Management Consulting Group PLC

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Management Consulting Group PLC is an umbrella organisation for a diverse range of consulting and professional service offerings.

corporate profile

Management Consulting Group PLC

Group consultancies

Management Consulting Group PLC is comprised of four leading specialist consultancies:

- Ineum Consulting
- Proudfoot Consulting
- Parson Consulting
- Salzer Consulting

Profiles of the 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 merged those businesses into the European Proudfoot business.

Parson Consulting was founded in 1995 and was acquired in 2002. It was based in the United States and has expanded into Europe and the Pacific region.

Ineum Consulting was founded in 2003, being the former Deloitte consulting business in France, and was acquired in September 2006. It operated in France, Belgium and Luxembourg and has been expanded into the Netherlands.

Salzer Consulting was founded in 1997 and was acquired in October 2006. It operates in Greater China and throughout the Asia-Pacific region.

Management's objectives

To be the leading group that redefines and consolidates the management consulting industry into multi-disciplinary consulting and professional services firms whilst delivering substantial shareholder value over the medium term by acquisition and organic revenue and margin growth.

Strategy

The Group intends to:

- operate and continually invest in its consultancies and its people 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 its stakeholders.

Participation

It is the aim that at any time 20% of the equity is held by Group employees.

Head office

London +44 (0) 20 7710 5000

directors' responsibility statement

The following statement, which should be read in conjunction with the report of the independent auditors, is made with a view to distinguishing for shareholders the respective responsibilities of the Directors and auditors in relation to the financial statements.

The directors are responsible for preparing the annual report and financial statements. The directors are required to prepare financial statements for the Group in accordance with International Financial Reporting Standards (IFRS) and have also elected to prepare financial statements for the Company in accordance with IFRS. United Kingdom company law requires the directors to prepare such financial statements in accordance with IFRS, the Companies Act 1985 and Article 4 of the IAS Regulation.

The Group financial statements are required to present fairly the financial position and performance of the Group. The Companies Act 1985 provides in relation to such financial statements that references in the relevant part of that Act to financial statements giving a true and fair view are references to their achieving fair presentation. The Company financial statements are required by law to give a true and fair view of the state of affairs of the Company.

The directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the Company. They have responsibility for taking reasonable steps to safeguard the assets of the Group and to prevent and detect fraud and other irregularities.

Appropriate accounting policies consistently applied and supported by reasonable and prudent judgments and estimates have been used in the preparation of these financial statements and applicable accounting standards have been followed. These policies and standards, for which the Directors accept responsibility, have been discussed with the auditors.

The directors having prepared the financial statements, have requested the auditors to audit the financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland) and have requested the auditors to take whatever steps and to undertake whatever inspections they consider appropriate for the purpose of giving their report.

The Management Statement on pages 13 to 15 and the Financial Review on pages 16 to 21 contain certain forward-looking statements with respect to the financial condition, results of operations and businesses of the Group. These statements and forecasts involve risk and uncertainty because they relate to events and depend on circumstances that may occur in the future. There are a number of factors that could cause actual results or developments to differ materially from those expressed or implied by these forward-looking statements and forecasts. The forward looking statements are based on the directors' current views and information known to them at 9 March 2007. The directors do not make any undertaking to update or revise any forward looking statements, whether as a result of new information, future events, or otherwise. Nothing in this report should be construed as a profit forecast.

group income statement

for the year ended 31 December 2006

	note	2006 £'000	2005 £'000
Continuing operations			
Revenue	3	**146,890**	*129,601*
Cost of sales		**(73,415)**	*(64,847)*
Gross profit		**73,475**	*64,754*
Selling costs		**(40,169)**	*(34,931)*
Administrative (expenses) – underlying		**(17,150)**	*(17,161)*
Profit from operations before non-recurring expenses and amortisation of acquired intangibles		**16,156**	*12,662*
Administrative (expenses)/income – non-recurring		**(1,765)**	*897*
Profit from operations before amortisation of acquired intangibles		**14,391**	*13,559*
Administrative (expenses) – amortisation of acquired intangibles		**(943)**	*–*
Total administrative expenses		**(19,858)**	*(16,264)*
Profit from operations	3	**13,448**	*13,559*
Investment income	6a	**1,176**	*453*
Finance costs	6b	**(1,276)**	*(92)*
Profit before tax	4	**13,348**	*13,920*
Tax expense	7	**(4,598)**	*(4,128)*
Profit for the year		**8,750**	*9,792*
Earnings per share – pence			
From continuing operations			
Basic	9	**4.1**	*5.3*
Diluted	9	**4.1**	*5.2*

