Management Consulting Group PLC

2003

annual report and accounts

Management Consulting Group PLC

contents

corporate profile

Management Consulting Group PLC

Group consultancies

The Group currently provides two consulting offerings:

- Proudfoot Consulting (which uses the brands Czipin & Proudfoot Consulting in Central and Eastern Europe and IMR Consulting for some longstanding clients)
- Parson Consulting

Profiles of the two consultancies are set out on the following pages.

Heritage

Proudfoot Consulting was founded in 1946 in Chicago. It grew into an international partnership, which in 1987 listed on the London Stock Exchange. To accelerate Proudfoot's growth in Europe it acquired IMR in 2000 and Czipin in 2001 and has merged these into the European Proudfoot business.

Parson Consulting was acquired in 2002. It is based in the United States and has recently started to expand into Europe.

Management's objective

To deliver substantial shareholder value over the medium term.

Strategy

The Group will:

- operate and continually invest in its consultancies to ensure they deliver profitable, sustainable revenue growth that is ahead of the market rates of growth for the consultancy sector;
- acquire consultancies that either diversify the range of consulting offerings available to clients or deepen the coverage of existing Group offerings. Each consulting offering will go to market through its own brand and be operated separately by its own dedicated management team; and
- communicate clearly, regularly and fairly with all its stakeholders.

Participation

It is the medium-term aim that 20% of the equity should be held by Group employees.

Management Consulting Group PLC will, over time, become an umbrella organisation for a diverse range of consulting and professional service offerings.

consultancy profile

Our uniqueness

Proudfoot Consulting implements sustainable operational improvements at no net annualised cost to its clients. We operate globally with offices in five continents.

Our focus

Our consulting offering combines three core disciplines:

- **Process improvement:** The thorough review and redesign of existing business processes for sales, output, direct costs, overheads or capital expenditure to improve measurably their effectiveness;
- **People solutions:** Working with, educating, training and communicating with all relevant people to provide solutions that align thinking and behaviour in support of the redesigned processes and to facilitate positive change; and
- **Project management:** Ensuring the successful installation of the project, including staying on site, working with and coaching clients, until the benefits of the changes are realised and embedded in the corporate culture.

We call the successful combination of these three disciplines an installation. The installation uses the proprietary technique of Co-Venture® which, through partnership with our clients, accelerates the pace of change from the consulting intervention.

How we work with clients

First, we identify the opportunities for improvements in profitability through discussions with senior management. **Second**, we analyse the identified opportunities using an extensive suite of proprietary techniques to quantify the extent of the benefits obtainable. **Finally**, we undertake an installation to realise the identified benefits.

Satisfaction

We ensure continuing satisfaction by weekly meetings with our clients which include approval of work performed and fees incurred. Any issues are therefore promptly addressed and overcome. To demonstrate our commitment, clients have the right to terminate the engagement at two weeks' notice without penalty. 90% of our clients are prepared to act as references.

(Based on independent research by Franklin Consulting Works, an outside research firm)

Representative clients

Clients span all industries and all geographies. Representative clients include Airbus, BP, Caterpillar, Citibank, EADS Astrium, Kerry Foods, National Australia Bank, Newmont Mining, PSA Peugeot-Citröen, Rio Tinto, SigmaKalon.

Our people

Our analysts are highly trained in identifying clients' issues and quantifying the impact of those issues. Our consultants are typically former managers with practical experience who have become consultants in their 30s. We have people with backgrounds in most industries.

people ▪ productivity ▪ profitability

What we are not

Strategy consultants, IT installers, HR policy consultants, outsourcers. We know what we can do well and limit our practice to our expertise.

How we charge

Initial discussions are free and without obligation. Business reviews that analyse improvement potential are charged on a time basis. The installation is charged on a fixed-fee basis ensuring that the annualised benefit to the client is a multiple of our fees.

Our challenges to clients

If you can say that you are content with your level of profitability and productivity, you do not want us.

If you believe that you can improve, you should be talking to us.

With our fee structure, what have you got to lose?

Engagement snapshots

- Partnering with an industrial machine manufacturer, we delivered a 99% increase in output, 87% increase in productivity, improved product availability and reduced customer lead-time by 49%.
- Working in a highly unionised environment, we succeeded in uniting all parts of the company behind the project to maximise productivity in operations, streamline the organisational structure and to optimise the purchasing system, reducing costs by 13%.
- With the backdrop of unusual regulatory and competitive issues, we delivered a project that was cash-neutral by the end of the same calendar year, and which included the installation of a comprehensive management operating system for greater control and skills training to ensure management effectiveness.
- Restored the fortunes of a major retailer and returned the business to profitability by making changes to the supply chain.
- Improved planning control and greater visibility throughout the supply chain, restored stability to the inventory and improved customer service levels, reduced obsolete stock and raw material inventory by 40%.
- Implemented a streamlined, end-to-end process that increased operational effectiveness and delivered savings of 33% in a back office function.

Regional head offices

Africa	+27 11 706 8080
Americas	+1 212 755 2550
Asia Pacific	+61 2 9957 5027
Europe	+44 20 7832 3600

www.proudfootconsulting.com

consultancy profile

no-conflict financial management

Our uniqueness

Parson Consulting is a financial management consultancy. To meet today's standards of corporate governance we are not involved in auditing, accounting or reselling of software and therefore are free of any conflicts of interest. We provide services from 11 cities in the United States, and across Europe from London.

Our focus

Parson Consulting focuses on realising greater accuracy, speed and efficiency of operations for clients' finance and business support functions.

We enhance clients' management decision making through business process improvements, business systems optimisation, and project management.

How we work with clients

We systematically implement agreed upon, practical solutions using the right combination of functional experience, process design, and systems applications expertise. Our flexibility allows us to enter client projects at any stage and deliver client-customised solutions.

We always seek to maximise current resources and technology to increase clients' return on investment.

We provide services that auditors are prohibited or discouraged from supplying under the Sarbanes-Oxley Act and other similar regulations and guidance, often with preferred supplier status.

Satisfaction

Our client satisfaction level of 86% is more than twice the industry standard. 91% of our clients say they are likely to recommend us.

(Based on independent research conducted by Gantz Wiley, an outside research firm)

Representative clients

We have worked with over 1,000 clients, including more than one-third of the Fortune 500 companies. Among them are: Ameriquest Mortgage, Avis, Connetics, Ecolab, Federal Home Loan Bank, Kingfisher, Lawson, MBDA, Spring, Tomkins, Trustmark, Warner Bros., WeightWatchers.

Our people

Our people typically have worked in financial management and operational roles for over ten years. They are full time consultants.

What we are not

External or internal auditors, policy and strategy consultants, tax advisers, merchant or investment bankers, software or hardware on-sellers, software coders/programmers, recruitment consultants. We know what we can do well and limit our practice to our expertise.

How we charge

Initial discussions are free and without obligation. We generally charge weekly to ensure clients have a clear understanding of a project's progress. Fixed fees can be agreed for tightly defined projects.

Our challenges to clients

Does your finance function produce accurate information on a timely basis as efficiently as possible or is there room for improvement? If you believe you can improve, you need financial management consultants.

Are your existing auditors or consultants free from auditing conflicts of interest (whether actual or perceived)? Do they have the breadth and depth of experience as full-time consultants that you require? If you have any reservations, think of us.

Parson Consulting can meet all your financial management consulting needs. With our expertise, what have you got to lose?

Engagement snapshots

- Designed and managed a Sarbanes-Oxley Section 404 compliance programme for a global chemical manufacturer that involved coordinating activities at operational units in multiple countries.
- By integrating three disparate databases and increasing visibility of financial information, enhanced reporting and analysis capabilities and achieved over $6 million annual tax savings for a major entertainment company.
- Assisted a migration of accounting functions to a shared service centre for a Fortune 200 diversified manufacturer and realised efficiencies, including 60% reduction in their monthly close cycle.
- Increased labour efficiency by 50% and cut resources by 75% for planning and budgeting operations of a major financial services company through process improvements and Hyperion Pillar implementation.
- After conducting a project assessment, managed an Oracle 11i implementation project and achieved substantial savings for a speciality software company.
- Redesigned and implemented the underwriting processes for a large insurance company and rolled out the new processes to the field.
- Project managed the transition of payroll outsourcing for over 50,000 employees.

Regional head offices

Americas	+1 312 541 4690
Europe	+44 20 7832 4100

www.parsonconsulting.com

management statement

The results for the year ended 31 December 2003 are summarised as follows:

	Year ended 31 Dec 2003 £'000	Year ended 31 Dec 2002 £'000
Revenue		
Proudfoot Consulting	**68,238**	93,229
Parson Consulting	**20,411**	14,067*
	88,649	107,296
Operating profit/(loss) before goodwill amortisation		
Proudfoot Consulting	**4,519**	10,311
Parson Consulting	**(4,310)**	(2,701)*
	209	7,610

* Parson Consulting owned for seven months in 2002

Overview

In common with many other consultancies, 2003 was a difficult year and, in terms of headline numbers, it was the most disappointing of recent years. We started the year with a relatively low order book and were adversely affected by the economic and political uncertainties which prevailed for much of the year. However, much underlying progress was made, particularly in the second half of the year. We restructured Parson Consulting such that it reached monthly break-even in the fourth quarter of the year. We decreased the number of consultants employed in line with demand, whilst maintaining the strength of marketing, sales and senior project resource. We ended the year with a strong order book and a good pipeline of opportunities for 2004.

For the year as a whole, turnover was 17% down compared with 2002 at £88.6 million. The 8% weakening of the average US dollar exchange rate against Sterling accounted for a reduction in Group turnover of approximately 5%. The operating profit before amortisation of goodwill was £0.2 million compared with £7.6 million in the previous year.

Even though the second half is the seasonally weaker period, turnover was 5% higher than in the first half. The second half profit of £1.2 million before goodwill amortisation compares with the first half operating loss of £1.0 million.

Group consultancies

The Group comprises two consultancies: Proudfoot Consulting and Parson Consulting. The Proudfoot Consulting business continued to trade profitably in 2003. The Parson Consulting business was loss making for the year as a whole but reached monthly break-even in November.

Proudfoot Consulting implements substantial operational improvements, resulting in a significant increase in the client's profitability. Proudfoot Consulting can deliver higher sales, lower costs and overheads, reduced capital expenditure and increased production output. Proudfoot's appeal is to performance-focused senior management who recognise that success is about the operational achievement of strategies and goals.

Parson Consulting specialises in financial management consultancy. It improves the accuracy, speed and efficiency of finance functions. By not undertaking auditing, Parson Consulting is free to improve finance functions and back offices without the traditional conflicts experienced by external and internal auditors who frequently audit the work which they either advised upon or carried out. Parson Consulting's appeal is to financial managers who are highly focused on contemporary standards of corporate governance and who recognise the benefits that can be obtained from quality finance and 'back office' functions.

Proudfoot Consulting

Proudfoot accounts for 77% of total 2003 Group turnover.

Turnover declined by 27% in 2003. This includes the impact of the weakening of the US dollar against Sterling which reduced reported turnover by 4%.

The North American and European units, after an encouraging start to the year, had poor second and third quarters, when the value of new work won was below our expectations. This coincided with the uncertainties created by the Iraq war and scepticism about the reality of the US economic improvement. In the latter part of the year, as the economic recovery was more widely recognised, we saw increasing US business confidence and an upturn in orders.

The two smaller units in Africa and Asia Pacific turned in solid performances with Africa more than doubling its turnover and Asia Pacific growing turnover by 13%.

In the light of the trading performance we reduced the number of consultants whilst maintaining strong capabilities in marketing, sales, business review and project management so as not to jeopardise growth opportunities in 2004 and beyond. This allowed us to manage the gross margin effectively which remained at approximately 50%, despite the previously announced client decision to terminate a significant engagement in the fourth quarter.

The operating profit of the Proudfoot business was £4.5 million before goodwill amortisation (2002: £10.3 million). After adding back depreciation, EBITDA was £5.5 million (2002: £11.7 million).

The EBITDA margin of 8% (2002: 13%) was inevitably adversely affected by the decline in turnover but, conversely, will recover quickly when turnover increases. Our target of a sustainable 15% EBITDA margin remains unchanged.

Parson Consulting

At the year end we had owned Parson Consulting for 19 months. Significant progress was made in 2003 in building a substantial consultancy that occupies a space in the market between the large accounting firms and the systems houses.

We are pleased to report that Parson's turnaround from a loss making business to break-even was achieved in November. This turnaround has been accomplished as a result of focusing on larger engagements and price increases. The price increases were a result of both higher value added work and an increase in the market price for financial management consulting.

The senior management team that was established during the latter part of 2002 and the first half of 2003 has been stable, concentrating not just on short term operational requirements but also the medium term development of service offerings to meet likely market demands.

During 2003 the operating procedures in Parson in respect of sales and delivery processes were standardised across its 12 offices. This was accomplished with the assistance of Proudfoot Consulting's installation methodologies.

Drawing on the intellectual property of the acquired US business, we have commenced a London-based European business which has started to show excellent progress. It serves not just clients referred from the United States but also, to date, five FTSE100 clients.

Parson Consulting's turnover was £20.4 million (2002: £14.1 million for seven months) resulting in an operating loss of £4.3 million before goodwill amortisation (2002: £2.7 million for seven months). The loss in the second half was £1.1 million compared with £3.2 million in the first half, reflecting the positive impact of the changes referred to above. The full year EBITDA loss was £4.1 million (2002: £2.5 million for seven months).

Earnings

Net finance expense was less than £0.1 million (2002: income of £0.4 million). The interest charge attributable to the

management statement
(continued)

liabilities associated with the closed US retirement benefit plans more than offset the interest income from our cash balances.

The tax charge is £1.1 million (2002: £0.6 million). The Group suffers minimum taxes in certain jurisdictions and has taxable income in others which do not benefit from losses brought forward from prior years.

The loss per share is 2.7 pence (2002: earnings of 2.7 pence). The headline loss per share which adds back goodwill amortisation to the basic loss per share is 0.5 pence (2002: earnings of 4.7 pence).

Balance sheet

Goodwill amounts to £69.2 million (2002: £73.6 million). The reduction in the year is attributable to the annual amortisation charge together with the effect of foreign exchange translation.

Debtor days at the year end represented the equivalent of 11 days' sales (2002: 11 days) reflecting the continued emphasis on strong receivables management.

The cash balance declined from £21.9 million at 31 December 2002 to £9.7 million at 31 December 2003. The cash outflow from operating activities was £5.0 million. Other significant cash outflows related to deferred acquisition payments of £5.2 million and the dividend payment of £0.9 million.

The balance sheet liability for the closed US retirement benefit plans reduced by £4.1 million to £13.2 million. This was a result of funding during the year, foreign exchange movements and an improvement in the value of the assets, offset in part by the effect of more conservative actuarial assumptions.

Dividend

The board is recommending a maintained final dividend of 0.5 pence (2002: 0.5 pence) per share which will be payable on 24 May 2004 to shareholders on the register on 23 April 2004.

The dividend recommendation takes account of not only the reported results for 2003 but also the year end cash balance and the operating outlook for 2004.

