to the strategic review of the number of Primary Care Trusts, and budgetary pressures in some local authorities. We have won 26 of our 27 renewal bids retaining accounts worth £11m of media spend annually and have secured over £8m of annualised new business in the period. This has helped to offset the lower spending from existing clients.

Despite the fall off in profit from recruitment advertising, our overall margins have been supported by a strong performance from our executive search business, healthy growth in our interim management start-up business and a solid performance from our healthcare supply business.

We expect to see challenging markets in the second half of the year mitigated to an extent by some cost restructuring that will generate annualised savings of £0.4m.

We continue to develop new resourcing products to extend our range of services and counter the effect of changes in the marketplace.

### Delivery

	Six months ended 30 September 2005 £000	Six months ended 30 September 2004 £000	Year ended 31 March 2005 £000
Revenue	2,693	88	349
Operating profit	(214)	(7)	(345)

Our delivery division comprises Mercury Health, the Group's healthcare delivery business.

The revenue and operating loss reported continue to be in line with expectations reflecting the start-up nature of the business and the opening of the first diagnostic treatment centre at High Wycombe on 8 August 2005. Our second centre opened in Medway on 5 October 2005. Both centres opened on time and within budget. The implementation and construction of our remaining centres at Portsmouth and Haywards Heath are well advanced and are scheduled to open in December 2005 and June 2006 respectively. We are also providing interim elective orthopaedic surgery at Haywards Heath and this contract is performing well.

During the period, Mercury Health has tendered for regional diagnostic contracts as part of the second phase of NHS procurement of diagnostic services worth an estimated £1bn over five years. We are shortlisted on a number of regions and we have now started developing our detailed proposals. Contract awards are not expected before the second half of next year.

In addition, the Government recently sought tenders for 24 elective surgery procurement schemes worth

an estimated £2.5bn over five years. We have submitted preliminary bids for a number of these contracts and we consider that, together with our US clinical partners, Health Inventures and Hospital for Special Surgery, we are well placed to take advantage of this development and maintain our market share. All costs relating to these bids are currently being expensed.

On 4 November 2005, we announced strategic alliances with Chilvers & McCrea, one of the leading independent providers of primary care to NHS organisations and patients, and Frome Medical Practice, one of the leading GP practices in the country.

These two alliances position Mercury Health to become one of the leading independent sector providers of primary care services. We are already bidding for a number of pilot primary care schemes to allow new providers to run GP practices and provide other primary care services.

### Growth

As indicated previously, we are concentrating our efforts on delivering organic growth from our existing businesses and winning large scale contracts.

We have continued to increase our investment in our bidding and business development capability, both in our core business and in Mercury Health. The value of our 'big ticket' contract pipeline is at its highest level to date, at circa £120m in the core business and at circa £1bn in Mercury Health. We expect the forthcoming education and health White Papers to set out good opportunities for the private sector to develop delivery capability in these markets.

### People

The period has been very demanding for our senior management and for all employees across the Group and it is thanks to their commitment and ability that we have achieved such progress.

We have many very talented individuals across the Group and continue to attract very able staff from our major competitors and from the public sector. Our overall staff numbers have increased to 2,100 (2004: 1,800).

### Prospects

We have had a solid performance for the first half of the financial year with progress being made across most of the Group. As usual, we expect our performance to be weighted towards the second half. Trading has continued in line with expectations during October.

The board is confident that the Group continues to make good progress and is well placed to benefit from the opportunities emerging from public sector reform, to apply our integrated service offering to new contracts, particularly in education and health.

We expect trading for the full year to be in line with our expectations.