group statement of recognised income and expense

for the year ended 31 December 2006

	note	2006 £'000	*2005 £'000*
Exchange differences on translation of foreign operations	20	**(4,904)**	*1,488*
Actuarial gains/(losses) on defined benefit pension fund and medical schemes	17	**3,284**	*(1,646)*
Tax on items taken directly to equity		**600**	*825*
Net (expense)/income recognised directly in equity		**(1,020)**	*667*
Profit for the year		**8,750**	*9,792*
Total recognised income and expense for the period		**7,730**	*10,459*

group balance sheet

as at 31 December 2006

	note	2006 £'000	2005 £'000
Non-current assets			
Intangible assets	10	162,546	68,696
Property, plant and equipment	11	2,294	1,521
Deferred income tax assets	15	3,597	1,358
Total non-current assets		168,437	71,575
Current assets			
Trade and other receivables	13	46,800	14,801
Cash and cash equivalents	23	10,278	21,555
Total current assets		57,078	36,356
Total assets		225,515	107,931
Current liabilities			
Borrowings	16	(14,792)	–
Trade and other payables	14	(54,103)	(28,045)
Current tax liabilities	15	(5,728)	(3,959)
Total current liabilities		(74,623)	(32,004)
Net current (liabilities)/assets		(17,545)	4,352
Non-current liabilities			
Borrowings	16	(24,255)	–
Retirement benefit obligation	17	(5,411)	(11,869)
Non-current tax liabilities	15	(7,711)	(4,674)
Long-term provisions	18	(829)	(871)
Non-current accruals		(497)	(581)
Total non-current liabilities		(38,703)	(17,995)
Total liabilities		(113,326)	(49,999)
Net assets		112,189	57,932
Equity			
Share capital	19	67,735	47,373
Share premium account	20	38,163	38,146
Merger reserve	20	32,513	5,683
Shares to be issued	20	46	46
Share compensation reserve	20	1,492	1,256
Own shares held by employee share trust	20	(1,270)	(1,270)
Translation reserve	20	(5,161)	(257)
Other reserves	20	7,064	7,064
Retained earnings	21	(28,393)	(40,109)
Total equity	22	112,189	57,932

The financial statements were approved by the Board of Directors and authorised for issue on 9 March 2007. They were signed on its behalf by:

K. A. H. Parry
Director

group cash flow statement

for the year ended 31 December 2006

	note	2006 £'000	2005 £'000
Net cash (outflow)/inflow from operating activities	23	**(1,954)**	*8,826*
Investing activities			
Net interest received		**1,013**	*323*
Acquisitions of subsidiaries, net of cash and overdrafts acquired		**(44,932)**	*–*
Purchases of property, plant and equipment		**(1,202)**	*(669)*
Purchases of intangible assets		**(1,363)**	*(454)*
Proceeds on disposal of property, plant and equipment		**–**	*13*
Net cash used in investing activities		**(46,484)**	*(787)*
Financing activities			
Dividends paid	8	**(1,486)**	*(1,241)*
Purchase of own shares		**–**	*(181)*
Proceeds from borrowings		**39,009**	*–*
Refinancing of acquired borrowings by term debt		**(15,211)**	*–*
Proceeds from issue of shares		**282**	*35*
Net cash raised by/(used in) financing activities		**22,594**	*(1,387)*
Net (decrease)/increase in cash and cash equivalents		**(25,844)**	*6,652*
Cash and cash equivalents at beginning of year		**21,555**	*14,510*
Effect of foreign exchange rate changes		**(225)**	*393*
Cash and cash equivalents net of current borrowings at end of year	*23*	**(4,514)**	*21,555*

company balance sheet

as at 31 December 2006

	note	2006 £'000	*2005 £'000*
Non-current assets			
Investments in subsidiaries	12	**154,309**	*141,224*
Intangible assets	10	**891**	*73*
Property, plant and equipment	11	**439**	*355*
Deferred income tax assets	15	**162**	*137*
Total non-current assets		**155,801**	*141,789*
Current assets			
Trade and other receivables	13	**73,774**	*19,455*
Cash and cash equivalents	23	**729**	*1,171*
Total current assets		**74,503**	*20,626*
Total assets		**230,304**	*162,415*
Current liabilities			
Borrowings	16	**(6,000)**	*–*
Trade and other payables	14	**(21,018)**	*(17,553)*
Current tax liabilities	15	**(1,000)**	*(394)*
Total current liabilities		**(28,018)**	*(17,947)*
Net current assets		**46,485**	*2,679*
Net assets		**202,286**	*144,468*
Equity			
Share capital	19	**67,735**	*47,373*
Share premium account	20	**38,163**	*38,146*
Merger reserve	20	**26,830**	*–*
Shares to be issued	20	**46**	*46*
Share compensation reserve	20	**1,492**	*1,256*
Own shares held by employee share trust	20	**(1,270)**	*(1,270)*
Capital redemption reserve	20	**1,186**	*1,186*
Retained earnings	21	**68,104**	*57,731*
Total equity	22	**202,286**	*144,468*