People

As previously announced, Baroness Cohen of Pimlico joined the board on 11 August 2003. Lady Cohen, a solicitor, is chairman of BPP Holdings plc and a non-executive director of the London Stock Exchange and the Defence Logistics Organisation. She sits as a Labour peer in the House of Lords.

The board is grateful to all employees who in 2003 showed commitment and dedication at a time when market conditions were particularly challenging and when the Group, regrettably, had to decrease the total number of people employed.

Prospects

The US dollar continues to be relatively weak against Sterling, our reporting currency. This adversely impacts reported turnover and reported profits although the latter is mitigated, to an extent by the matching of dollar income by dollar expenses. The impact on the Group is entirely one of translation because we have no need to repatriate dollar profits to meet Sterling liabilities. In these circumstances, the board remains of the view that it is inappropriate to use financial instruments to hedge the Sterling to dollar exchange rate.

We saw the North American marketplace for consulting starting to strengthen, from late 2003, as economic conditions improved generally. The European market is lagging the North American market but is beginning to show a small improvement. Two traditionally important sectors for consulting, financial and telecommunications, reined back expenditure considerably over the last few years. Recently, the focus has returned, once again, to improving the operational performance of businesses in these sectors and we have started to win new engagements.

For much of 2003, the time between the identification of an opportunity and the completion of a sale was unusually long. Recently, the cycle appears to have returned to a more normal period. This resulted in a strong intake of new business towards the end of 2003 and in 2004 to date.

The order book, which ended 2003 considerably stronger than it was at the start of the year, has continued to grow during the first two months of 2004 and is now more than double the level of a year ago.

We are confident that the Group will build on the improvement in results seen in the second half of 2003. Already in 2004 we have seen a higher level of business activity in both Proudfoot Consulting and Parson Consulting and we have increased the number of consultants we employ by some 15%. If sustained, this should result in a much improved trading performance in 2004.

Dr Rolf Stomberg

Chairman

Kevin Parry

Chief Executive

operating and financial review

The business, its objectives and strategy

Information on the Group's businesses, corporate objectives and strategy are set out in the corporate profile and consultancy profile sections of this annual report.

During 2003 particular attention was directed towards:

- managing the number of consultants employed in line with a decline in client revenues;
- maintaining expenditure in those areas that are important to the future growth of the business, the benefits of which are apparent from the growth in the order book in late 2003 and the early months of 2004;
- restructuring Parson Consulting in order to make it a profitable business.

Five year summary

	2003	2002	2001	2000	1999
Turnover	*£m*	*£m*	*£m*	*£m*	*£m*
Continuing operations	88.6	107.3	72.1	31.7	25.3
Discontinued operations	–	–	–	6.2	12.0
	88.6	**107.3**	**72.1**	**37.9**	**37.3**
Operating profit/(loss) from continuing operations before goodwill amortisation	0.2	7.6	1.7	(9.5)	(6.4)
Headline (loss)/earnings per share* (pence)	(0.5)	4.7	1.4	(7.3)	(4.1)

* adjusted for effect of capital issue in May 2003

Operating review

Performance in the year

The overall revenues of the Group were £88.6 million (2002: £107.3 million). Proudfoot Consulting revenues were £68.2 million (2002: £93.2 million) and Parson Consulting contributed revenue of £20.4 million (2002, seven months: £14.1 million). 61% (2002: 62%) of the Group's revenues arose in North America and, in terms of the average exchange rate, the US dollar weakened by approximately 8% in 2003 compared with the prior year. Accordingly, the weaker US dollar reduced reported Group revenues by approximately 5%.

The operating loss for the year was £3.8 million (2002: profit of £4.5 million).

EBITDA for the year was £1.4 million (2002: £9.2 million). This comprises the operating loss of £3.8 million (2002: profit £4.5 million) adjusted for depreciation of £1.2 million (2002: £1.6 million) and amortisation of goodwill of £4.0 million (2002: £3.1 million).

The loss before taxation, comprising the operating loss together with net finance costs, was £3.9 million (2002: profit £4.9 million). Net finance costs of £0.1 million (2002: income £0.4 million) comprises interest and similar income on surplus funds of £0.8 million (2002: £1.0 million), less interest payable of £0.2 million (2002: £0.3 million) and the interest charge related to the closed US retirement benefit schemes of £0.7 million (2002: £0.3 million). The higher interest charge related to the US retirement benefit schemes arises from a reduction in the expected rate of return on the assets from 9% to 8%, partly offset by a reduction in the discount rate applicable to liabilities from 6.75% to 6.0%.

The Group's tax charge for 2003 was £1.1 million (2002: £0.6 million). The tax charge takes account of tax losses carried forward in the US, UK and elsewhere. However, the group suffers minimum taxes in certain jurisdictions and has taxable income that is not covered by losses in others.

Further information on the performance of the individual businesses and geographical units is given in the Management Statement.

Returns to shareholders

The basic loss per share amounted to 2.68 pence compared with earnings of 2.71 pence in the prior year. After adding back goodwill, the headline loss per share was 0.49 pence (2002: earnings of 4.68 pence). The fully diluted loss per share also amounted to 2.68 pence but this compares to fully diluted earnings of 2.43 pence in the prior year. The fully diluted amounts take account of the potentially dilutive effects of share options, the long term incentive plan and commitments to issue shares in connection with acquisitions. No dilution is assumed when losses arise.

Having regard to the strength of the current order book and to the cash balance, a final dividend of 0.5 pence per share (2002: 0.5 pence) is proposed.

Resources and risks of the business and investment in the future

The Group's key assets are its client relationships, its people and its intellectual property.

Client relationships are strengthened by regularly reviewing the performance of every engagement, in conjunction with the client, whilst the engagement is underway. This enables timely action to be taken to ensure that the client is highly satisfied with the results of each assignment. It is the objective that every client becomes a reference for potential future clients; post-engagement reviews of client satisfaction are carried out on all significant engagements. There is no significant dependence upon any individual client project. The largest client in 2003 accounted for approximately 7% of Group revenue and this was divided into three independent projects, the largest of which accounted for 4% of Group revenue.

The remuneration policies of the Group are designed to retain key individuals by rewarding performance and deferring the payment of a proportion of incentives conditional upon continued employment. The performance of every employee is reviewed regularly and actions are agreed to deal with any identified performance issues. During the year an integrated performance measurement system was installed in Proudfoot Consulting to enable the performance of individuals to be measured and compared across the business. It will be installed in Parson Consulting during 2004. The training needs of each employee are also reviewed and tailored training programmes have been developed for each of the core functions within both the Proudfoot Consulting and Parson Consulting businesses. The headcount needs of the businesses are reviewed weekly in light of the projected requirements of the business as indicated by the forward order book and order prospects. Standardised employment contracts are in place that take account of local laws and practices.

The Group has developed an intranet-based knowledge management system to document the intellectual property that has been developed through many years of assisting clients. This is fully installed in Proudfoot Consulting and is being installed in Parson Consulting. Client needs are regularly reviewed and new products developed in accordance with the identified needs. Appropriate steps are taken to safeguard the security of the Group's intellectual property and we do not hesitate in taking legal or other actions to protect it, if this is necessary.

The Group has operating and financial policies and procedures designed to maximise shareholder value within a defined risk management framework. The key risks to which the business is exposed are reviewed regularly by senior management and the Board as a whole.

Potential contractual liabilities arising from client engagements are managed through careful control of contractual conditions and appropriate insurance arrangements. There is no material outstanding litigation against the Group, of which the directors are aware, which is not covered by insurance, or provided for in the financial statements.

Clients are generally billed on a weekly basis. Amounts outstanding from clients are reported to management on a weekly basis and

operating and financial review

(continued)

appropriate action is taken to obtain payment of any amounts not paid within the contractual terms. Trade debtors at 31 December 2003 represented approximately 11 days' sales (2002: 11 days).

Investment for the future has continued in IT and marketing. During 2003 further enhancements have been made to the core operational and administrative IT systems. The core systems in Parson Consulting will be upgraded in 2004 and further integrated with those of Proudfoot Consulting where appropriate.

Marketing expenditure has continued to focus on building the awareness of the Proudfoot Consulting and Parson Consulting brands.

Financial review

Capital structure and treasury policies

Shareholders' funds decreased by £11.3 million during the year. This comprises the loss for the year of £4.9 million, the proposed dividend of £0.9 million, the settlement of deferred consideration for acquisitions in cash (as opposed to the previous assumption of shares to be issued) of £4.2 million and other net movements of £1.3 million. The movement in relation to acquisitions comprises principally the payment of £3.9 million in cash for the final installment of deferred consideration for Institute of Management Resources.

A summary of the terms of the long term incentive plan is provided in the Directors' Remuneration Report. In accordance with UITF 17 costs amounting to £2.9 million were recognised in the profit and loss account in prior years in relation to shares potentially issuable under the plan. Having regard both to the fact that the first tranche of such shares did not vest and to the current share price, the amount of shares potentially issuable has been reassessed. £1.9 million of the costs previously recognised in the profit and loss account were reversed during 2003, leaving an amount of £1.0 million to cover the Board's estimate of the potential cost of shares which may be issued in the second and third tranches.

The Group's retirement benefits liability relates to the closed US defined benefit pension scheme and to the closed US post-retirement medical benefits plan.

The Group actively manages the potential liabilities arising from the pension scheme, regularly reviewing performance and making changes where appropriate. Qualified actuaries are consulted and they carry out regular reviews of the position. During the year the potential retirement benefits liability reduced by £4.1 million to £13.2 million, despite more conservative actuarial assumptions: the expected rate of return on assets was reduced by 1% to 8% and the discount rate applicable to the liabilities was reduced by 0.75% to 6%. Cash contributions to the schemes amounted to £1.5 million. The balance of the reduction in the liability arose from foreign exchange gains and other movements which are fully set out in the notes to the financial statements.

Treasury activities are managed on a day-to-day basis by a treasurer who reports regularly to the executive directors and are subject to periodic independent reviews and audits. There are established treasury policies that are reviewed regularly to ensure that they remain relevant to our business. The objective of the Group's treasury policies is to provide liquidity for the Group at minimum risk and minimum cost and to hedge known financial exposures. The main treasury risks faced by the Group are liquidity and exchange rate risk.

Investment of the Group's cash is made within policies that cover counter party risk and liquidity. The Group's cash position is closely monitored and there are effective cash forecasting procedures in place. These procedures involve careful review of future billing levels and new business prospects with operational management. Surplus funds are collected centrally and invested with approved counter parties, within authorised limits and with the aim of maintaining short term liquidity whilst maximising yield.

The Group’s businesses operate mainly in their local currency and, as a result, the Group’s transactional exposure to exchange rate movements is minimal.

Cash flows

The cash balance at the year end was £9.7 million compared to £21.9 million at the prior year end, a reduction of £12.2 million. The net cash outflow from operating activities was £5.0 million compared with an inflow of £4.9 million in 2002. The outflow during the year reflects the operating loss of £3.8 million adjusted for non-cash items of £1.2 million.

Deferred acquisition payments amounted to £5.2 million. The balance of the reduction in cash comprises principally the dividend paid of £0.9 million together with tax paid and the purchase of fixed assets.

Current liquidity

Surplus cash is invested generally on maturities of three months or less. Details of the interest rate and currency profile are given in the notes to the financial statements.

The net current liabilities in the Group balance sheet reflect significant creditors that continually renew and which, therefore, do not result in short term funding requirements.

International Financial Reporting Standards

The Group will be required to adopt International Financial Reporting Standards (IFRS) in the financial statements for the year ending 31 December 2005, which will include comparative information for 2004. The Group is currently undertaking a review of the impact of IFRS on its financial statements.

Going concern

The directors are satisfied that the Group has adequate resources to continue in operation for the foreseeable future. For this reason the going concern basis has been adopted in preparing the financial statements.

Stephen Purse
Finance Director

board of directors

Chairman * # **

R W H Stomberg
Dr Rolf Stomberg, aged 64, joined the Board in September 1998. He is a non-executive director of a number of leading international companies including Scania AB, TPG Group, Reed Elsevier PLC, and Smith and Nephew plc. He was formerly a director of British Petroleum Company Plc where he spent 27 years, latterly as Chief Executive of BP Oil International. He is Chairman of the Nominations Committee.

Chief Executive **

K A H Parry
Kevin Parry, aged 42, was appointed Chief Executive on 1 January 2000. A graduate in management studies from Cambridge University, he qualified as a Chartered Accountant with KPMG in 1986. He was appointed a London partner in that firm in 1994 and, on appointment as a managing partner in 1998, joined the UK firm's management team and was responsible for the Information, Communications & Entertainment practice. He left KPMG to join the Group on 31 December 1999. He is a non-executive director and chairman of the audit committee of Schroders plc.

Finance Director

S J Purse
Stephen Purse, aged 51, began working with the Group in April 2000 and was appointed as Finance Director in November 2001. A graduate in applied physics from University College London, he qualified as a Chartered Accountant with KPMG in 1977 and was a partner from 1987 to 1998. He was finance director of Westminster Health Care Holdings, a company listed on the London Stock Exchange, between 1998 and 2000.

Non-executive Director * # **

Baroness Cohen

Baroness Cohen, aged 63, joined the Board in August 2003. She was originally a solicitor, then had a career in the Department of Trade and Industry, and subsequently as a corporate financier and adviser in the Charterhouse Group. She sits as a Labour peer in the House of Lords. Her other current appointments are as chairman of BPP Holdings plc, non-executive director of the London Stock Exchange PLC and as the senior non-executive director of the Defence Logistics Organisation. She is the senior independent director and the Chairman of the Remuneration Committee.

Non-executive Director

J P Bolduc

J P Bolduc, aged 64, joined the Board in September 1996. He is a US citizen and is currently Chairman and Chief Executive Officer of JPB Enterprises, Inc. and Interim President and Chief Executive Officer of J.A. Jones, Inc. He was formerly President and Chief Executive Officer of WR Grace & Co. Mr Bolduc also serves on the Boards of Unisys Corporation and EnPro Industries, Inc.

Non-executive Director

D G Jones * # **

Gareth Jones, aged 55, joined the Board in August 2002. He qualified as a Chartered Accountant in 1971. He is currently a non-executive director of TBI plc, Kensington Group plc and Orbis Capital. He is also a former Chairman of the Association of Corporate Treasurers. He acts as an advisor to various private equity funds and banks, is an adviser to the Economic and Social Research Council, the Professional Oversight Board for Accountancy, the Railway Heritage Committee and a trustee of the PDSA (Britain's leading veterinary charity). Mr Jones is Chairman of the Audit and Risk Committee.

* *Member of the Remuneration Committee.*
\# *Member of the Audit and Risk Committee.*
** *Member of the Nominations Committee.*

Note: ages are as at the date of the Annual General Meeting

directors' report

The directors present their annual report, incorporating their reports on corporate governance, audit and risk, and remuneration, together with the audited financial statements for the year ended 31 December 2003. These will be laid before the shareholders at the Annual General Meeting on 20 April 2004.

Activity

The principal activity of the Group is the provision of management consulting services. Details of the Group's principal subsidiary undertakings, through which it carries out its activities, are set out in the notes to the financial statements.