**Henry Pitman**  
Chief Executive

22 November 2005



# Consolidated income statement

For the six months to 30 September 2005

	Note	(Restated under IFRS)		
		Unaudited six months ended 30 September 2005 £000	Unaudited six months ended 30 September 2004 £000	Audited year ended 31 March 2005 £000
Turnover		<b>123,767</b>	107,718	229,470
Direct agency costs		<b>(25,759)</b>	(25,902)	(49,613)
<b>Revenue</b>	2	<b>98,008</b>	81,816	179,857
Cost of sales		<b>(57,067)</b>	(45,625)	(102,772)
<b>Gross profit</b>		<b>40,941</b>	36,191	77,085
Administrative expenses before amortisation of IFRS 3 intangibles, goodwill impairment, share option charges and exceptional Mercury Health bid costs		<b>(31,525)</b>	(27,355)	(54,794)
<b>Operating profit before amortisation of IFRS 3 intangibles, goodwill impairment, share option charges and exceptional Mercury Health bid costs</b>	2	<b>9,416</b>	8,836	22,291
Amortisation IFRS 3 intangibles		<b>(216)</b>	(11)	(322)
Goodwill impairment		–	(3,933)	(6,665)
Share option charges		<b>(187)</b>	(905)	(134)
Exceptional Mercury Health bid costs		–	(1,991)	(1,747)
Total administrative expenses		<b>(31,928)</b>	(34,195)	(63,662)
<b>Operating profit</b>		<b>9,013</b>	1,996	13,423
Finance income		<b>373</b>	486	914
Finance charges		<b>(2,503)</b>	(2,544)	(5,380)
Financial instruments		<b>(483)</b>	–	–
Finance costs		<b>(2,986)</b>	(2,544)	(5,380)
Net finance costs	3	<b>(2,613)</b>	(2,058)	(4,466)
<b>Profit/(loss) before taxation</b>		<b>6,400</b>	(62)	8,957
Taxation	4	<b>(1,975)</b>	(2,030)	(5,401)
<b>Profit/(loss) for the period</b>		<b>4,425</b>	(2,092)	3,556
<b>Attributable to:</b>				
Equity holders of the parent		<b>4,303</b>	(2,092)	3,253
Minority interest		<b>122</b>	–	303
		<b>4,425</b>	(2,092)	3,556
<b>Earnings/(loss) per share</b>				
Basic	6	<b>5.68p</b>	(3.02)p	4.56p
Diluted	6	<b>5.29p</b>	(3.02)p	4.15p
<b>Adjusted basic before amortisation of IFRS 3 intangibles, goodwill impairment, share option charges, exceptional Mercury Health bid costs and IAS 39 charges</b>	6	<b>6.77p</b>	6.85p	16.84p
<b>Adjusted diluted before amortisation of IFRS 3 intangibles, goodwill impairment, share option charges, exceptional Mercury Health bid costs and IAS 39 charges</b>	6	<b>6.30p</b>	6.40p	15.32p

# Consolidated balance sheet

At 30 September 2005

	Unaudited 30 September 2005 Note	(Restated under IFRS)	
		Unaudited 30 September 2004 £000	Audited 31 March 2005 £000
<b>Non-current assets</b>			
Goodwill	207,855	197,593	205,247
Other intangible assets	2,299	1,069	3,479
Property, plant and equipment	31,462	7,389	12,538
Investment property	180	89	180
Available for sale investments	151	190	151
Deferred tax assets	1,416	664	1,282
	<b>243,363</b>	206,994	222,877
<b>Current assets</b>			
Inventories – work in progress	13,561	4,616	9,102
Trade and other receivables	55,274	40,645	56,315
Cash and cash equivalents	11,222	27,493	28,335
	<b>80,057</b>	72,754	93,752
<b>Total assets</b>	<b>323,420</b>	279,748	316,629
<b>Current liabilities</b>			
Trade and other payables	(63,223)	(47,413)	(65,851)
Tax liabilities	(7,278)	(3,614)	(5,758)
Obligations under finance leases	(11)	(48)	(20)
Bank overdrafts and loans	(4,092)	(3,936)	(3,802)
Shares to be issued	7 (8,441)	–	–
	<b>(83,045)</b>	(55,011)	(75,431)
<b>Net current assets</b>	<b>(2,988)</b>	17,743	18,321
<b>Non-current liabilities</b>			
Bank loans	(83,273)	(71,423)	(77,518)
Pension liabilities	(1,370)	(277)	(1,370)
Deferred tax liabilities	(775)	(207)	(1,058)
Obligations under finance leases	(436)	(38)	(26)
Shares to be issued	7 (4,737)	–	–
Other non current liabilities	(1,729)	(400)	(411)
	<b>(92,320)</b>	(72,345)	(80,383)
<b>Total liabilities</b>	<b>(175,365)</b>	(127,356)	(155,814)
<b>Net assets</b>	<b>148,055</b>	152,392	160,815
<b>Equity</b>			
Share capital	3,826	3,468	3,748
Share premium account	89,167	79,636	86,928
Equity reserve	46,160	43,646	46,160
Shares to be issued	7 –	23,021	16,517
Retained earnings	7,855	1,272	5,568
Equity attributable to equity holders of the parent	147,008	151,043	158,921
Minority interest	1,047	1,349	1,894
<b>Total equity and reserves</b>	<b>148,055</b>	152,392	160,815