These financial statements were approved by the Board of Directors and authorised for issue on 9 March 2007. They were signed on its behalf by:

K. A. H. Parry
Director

company cash flow statement

for the year ended 31 December 2006

	note	**2006** £'000	*2005* £'000
Net cash outflow from operating activities	23	**(1,019)**	*(2,278)*
Investing activities			
Interest received (net)		**1,119**	*99*
Acquisitions of subsidiaries		**(39,327)**	*–*
Purchases of property, plant and equipment		**(278)**	*(95)*
Purchases of intangible assets		**(1,100)**	*(59)*
Proceeds on disposal of property, plant and equipment		–	*14*
Cash advances to subsidiaries		**(12,767)**	*(7,222)*
Dividends received		**8,265**	*7,589*
Net cash (used in) from investing activities		**(44,088)**	*326*
Financing activities			
Dividends paid	8	**(1,486)**	*(1,241)*
Purchase of own shares		**–**	*(181)*
Proceeds from borrowings		**39,009**	*–*
Proceeds from issue of shares		**282**	*35*
Net cash raised by/(used in) from financing activities		**37,805**	*(1,387)*
Net decrease in cash and cash equivalents		**(7,302)**	*(3,339)*
Cash and cash equivalents at beginning of year		**1,171**	*4,836*
Effect of foreign exchange rate changes		**860**	*(326)*
Cash and cash equivalents at end of year	23	**(5,271)**	*1,171*

notes to the
financial statements

for the year ended 31 December 2006

1. General information

Management Consulting Group PLC (the Company) is a company incorporated in the United Kingdom under the Companies Act 1985. The address of the registered office is given on page 88. The nature of the Group's operations and its principal activity are set out in note 3 and in the Financial Review on pages 16 to 21.

2. Significant accounting policies

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

(a) Basis of preparation

The financial statements of the Group have been prepared in accordance with International Financial Reporting Standards (IFRS). The financial statements have also been prepared in accordance with IFRS as adopted by the European Union (EU) and therefore comply with Article 4 of the EU International Accounting Standards (IAS) regulation.

The separate financial statements of the Company are presented as required by the Companies Act 1985. As permitted by that Act, the Company has elected not to present its own income statement. Its separate financial statements have been prepared in accordance with IFRS.

The financial statements have been prepared on the historical cost basis. The principal accounting policies adopted are set out below. The principal accounting policies adopted in the preparation of the parent Company's financial statements are the same as those adopted in the consolidated financial statements except that the parent Company's investments in subsidiaries are stated at cost less, where appropriate, provisions for impairment.

Amendments to published standards effective in 2006

IAS 19 (Amendment), Employee Benefits, is mandatory for the Group's accounting periods beginning on or after 1 January 2006. It introduces the option of an alternative recognition approach for actuarial gains and losses. It may impose additional recognition requirements for multi-employer plans where insufficient information is available to apply defined benefit accounting. It also adds new disclosure requirements. As the Group does not intend to change the accounting policy adopted for recognition of actuarial gains and losses and does not participate in any multi-employer plans, adoption of this amendment only impacts the format and extent of disclosures presented in the financial statements.

2. Significant accounting policies (continued)

Standards, amendments and interpretations effective in 2006

The following standard is mandatory for the Group's accounting period beginning on 1 January 2006, is relevant to the Group's operations, but has had no significant impact on the Group or Company's results, balance sheets and associated disclosures:

- IFRIC 4, Determining whether an Arrangement contains a Lease;

The following standards, amendments and interpretations are mandatory for the Group's accounting period beginning on 1 January 2006 but are not relevant to the Group's operations:

- IAS 21 (Amendment), Net Investment in a Foreign Operation;
- IAS 39 (Amendment), Net Investment in a Foreign Operation;
- IAS 39 (Amendment), Cash Flow Hedge Accounting of Forecast Intragroup Transactions;
- IAS 39 (Amendment), The Fair Value Option;
- IFRS 1 (Amendment), First-time Adoption of International Financial Reporting Standards;
- IFRS 6, Exploration for and Evaluation of Mineral Resources;
- IFRIC 5, Rights to Interest arising from Decommissioning, Restoration and Environmental Rehabilitation Funds; and
- IFRIC 6, Liabilities arising from Participating in a Specific Market – Waste Electrical and Electronic Equipment.

Interpretations to existing standards that are not yet effective and have not been early adopted by the Group

The following interpretations to existing standards have been published and, unless otherwise stated, are mandatory for the Group's accounting period beginning 1 January 2007. The Group has not early adopted these interpretations.

IFRS 7, Financial Instruments: Disclosures, and the complementary Amendments to IAS 1, Presentation of Financial Statements – Capital Disclosures. IFRS 7 introduces new disclosures relating to financial instruments. This standard is not expected to have any impact on the classification and valuation of the Group's financial instruments.