Business review

The Management Statement and the Operating and Financial Review contain a detailed overview of the Group's business and future prospects.

Group results

The Group's loss after taxation for the year ended 31 December 2003 amounted to £4.9 million (2002: profit of £4.3 million).

Dividend

The directors recommend the payment of a final dividend of 0.5 pence per share to be paid on 24 May 2004 to ordinary shareholders on the register on 23 April 2004 (2002: 0.5 pence).

Directors

The names and brief biographical details of the directors who held office on 31 December 2003 are shown on the preceding two pages. In addition, Mr Paul George, Mr Robert Cara, and Mr Graham Mackenzie were directors until they retired on 15 April 2003. Baroness Cohen was appointed as a director on 11 August 2003. The other directors serving at 31 December 2003 held office throughout the year.

In accordance with the Company's Articles of Association, Baroness Cohen, having been appointed a director after the last Annual General Meeting, will offer herself for re-election at the forthcoming Annual General Meeting. Mr Kevin Parry and Mr Stephen Purse will retire from the Board by rotation at the forthcoming Annual General Meeting and will also offer themselves for re-election.

During and at the end of the financial year no director had a material interest in any contract of significance to which the Company or any subsidiary was a party.

Charitable and political contributions

No political contributions were made in 2003 or 2002. Charitable donations of approximately £5,000 (2002: £nil) were made during the year.

Creditor payment policy

The Group's policy, in relation to all of its suppliers, is to agree the terms of payment when first contracting with the supplier and to abide by those terms provided that it is satisfied that the supplier has provided the goods or services in accordance with the agreed terms and conditions. The Group does not follow any code on payment practice but operates a prompt payment policy on settling invoices. The amount of trade creditors shown in the balance sheet at 31 December 2003 represents 21 days of average purchases during the year (2002: 20 days) for the Company and 16 days (2002: 18 days) for the Group.

Substantial share interests

As at 1 March 2004 (the latest practicable date prior to the issue of this report), the Company had been notified, in accordance with sections 198 to 208 of the Companies Act 1985, of the following interests in the ordinary share capital of the Company:

	no of ordinary shares	% of issued share capital
Prudential PLC	21,122,847	11.19%
UBS Global Asset Management Life Limited	9,618,802	5.09%
BriTel Fund Trustees Limited	7,675,128	4.07%
FPCP Stewardship	5,979,069	3.17%

Corporate social responsibility

Full details of our policies covering corporate social responsibility are available on our website. A brief summary is set out below.

Environmental policy

Maintaining and improving the quality of the environment in which we live is an important concern for our staff, our clients, our suppliers and the communities in which we operate. By the nature of our business, we have a low impact on the environment. We are, however, adopting high standards of environmental practices and aim to minimise our impact on the environment, wherever this is practical. We are implementing an Environmental Management System in 2004.

Group ethics

The Group subscribes to the Association of Management Consulting Firms Code of Ethics and has supplemented this with additional specific guidance.

Employees

The Group operates in a number of countries and its employment practices vary to meet local requirements and best practices. It is Group policy to ensure equal opportunity for employment of disabled people, ethnic minorities and women. In South Africa the Group operates positive discrimination in respect of previously disadvantaged individuals. Wherever possible the employment of members of staff who become disabled will be continued and appropriate training and career development will be offered.

One of the Group’s key objectives is to achieve a shared commitment by all employees to the success of the business. Throughout the world there is consultation between employees and management on matters of mutual interest and information is disseminated through individual performance reviews, team briefings and in-house newsletters.

Auditors

On 1 August 2003, Deloitte & Touche, the Company’s auditors, transferred their business to Deloitte & Touche LLP, a limited liability partnership incorporated under the Limited Liability Partnerships Act 2000. The Company’s consent has been given to treating the appointment of Deloitte & Touche as extending to Deloitte & Touche LLP with effect from 1 August 2003 under the provisions of section 26(5) of the Companies Act 1989. Deloitte & Touche LLP have expressed their willingness to continue in office as auditors of the Company. In accordance with Section 385 of the Companies Act 1985,

directors' report
(continued)

a resolution to re-appoint Deloitte & Touche LLP as auditors of the Company and to authorise the directors to determine their remuneration is to be proposed at the forthcoming Annual General Meeting.

Annual General Meeting

The formal Notice of the Annual General Meeting is set out on the last three pages of this report and accounts.

Item 1 proposes the adoption of the annual report and accounts for the year ended 31 December 2003.

Item 2 proposes that shareholders approve the Directors' Remuneration Report, as required by the Directors' Remuneration Report Regulations 2002.

Item 3 proposes the declaration of a final dividend of 0.5 pence per share.

Items 4, 5 and 6 propose successive resolutions for the re-appointment of directors.

Item 7 relates to the proposed re-appointment of Deloitte & Touche LLP as auditors to the Company and proposes that the directors be authorised to determine the auditors' remuneration.

Item 8(a) is an ordinary resolution to renew, for a period of five years, the directors' authority to allot shares under Section 80 of the Companies Act 1985, up to a maximum of £21,250,000, which represents the nominal value of 85,000,000 ordinary shares. In accordance with the guideline issued by the Association of British Insurers this comprises approximately one third of the issued share capital (62.9 million shares) together with commitments, subject to certain conditions, to issue shares in connection with options over new shares (12.2 million shares), the Management Incentive Plan (5.2 million shares) and acquisitions (up to approximately 4.7 million shares). The actual number of shares to be issued in connection with the acquisitions depends, inter alia, upon the Company's share price at the time of issue. It could be substantially less than 4.7 million shares, which is based upon the nominal value of 25 pence per share and satisfaction of certain other conditions.

Item 8(b) is a special resolution to renew, for a period of five years, the expiring authority held by the directors to allot certain equity securities for cash as if Section 89(1) of the Companies Act 1985 (which gives shareholders certain pre-emption rights on the issue of shares or convertible securities) did not apply to any such allotment. The resolution, if approved, permits issues by way of rights issues or similar arrangements up to a maximum nominal value of £27,802,273.25 and other issues of shares for cash limited to shares having an aggregate nominal value of £2,359,886.25, representing 9,439,545 ordinary shares, which is approximately 5% of the Company's issued share capital as at 31 December 2003.

The directors have no present intention of making any issue of shares under the authorities that would be granted by resolutions 8(a) and 8(b), other than pursuant to existing employee share schemes and existing acquisition agreements. The directors believe that it is in the Company's best interests that they have the flexibility which items 8(a) and 8(b) would confer. Authority is being sought to renew the authority for five years in compliance with the Listing Rules of the Financial Services Authority acting as the UK Listing Authority.

Item 8(c) is a special resolution to provide the directors with the flexibility to be able to make market purchases of the Company's own shares for cancellation. The authority, if granted, would be in respect of up to 18,879,090 ordinary shares (approximately 10% of the Company's issued share capital as at 31 December 2003) and would run until 15 July 2005 or, if earlier, the conclusion of the 2005 Annual General Meeting. The price at which purchases could be made would not exceed 105% of the average of the middle market quotations for an ordinary share derived from the London Stock Exchange Daily Official List for the five business days before each purchase and would not be lower than an ordinary share's nominal value. There is no present intention to purchase shares. The directors would only exercise the authority if an improvement in earnings per share were expected to result and if they consider that the purchase would be in the best interests of shareholders generally.

As at the date of this document, there were commitments to, subject to certain conditions, issue up to approximately 22.1 million new ordinary shares as described in connection with item 8(a) above, representing, in aggregate, 11.7% of the Company's currently issued share capital. If the authority sought under item 8(c) were to be exercised in full, commitments to, subject to certain conditions, issue shares would represent 13.0% of the Company's remaining outstanding share capital.

By order of the Board

F Steven Hitchcock
Company Secretary

1 March 2004

corporate governance

The maintenance of effective corporate governance is a key priority for the Board. The Company has complied throughout the year with the Combined Code of Corporate Governance that was incorporated into the Listing Rules of the London Stock Exchange in June 2000.

In July 2003 the Financial Reporting Council issued a revised Combined Code of Corporate Governance. This first applies to the Company for the year ending 31 December 2004. The Board has considered carefully the requirements of the revised Code and has taken various actions in light of its guidance.

Board of directors

The Board comprises the non-executive Chairman, three other non-executive directors (two of whom are regarded as independent) and two executive directors.

Under the terms of the revised Code the Chairman is not regarded as independent by virtue of his position. Mr Bolduc is not considered to be independent by reason of the commission arrangements described in the Directors' Remuneration Report. Baroness Cohen and Mr Jones are considered to be independent non-executive directors. It is the intention, in due course, to appoint one further independent non-executive director in order that at least half the Board, excluding the Chairman, comprises independent non-executive directors.

The roles of the Board and the management are clearly defined. The roles of Chairman, Chief Executive and Senior Independent Director are separated and clearly defined in writing. The terms and conditions of appointment of the non-executive directors are available for inspection at the Company's registered office and will also be available at the Annual General Meeting.

The number of Board and Committee meetings attended by each of the directors during the year was as follows:

Name	Board meetings	Audit Committee meetings	Remuneration Committee meetings	Nominations Committee meetings
J P Bolduc	7	–	–	–
Baroness Cohen*	2	–	1	–
D G Jones	7	2	3	–
K A H Parry	7	–	–	2
S J Purse	7	–	–	–
R W H Stomberg	7	2	3	2
R G Cara**	2	–	–	–
P George**	2	–	–	–
G R Mackenzie**	2	1	2	–
Total meetings held	7	2	3	2

* *Appointed on 11 August 2003*

** *Retired on 15 April 2003*

On appointment, directors are provided with formal details of their responsibilities under legislation applicable to a company listed in the UK. Changes to such legislation and other relevant factors affecting the Group are communicated to all directors.

Newly appointed directors are also required to participate in an induction programme in order to familiarise themselves with the Group's businesses. Regular presentations are made to the Board by senior management in order to refresh and expand this knowledge.

All directors are authorised to obtain, at the Company's expense and subject to the Chairman's approval, independent legal or other professional advice where they consider it necessary. All directors have access to the Company Secretary.

Election and re-election of directors

The Company's Articles of Association contain detailed rules for the appointment and retirement of directors. Directors newly appointed to the Board during the year are required to retire at the next Annual General Meeting, but can offer themselves for re-election by shareholders. All directors are required to submit themselves for re-election at intervals not exceeding three years.

The Board annually evaluates the performance of individual directors, the Board as a whole and its Committees. This review comprises structured interviews with each director, conducted by the Company Secretary, followed by the presentation of the results of this process to the Board and individual discussions with the Chairman or Chief Executive. The results of the evaluation are specifically considered when considering the re-appointment of directors.

Operation of the Board

The Board meets regularly. Seven meetings were held during 2003. All members of the Board are supplied, in advance of meetings, with appropriate information covering matters which are to be considered.

There is a formal schedule of decisions reserved for the Board. This includes approval of the following: the Group's strategy, the annual operating plan and budget, the annual and interim financial statements, significant transactions, major capital expenditures, risk management policies, the authority levels vested in management and board appointments and remuneration policies. As described below, the review of certain matters is delegated to board committees, which make recommendations to the Board in relation to those matters reserved for the Board as a whole.

Audit and Risk Committee

Details of the membership, role and operation of the Audit and Risk Committee are provided in the Report of the Audit and Risk Committee.

The revised Code recommends that the Committee should comprise at least two members who should all be independent non-executive directors. The Committee comprises two independent non-executive directors and Dr Stomberg, who is not regarded as independent by virtue of his position as the Chairman of the Board. The Board has concluded that it is appropriate that the Committee should comprise at least three members and the membership of the Committee will be reconsidered as and when a third independent director is appointed.

Nominations Committee

The present membership of the Committee is:

- Dr Rolf Stomberg *(Chairman of Nominations Committee, member since 1998)*
- Baroness Cohen *(appointed 11 August 2003)*
- Mr Gareth Jones *(appointed 14 October 2003)*
- Mr Kevin Parry *(member since 2000)*

corporate governance
(continued)

Mr Graham Mackenzie was a member of the Committee until his retirement from the Board on 15 April 2003.

The Committee's purpose is to consider future appointments to the Board and succession policy for key management positions. With effect from 14 March 2003 the Nominations Committee has adopted formal terms of reference and these are available from the Company Secretary upon request.

The revised Code recommends that a majority of the members of the Nominations Committee should be independent non-executive directors. Currently the Committee comprises four directors, two of whom are independent directors. The Board will keep the membership of the Committee under review but considers that the current membership is appropriate having regard to the small number of directors on the Board.

Following a review by the Nominations Committee (then comprising Dr Stomberg and Mr Parry), Baroness Cohen was appointed as a director on 11 August 2003. This review included consideration of the results of an external search conducted in the prior year, external advertising and interviews by the Committee and other Board members. In accordance with the Articles of Association, Baroness Cohen will be proposed for re-election at the forthcoming Annual General Meeting. She has wide business experience, including the chairmanship of a UK listed support services company and has made a valuable contribution to the Board since her appointment.

Remuneration Committee

Details of the membership, role and operation of the Remuneration Committee are provided in the Directors' Remuneration Report.

The revised Code recommends that the Committee should comprise at least two members who should all be independent non-executive directors. The Committee comprises two independent non-executive directors and Dr Stomberg, who is not regarded as independent by virtue of his position as the Chairman of the Board. The Board has concluded that it is appropriate that the Committee should comprise at least three members and the membership of the Committee will be reconsidered as and when a third independent director is appointed.

Financial matters

The Group has adopted a code of ethical conduct applicable to the Board and all members of the finance function. In addition, it has a "whistleblower" policy whereby procedures exist that allow members of staff to report any financial wrongdoing that they believe may have occurred.

The Board has also defined which services can be purchased from the Group's auditors and has adopted procedures in respect of the purchase of these services, to minimise the risk of an actual or perceived conflict of interest. For similar reasons, the Board has adopted a policy in respect of hiring staff from the auditors who have been involved in the Group's audit.

Relations with investors and the AGM

The Annual General Meeting gives all shareholders the opportunity to communicate directly with the Board. During the year, the directors are available to respond to enquiries from investors on the Group's operations. Effective communication with fund managers, institutional investors and analysts is actively pursued and this encompasses issues such as performance, policy and strategy.

During the year, the executive directors hold discussions with all the major shareholders. The Chairman is available to major shareholders if there are matters that they wish to discuss with him directly. Announcements are made to the London Stock Exchange and the business media concerning trading and business developments to provide wider dissemination of information. Registered shareholders are sent copies of both the annual report and accounts and the interim report. The Group's website www.mcgplc.com also contains information relevant to investors.

The notice convening the Annual General Meeting to be held on 20 April 2004 is contained on the final three pages of this annual report and accounts.

Internal controls

The Company, as required by the Listing Rules, has complied with the Combined Code provisions on internal control having established the procedures necessary to implement the guidance issued in September 1999 (The Turnbull Committee Report) and by reporting in accordance with that guidance.