# Consolidated statement of recognised income and expense

At 30 September 2005

	(Restated under IFRS)		
	Unaudited six months ended 30 September 2005 £000	Unaudited six months ended 30 September 2004 £000	Audited year ended 31 March 2005 £000
Net profit/(loss) for the period	4,303	(2,092)	3,253
Share options exercised	75	164	506
Derecognition of share based payment charges	–	–	(578)
Recognition of employee benefits acquired	–	–	(168)
Actuarial gain on defined benefit plans	–	–	105
Transfer to cash flow hedge reserve	(447)	–	–
Deferred tax	134	–	–
Impact of adoption of IAS 39 on 1 April 2005	(248)	–	–
Recognised income and expense for the period	3,817	(1,928)	3,118

# Consolidated reconciliation of movements in equity

At 30 September 2005

	(Restated under IFRS)		
	Unaudited 30 September 2005 £000	Unaudited 30 September 2004 £000	Audited 31 March 2005 £000
Recognised income and expense for the period	3,817	(1,928)	3,118
Ordinary dividend payable	(1,530)	(1,400)	(2,150)
	2,287	(3,328)	968
Shares issued	2,317	765	10,851
Movement in shares to be issued	–	(2,067)	(8,571)
	4,604	(4,630)	3,248
Opening equity	158,921	155,673	155,673
Impact of adoption of IAS 32 on 1 April 2005	(16,517)	–	–
Closing equity	147,008	151,043	158,921

# Consolidated cash flow statement

For the six months to 30 September 2005

	Unaudited six months ended 30 September 2005 £000	Unaudited six months ended 30 September 2004 £000	Audited year ended 31 March 2005 £000	
<b>Net cash from operating activities</b>	8	(2,205)	(5,512)	2,030
<b>Investing activities</b>				
Interest received	567	688		914
Proceeds on disposal of available for sale investments	–	–		170
Proceeds on disposal of property, plant and equipment	35	2,040		2,265
Purchases of property, plant and equipment (excluding Mercury Health)	(2,093)	(3,133)		(5,315)
Purchases of property, plant and equipment (Mercury Health)	(15,311)	(1,373)		(2,652)
Purchases of property, plant and equipment	(17,404)	(4,506)		(7,967)
Purchases of trading investments	–	–		(35)
Expenditure on product development	(76)	(261)		(640)
Acquisitions (deferred consideration and minority interests)	(2,906)	(2,538)		(7,921)
<b>Net cash outflow from investing activities</b>	(19,784)	(4,577)		(13,214)
<b>Financing activities</b>				
Equity dividend paid	–	–		(2,135)
Issue of shares	104	83		106
Repayment of borrowings	(13,464)	(4,232)		(6,231)
Repayments of obligations under finance lease	(19)	(9)		(56)
New bank loans	18,255	–		6,095
<b>Net cash used in financing activities</b>	4,876	(4,158)		(2,221)
<b>Net decrease in cash and cash equivalents</b>	(17,113)	(14,247)		(13,405)
<b>Cash and cash equivalents at beginning of period</b>	28,335	41,740		41,740
<b>Cash and cash equivalents at end of period</b>	9	11,222	27,493	28,335

# Notes

## 1. Basis of preparation

The Group's interim results for the six months ended 30 September 2005 are the first to be prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the EU. Consequently a number of the accounting policies adopted in the preparation of these interim financial statements are different from those adopted in the financial statements for the year ended 31 March 2005, which were prepared under UK GAAP.