IFRS 8, Operating Segments, which is applicable for the accounting period beginning 1 January 2009, requires an entity to report financial and descriptive information about reportable segments, which are defined as those components of the entity which are evaluated regularly by the chief operating decision maker in deciding how to allocate resources and in assessing performance.

IFRIC 8, Scope of IFRS 2. IFRIC 8 requires consideration of transactions involving the issuance of equity instruments, where the identifiable consideration received is less than the fair value of the equity instruments issued, to establish whether or not they fall within the scope of IFRS 2. IFRIC 8 is not expected to have any impact on the Group's financial statements.

IFRIC 10, Interim Financial Reporting and Impairment. IFRIC 10 prohibits the impairment losses recognised in an interim period on goodwill, investments in equity instruments and investments in financial assets carried at cost to be reversed at a subsequent balance sheet date. IFRIC 10 is not expected to have any impact on the Group's financial statement.

Interpretations to existing standards that are not yet effective and not relevant for the Group's operations

The following interpretations to existing standards have been published and are mandatory for the Group's accounting periods beginning on 1 January 2007 but are not relevant for the Group's operations.

2. Significant accounting policies (continued)

IFRIC 7, Apply the Restatement Approach under IAS 29, Financial Reporting in Hyperinflationary Economies. IFRIC 7 provides guidance on how to apply the requirements of IAS 29 in a reporting period in which an entity identifies the existence of hyperinflation in the economy of its functional currency, when the economy was not hyperinflationary in the prior period. As none of the Group entities have a currency of a hyperinflationary economy as its functional currency, IFRIC 7 is not relevant to the Group's operations.

IFRIC 9, Reassessment of Embedded Derivatives. IFRIC 9 requires an entity to assess whether an embedded derivative is required to be separated from the host contract and accounted for as a derivative when the entity first becomes a party to the contract. Subsequent reassessment is prohibited unless there is a change in the terms of the contract that significantly modifies the cash flows that otherwise would be required under the contract, in which case reassessment is required. As none of the group entities has changed the terms of its contracts, IFRIC 9 is not relevant to the Group's operations.

IFRIC 11, IFRS 2 – Group and Treasury Share Transactions requires a shared based payment arrangement in which an entity receives goods or services as consideration for its own shares to be accounted for as an equity settled share-based payment transaction.

IFRIC 12, Service Concession Arrangements addresses how service concession operators should apply existing IFRSs to account for the obligations they undertake and rights they receive in service concession arrangements.

Critical accounting policies and key sources of estimation uncertainty

The discussion and analysis of the Group's financial position and results are based on the consolidated financial statements which have been prepared in accordance with IFRS. The preparation of the financial statements requires the development of estimates and judgments that affect the reported amount of assets and liabilities, revenues and costs and related disclosure of contingent assets and liabilities at the date of the financial statements. Actual results may differ from these estimates under different assumptions or conditions.

Critical accounting policies are defined as those that are reflective of significant judgements and uncertainties and potentially result in materially different results under different assumptions and conditions. It is believed that the Group's critical accounting policies are limited to those described below. The Group's management has discussed the development of the estimates and disclosures related to each of these matters with the Audit and Risk Committee.

Revenue

Revenue is measured at the fair value of the consideration received or receivable and represents amounts receivable for services provided to third parties in the normal course of business net of discounts, VAT and other sales related taxes. Revenue from services is recognised when services have been provided and the right to consideration has been earned. If services have been provided to third parties but no billing has been made, estimates are made of the amounts receivable. These estimates are based on the nature of the services supplied and contract terms. Any significant under-estimation or over-estimation of amounts receivable could have a material effect on the Group's financial position and results of operations.

Goodwill and other intangible fixed assets

Under IFRS goodwill is capitalised and tested for impairment annually and when events or changes in circumstances indicate the carrying value may not be recoverable. Intangible assets with finite lives are capitalised and amortised over their useful economic lives. Changes in assumptions used in the Group's impairment reviews or estimated useful economic lives could have a material effect on the presentation of the Group's financial position and results of operations.

2. Significant accounting policies (continued)

Employee benefits

Accounting for pensions and other post-retirement benefits involves judgments about uncertain events, including, but not limited to, discount rates, life expectancy, future pay inflation, expected rate of return on plan assets and expected health care trend rates. Determination of the projected benefit obligations for the Group's defined benefit pension scheme and post-retirement plans are important to the recorded amount of the benefit expense in the income statement and the liability recorded in the balance sheet. Actuarial valuations are carried out annually. These determine the expense recorded in the income statement, the liability recognised in the balance sheet, and items to be recorded in the Consolidated Statement of Recognised Income and Expense. Details of the assumptions used are included in note 17 to the financial statements.

Income taxes

The Group is subject to income taxes in numerous jurisdictions. Judgment is required in determining the world-wide provision for income taxes. There are transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the income tax and deferred tax liabilities and assets in the period in which such determination is made.