The Board has overall responsibility for the Company's system of internal control and reviewing its effectiveness whilst the role of management is to implement Board policies on risk and control. The system of internal control is designed to manage rather than eliminate the risk of failure to achieve business objectives. In pursuing these objectives, internal controls can only provide reasonable and not absolute assurance against material misstatement or loss.

There is a continuous process for identifying, evaluating and managing the significant risks faced by the Company which is in accordance with the guidance set out in The Turnbull Committee Report and has been in place for the year under review and up to the date of approval of the annual report and accounts. This process, which is regularly reviewed by the Board, is as follows:

- The Group's management operates a risk management process which identifies the key risks facing the business and reports to the Board on how those risks are being managed. This is based on a risk register produced by executive management which identifies the key risks, the probability of those risks occurring, their impact if they do occur and the actions being taken to manage those risks to the desired level. This risk register is discussed at Board meetings on a regular basis and regular monitoring reports are presented to the Board;
- Large capital projects and acquisitions require Board approval;
- There is an embedded culture of openness of communication between management and the Board on matters relating to risk and control;
- The Board has established a strong control framework within which the Group operates. This contains the following key elements:
  - *Organisational structure with clearly defined lines of responsibility, delegation of authority and reporting requirements.*
  - *Defined expenditure authorisation levels.*
  - *On site, video and teleconferencing reviews of operations, covering all aspects of each business are conducted by Group executive management on a regular basis throughout the year.*

corporate governance

(continued)

- *The financial reporting and information systems which comprise: a comprehensive annual budget which is approved by the Board; weekly reports of key operating information; cash flow and capital expenditure reporting; monthly results and forward performance indicators which are measured against the annual budget and the prior year's results. Significant variances are reviewed by the Board and executive management and action is taken as appropriate. The forecast for the year is revised when necessary.*
- *Group tax and treasury are coordinated centrally. There is weekly cash and treasury reporting to Group management and periodic reporting to the Board on the Group's tax and treasury position.*

■ Internal audits are performed by group staff or outsourced on an as-needed basis to external professional firms.

report of the
audit and risk committee

This report describes the membership and operation of the Audit and Risk Committee.

Membership

The present membership of the Committee is:

- Mr Gareth Jones
  (Chairman of Audit and Risk Committee, member since 2002)
- Dr Rolf Stomberg
  (member since 1998)
- Baroness Cohen
  (appointed on 11 August 2003)

Mr Graham Mackenzie was the Chairman of the Committee until his retirement from the Board on 15 April 2003.

The Chairman of the Committee, Mr Jones, is a Chartered Accountant. The Committee met twice during the year. The external auditors attended each meeting and the Committee met privately with them.

Operation of the Committee

The Committee's terms of reference were reviewed and updated with effect from 14 March 2003 and are available from the Company Secretary. The main activities of the Committee during the year were as follows:

- **Financial statements**. The Committee reviewed the interim and full year financial statements. Presentations were made by management and the auditors about the key technical and judgmental matters relevant to the financial statements. The Committee was satisfied that it was appropriate for the Board to approve the financial statements.
- **Internal financial control and risk management systems**. The Committee reviewed the register of Group risks prepared by management, recommendations made by the external auditors and internal audit reports. The Committee was satisfied that it was appropriate for the Board to make the statements regarding internal controls included in the Corporate Governance Report.
- **External auditors**. The Committee has considered the independence of the external auditors and is satisfied that independence has been maintained. It is the policy that the auditors shall not provide any services that would potentially result in them auditing the result of their own work or which are prohibited under the US Sarbanes-Oxley Act. The Committee pre-approves any material permitted non-audit engagements. Regular reports were presented of fees paid to the external auditors in order to ensure that the relationship between non-audit fees and audit fees was not inappropriate. The Committee reviewed the external audit plan proposed by the auditors and participated in the review of the quality of the service that they provided.
- **Internal audit function**. The Committee approved the work programme of the internal audit function and reviewed all internal audit reports.

directors' remuneration report

Introduction

This report describes how the board has applied the Principles of Good Governance relating to directors' remuneration set out in the Directors' Remuneration Report Regulations 2002. It has been prepared in accordance with the Regulations and also meets the relevant requirements of the Listing Rules of the Financial Services Authority. 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 annual report and accounts will be approved.

The Regulations require the auditors to report to the Company's members on the "auditable part" of the Directors' Remuneration Report and to state whether in their opinion that part of the report has been properly prepared in accordance with the Companies Act 1985 (as amended by the Regulations). The report has therefore been divided into separate sections for audited and unaudited information.

Unaudited information

The Remuneration Committee

The present membership of the Committee is:

- Baroness Cohen *(Chairman of Remuneration Committee, member since 11 August 2003)*
- Dr Rolf Stomberg *(member since 1998)*
- Mr Gareth Jones *(member since 2002)*

Mr Graham Mackenzie was a member of the Committee until his retirement from the Board on 15 April 2003. Dr Stomberg was the Chairman of the Committee until 18 December 2003.

The Committee reviews and determines, on behalf of the Board, the salary and benefits packages of the executive directors, the Chairman and the Company Secretary, together with the Group's remuneration policy and its pension arrangements. Its terms of reference were reviewed and updated with effect from 14 March 2003 and are available from the Company Secretary upon request.

In determining the directors' remuneration for the year, the Committee consulted Mr Parry (Chief Executive) about its proposals. The Committee makes use of published reports on directors' remuneration packages and advice from independent external advisers is obtained when required. During 2003, material advice on directors' remuneration was provided to the Committee by New Bridge Street Consultants, who were appointed by the Committee and who provided advice solely on the operation of the Company's incentive schemes. A statement regarding the relationship between the Company and New Bridge Street Consultants is published on the Company's website.

Remuneration policy

Compensation packages for executive directors are set by reference to individual and corporate performance, individual competencies and external market comparisons in commerce generally and consultancy specifically. The package for each executive director currently comprises a basic salary, an annual bonus scheme, share incentives, pension contributions and benefits.

In order to align the interests of executive directors with the interests of shareholders, a significant proportion of directors' remuneration is performance-related through the use of annual bonus and share incentive schemes.

Basic salaries

The Committee's policy is to set the basic salaries of each executive director at levels that reflect their roles, experience and the practices in the employment market. Executive directors' salaries were last increased with effect from 1 January 2002. Having reviewed market surveys the Committee concluded that, with effect from 1 January 2004, the salary of Mr Parry should be increased by 8.9 % to £490,000 and that of Mr Purse by 10% to £220,000.

Annual bonus scheme

Each executive director is entitled to an annual bonus that comprises two elements. The Group's budget is used as the benchmark for the financial performance in relation to both elements of the scheme. This is set at a level in excess of market expectations. Under the first element, each director is entitled to an amount equal to up to 125% of his basic salary determined on the basis of the financial performance of the Group and the achievement of detailed individual performance criteria pre-agreed with the Remuneration Committee. Any sums payable in relation to this first element are payable in cash no later than three months after the end of the relevant financial year. Under the second element, an amount equal to up to 75% of basic salary may be earned, subject to the achievement of a sliding scale of earnings before tax targets. Two-thirds of this second element will be payable in cash three years after the end of the relevant financial year. The remaining third will be used to acquire shares in the Company which will also be transferred to the executive director three years after the end of the relevant financial year. However, both these deferred cash and share elements of the annual bonus will normally be forfeited if the executive director ceases employment during this three-year period.

The Remuneration Committee, on the recommendation of the Chief Executive, determined that no bonuses were payable in respect of 2003.

Share incentives

The Group has four share incentive schemes under which awards currently subsist:

- the Alexander Proudfoot Stock Option Plan and the Proudfoot Share Option Scheme ('the Closed Schemes');
- the Proudfoot PLC Executive Share Option Scheme ('the 1998 Scheme'); and
- the Proudfoot Management Investment Plan ('the Management Incentive Plan').

Shareholder approval for the Closed Schemes expired in 1997 and no further options may be granted under these Schemes. No further awards will be made under the Management Incentive Plan.

The 1998 Scheme (under which market value options are granted) is designed to motivate directors and senior employees, whilst retaining them in the Group's employment, by granting options which are exercisable in two equal amounts after three years and five years respectively. For grants made in 2003, options were subject to a performance condition that compares the Total Shareholder Return ("TSR") over the three year period following grant (with no ability to re-test performance in subsequent years) with the TSR of the constituents of the FTSE Mid 250 as follows:

TSR ranking compared to FTSE Mid 250	Percentage of option that vests
Below median	0%
At median	50%
Between median and upper quartile	50–100% (pro rated)
Upper quartile	100%

Grants made in 2004 will be subject to the same performance condition. The Committee believes that this performance condition is appropriate as options will only vest in full following the generation of returns to shareholders significantly ahead of the market. The TSR calculations will be undertaken by a third party to ensure independent verification of the extent to which the performance condition is met.

Under the rules of the scheme, options over shares with an aggregate exercise consideration of up to eight times remuneration may be granted to an individual in a ten year period. However, it is the Committee's current intention that option grants for directors will be limited to 50% of salary each year.

The only participants in the Management Incentive Plan are Mr Parry and Mr Cara. Mr Cara retired from the Board on 15 April 2003 but remains an employee of the group. The Management Incentive Plan required each participant to invest £300,000 in the Company over the three year period ended 31 December 2002. The investment must be retained until the vesting date of any awards.

Awards under the Management Incentive Plan vest by reference to the growth in the share price above 12.33 pence which was the share price prior to the announcement of Mr Parry's recruitment adjusted to take account of the issue of new shares in May 2002. No awards vested during 2003. Each participant has two remaining awards, which vest on a straight-line basis once the minimum performance has been achieved:

Period	Min growth in price pa	Max growth in price pa	Minimum no of shares	Maximum no of shares
2000-4	37.5%	75%	643,763	1,287,525
2000-5	32.5%	65%	643,763	1,287,525

At 31 December 2003 there were 12.2 million options outstanding under share option schemes, comprising 6.5% of the issued share capital. These include options issuable under arrangements put in place in connection with acquisitions for which shareholder approval was obtained at the the time of the acquisitions. In addition, shares potentially issuable under the Management Incentive Plan comprised 2.7% of the issued shared capital.

Pension arrangements

The Group contributes 17.5% of basic salary and, in the case of Mr Purse, with effect from 1 January 2004, an additional £20,000 per annum, to defined contribution pension schemes of each executive director's choice. No other payments to directors are pensionable.

Other benefits

Benefits comprise a car and insurances for life, personal accident, disability, permanent health and family medical cover.

Service contracts

Each of the executive directors has a contract with a Group company continuing until the age of 58. Either party is able to terminate the contract by giving 12 months' notice. This policy is consistent with current market practice.

In the event of the early termination of an executive director's contract it is the Committee's policy that the amount of compensation (if any) paid to the executive director will be determined by reference to the relevant circumstances that prevail at the time. However, the Committee's aim will be to avoid rewarding poor performance. Furthermore, the Committee will take account of the executive director's duty to mitigate his loss.

The dates of the executive directors' contracts are as follows:

Director	Date of contract
K A H Parry	29 November 1999
S J Purse	15 November 2001

Mr Cara and Mr George were employed under contracts dated 31 December 1999 and 29 November 1999 respectively, the terms of which were similar to those of the existing executive directors.

External appointments

The Company recognises that executive directors may be invited to become non-executive directors of other companies and that such appointments can broaden their knowledge and experience, to the benefit of the Group. Executive directors may hold no more than two non-executive directorships and the related fees may be retained by the director. Mr Parry earned fees as a non-executive director of Schroders plc which amounted to £42,079 in 2003 (2002: £nil).

Non-executive directors – summary of entitlements

In relation to 2003, each non-executive director received a fee of £20,000 per annum plus £3,000 per annum for participation in each of the Remuneration and Audit and Risk Committees, except that such additional amounts were not payable to the Chairman. The Chairman received additional fees of £60,000 per annum.

Non-executive directors' fees were last reviewed with effect from 1 January 2000 and, having reviewed market survey information, the Board concluded that, with effect from 1 January 2004, non-executive directors fees should be increased to £25,000 per annum. No additional fees will be payable for membership of committees but the Chairman of the Audit and Risk Committee and the Chairman of the Remuneration Committee will each receive an additional fee of £5,000.

The Chairman has declined any increase in his fee as a director or in his additional fee as Chairman and, accordingly, the total amount payable to him in 2004 remains at £80,000.

With effect from 1 January 2004, Mr Bolduc is entitled to a retainer of $35,000 per annum for his services as an introducer of business to the Group. In addition, he may earn commission of 2.5% of the value of any work introduced. In relation to 2003 he was entitled to commission of 2.5% of the value of work introduced and also the higher of a 1% commission on work introduced by certain members of the North American advisory board and a retainer of $50,000. The amount paid under these arrangements in relation to 2003 amounted to $50,000. In light of the level of commissions potentially payable to Mr Bolduc, he is not considered to be an independent non-executive director. The independent non-executive directors consider that these arrangements are appropriate for the business.

The non-executive directors are not entitled to bonuses, benefits, pension contributions or to participate in any share scheme.

None of the non-executive directors has a service contract and all are appointed for three year fixed terms. Consequently, none of the non-executive directors are subject to notice periods and none have any rights to compensation on termination. The Company considers this approach appropriate in the current circumstances.

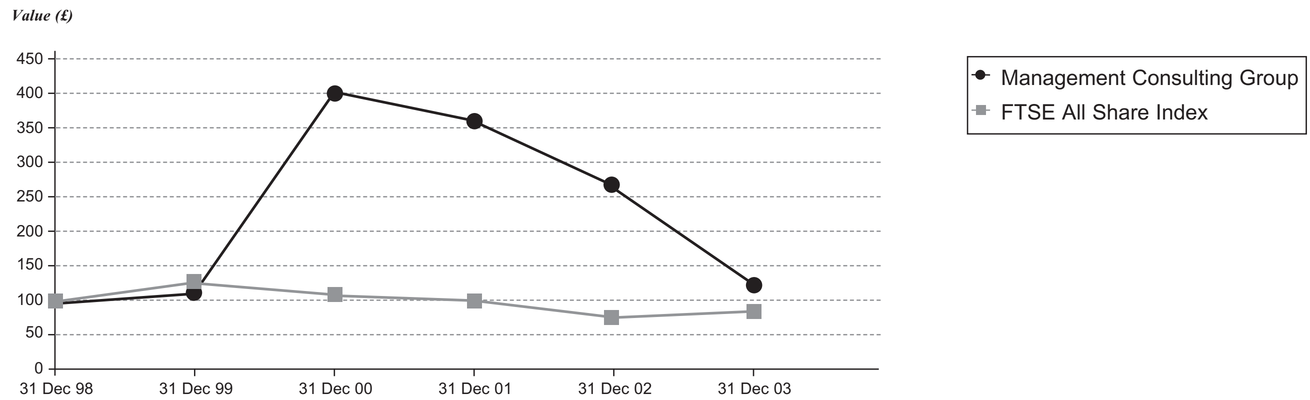
Performance Graph

The Regulations require this report to contain a graph illustrating the Company's performance compared to an appropriate "broad equity market index" over the past five years. Until 22 December 2003 Management Consulting Group PLC was a constituent of the FTSE All-Share index and, accordingly, that index is considered the most appropriate form of "broad equity

directors'
remuneration report
(continued)

market index" against which the Group's performance should be plotted. Performance, as required by the legislation, is measured by Total Shareholder Return (share price growth plus dividends paid).