Details of the changes in accounting policies arising from the adoption of IFRS, together with restated information for the six months ended 30 September 2004 and for the year ended 31 March 2005, have been included in a separate document 'Transition to International Financial Reporting Standards' that was published on the Tribal website ([www.tribalgroup.co.uk](http://www.tribalgroup.co.uk)) on 28 October 2005 and which is also available in hard copy on request.

The accounting policies set out in that document have been consistently applied to all periods presented in these interim financial statements with the exception of the impact of IAS 32 and IAS 39 Financial Instruments. In accordance with IFRS 1 'First Time Adoption of International Financial Reporting Standards', the Group has elected not to restate comparative information for the impact of IAS 32 and IAS 39, but has only adopted these standards in the interim financial statements for the six months ended 30 September 2005. The effect of this adoption is disclosed in Note 3.

Under IAS 39, the Group seeks to apply hedge accounting to interest rate swaps where it is permissible. Due to the nature of its hedging arrangements, the Group is unable to obtain hedge accounting in all cases. The Group continues, however, to enter into these arrangements as they provide certainty over the interest rate applying to the Group's debt. These arrangements result in fixed and determined cash flows. The Group believes that these arrangements remain effective, economic and commercial hedges.

The effect of being unable to apply hedge accounting under IAS 39 to the Group's discounted swap means that the movement in the fair value of the swap in the period is recognised in the finance charge for the period. Whilst the impacts described above could be highly volatile on movements in interest rates, the volatility will not be reflected in the cash flows of the Group, which will be determined by the hedge rate. The volatility introduced to the income statement as a result of this is not considered to be a realistic representation of the on-going operation of the business, and has therefore been excluded when calculating adjusted earnings.

Net assets have been adversely affected by the introduction of IAS 39. Included within liabilities are derivative financial instruments totalling £1.2m at fair value which represents the total cost of buying out all the Group's interest rate swaps at market prices prevailing on 30 September 2005.

The Group has determined that its interest rate hedging strategy is in the best interests of the business and its shareholders. It is not, therefore altering its hedging activities in order to achieve a particular accounting presentation under IFRS.

These interim financial statements do not constitute full statutory accounts and are unaudited. The Group has elected not to adopt full compliance with IAS 34 'Interim financial reporting'.

The consolidated financial statements are prepared under the historical cost convention modified to include the revaluation of certain assets. The unaudited interim accounts were approved by the Board of Directors on 21 November 2005. The financial information for the year ended 31 March 2005 does not represent full accounts within the meaning of Section 240 of the Companies Act 1985. The statutory accounts for this period, which were prepared under UK GAAP, have been filed with the Registrar of Companies. The auditors' report on those accounts was unqualified.

# Notes (continued)

## 2. Segmental analysis

	Unaudited Six months ended 30 September 2005 £000	(Restated under IFRS)	
		Unaudited Six months ended 30 September 2004 £000	Audited year ended 31 March 2005 £000
<b>Revenue</b>			
Consulting services	29,564	25,582	55,238
Support services	35,382	31,154	70,397
Professional services	30,394	25,631	55,892
Delivery	2,693	88	349
Inter segment	(25)	(639)	(2,019)
	<b>98,008</b>	<b>81,816</b>	<b>179,857</b>

### Operating profit before amortisation of IFRS 3 intangibles, goodwill impairment, exceptional Mercury Health bid costs and share option charges

Consulting services	3,017	2,489	6,677
Support services	4,725	3,559	10,893
Professional services	4,638	4,752	10,235
Delivery	(214)	(7)	(345)
Central & bid costs	(2,750)	(1,957)	(5,169)
	<b>9,416</b>	<b>8,836</b>	<b>22,291</b>

Exceptional Mercury Health bid costs of £nil (30 September 2004: £1,991,000; 31 March 2005: £1,747,000) have been incurred in relation to bid and implementation costs on the NHS Independent Sector Treatment Contract. In September 2004 the Board received sufficient assurance to believe that the contract would reach financial close (which occurred in December 2004). Bid costs post September 2004 have been capitalised in accordance with IAS 11 'Construction Contracts' and IAS 16 'Property, Plant and Equipment'.