(b) Basis of consolidation

(i) Subsidiaries

The consolidated financial statements incorporate the financial statements of the Company and entities controlled by the Company (its subsidiaries). Control is achieved where the Company has the power to govern the financial and operating policies of an investee entity so as to obtain benefits from its activities. This generally accompanies a shareholding of more than one half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls another entity. The results of subsidiaries acquired or disposed of during the period are included in the Group income statement from or to the effective date of acquisition or disposal, respectively. Where necessary, adjustments are made to the financial statements of subsidiaries to bring the accounting policies into line with those used by the Group.

Intra-group transactions, balances and unrealised gains on transactions between Group companies are eliminated on consolidation.

Minority interests in the net assets of consolidated subsidiaries are identified separately from the Group's equity therein. Minority interests consist of the amount of those interests at the date of the original business combination and the minority's share of changes in equity since the date of the combination. Losses applicable to the minority in excess of the minority's interest in the subsidiary's equity are allocated against the interests of the Group except to the extent that the minority has a binding obligation and is able to make an additional investment to cover the losses.

(ii) Joint ventures

The Group's interests in jointly controlled entities are accounted for by proportionate consolidation. The Group combines its share of the joint venture's individual income and expenses, assets and liabilities and cash flows on a line-by-line basis with similar items in the Group's financial statements. Where the Group transacts with its jointly controlled entities, unrealised profits and losses are eliminated to the extent of the Group's interest in the joint venture.

2. Significant accounting policies (continued)

The interest of minority shareholders in the acquiree is initially the minority's proportion of the net recognised fair value of the assets, liabilities and contingent liabilities.

(c) Business combinations

The acquisition of subsidiaries is accounted for using the purchase method. The cost of the acquisition is the aggregate of the fair values, at the date of exchange, of assets given, liabilities incurred or assumed, and equity instruments issued by the Group in exchange for control of the acquiree, plus any costs directly attributable to the business combination. The acquiree's identifiable assets, liabilities and contingent liabilities are recognised at their fair value at the acquisition date, except for non-current assets (or disposal groups) that are classified as held for resale which are recognised and measured at fair value less costs to sell.

(d) Goodwill

Goodwill arising on the acquisition of a subsidiary or a jointly controlled entity represents the excess of the cost of acquisition over the Group's interest in the net fair value of the recognised identifiable assets, liabilities and contingent liabilities of the subsidiary or jointly controlled entity. If, after reassessment, the Group's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities exceeds the cost of the business combination, the excess is recognised immediately in the income statement. Goodwill is tested annually for impairment or when there is indication of impairment and carried at cost less accumulated impairment loss. An impairment loss recognised for goodwill is not reversed in a subsequent period.

Goodwill arising on acquisitions before 1 January 2004, the date of transition to IFRS, has been retained at the previous UK GAAP amount subject to being tested for impairment at that date. Goodwill written off to equity prior to 1998 has not been reinstated and is not included in determining any subsequent profit or loss and disposal.

(e) Intangible assets

Acquired intangible assets (e.g. customer relationships, trademarks, licences) are capitalised and amortised over their useful economic lives. Purchased computer software licences are capitalised as intangible assets on the basis of the costs incurred to acquire and bring to use the specific software. These costs are amortised over their estimated useful lives, which do not exceed three years. Costs associated with developing software are capitalised as intangible assets when they are separable or arise from contractual or other legal rights. Costs associated with maintaining computer software programs are recognised as an expense as incurred.

(f) Property, plant and equipment

Property, plant and equipment is stated at cost less accumulated depreciation and any accumulated impairment losses. Depreciation is charged so as to write off the cost or valuation of assets, less estimated residual value, by equal annual instalments over their estimated useful lives of between three and seven years.

(g) Impairment of tangible and intangible assets

Assets that have an indefinite useful life are not subject to amortisation and are tested annually for impairment and whenever events or changes in circumstance indicate that the carrying amount may not be recoverable. Assets that are subject to amortisation are tested for impairment whenever events or changes in circumstance indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped by cash-generating units.

2. Significant accounting policies (continued)

For goodwill each of those cash-generating units represents the Group's investment in each geographic region of operation by each consultancy.

(h) Cash and cash equivalents

Cash and cash equivalents comprise cash at bank and in hand, short term deposits with an original maturity of three months or less, and current borrowings.

(i) Borrowings

Borrowings are recognised initially at fair value, net of transaction costs incurred. Borrowings are subsequently stated at amortised cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognised in the income statement over the period of the borrowings using the effective interest method.

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the balance sheet date.

(j) Taxation

The tax expense represents the sum of the tax currently payable and deferred tax. The tax currently payable is based on taxable profit for the year. Taxable profit differs from net profit as reported in the income statement because it excludes items of income and expense that are taxable or deductible in other years or are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the balance sheet date.