Total shareholder return



This graph looks at the value, by the end of 2003, of £100 invested in Management Consulting Group on 31 December 1998 compared with the value of £100 invested in the FTSE All Share Index. The other points plotted are the values at financial year ends.

Source: Datastream

Audited information

Directors' remuneration

The remuneration of the directors who served in the year ended 31 December 2003 was as follows:

	Salaries and fees as directors	Bonus and other*	Benefits	Pension contributions	**Total emoluments 2003**	*Salaries, fees and bonuses*	*Pension contributions*	*Total emoluments 2002*
	£	£	£	£	**£**	*£*	*£*	*£*
Executive								
K A H Parry	450,000	–	23,371	78,750	**552,121**	*726,462*	*78,750*	*805,212*
S J Purse	200,000	–	27,273	35,000	**262,273**	*325,808*	*35,000*	*360,808*
R G Cara**	62,023	–	20,738	10,854	**93,615**	*359,803*	*40,722*	*400,525*
P George**	103,562	153,531	8,390	18,123	**283,606**	*463,061*	*63,000*	*526,061*
Non-executive								
R W H Stomberg	80,000	–	–	–	**80,000**	*80,000*	–	*80,000*
J P Bolduc	20,000	30,570	–	–	**50,570**	*55,902*	–	*55,902*
Baroness Cohen***	10,186	–	–	–	**10,186**	–	–	–
D G Jones	26,000	–	–	–	**26,000**	*9,750*	–	*9,750*
G R Mackenzie **	7,479	–	–	–	**7,479**	*26,000*	–	*26,000*
	959,250	184,101	79,772	142,727	**1,365,850**	*2,046,786*	*217,472*	*2,264,258*

* *Comprises compensation for loss of office payable to Mr George and the retainer payable to Mr Bolduc.*

** *Ceased to be director on 15 April 2003.*

*** *Appointed a director on 11 August 2003.*

Mr Cara ceased to be a director on 15 April 2003 and remains as an employee of the Group on terms which, until 31 March 2004, are substantially the same as those that applied to his position as a director. Mr George ceased to be a director on the same date and has left the Group. He was employed under a contract that required 12 months' notice. He continued to receive his salary and related pension contributions for 3.75 months after ceasing to be a director, together with other contractual benefits until 31 December 2003.

Interests in shares

The beneficial interests of the directors in office at 31 December 2003 in the ordinary share capital of the Company were as follows:

	1 March 2004	*31 December 2003*	*31 December 2002*
Executive			
K A H Parry	**504,827**	504,827	*454,827*
S J Purse	**190,620**	190,620	*165,620*
Non-executive			
R W H Stomberg	**600,000**	600,000	*600,000*
J P Bolduc	**800,000**	800,000	*800,000*
Baroness J Cohen	**–**	–	*–**
D G Jones	**120,000**	120,000	50,000

* *At date of appointment*

In addition, Mr Parry and Mr Purse are deemed to be interested in 3,879,584 shares held by the employee share trust although there is no intention to grant them any rights over these shares.

The interests of the directors in share options in the Company are set out in the table below.

Director	At 1 Jan 2003	Granted/ (lapsed) in year	At 31 Dec 2003	Exercise price (in pence)	Date from which exercisable	Expiration date
K A H Parry	2,027,079	–	2,027,079	29.85	23 Mar 2003	22 Mar 2010
	–	569,620	569,620	39.50	17 Mar 2006	16 Mar 2013
	2,027,079	569,620	2,596,699			
S J Purse	41,201	–	41,201	68.20	19 Mar 2004	18 Mar 2011
	1,030,025	–	1,030,025	51.21	15 Nov 2004	14 Nov 2011
	–	253,165	253,165	39.50	17 Mar 2006	16 Mar 2013
	1,071,226	253,165	1,324,391			

All directors' options are under the 1998 Scheme and no consideration was payable for the grant of the options. Those granted prior to 1 January 2003 may not be exercised unless the Group's three year average annualised percentage growth in fully diluted earnings per share (excluding goodwill amortisation, certain exceptional items and share scheme charges) at least equals the average annualised growth in the Retail Price Index plus 5 percentage points; and the average annualised share price growth over that period at least equals the average annualised growth in the FTSE Small Cap Index (excluding investment companies). If those two hurdles are passed, options vest as follows:

Annual share price performance	Aggregate proportion of share options which vest
Less than 15%	nil and options lapse at three year point
15%	40%
15% to 35%	increase uniformly from 40% to 100%
35% or more	100%

Options granted after 1 January 2003 are subject to the TSR performance condition described earlier in this report.

The options granted to Mr Parry at 29.85 pence vested during the year, the related performance conditions having been met. In accordance with the relevant option scheme rules 50% of the options became exercisable from 23 March 2003 and the balance are exercisable from 23 March 2005. No options were exercised by directors during 2003.

No other director held share options at 31 December 2003. At 1 January 2003 Mr George held options over 1,824,371 shares at a price of 29.85 pence. None of these options was exercised and they lapsed when he ceased to be an employee of the Group. Mr Cara held options over 190,099 shares at 1 January 2003 none of which has subsequently been exercised or lapsed.

The interests of the directors in shares pursuant to their participation in the Management Incentive Plan are set out below:

Director	Interest as at 1 January 2003	Lapsed in year	Interest as at 31 December 2003	Vesting dates of outstanding awards
K A H Parry	5,150,100	(2,575,050)	2,575,050	2004 - 2005

Mr Cara's interest in the Management Incentive Plan is identical to Mr Parry's interest. Mr George's interest in 5,150,100 shares lapsed when he ceased to be a director.

The market price of a share in the Company at 31 December 2003 was 23.25 pence and the range during 2003 was 19.25 pence to 57.25 pence.

Approval

This report was approved by the board of directors and signed on its behalf by:

F Steven Hitchcock
Company Secretary

1 March 2004

independent
auditors' report

To the members of Management Consulting Group PLC

We have audited the financial statements of Management Consulting Group PLC for the year ended 31 December 2003 which comprise the profit and loss account, the statement of total recognised gains and losses, the balance sheets, the cash flow statement and the related notes 1 to 29. These financial statements have been prepared under the accounting policies set out therein. We have also audited the information in the part of the Directors' Remuneration Report that is described as having been audited.

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

Respective responsibilities of directors and auditors

As described in the statement of directors' responsibilities, the Company's directors are responsible for the preparation of the financial statements in accordance with applicable United Kingdom law and accounting standards. They are also responsible for the preparation of other information contained in the annual report including the Directors' Remuneration Report. Our responsibility is to audit the financial statements and the part of the Directors' Remuneration Report described as having been audited in accordance with relevant United Kingdom legal and regulatory requirements and auditing standards.

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

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

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

independent
auditors’ report
(continued)

Basis of audit opinion

We conducted our audit in accordance with United Kingdom auditing standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements and the part of the Directors’ Remuneration Report described as having been audited. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements and of whether the accounting policies are appropriate to the circumstances of the Company and the Group, consistently applied and adequately disclosed.

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

Opinion

In our opinion:

- the financial statements give a true and fair view of the state of affairs of the Company and the Group as at 31 December 2003 and of the loss of the Group for the year then ended; and
- the financial statements and part of the Directors’ Remuneration Report described as having been audited have been properly prepared in accordance with the Companies Act 1985.

Deloitte & Touche LLP
Chartered Accountants and Registered Auditors
London

1 March 2004

An audit does not provide assurance on the maintenance and integrity of the website, including controls used to achieve this, and in particular 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.

directors' responsibility statement

In respect of the preparation of the financial statements

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

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent; and
- state whether applicable accounting standards have been followed.

The directors are responsible for keeping proper accounting records 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 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.

group profit and loss account

year ended 31 December	note	2003 £'000	2002 £'000
Turnover	3	**88,649**	*107,296*
Cost of sales		**(45,137)**	*(53,710)*
Gross profit		**43,512**	*53,586*
Selling costs		**(28,303)**	*(29,189)*
Administrative expenses			
Excluding goodwill amortisation		**(15,000)**	*(16,787)*
Goodwill amortisation		**(4,029)**	*(3,107)*
Total administrative expenses		**(19,029)**	*(19,894)*
Operating profit/(loss):			
Before goodwill amortisation		**209**	*7,610*
After goodwill amortisation		**(3,820)**	*4,503*
Total operating (loss)/profit	3	**(3,820)**	*4,503*
Finance (costs)/income	7	**(46)**	*395*
(Loss)/profit on ordinary activities before taxation	3, 4	**(3,866)**	*4,898*
Tax on (loss)/profit on ordinary activities	8	**(1,062)**	*(636)*
(Loss)/profit on ordinary activities after taxation		**(4,928)**	*4,262*
Equity dividends proposed	9	**(944)**	*(930)*
Retained (loss)/profit for the financial year		**(5,872)**	*3,332*
(Loss)/earnings per share - pence	10		
Basic		**(2.68)**	*2.71*
Diluted		**(2.68)**	*2.43*
Headline		**(0.49)**	*4.68*

There is no material difference between the results reported on the historical cost basis and those disclosed in the profit and loss account.

Turnover and operating results in both the current and prior years relate to continuing operations.

group statement of total recognised gains and losses

year ended 31 December	note	2003 £'000	*2002 £'000*
(Loss)/profit after taxation for the financial year		**(4,928)**	*4,262*
Actuarial gain/(loss) relating to retirement benefit schemes	28	**285**	*(7,605)*
Currency translation differences on foreign currency net investments		**250**	*(453)*
Total recognised gains and losses relating to the year		**(4,393)**	*(3,796)*

group balance sheet

as at 31 December	note		2003		2002 (restated)*
		£'000	**£'000**	*£'000*	*£'000*
Fixed assets					
Intangible assets	11		**69,206**		*73,600*
Tangible assets	12		**1,649**		*2,471*
Total fixed assets			**70,855**		*76,071*
Current assets					
Debtors	14	**7,910**		*8,256*	
Cash at bank and in hand and deposits	23	**9,738**		*21,928*	
		17,648		*30,184*	
Creditors: amounts falling due within one year	15	**(24,015)**		*(25,265)*	
Net current (liabilities)/assets			**(6,367)**		*4,919*
Total assets less current liabilities			**64,488**		*80,990*
Creditors: amounts falling due after more than one year	16		**(3,387)**		*(4,971)*
Provisions for liabilities and charges	17		**(3,180)**		*(2,704)*
Net assets excluding retirement benefits liability			**57,921**		*73,315*
Retirement benefits liability	28		**(13,213)**		*(17,290)*
Net assets including retirement benefits liability			**44,708**		*56,025*
Capital and reserves					
Called up share capital	18		**47,198**		*46,530*
Share premium account	19		**38,009**		*37,978*
Shares to be issued	19		**2,166**		*9,427*
Own shares held by employee share trust	13, 19		**(970)**		*(970)*
Other reserves	19		**409**		*(423)*
Profit and loss account	20		**(42,104)**		*(36,517)*
Shareholders' funds – equity	21		**44,708**		*56,025*

*see note 13

These financial statements were approved by the Board of Directors on 1 March 2004 and signed on its behalf by:

Stephen Purse
Director

group cash flow statement

year ended 31 December	note		2003		2002
		£'000	£'000	£'000	£'000
Net cash (outflow)/inflow from operating activities	22		**(4,957)**		*4,884*
Returns on investments and servicing of finance					
Interest received		**247**		*958*	
Interest paid		**–**		*(86)*	
Net cash inflow from returns on investments and servicing of finance			**247**		*872*
Taxation			**(553)**		*(2,093)*
Capital expenditure and financial investment					
Purchase of tangible fixed assets		**(594)**		*(1,116)*	
Proceeds from sale of tangible fixed assets		**205**		*–*	
Net cash outflow from capital expenditure and financial investment			**(389)**		*(1,116)*
Acquisitions and disposals					
Payments to acquire subsidiary undertakings	25	**(5,189)**		*(37,633)*	
Debt acquired with subsidiary		**–**		*(691)*	
Net cash outflow from acquisitions and disposals			**(5,189)**		*(38,324)*
Equity dividends paid			**(911)**		*–*
Cash outflow before use of liquid resources and financing			**(11,752)**		*(35,777)*
Management of liquid resources					
Cash withdrawn from liquid resources		**–**		*2,475*	
Net cash inflow from management of liquid resources			**–**		*2,475*
Financing					
Net proceeds from issue of ordinary shares		**–**		*39,022*	
Net cash inflow from financing			**–**		*39,022*
(Decrease)/increase in cash in the year	23, 24		**(11,752)**		*5,720*

company balance sheet

as at 31 December			2003		2002 (restated)*
	note	**£'000**	**£'000**	*£'000*	*£'000*
Fixed assets					
Tangible assets	12		**57**		*136*
Investments	13		**107,719**		*73,478*
Total fixed assets			**107,776**		*73,614*
Current assets					
Debtors	14	**41,972**		*75,230*	
Cash at bank and in hand		**2,988**		*7,077*	
		44,960		*82,307*	
Creditors: amounts falling due within one year	15	**(10,773)**		*(9,596)*	
Net current assets			**34,187**		*72,711*
Total assets less current liabilities			**141,963**		*146,325*
Creditors: amounts falling due after more than one year	16		**–**		*(906)*
Net assets			**141,963**		*145,419*
Capital and reserves					
Called up share capital	18		**47,198**		*46,530*
Share premium account	19		**38,009**		*37,978*
Shares to be issued	19		**2,166**		*9,427*
Own shares held by employee share trust	13, 19		**(970)**		*(970)*
Capital redemption reserve	19		**1,186**		*1,186*
Profit and loss account	20		**54,374**		*51,268*
Shareholders' funds - equity	21		**141,963**		*145,419*

*see note 13

These financial statements were approved by the Board of Directors on 1 March 2004 and signed on its behalf by:

Stephen Purse
Director

notes to the
financial statements

(Forming an integral part of the financial statements)

1. Principal accounting policies

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

(a) Basis of accounting

The financial statements have been prepared under the historical cost accounting rules and in accordance with applicable accounting standards. The balance sheet at 31 December 2002 has been restated to take account of UITF Abstract 38 as described below in note 1(l).

(b) Basis of consolidation

The consolidated financial statements comprise the financial statements of Management Consulting Group PLC and all its subsidiary undertakings. The results of subsidiary undertakings acquired during the year are accounted for as acquisitions from the dates of acquisition. The results of subsidiary undertakings disposed of during the year are included up to the date of disposal.

(c) Goodwill

Goodwill, being the difference between the cost of businesses acquired and the fair value of their separable net assets, is included in the balance sheet as an intangible asset and is amortised over its useful economic life. The useful economic lives are the periods over which the directors estimate that the value of the underlying businesses are expected to exceed the value of the underlying assets.

Goodwill previously eliminated against reserves is taken into account when realised on the sale or closure of subsidiaries.

(d) Turnover

Turnover represents the value of services provided to third parties and is stated net of sales taxes. It is recognised when services have been provided and can be invoiced.