## 3. Finance costs

IAS 39 'Financial Instruments: Recognition and Measurement' has not been applied retrospectively but has been adopted on 1 April 2005. It has increased the finance charge by £0.5m for the six months ended 30 September 2005. This is a non-cash adjustment arising primarily as a result of marking to market one of the Group's interest rate swaps which does not qualify for hedge accounting under IAS 39. The effect of this charge has been included in the adjustments to basic earnings when calculating adjusted earnings per share.

## 4. Taxation

The taxation charge is calculated by applying the forecast full year effective tax rate on operating profits adjusted for goodwill impairment and share option charges to the interim profit, similarly adjusted.

## 5. Dividends

The Board has proposed that an interim dividend of 1.05p per share, which will absorb £0.8m, will be paid on 13 January 2006 to ordinary shareholders on the register on 16 December 2005. The shares will be quoted ex-dividend on 14 December 2005.

## 6. 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:

	Unaudited six months ended 30 September 2005 thousands	(Restated under IFRS)	
		Unaudited six months ended 30 September 2004 thousands	Audited year ended 31 March 2005 thousands
<b>Basic weighted average number of shares in issue</b>	<b>75,725</b>	69,293	71,421
<b>Employee share options</b>	<b>933</b>	1,128	890
<b>Shares to be issued in respect of deferred consideration</b>	<b>4,707</b>	3,748	6,164
<b>Weighted average number of diluted shares outstanding</b>	<b>81,365</b>	74,169	78,475

	30 September 2005		(Restated under IFRS)		31 March 2005	
	Earnings £000	Earnings per share pence	Earnings £000	(Loss)/ earnings per share pence	Earnings £000	Earnings per share pence
<b>Basic and adjusted basic earnings per share:</b>						
Profit/(loss) and basic earnings/(loss) per share	4,303	5.68p	(2,092)	(3.02)p	3,253	4.56p
<b>Adjustments:</b>						
Amortisation of IFRS 3 intangibles (net of tax)	151	0.20p	8	0.01p	225	0.31p
Goodwill impairment	–	–	3,933	5.68p	6,665	9.33p
Share option charges	187	0.25p	905	1.31p	134	0.19p
Exceptional Mercury Health bid costs	–	–	1,991	2.87p	1,747	2.45p
IAS 39 adjustments	483	0.64p	–	–	–	–
<b>Adjusted earnings and adjusted basic earnings per share</b>	<b>5,124</b>	<b>6.77p</b>	<b>4,745</b>	<b>6.85p</b>	<b>12,024</b>	<b>16.84p</b>
<b>Diluted and adjusted diluted earnings per share:</b>						
Profit/(loss) and diluted earnings/(loss) per share	4,303	5.29p	(2,092)	(3.02)p	3,253	4.15p
<b>Adjustments:</b>						
IAS 33 adjustment*	–	–	–	0.21p	–	–
Amortisation of IFRS 3 intangibles (net of tax)	151	0.19p	8	0.01p	225	0.29p
Goodwill impairment	–	–	3,933	5.30p	6,665	8.49p
Share option charges	187	0.23p	905	1.22p	134	0.16p
Exceptional Mercury Health bid costs	–	–	1,991	2.68p	1,747	2.23p
IAS 39 adjustments	483	0.59p	–	–	–	–
<b>Adjusted earnings and adjusted diluted earnings per share</b>	<b>5,124</b>	<b>6.30p</b>	<b>4,745</b>	<b>6.40p</b>	<b>12,024</b>	<b>15.32p</b>

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

\* IAS 33 requires presentation of diluted earnings per share when a company could be called upon to issue shares that would decrease net profit or increase net loss per share. For a loss making company, net loss per share would only be increased by the exercise of out-of-the-money options. Hence, no adjustment is made to diluted earnings per share in the six months ended 30 September 2004.

# Notes (continued)

## 7. 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 £13.4m to be treated as liabilities since the value of the estimated liability is known rather than the number of shares that will be issued. The comparative figures show shares to be issued within equity in accordance with previous GAAP.