Deferred tax is recognised on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences. Deferred tax assets are generally recognised for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which such differences can be utilised.

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

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

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Group intends to settle its current tax assets and liabilities on a net basis.

(k) Provisions

Provisions are recognised when the Group has a present legal or constructive obligation as a result of past events, and it is probable that an outflow of resources will be required to settle that obligation, and the amount has been reliably estimated. Provisions are measured at the directors' best estimate of the expenditure required to settle the obligation at the balance sheet date and are discounted to present value where the effect is material.

2. Significant accounting policies (continued)

(l) Own shares

The Company shares owned by the employee share trust established in respect of certain share based awards are presented as a reduction of equity.

(m) Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable and represents amounts receivable for services provided to third parties in the normal course of business, net of discounts, VAT and other sales related taxes. Revenue from services is recognised when services have been provided and the right to consideration has been earned. Revenue includes reimbursement of expenses that are re-billed to clients in connection with certain projects. If services have been provided to third parties but no billing has been made, estimates are made of the amounts receivable.

(n) Interest income

Interest income is recognised on a time-proportion basis using the effective interest method. When a receivable is impaired, the Group reduces the carrying amount to its recoverable amount.

(o) Dividend income

Dividend income is recognised when the right to receive payment is established.

(p) Operating leases

Rentals payable under operating leases are charged to the income statement on a straight-line basis over the term of the relevant lease. Benefits received and receivable as an incentive to enter into an operating lease are also spread on a straight-line basis over the lease term.

(q) Retirement benefit costs

For defined contribution pension schemes, the amount charged to the income statement represents the contributions payable in the period. Differences between contributions payable in the period and contributions actually paid are shown as either accruals or prepayments in the balance sheet.

For the closed defined benefit scheme and the closed post-retirement medical benefits plan, the amounts charged to the income statement are the current service costs and gains and losses on settlements and curtailments. Past service costs are recognised immediately in the income statement 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 cost in finance costs or net income within investment income. Actuarial gains and losses are recognised immediately in the statement of recognised income and expense.

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 is presented separately on the face of the balance sheet.

2. Significant accounting policies (continued)

(r) Share-based payments

Share options are awarded to selected employees on a discretionary basis. Awards are measured at their fair value (which is measured using the stochastic pricing model at the date of grant) and are recognised as an employee benefits expense on a straight line basis over the vesting period based on the Group's estimate of shares that will eventually vest and adjusted for the effect of non-market based vesting conditions, with a corresponding increase in the share compensation reserve. The expected life used in the valuation model has been adjusted, based on management's best estimate, for the effects of non-transferability, exercise restrictions and behavioural considerations. The proceeds received net of any directly attributable transaction costs are credited to share capital (in respect of the nominal value) and share premium (in respect of the balance) when the options are exercised. Where options do not vest, a transfer is made from the share compensation reserve to retained earnings.

(s) Foreign currencies

The individual financial statements of each Group entity are drawn up in the currency of the primary economic environment in which the entity operates (its functional currency). For the purpose of the consolidated financial statements, the results and financial position of each entity are expressed in pounds Sterling, which is the Company's functional and presentation currency. In preparing the financial statements, transactions in currencies other than pounds Sterling are recorded at the rates of exchange prevailing on the dates of the transactions. At each balance sheet date, monetary items denominated in foreign currencies are retranslated at the rates prevailing on the balance sheet date. Non-monetary items carried at fair value that are denominated in foreign currencies are translated at the rates prevailing at the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign company are not retranslated.

Exchange differences arising on the settlement and retranslation of monetary items are included in the income statement for the period. Exchange differences arising on the retranslation of non-monetary items carried at fair value are included in the income statement for the period except for differences arising on the retranslation of non-monetary items in respect of which gains and losses are recognised directly in equity. For such non-monetary items, any exchange component of that gain or loss is also recognised directly in equity.

For the purposes of presenting consolidated financial statements, the assets and liabilities of the Group's foreign operations (including comparatives) are expressed in pounds sterling using exchange rates prevailing at the balance sheet date. Income and expense items (including comparatives) are translated at the average exchange rate for the period unless exchange rates fluctuated significantly during that period, in which case the exchange rates at the dates of the transactions are used.

Exchange differences arising, if any, are classified as equity and transferred to the Group's translation reserve. Such translation differences are recognised in the income statement in the period in which the foreign operation is disposed of.

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the closing rate.

(t) Dividend distribution

Dividends to shareholders are recognised as a liability in the Group's and Company's financial statements in the period in which the dividends are legally distributable.

3. Business and geographic segments

The Group has one business reporting segment: management consultancy, consisting of four consultancies: Ineum Consulting, Parson Consulting, Proudfoot Consulting and Salzer Consulting.