(e) Depreciation

Depreciation is calculated so as to write off the cost, less estimated residual value, of tangible fixed assets by equal annual instalments over their estimated useful lives of between three and seven years.

(f) Foreign exchange

Company

Transactions denominated in foreign currencies are translated into Sterling and recorded at the rate of exchange which approximates to that ruling at the date of the transaction. Balances denominated in foreign currencies are translated at the exchange rates ruling on the balance sheet date.

Group

The results of overseas subsidiaries are translated at the average rates of exchange for the year. The balance sheets of overseas subsidiaries are translated at the exchange rate ruling on the balance sheet date. All exchange differences are taken to the profit and loss account with the exception of:

(i) differences on foreign currency borrowings, to the extent that they are used to finance or provide a hedge against foreign equity investments, which are taken directly to reserves together with the exchange differences on the carrying amount of the related investments; and

1. Principal accounting policies (continued)

(f) Foreign exchange (continued)

(ii) exchange differences arising from the retranslation of opening net assets together with the difference between the profit and loss account translated at the average rates and the closing rates, which are recorded as movements on reserves.

(g) Investments

Investments held as fixed assets are carried at cost less provisions for any impairment in value. Investments held as current assets are stated at the lower of cost and net realisable value.

(h) Taxation

Current tax, including UK corporation tax and foreign tax, is provided at amounts expected to be paid (or recovered) using the tax rates and laws that have been enacted or substantively enacted by the balance sheet date.

Deferred tax is recognised in respect of all timing differences that have originated but not reversed at the balance sheet date where transactions or events that result in an obligation to pay more tax in the future or a right to pay less tax in the future have occurred at the balance sheet date. Timing differences are differences between the Group’s taxable profits and its results as stated in the financial statements that arise from the inclusion of gains and losses in tax assessments in periods different from those in which they are recognised in the financial statements.

Deferred tax is recognised in respect of the retained earnings of overseas subsidiaries only to the extent that, at the balance sheet date, dividends have been accrued as receivable or a binding agreement to distribute past earnings in the future has been entered into by the subsidiary.

Deferred tax is measured at the average tax rates that are expected to apply in the periods in which the timing differences are expected to reverse, based on tax rates and laws that have been enacted or substantively enacted by the balance sheet date. Deferred tax is measured on a non-discounted basis.

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.

(i) Retirement benefits

For defined contribution pension schemes the amount charged to the profit and loss account is the contributions payable in the year. Differences between contributions payable in the year and contributions actually paid are shown as either accruals or prepayments in the balance sheet.

For the defined benefit pension scheme and the post-retirement medical benefits plan the amounts charged to operating profit are the current service costs and gains and losses on settlements and curtailments. Past service costs are recognised immediately in the profit and loss account if the benefits have vested. If the benefits have not vested immediately, the costs are recognised over the period until vesting occurs. The interest costs and the expected return on assets are shown as a net amount of other finance costs or credits adjacent to interest. Actuarial gains and losses are recognised immediately in the statement of total recognised gains and losses.

The defined benefit pension scheme is funded, with the assets of the scheme held separately from those of the Group in separate trustee administered funds. Pension scheme assets are measured at fair value. Liabilities in relation to the defined benefit pension scheme and the unfunded post-retirement medical benefits plan are measured on an actuarial basis using the projected unit method and discounted at a rate equivalent to the current rate of return on a high quality corporate bond of equivalent currency and term to the scheme liabilities. The actuarial valuations are obtained at least triennially and are updated at each balance sheet date. The resulting defined benefit asset or liability, net of any related deferred tax, is presented separately after other net assets on the face of the balance sheet.

(j) Operating leases

Rentals payable on operating leases are charged evenly to the profit and loss account over the lease term.

(k) Share schemes

For share schemes that contingently award shares at a price below the fair value of the Company's shares on the date of grant, a charge is recognised systematically in the profit and loss account and credited to the shares to be issued reserve based on the directors' estimate of the extent that related performance criteria will be met.

(l) Own shares held by employee share trust

The prior year balance sheet has been restated to take account of UITF Abstract 38 which was issued on 15 December 2003. This requires the Management Consulting Group PLC ordinary shares owned by the employee share trust to be presented as a reduction of shareholders' funds rather than as an investment.

2. Profit and loss account

In accordance with Section 230 of the Companies Act 1985, the Company has not presented its own profit and loss account. The consolidated profit for the financial year includes a profit of £4,050,000 (2002: loss of £4,133,000) dealt with in the financial statements of the Company.

3. Segmental information and EBITDA

(a) Turnover

The analysis of turnover by geographical origin is as follows:

Continuing operations	**2003** **£'000**	*2002* *£'000*
North America	**54,457**	*66,186*
Europe	**24,650**	*34,634*
Africa	**4,698**	*2,188*
Asia Pacific	**4,844**	*4,288*
	88,649	*107,296*

There is no material difference between turnover by geographical origin and turnover by geographical destination.

(b) (Loss)/profit on ordinary activities before taxation

The analysis of the (loss)/profit by geographical region is as follows:

Continuing operations	2003 £'000	*2002 £'000*
North America	**2,736**	*8,645*
Europe	**(6,899)**	*(3,479)*
Africa	**25**	*(947)*
Asia Pacific	**318**	*284*
Total operating (loss)/profit	**(3,820)**	*4,503*
Finance (costs)/income	**(46)**	*395*
(Loss)/profit on ordinary activities before taxation	**(3,866)**	*4,898*

Management consultancy is the Group's sole business segment.

(c) Earnings before interest, tax, depreciation and amortisation

	2003 £'000	*2002 £'000*
Operating (loss)/profit	**(3,820)**	*4,503*
Depreciation	**1,223**	*1,639*
Amortisation of goodwill	**4,029**	*3,107*
EBITDA	**1,432**	*9,249*

(d) Net assets/(liabilities)

The net assets/(liabilities) by geographical region were:

	2003 £'000	*2002 (restated)* £'000*
North America	**11,691**	*10,903*
Europe	**27,731**	*26,459*
Africa	**(1,198)**	*(360)*
Asia Pacific	**(574)**	*(600)*
	37,650	*36,402*
Net funds	**9,738**	*21,928*
Unallocated net liabilities	**(2,680)**	*(2,305)*
Total net assets	**44,708**	*56,025*

* The 2002 net assets for Europe have been restated to take account of UITF 38 – see note 13.

4. (Loss)/profit on ordinary activities before taxation

(Loss)/profit on ordinary activities before taxation is stated after charging/(crediting) the following:

		2003		2002
		£'000		£'000
Depreciation and other amounts written off tangible fixed assets		**1,223**		*1,639*
Goodwill amortisation		**4,029**		*3,107*
Auditors' remuneration:				
Audit fees:				
Group statutory audit	**220**		*220*	
Audit-related statutory reporting	**22**		*22*	
	242		*242*	
Other assurance services				
Overseas accounting advice	**15**		*19*	
Financial due diligence	**–**		*281*	
	15		*300*	
Tax fees				
Overseas compliance	**85**		*5*	
Overseas advisory	**13**		*18*	
UK compliance	**13**		*–*	
UK advisory	**125**		*4*	
	236		*27*	
Total fees paid to auditors		**493**		*569*
Company audit fees (included above)		**25**		*25*
Rentals payable under operating leases:				
Hire of plant and machinery		**126**		*112*
Other - principally properties		**2,309**		*1,661*
Reduction in reserve for management incentive plan		**(1,919)**		*–*

5. Directors

Directors' emoluments, share options, long-term incentive plan and pension entitlements are shown within the Directors' Remuneration Report.

6. Staff numbers and costs

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

	2003	2002
Sales and Marketing	**178**	*157*
Consultants	**420**	*449*
Support staff	**121**	*138*
	719	*744*

The aggregate payroll costs of these persons were as follows:

	2003	*2002*
	£'000	*£'000*
Wages and salaries	**50,332**	*53,529*
Social security costs	**5,752**	*6,227*
Other pension costs	**828**	*849*
	56,912	*60,605*

Details of the amounts included in operating results in respect of the closed US retirement benefit schemes are shown in note 28. These include a credit of £1.6 million in respect of the post retirement medical benefits plan, a significant part of which is offset by other employee related costs.

7. Finance (costs)/income

	2003	*2002*
	£'000	*£'000*
Interest receivable and similar income	**859**	*980*
Interest payable and similar charges	**(180)**	*(249)*
Other finance charges (note 28(b))	**(725)**	*(336)*
	(46)	*395*

8. Tax on (loss)/profit on ordinary activities

The tax charge comprises:

		2003		*2002*
	£'000	£'000	*£'000*	*£'000*
Current tax				
UK corporation tax at 30% (2002: 30%) based on profit for the year:		**18**		*14*
Adjustment in respect of prior years	**(212)**		*58*	
Double tax relief	**(18)**		*(14)*	
		(230)		*44*
		(212)		*58*
Foreign tax for year	**638**		*140*	
Adjustment in respect of prior years	**228**		*342*	
		866		*482*
Total current tax		**654**		*540*
Deferred tax		**408**		*96*
Total tax on (loss)/profit on ordinary activities		**1,062**		*636*

Factors affecting the tax charge for the current year

The average applicable rate of tax on the Group's profit on ordinary activities (weighted in proportion to accounting profits) is currently approximately 38% (2002: 38%). The tax charge for the current year is greater than the credit expected by applying the average rate for the reasons set out in the following reconciliation:

	2003	2002
	£'000	£'000
(Loss)/profit on ordinary activities before taxation	**(3,866)**	*4,898*
Tax (credit)/tax on profit on ordinary activities at the average rate applicable across the Group of 38% (2002: 38%)	**(1,469)**	*1,861*
Factors affecting charge in the year:		
Minimum taxes payable	**605**	*71*
Net impact of unrelieved losses	**2,011**	*(1,803)*
Adjustments in respect of prior years	**16**	*400*
Permanent differences and other	**(509)**	*11*
Group current tax charge	**654**	*540*

Factors that may affect the future tax charge

A deferred tax asset has not been recognised in respect of unrelieved losses of up to £10 million and other timing differences as there is insufficient evidence that the asset will be able to be recovered in the near term.

On the same basis, no deferred tax asset is recognised in respect of surplus Advance Corporation Tax totalling £2.4 million, or a potential deferred tax asset totalling £5.0 million in respect of the retirement benefit liability.

9. Equity dividends proposed

	2003	2002
	£000	£000
Equity shares		
Proposed final dividend of 0.5p (2002: 0.5p)	**944**	*930*

The directors recommend the payment of a final dividend of 0.5 pence to be paid on 24 May 2004 to ordinary shareholders on the register on 23 April 2004.

10. (Loss)/earnings per share

The basic earnings per share is calculated by dividing the result after tax by the weighted average number of Ordinary Shares in issue during the year after deducting 3.9 million shares held by the Group in an employee share trust.

For diluted earnings per share, the weighted average number of Ordinary Shares in issue is adjusted to assume conversion of all potentially dilutive Ordinary Shares. The Group's dilutive instruments are share options granted to employees where the exercise price is less than the average market price during the year, shares potentially to be issued under a long-term incentive plan and shares to be issued as deferred consideration in respect of acquisitions. Dilution is not recognised where continuing operations are loss making.

The average market price of Ordinary Shares for the year ended 31 December 2003 was 36.9 pence (31 December 2002: 67.8 pence).

Headline earnings per share has been calculated in accordance with the definition in the Institute of Investment Management Research ('IIMR') Statement of Practice No. 1, 'The Definition of IIMR Headline Earnings'.

Reconciliations of the earnings and weighted average number of shares used in the calculations are set out below:

			2003			*2002*
	Earnings £'000	**Weighted average number of shares (million)**	**Earnings per share amount (pence)**	*Earnings £'000*	*Weighted average number of shares (million)*	*Earnings per share amount (pence)*
Basic earnings per share						
(Loss)/profit attributable to shareholders	**(4,928)**	**183.7**	**(2.68)**	*4,262*	*157.3*	*2.71*
Effect of dilutive securities						
Options	**–**	**–**	**–**	*–*	*3.6*	*(0.06)*
Long-term incentive plan	**–**	**–**	**–**	*–*	*8.5*	*(0.13)*
Deferred consideration shares	**–**	**–**	**–**	*–*	*6.1*	*(0.09)*
Fully diluted earnings per share	**(4,928)**	**183.7**	**(2.68)**	*4,262*	*175.5*	*2.43*
Basic earnings per share	**(4,928)**	**183.7**	**(2.68)**	*4,262*	*157.3*	*2.71*
Goodwill amortisation	**4,029**	**–**	**2.19**	*3,107*	*–*	*1.97*
Headline earnings per share	**(899)**	**183.7**	**(0.49)**	*7,369*	*157.3*	*4.68*

11. Intangible fixed assets

Goodwill	**The Group £'000**
Cost	
At 1 January 2003	78,386
Exchange adjustments	(365)
At 31 December 2003	78,021
Accumulated amortisation	
At 1 January 2003	4,786
Charge for the year	4,029
At 31 December 2003	8,815
Net book value	
At 31 December 2003	**69,206**
At 31 December 2002	73,600

The directors consider each acquisition separately for the purpose of determining the amortisation period of any goodwill that arises. The goodwill shown above is being amortised on a straight line basis over 20 years.

12. Tangible fixed assets

Fixtures, fittings and equipment	The Group £'000	The Company £'000
Cost		
At 1 January 2003	7,928	346
Additions	594	6
Disposals	(4,346)	–
Exchange adjustments	(279)	–
At 31 December 2003	3,897	352
Depreciation		
At 1 January 2003	5,457	210
Charge for the year	1,223	85
Disposals	(4,156)	–
Exchange adjustments	(276)	–
At 31 December 2003	2,248	295
Net book value		
At 31 December 2003	**1,649**	**57**
At 31 December 2002	2,471	136

13. Investments held as fixed assets

In accordance with UITF Abstract 38 issued on 15 December 2003, the balance sheets at 31 December 2002 have been restated. The ordinary shares owned by the employee share trust of £970,000 have been presented as a reduction in shareholders' funds rather than as an investment.

The Company	Investment in group companies		Other investments	
	Shares	Loans		Total
	£'000	£'000	£'000	£'000
At 1 January 2003 – as previously reported	17,686	55,792	970	74,448
Restatement of employee share trust	–	–	(970)	(970)
At 1 January 2003 – restated	17,686	55,792	–	73,478
Capitalisation of amounts owed by subsidiaries	96,051	(39,059)	–	56,992
Loans to subsidiaries	–	1,275	–	1,275
Provisions	(3,119)	–	–	(3,119)
Disposals	(4,174)	(16,733)	–	(20,907)
At 31 December 2003	**106,444**	**1,275**	**–**	**107,719**

Shares are stated net of provisions of £3,119,000 (2002: £2,382,000) against impairment in value.
The cost of shares in Group companies includes the related costs of acquisitions.
Details of the Company's principal subsidiary undertakings are set out in note 29.