## 8. Note to the cash flow statement

### Reconciliation of operating profit to operating cash flows

	Unaudited six months ended 30 September 2005 £000	(Restated under IFRS)	
		Unaudited six months ended 30 September 2004 £000	Audited year ended 31 March 2005 £000
<b>Profit from operations</b>	<b>9,013</b>	1,996	13,423
<b>Adjustments for:</b>			
Depreciation of property, plant and equipment	1,573	1,332	2,715
Amortisation of development expenditure	281	195	457
Amortisation of intangible assets	216	11	322
Impairment of goodwill	–	3,933	6,665
Increase in fair value of investment property	–	–	(91)
Gain on disposal of available for sale investments	–	–	(95)
Gain on disposal of property, plant and equipment	(5)	(63)	(30)
Share option charges	187	905	134
<b>Operating cash flows before movement in working capital</b>	<b>11,265</b>	8,309	23,500
Increase in inventories	(4,459)	(2,518)	(7,031)
Decrease/(increase) in receivables	1,406	4,661	(7,015)
(Decrease)/increase in payables	(6,948)	(10,277)	2,786
<b>Cash generated from operations</b>	<b>1,264</b>	175	12,240
Income taxes paid	(523)	(3,104)	(4,655)
Interest paid	(2,946)	(2,583)	(5,555)
<b>Net cash from operating activities</b>	<b>(2,205)</b>	(5,512)	2,030
<b>Cash generated from operations</b>	<b>1,264</b>	175	12,240
Add exceptional Mercury Health bid costs	–	1,991	1,747
Add net outflow from Mercury Health operations	3,329	–	3,547
<b>Cash generated from operations before Mercury Health</b>	<b>4,593</b>	2,166	17,534



**9. Cash management**

	<b>Unaudited six months ended 30 September 2005 £000</b>	Unaudited six months ended 30 September 2004 £000	Audited year ended 31 March 2005 £000
Cash at bank	<b>9,125</b>	24,058	26,810
Cash collateralised deposits	<b>2,097</b>	3,435	1,525
	<b>11,222</b>	27,493	28,335
Loan notes	<b>(4,092)</b>	(3,936)	(3,802)
Bank loans	<b>(83,273)</b>	(71,423)	(77,518)
Finance leases	<b>(447)</b>	(86)	(46)
<b>Net debt</b>	<b>(76,590)</b>	(47,952)	(53,031)

Included within net debt is £11.0m (30 September 2004 and 31 March 2005: £nil) drawn down under the non-recourse Mercury Health facility.

# Independent review report to Tribal Group plc

## Introduction

We have been instructed by the company to review the financial information for the six months ended 30 September 2005 which comprises the consolidated income statement, the consolidated balance sheet, the consolidated statement of recognised income and expense, the consolidated reconciliation of movements in equity, the consolidated cash flow statement and related notes 1 to 9. We have read the other information contained in the interim report and considered whether it contains any apparent misstatements or material inconsistencies with the financial information.

This report is made solely to the company in accordance with Bulletin 1999/4 issued by the Auditing Practices Board. Our work has been undertaken so that we might state to the company those matters we are required to state to them in an independent review 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, for our review work, for this report, or for the conclusions we have formed.

## Directors' responsibilities

The interim report, including the financial information contained therein, is the responsibility of, and has been approved by, the directors. The directors are responsible for preparing the interim report in accordance with the Listing Rules of the Financial Services Authority which require that the accounting policies and presentation applied to the interim figures are consistent with those applied in preparing the preceding annual accounts except where any changes, and the reasons for them, are disclosed.

## International Financial Reporting Standards

As disclosed in note 1, the next annual financial statements of the group will be prepared in accordance with International Financial Reporting Standards as adopted for use in the EU. Accordingly, the interim report has been prepared in accordance with the recognition and measurement criteria of IFRS and the disclosure requirements of the Listing Rules.

## Review work performed

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

## Review conclusion

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



## Deloitte & Touche LLP

Chartered Accountants  
Bristol, UK

21 November 2005

Notes: A review does not provide assurance on the maintenance and integrity of the website, including controls used to achieve this, and in particular on whether any changes may have occurred to the financial information 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 Kingdom governing the preparation and dissemination of financial information differs from legislation in other jurisdictions.

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## Company's registered number

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## Place of incorporation

Registered in England and Wales

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