Primary reporting format – geographic segments

The Group operates in three geographic areas – the Americas, Europe and the Rest of the World. The Group reports segment information on the basis of geographic area, as follows:

(a) Income statement

Year ended 31 December 2006

	Americas £'000	Europe £'000	Rest of World £'000	Group £'000
Revenue				
External sales	**63,981**	**70,251**	**12,658**	**146,890**
Profit/(loss) from operations before release of indemnity provision, acquisition integration costs, depreciation and amortisation of acquired intangibles	**10,708**	**7,656**	**(361)**	**18,003**
Amortisation of acquired intangibles	**–**	**(943)**	**–**	**(943)**
Depreciation and other amortisation	**(860)**	**(926)**	**(61)**	**(1,847)**
Profit/(loss) from operations before non-recurring items	**9,848**	**5,787**	**(422)**	**15,213**
Acquisition integration costs	**–**	**(2,100)**	**–**	**(2,100)**
Release of indemnity provision	**–**	**–**	**335**	**335**
Profit/(loss) from operations	**9,848**	**3,687**	**(87)**	**13,448**
Finance income (net)				**(100)**
Profit before tax				**13,348**
Income tax expense				**(4,598)**
Profit for the year				**8,750**

Year ended 31 December 2005

	Americas £'000	*Europe £'000*	*Rest of World £'000*	*Group £'000*
Revenue				
External sales	*79,484*	*40,701*	*9,416*	*129,601*
Profit/(loss) from operations before release of indemnity provision, acquisition integration costs, depreciation and amortisation of acquired intangibles	*14,988*	*427*	*(1,688)*	*13,727*
Depreciation and other amortisation	*(885)*	*(121)*	*(59)*	*(1,065)*
Profit/(loss) from operations before non-recurring items	*14,103*	*306*	*(1,747)*	*12,662*
Release of indemnity provision	*–*	*–*	*897*	*897*
Profit/(loss) from operations	*14,103*	*306*	*(850)*	*13,559*
Finance income (net)				*361*
Profit before tax				*13,920*
Income tax expense				*(4,128)*
Profit for the year				*9,792*

(b) Net assets

at 31 December 2006

	Americas £'000	**Europe £'000**	**Rest of World £'000**	**Group £'000**
Assets				
Intangibles, including goodwill	**27,112**	**134,741**	**693**	**162,546**
Other segment assets	**3,374**	**42,192**	**1,085**	**46,651**
	30,486	**176,933**	**1,778**	**209,197**
Unallocated corporate assets				**16,318**
Consolidated total assets				**225,515**
Liabilities				
Segment liabilities	**(12,422)**	**(46,101)**	**(2,275)**	**(60,798)**
Unallocated corporate liabilities				**(52,528)**
Consolidated total liabilities				**(113,326)**
Net assets				**112,189**

at 31 December 2005

	Americas £'000	*Europe £'000*	*Rest of World £'000*	*Group £'000*
Assets				
Intangibles, including goodwill	*30,856*	*37,840*	*–*	*68,696*
Other segment assets	*8,047*	*6,055*	*835*	*14,937*
	38,903	*43,895*	*835*	*83,633*
Unallocated corporate assets				*24,298*
Consolidated total assets				*107,931*
Liabilities				
Segment liabilities	*(14,576)*	*(10,855)*	*(2,587)*	*(28,018)*
Unallocated corporate liabilities				*(21,981)*
Consolidated total liabilities				*(49,999)*
Net assets				*57,932*

(c) Capital additions, depreciation and amortisation

year ended 31 December 2006

	Americas £'000	**Europe £'000**	**Rest of World £'000**	**Group £'000**
Acquisitions	**–**	**10,536**	**–**	**10,536**
Capital additions	**393**	**709**	**64**	**1,166**
Unallocated corporate additions				**1,399**
Total capital additions				**13,101**
Depreciation and amortisation	**860**	**1,869**	**61**	**2,790**

year ended 31 December 2005

	Americas £'000	Europe £'000	Rest of World £'000	Group £'000
Capital additions	*718*	*168*	*83*	*969*
Unallocated corporate additions				*154*
Total capital additions				*1,123*
Depreciation and amortisation	*885*	*121*	*59*	*1,065*

The most important foreign currencies for the Group are the US dollar and the Euro. The relevant exchange rates to Sterling were:

		2006		*2005*
	Average	**Closing**	*Average*	*Closing*
£1 = US$	**1.84**	**1.96**	*1.82*	*1.72*
£1 = Euro	**1.47**	**1.48**	*1.46*	*1.45*

4. Profit before tax

Profit before tax has been arrived at after charging/(crediting) the following:

	2006 £'000	*2005 £'000*
Net foreign exchange losses/(gains)	**317**	*(120)*
Amortisation of intangible assets	**1,790**	*461*
Depreciation of property, plant and equipment	**1,000**	*604*
Loss on disposal of fixed assets	**79**	*14*
Staff costs (note 5)	**80,723**	*70,953*
Release of indemnity provision	**(335)**	*(897)*
Auditors' remuneration for audit services	**375**	*310*