14. Debtors

	The Group		The Company	
	2003	*2002*	**2003**	*2002*
	£'000	*£'000*	**£'000**	*£'000*
Falling due within one year				
Trade debtors	**4,482**	*4,774*	**–**	*–*
Amounts owed by Group undertakings	**–**	*–*	**41,852**	*74,976*
Other debtors	**710**	*890*	**26**	*7*
Taxation recoverable	**1,592**	*1,422*	**–**	*46*
Prepayments and accrued income	**1,126**	*1,170*	**94**	*201*
	7,910	*8,256*	**41,972**	*75,230*

15. Creditors: amounts falling due within one year

	The Group		The Company	
	2003	*2002*	**2003**	*2002*
	£'000	*£'000*	**£'000**	*£'000*
Trade creditors	**1,424**	*2,072*	**134**	*89*
Amounts owed to Group undertakings	**–**	*–*	**6,497**	*4,935*
Corporation tax	**3,987**	*3,393*	**–**	*–*
Other taxes and social security	**1,838**	*1,342*	**252**	*10*
Other creditors	**1,052**	*1,066*	**1,030**	*970*
Deferred income	**1,782**	*1,579*	**–**	*–*
Accruals	**12,988**	*14,883*	**1,916**	*2,662*
Proposed dividend	**944**	*930*	**944**	*930*
	24,015	*25,265*	**10,773**	*9,596*

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

	The Group		The Company	
	2003	*2002*	**2003**	*2002*
	£'000	*£'000*	**£'000**	*£'000*
Corporation tax	**2,359**	*2,359*	**–**	*–*
Other creditors	**–**	*953*	**–**	*906*
Accruals	**1,028**	*1,659*	**–**	*–*
	3,387	*4,971*	**–**	*906*

All of the above balances fall due within five years.

17. Provisions for liabilities and charges

The Group	Deferred taxation **£'000**	Other provisions **£'000**	Total **£'000**
Balance at 1 January 2003	888	1,816	2,704
Utilised	–	(100)	(100)
Profit and loss account charge	408	168	576
Balance at 31 December 2003	**1,296**	**1,884**	**3,180**

There are no provisions held by the Company. Other provisions primarily relate to liabilities assumed on discontinued businesses.

The amounts provided for deferred taxation are set out below:

	The Group		**The Company**	
	2003 **£'000**	*2002* *£'000*	**2003** **£'000**	*2002* *£'000*
Profits earned, taxable in a future year	**1,296**	–	**–**	–
Unrealised exchange differences	–	*888*	**–**	–
	1,296	*888*	**–**	–

18. Share capital

(a) Called up share capital

	2003 **£'000**	*2002* *£'000*
Authorised: 300 million (2002: 300 million) shares of 25p each	**75,000**	*75,000*
Allotted, called up and fully paid: 188,790,907 (2002: 186,118,237) shares of 25p each	**47,198**	*46,530*

Shares issued in the year were:

	Number 000	Nominal Value £'000	Consideration £'000
Acquisitions made in prior years (note 25)			
Institute of Management Resources	511	128	194
Czipin & Partners	1,968	492	1,013
Parson Consulting	194	48	74
	2,673	668	1,281

(b) Share options

At 31 December 2003, there were options outstanding to subscribe for new ordinary shares of 25 pence each as set out below. The number of options outstanding at the previous year end over new ordinary shares was 10,953,711.

Option grant date	Number of shares under option	Exercise price (pence)	Exercisable not earlier than
The Closed Schemes			
May 1994	172,529	70.87	May 1997
March 1996	311,751	29.13	March 1999
October 1996	459,862	25.00	October 1999
January 1997	3,002	25.00	January 2000
The 1998 Scheme			
September 1999	643,765	25.00	September 2002
March 2000	2,027,089	29.85	March 2003
March 2001	886,336	68.20	March 2004
November 2001	1,030,025	51.21	November 2004
March 2002	1,303,497	68.20	March 2005
June 2002	1,345,000	71.50	June 2005
March 2003	4,062,785	39.50	March 2006
Total	12,245,641		

In March 2003 4,123,785 options over new ordinary shares were granted at a price of 39.50 pence per share. No options were exercised during the year.

During the year, options over 2,831,855 new shares lapsed. Share options under the Closed Schemes and the 1998 Scheme expire ten years after the date of grant.

The total subscription price, if all share options over new shares are exercised, is £5,682,000 (2002: £5,252,000).

The above amounts exclude options over 1,836,241 shares (2002: 1,414,688 shares) which are already in issue and are owned by an employee trust.

19. Reserves

The Group	Share premium account £'000	Shares to be issued £'000	Own shares held by employee share trust £'000
At 1 January 2003 – as previously reported	37,978	9,427	–
Restatement for UITF Abstract 38	–	–	(970)
At 1 January 2003 – restated	37,978	9,427	(970)
Deferred consideration issued	31	(5,509)	–
Management incentive plan	–	(1,752)	–
At 31 December 2003	**38,009**	**2,166**	**(970)**

	Merger reserve £'000	Statutory reserves of subsidiary undertakings £'000	Capital redemption reserve £'000	Currency translation reserve £'000	**Total other reserves £'000**
At 1 January 2003	5,101	5,878	1,186	(12,588)	(423)
Merger relief on deferred share consideration	582	–	–	–	582
Currency translation differences	–	–	–	250	250
At 31 December 2003	**5,683**	**5,878**	**1,186**	**(12,338)**	**409**

The Company	Share premium account £'000	Shares to be issued £'000	Own shares held by employee share trust £'000	Capital redemption reserve £'000
At 1 January 2003 – as previously reported	37,978	9,427	–	1,186
Restatement for UITF Abstract 38	–	–	(970)	–
At 1 January 2003 – restated	37,978	9,427	(970)	1,186
Deferred consideration issued	31	(5,509)	–	–
Management incentive plan	–	(1,752)	–	–
At 31 December 2003	**38,009**	**2,166**	**(970)**	**1,186**

Shares to be issued comprise the estimated value of shares that may be issued in connection with acquisitions and under the Management Incentive Plan. Shares issued in connection with acquisitions will be accounted for under the provisions of merger relief.

Own shares held by the employee share trust represents 3,879,584 shares held in an employee trust issued at their nominal value of £970,000. It has been presented as a separate reserve in accordance with UITF Abstract 38 (see note 1).

20. Profit and loss account

	The Group		The Company	
	2003	*2002*	**2003**	*2002*
	£'000	*£'000*	**£'000**	*£'000*
At 1 January	**(36,517)**	*(32,244)*	**51,268**	*56,331*
Retained (loss)/profit for the year	**(5,872)**	*3,332*	**3,106**	*(5,063)*
Actuarial gain/(loss) relating to retirement benefits scheme (note 28 (c))	**285**	*(7,605)*	**–**	*–*
At 31 December	**(42,104)**	*(36,517)*	**54,374**	*51,268*

	The Group	
	2003	*2002*
	£'000	*£'000*
Profit and loss reserve excluding retirement benefits	**(28,891)**	*(19,227)*
Retirement benefits reserve (note 28)	**(13,213)**	*(17,290)*
Profit and loss reserve at 31 December	**(42,104)**	*(36,517)*

The total amount of goodwill written off to the profit and loss reserve which resulted from acquisitions made prior to the implementation of FRS 10, net of the goodwill attributable to subsidiary undertakings which have been disposed of or closed, is £121,245,000 (2002: £121,245,000).

21. Reconciliation of movements in equity shareholders' funds

	The Group		The Company	
	2003	*2002*	**2003**	*2002*
	£'000	*£'000*	**£'000**	*£'000*
(Loss)/profit for the financial year	**(4,928)**	*4,262*	**4,050**	*(4,133)*
Other recognised gains and losses during the year	**535**	*(8,058)*	**–**	*–*
	(4,393)	*(3,796)*	**4,050**	*(4,133)*
Equity dividends proposed	**(944)**	*(930)*	**(944)**	*(930)*
Issue of share capital				
Acquisitions	**–**	*2,458*	**–**	*825*
Deferred consideration for acquisitions	**1,281**	*–*	**699**	*–*
New issue for cash (net of expenses)	**–**	*38,790*	**–**	*38,790*
Share option schemes	**–**	*232*	**–**	*232*
Movement in reserve for shares to be issued	**(7,261)**	*189*	**(7,261)**	*189*
Net (decrease)/increase in shareholders' funds	**(11,317)**	*36,943*	**(3,456)**	*34,973*
Opening shareholders' funds – as previously reported		*20,052*		*111,416*
Prior year adjustment for own shares held by employee share trust (see note 1)		*(970)*		*(970)*
Opening shareholders' funds – adjusted	**56,025**	*19,082*	**145,419**	*110,446*
Closing shareholders' funds	**44,708**	*56,025*	**141,963**	*145,419*

22. Reconciliation of operating (loss)/profit to net cash flow from operating activities

	2003 £'000	2002 £'000
Operating (loss)/profit	**(3,820)**	*4,503*
Depreciation	**1,223**	*1,639*
Amortisation of goodwill	**4,029**	*3,107*
Management long-term incentive plan	**(1,919)**	*–*
Adjustment for pension funding	**(3,029)**	*(1,210)*
Decrease in debtors	**534**	*6,695*
(Decrease) in creditors	**(2,043)**	*(9,402)*
Increase/(decrease) in provisions	**68**	*(448)*
Net cash (outflow)/inflow from operating activities	**(4,957)**	*4,884*

23. Analysis of net funds

				2003
	Net funds at 1 Jan 2003 **£'000**	Cash flow **£'000**	Exchange movement **£'000**	Net funds at 31 Dec 2003 **£'000**
Cash at bank	**21,928**	**(11,752)**	**(438)**	**9,738**

24. Reconciliation of net cash flow to movement in net funds

	2003 £'000	2002 £'000
(Decrease)/increase in cash in the year	**(11,752)**	*5,720*
Cash inflow from management of liquid resources	**–**	*(2,475)*
Change in net funds arising from cash flows	**(11,752)**	*3,245*
Exchange movement	**(438)**	*(244)*
Movement in net funds in the year	**(12,190)**	*3,001*
Net funds at 1 January	**21,928**	*18,927*
Net funds at 31 December	**9,738**	*21,928*

25. Acquisitions

The following summarises payments made during the year in relation to acquisitions in prior years and the remaining obligations in relation to those acquisitions:

(i) Institute of Management Resources – acquired 18 December 2000

The final deferred consideration was settled during the year comprising cash of £3,919,000 and the issue of 511,249 shares at a price of 38 pence each.

(ii) Czipin & Partners – acquired 31 May 2001

Deferred cash consideration and related expenses of £1,270,000 were paid during the year. In addition, 1,967,237 shares were issued at a price of 51.5 pence each. Further deferred cash consideration of €1,454,000 together with accrued interest is payable on 31 May 2004. Additional consideration may become payable if the value of any shares of the Company allotted to certain vendors and still held by them at 31 May 2006 is less than the average price at which they were allotted. Any additional consideration is payable in cash or shares at the Company's option. Any such additional consideration is reduced by any notional profit (relative to the value on 31 May 2006) that could have been made had the shares been sold earlier than 31 May 2006 and also by any increase in the value of the shares between 31 May 2006 and 31 May 2008. The additional consideration will not exceed the value at which any shares still held on 31 May 2006 were originally allotted, an amount which will not exceed approximately £2.5 million. It is not practicable to estimate the potential commitment, if any, under this arrangement in view, inter alia, of the time which has yet to elapse.

(iii) Parson Consulting – acquired 28 May 2002

194,184 shares were issued during the year at a price of 38.3 pence per share. Further shares are issuable on 11 June 2004, the value of which is estimated to be approximately $100,000.

26. Financial instruments

Details of the Group's objectives and strategies with regard to financial instruments are set out in the Operating and Financial Review. The disclosures set out below exclude short term debtors and creditors as permitted by FRS 13. The amounts disclosed reflect the book value and fair value of the Group's financial instruments.

Interest rate and currency profile of financial instruments at the year end

Financial assets			**2003**			*2002*
	Floating rate	**Fixed rate**	**Total**	*Floating rate*	*Fixed rate*	*Total*
Currency	**£'000**	**£'000**	**£'000**	*£'000*	*£'000*	*£'000*
Sterling	**3,192**	**–**	**3,192**	*10,608*	*–*	*10,608*
US Dollar	**4,955**	**–**	**4,955**	*8,235*	*–*	*8,235*
Euro	**634**	**–**	**634**	*1,245*	*–*	*1,245*
Other	**957**	**–**	**957**	*1,840*	*–*	*1,840*
	9,738	**–**	**9,738**	*21,928*	*–*	*21,928*

The cash and short-term deposits attract interest rates based on LIBOR for periods of up to three months.

27. Commitments

Leases

The following annual commitments exist in respect of non-cancellable operating leases which expire as follows:

The Group	2003		2002	
	Land and buildings £'000	**Other £'000**	*Land and buildings £'000*	*Other £'000*
Within one year	**475**	**40**	*680*	*52*
In the second to fifth years inclusive	**735**	**24**	*841*	*29*
After five years	**494**	**–**	*416*	*–*
	1,704	**64**	*1,937*	*81*

28. Retirement benefits

The Group operates a number of defined contribution pension schemes throughout the world. In addition, in the USA the Group operates a closed defined benefit pension scheme and a closed unfunded plan which provides benefits in respect of post-retirement medical costs.

The funded US defined benefits pension scheme was closed to new entrants with effect from 1 February 2001 and further benefit accruals ceased for all members with effect from 31 December 2001. The US medical benefits plan applies only to certain former employees who retired prior to 30 June 1995 and to the post-retirement medical costs of a small number of current and former employees who were employed at that date.

Actuarial valuations of the US defined benefits pension scheme and medical benefits plan are carried out annually as at 1 January and updated to 31 December by a qualified actuary. The principal assumptions used for the recent actuarial valuations were:

	2003 %	*2002 %*	*2001 %*
Rate of increase in salaries	**not applicable**	*not applicable*	*5.00*
Discount rate	**6.00**	*6.75*	*7.25*
General inflation assumption	**3.00**	*3.00*	*3.00*

There are neither guaranteed nor discretionary increases to benefits after retirement.

The net liabilities included in the Group balance sheet in relation to the US defined benefit pension scheme and medical benefits plan were:

	2003 £'000	*2002 £'000*	*2001 £'000*
US defined benefit pension scheme	**(11,858)**	*(13,508)*	*(7,305)*
US medical benefit plan	**(1,355)**	*(3,782)*	*(4,907)*
	(13,213)	*(17,290)*	*(12,212)*

The fair value of the assets in the US defined benefit pension scheme, the present value of the liabilities in the scheme and the expected rate of return at each balance sheet date were:

		2003		2002		2001
	%	£'000	%	£'000	%	£'000
Equities		15,831		13,223		14,722
Bonds		6,543		6,930		12,124
Cash		–		416		–
Total fair value of assets	8.00	22,374	9.00	20,569	9.00	26,846
Present value of scheme liabilities		(34,232)		(34,077)		(34,151)
Deficit in the scheme		(11,858)		(13,508)		(7,305)

The contributions required to the scheme are determined annually in order to meet the US statutory minimum funding requirements and the contributions made in 2003 and the prior year are set out in the table of movement in balance sheet amounts below. The contributions made during these years were reduced as a result of temporary relief provided for in the US Economic Stimulus Act of 2002. The contributions for 2004 will depend, inter alia, upon whether or not this relief is extended. Depending upon whether or not this relief is extended, the 2004 contributions are estimated to be between £2.5 million and £3.4 million.

a) Analysis of the amount charged to operating profit

	2003	2002
	£'000	£'000
US defined benefit pension scheme		
Current service costs	1	1
Past service costs	–	52
	1	53
Defined contribution schemes	827	796
Operating charge in respect of pension schemes	828	849
US medical benefits plan		
Past service costs	(1,575)	–
Total operating (credit)/charge	(747)	849

b) Analysis of the amount included in net finance income

	2003	2002
	£'000	£'000
US defined benefit pension scheme		
Expected return on pension scheme assets	1,579	2,297
Interest on pension scheme liabilities	(2,211)	(2,378)
	(632)	(81)
US medical benefits plan		
Interest on plan liabilities	(93)	(255)
Net finance charges	(725)	(336)

c) Analysis of the actuarial loss in the statement of total recognised gains and losses ('STRGL')

	2003 £'000	2002 £'000
US defined benefit pension scheme		
Actual return less expected return on pension scheme assets	**2,973**	*(5,214)*
Experience gains and losses arising on the scheme liabilities	**(136)**	*(1,001)*
Changes in assumptions underlying the present value of the scheme liabilities	**(3,173)**	*(2,153)*
	(336)	*(8,368)*
US medical benefits plan		
Experience gains and losses arising on the plan liabilities	**302**	*477*
Changes in assumptions underlying the present value of the plan liabilities	**319**	*286*
	621	*763*
Actuarial gain/(loss) recognised in STRGL	**285**	*(7,605)*

d) Movement in balance sheet amount

	2003 £'000	2002 £'000
US defined benefit pension scheme		
At 1 January	**(13,508)**	*(7,305)*
Current service costs	**(1)**	*(1)*
Past service costs	**–**	*(52)*
Contributions	**1,315**	*1,087*
Net finance charge	**(632)**	*(81)*
Actuarial loss	**(336)**	*(8,368)*
Foreign exchange translation	**1,304**	*1,212*
At 31 December	**(11,858)**	*(13,508)*
US medical benefits plan		
At 1 January	**(3,782)**	*(4,907)*
Past service costs	**1,575**	*–*
Payment of benefits	**140**	*176*
Net finance charge	**(93)**	*(255)*
Actuarial gain	**621**	*763*
Foreign exchange translation	**184**	*441*
At 31 December	**(1,355)**	*(3,782)*
Total at 31 December	**(13,213)**	*(17,290)*

e) History of experience gains and losses

	2003	*2002*	*2001*	*2000*
	£'000	*£'000*	*£'000*	*£'000*
US defined benefit pension scheme				
Difference between the expected and actual return on scheme assets:	**2,973**	*(5,214)*	*(4,931)*	*25*
Percentage of scheme assets	**13.3%**	*(25.3%)*	*(18.4%)*	*0.1%*
Experience gains and losses on scheme liabilities:	**(136)**	*(1,001)*	*(432)*	*(365)*
Percentage of the present value of the scheme liabilities	**(0.4%)**	*(2.9%)*	*(1.3%)*	*(1.1%)*
Total actuarial loss in the statement of total recognised gains and losses	**(336)**	*(8,368)*	*(6,643)*	*(3,211)*
Percentage of the present value of the scheme liabilities	**(1.0%)**	*(24.6%)*	*(19.5%)*	*(9.9%)*
US medical benefits plan				
Experience gains and losses on plan liabilities	**302**	*477*	*649*	*1,020*
Percentage of the present value of the plan liabilities	**22.3%**	*12.6%*	*13.2%*	*19.7%*
Total actuarial gain in the statement of total recognised gains and losses	**621**	*763*	*532*	*905*
Percentage of the present value of the plan liabilities	**45.8%**	*20.2%*	*10.8%*	*17.5%*

29. Principal subsidiary undertakings

The Company has the following principal subsidiary undertakings engaged in the provision of management consultancy services. The shareholdings are 100% of the subsidiary undertaking's ordinary shares and are held indirectly, except where otherwise indicated.

	Countries of incorporation / operation
Proudfoot Consulting Company	USA
Proudfoot Consulting Inc	Canada
Proudfoot Consulting (Europe) Limited*	Great Britain / Europe
Czipin & Proudfoot Consulting GmbH	Germany
IMR Proudfoot SA	France
Czipin & Proudfoot Consulting GmbH	Austria
IMR Proudfoot SA	Spain
Proudfoot South Africa (Pty) Ltd	South Africa/Africa
Proudfoot Consulting Africa (Pty) Ltd	South Africa/Africa
Proudfoot Company Management Services GmbH (trading as Proudfoot Consulting)	Switzerland/Australia, New Zealand, Hong Kong
Parson Consulting LLC	USA
Parson Consulting Limited*	Great Britain

* Held directly

A full list of subsidiary and other related companies will be annexed to the next annual return of Management Consulting Group PLC to be filed with the Registrar of Companies.

contacts for investors and clients

www.mcgplc.com

Investor relations

The Group welcomes contact with its shareholders.

Enquiries should be directed to:

Kevin Parry, *Chief Executive*
kparry@mcgplc.com
or
Stephen Purse, *Finance Director*
spurse@mcgplc.com

London Office: +44 20 7832 3700

Operational contacts

We welcome clients introduced by shareholders. Shareholders wishing to provide introductions to potential clients should contact Kevin Parry or Stephen Purse (see contact details above).

Administrative matters

Administrative matters should be directed to:

Steve Hitchcock, *Company Secretary*
stevehitchcock@mcgplc.com

Palm Beach Gardens administrative office:
+1 561 624 4377

Additionally, we encourage shareholders to register for copies of corporate communications on our investor relations website at **www.mcgplc.com**

company advisers

Registered office
21 New Fetter Lane
London EC4A 1AW
United Kingdom
Tel: +44 20 7832 3700
Fax: +44 20 7832 3601
Company number 1000608

Joint stockbroker and joint financial adviser
Panmure Gordon
50 Stratton Street
London W1J 8LL
United Kingdom

Joint stockbroker
Evolution Beeson Gregory
100 Wood Street
London EC2V 7AN
United Kingdom

Joint financial adviser
KPMG Corporate Finance
8 Salisbury Square
London EC4Y 8BB
United Kingdom

Auditors
Deloitte & Touche LLP
Hill House
1 Little New Street
London EC4A 3TR
United Kingdom

Investor relations
The Maitland Consultancy Limited
Orion House
5 Upper St Martin's Lane
London WC2H 9EA
United Kingdom

Legal adviser
Baker & McKenzie
100 New Bridge Street
London EC4V 6JA
United Kingdom

Registrar
Capita Registrars
Bourne House
34 Beckenham Road
Beckenham
Kent BR3 4TU
United Kingdom

notice of Annual General Meeting

NOTICE IS HEREBY GIVEN that the Annual General Meeting of Management Consulting Group PLC will be held at the London Stock Exchange, Old Broad Street, London, EC2N 1HP on Tuesday 20 April 2004, at 11.00 am for the undermentioned purposes:

1. To receive and adopt the Directors' report and annual accounts of the Company for the year ended 31 December 2003 together with the auditors' report on those accounts.
2. To receive and approve the Directors' Remuneration Report as set out in the report and accounts of the Company for the year ended 31 December 2003.
3. To declare the final dividend for the year ended 31 December 2003 of 0.5 pence per share.
4. To re-appoint Mr KAH Parry as a director of the Company, who is retiring by rotation.
5. To re-appoint Mr SJ Purse as director of the Company, who is retiring by rotation.
6. To re-appoint Baroness Cohen of Pimlico as a director of the Company, who, having been appointed after the last Annual General Meeting, is required to stand down and offer herself for re-appointment.
7. To re-appoint Deloitte & Touche LLP as auditors to the Company, to hold office until the conclusion of the next Annual General Meeting and to authorise the directors to determine the auditors' remuneration.
8. To consider and, if thought fit, pass the following resolutions, which will be proposed, as to resolution 8(a) as an ordinary resolution, and, as to resolutions 8(b) and (c), as special resolutions:
   (a) THAT the directors be and are hereby generally and unconditionally authorised for the purposes of Section 80 of the Companies Act 1985 to exercise all powers of the Company to allot relevant securities (within the meaning of that Section) up to an aggregate nominal amount of £21,250,000 provided that this authority shall expire (unless previously renewed, varied or revoked by the Company in General Meeting) on the earlier of the fifth anniversary of the passing of this resolution and the Annual General Meeting of the Company to be held in 2009, save that the Company may before such expiry make any offer or agreement which would or might require relevant securities to be allotted after such expiry and the directors may allot relevant securities in pursuance of any such offer or agreement as if the authority hereby conferred had not expired and such authority shall be in substitution for all previous authorities pursuant to the said Section 80, which are hereby revoked, without prejudice to any allotment of relevant securities pursuant thereto.
   (b) THAT, subject to the passing of resolution 8(a) in the notice of meeting, the directors be and are hereby empowered pursuant to Section 95 of the Companies Act 1985 to allot equity securities (within the meaning of Section 94 of the said Act as from time to time amended) wholly for cash pursuant to the authority conferred by such resolution as if subsection (1) of Section 89 of the said Act did not apply to such allotment provided that this power shall be limited:
      (i) to the allotment of equity securities where the securities have been offered (whether by way of rights issue, open offer or otherwise) to holders of shares on the register on a fixed record date in proportion to their then holdings of such shares (but subject to such exclusions or other arrangements as the directors may deem necessary or expedient in relation to fractional entitlements or legal or practical problems under the laws of, or the requirements of any recognised regulatory body or any stock exchange in, any territory);

notice of Annual General Meeting

(continued)

(ii) to the allotment (otherwise than pursuant to sub-paragraph (i) above) of equity securities up to an aggregate nominal value of £2,359,886.25;

and shall expire (unless previously renewed, varied or revoked by the Company in General Meeting) on the earlier of the fifth anniversary of the passing of this resolution and the Annual General Meeting to be held in 2009, save that the Company may before such expiry make any offer or agreement which would or might require equity securities to be allotted after such expiry and the directors may allot equity securities in pursuance of any such offer or agreement as if the power conferred hereby had not expired and such authority shall be in substitution for all previous disapplications of Section 89(1) of the Companies Act 1985, which are hereby revoked, without prejudice to any allotment of securities pursuant thereto.

(c) THAT the Company be and is hereby generally and unconditionally authorised to make market purchases (within the meaning of Section 163(3) of the Companies Act 1985) of ordinary shares of 25 pence each in the capital of the Company (‘ordinary shares’) provided that:

(i) the maximum number of ordinary shares hereby authorised to be purchased shall be 18,879,090;

(ii) the minimum price which may be paid for an ordinary share shall be an amount equal to the nominal value of an ordinary share from time to time;

(iii) the maximum price which may be paid for an ordinary share shall be an amount equal to 105% of the average of the middle market quotations for an ordinary share derived from the London Stock Exchange Daily Official List for the five business days immediately preceding the day on which the ordinary share is purchased;

(iv) the authority hereby conferred shall expire at the conclusion of the next Annual General Meeting of the Company or 15 July 2005, whichever is earlier, unless such authority is renewed or revoked prior to such time, save that the company may enter into contracts to purchase ordinary shares under the authority hereby conferred prior to the expiry of such authority, which contracts will or may be executed wholly or partly after the expiry of such authority, and may make purchases of ordinary shares pursuant to any such contracts.

By order of the Board

F Steven Hitchcock
Company Secretary

1 March 2004

Notes

(i) An explanation of the business of the meeting is given in the Directors' Report.

(ii) A member entitled to attend and vote at the meeting is entitled to appoint one or more proxies to attend and, on a poll, vote instead of the member. Any such proxy need not be a member of the Company. Completion of a proxy form will not prevent a member from attending and voting at the meeting should the member so wish.

(iii) Pursuant to Regulation 41 of the Uncertificated Securities Regulations 2001, the Company specifies that only those shareholders registered in the register of members of the Company, as at 11.00am on 18 April 2004, shall be entitled to attend or vote at the aforesaid Annual General Meeting in respect of the number of shares registered in their name at that time. Changes to entries in the relevant register of securities after 11.00am on 18 April 2004 shall be disregarded in determining the rights of any person to attend or vote at the meeting.

(iv) To appoint a proxy:

either,

- the proxy form, which is enclosed for this purpose, together with any authority under which it is executed (or a notarially certified copy of such authority), must be duly completed and lodged with the Registrar at the offices of Capita Registrars, The Registry, 34 Beckenham Road, Beckenham, Kent BR3 4TU not later than 11.00am on 18 April 2004.

or,

- CREST members who wish to appoint a proxy or proxies by utilising the CREST electronic proxy appointment service may do so by utilising the procedures described in the CREST Manual. CREST Personal Members or other CREST sponsored members, and those CREST members who have appointed a voting service provider(s), should refer to their CREST sponsor or voting service provider(s), who will be able to take the appropriate action on their behalf. In order for a proxy appointment made by means of CREST to be valid, the appropriate CREST message (a "CREST Proxy Instruction") must be properly authenticated in accordance with CRESTCo's specifications and must contain the information required for such Instructions, as described in the CREST Manual. The message must be transmitted so as to be received by the issuer's agent (ID RA 10) by the latest time(s) for receipt of proxy appointments specified in the notice of meeting. For this purpose, the time of receipt will be taken to be the time (as determined by the timestamp applied to the message by the CREST Applications Host) from which the issuer's agent is able to retrieve the message by enquiry to CREST in the manner prescribed by CREST. CREST members and, where applicable, their CREST sponsors or voting service providers should note that CRESTCo does not make available special procedures in CREST for any particular messages. Normal system timings and limitations will therefore apply in relation to the input of CREST Proxy Instructions. It is the responsibility of the CREST member concerned to take (or, if the CREST member is a CREST personal member or sponsored member or has appointed a voting service provider(s), to procure that his CREST sponsor or voting service provider(s) take(s)) such action as shall be necessary to ensure that a message is transmitted by means of the CREST system by any particular time. In this connection, CREST members and, where applicable, their CREST sponsors or voting service providers are referred, in particular, to those sections of the CREST Manual concerning practical limitations of the CREST systems and timings. The Company may treat as invalid a CREST Proxy Instruction in the circumstances set out in Regulation 35 (5)(a) of the Uncertificated Securities Regulations 2001.

(v) Copies of the directors' service contracts will be available for inspection at the registered office during usual business hours on any weekday (Saturdays, Sundays and Public Holidays excepted) up to and including the date of the meeting and at the place of meeting for 15 minutes prior to, and during the meeting.

(vi) The register of directors' interests in shares of the Company in accordance with Section 325 of the Companies Act 1985 will be available for inspection at the registered office of the Company during usual business hours on any weekday (Saturdays, Sundays and Public Holidays excepted) up to and including the date of the meeting and at the place of meeting for 15 minutes prior to, and during the meeting.

Crucial Colour Ltd.

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