A more detailed analysis of auditors' remuneration on a worldwide basis is provided below:

Auditors' remuneration	**2006 £'000**	**2006 %**	*2005 £'000*	*2005 %*
Fees payable to the Company's auditors for the audit of the Company's annual accounts	**32**	**4**	*32*	*5*
Fees payable to the Company's auditors and their associates for other services to the Group				
– audit of the Company's subsidaries pursuant to legislation	**343**	**40**	*278*	*49*
Total audit fees	**375**	**44**	*310*	*54*
Other services pursuant to legislation			*–*	*–*
Tax services	**205**	**24**	*205*	*36*
Other assurance services	**281**	**32**	*55*	*10*
Total non-audit fees	**486**	**56**	*260*	*46*
Total auditors' remuneration	**861**	**100**	*570*	*100*

Fees for other assurance services comprise £276,000 relating to acquisitions (2005: £–) and £5,000 for reporting on compliance with bank covenants (2005: £–). Fees for services relating to acquisitions totalling £276,000 have been capitalised as part of the cost of investment in Ineum Conseils et Associés SA and The Salzer Group Asia Pacific Pte Limited. A description of the work of the Audit and Risk Committee is set out in the Report of the Audit and Risk Committee on page 35 and includes an explanation of how auditor objectivity and independence is safeguarded when non-audit services are provided by the auditors.

5. Staff numbers and costs

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

	2006	*2005*
Sales and marketing	**248**	*201*
Consultants	**555**	*459*
Support staff	**167**	*136*
	970	*796*

The number of Group employees at the year end was 1,448 (2005: 793), the increase was largely attributable to the acquisition of Inuem Consulting.

The aggregate payroll costs of these persons were as follows:

	2006	*2005*
	£'000	*£'000*
Wages and salaries	**67,571**	*62,936*
Social security costs	**11,934**	*6,932*
Other pension costs	**1,218**	*1,085*
	80,723	*70,953*

A charge of £5,000 (2005: £-) is included in the operating results in respect of the current cost of the closed US retirement benefit schemes (see note 17). Wages and salaries includes £804,000 (2005: £640,000) relating to charges in respect of share options. The payroll costs of the Company are £3,074,000 (2005: £4,257,000) for wages and salaries, £492,000 (2005: £471,000) for social security costs and £169,000 (2005: £169,000) for pension costs. The average number of Company employees for the year was 52 (2005: 46)

6 a). Investment income

	2006	*2005*
	£'000	*£'000*
Interest receivable on bank deposits and similar income	**1,013**	*453*
Net finance income on retirement benefits plans (see note 17)	**163**	*–*
	1,176	*453*

6 b). Finance costs

	2006	*2005*
	£'000	*£'000*
Interest payable on bank overdrafts and loans and similar charges	**(1,276)**	*(10)*
Net finance charge on retirement benefits plans (see note 17)	**–**	*(82)*
	(1,276)	*(92)*

7. Tax expense

	2006 £'000	2005 £'000
Tax in respect of current year		
UK corporation tax	**326**	*500*
Foreign tax	**5,540**	*4,899*
Deferred tax – acquired intangible assets	**(316)**	–
Deferred tax – tax losses and other temporary differences	**(2,250)**	*(838)*
Deferred tax – US goodwill	**813**	*795*
Total deferred tax	**(1,753)**	*(43)*
Total current year tax	**4,113**	*5,356*
Prior year taxation	**485**	*(1,228)*
	4,598	*4,128*

The deferred tax charge for US goodwill arises from tax deductions in the US for goodwill which is not amortised in the income statement. A deferred tax liability is required to be held for this item in accordance with accounting standards. UK corporation tax is calculated at 30% (2005: 30%) of the estimated assessable profit for the year. Taxation for other jurisdictions is calculated at the rates prevailing in the respective jurisdictions.
The charge for the year can be reconciled to the profit per the income statement as follows:

	2006 £'000	2005 £'000
Profit before tax	**13,348**	*13,920*
Tax at the average tax rate applicable across the group of 35% (2005: 36%)	**4,672**	*5,011*
Net tax effect of unrelieved losses	**(1,279)**	*1,967*
Net tax effect of permanent differences and other	**720**	*(1,622)*
Relating to prior years	**485**	*(1,228)*
Tax expense for the year	**4,598**	*4,128*
Effective tax rate for the year	**34%**	*30%*

8. Dividends

	2006 £'000	2005 £'000
Amounts recognised as distributions to equity holders in the year		
Final dividend for the year ended 31 December 2005 of 0.80p (2004: 0.67p) per share	**1,486**	*1,241*

Dividends are not payable on shares held in the employee share trust which has waived its entitlement to dividends. The amount of the dividend waived in 2006 (in respect of the year ended 31 December 2005) was £34,000 (2005: £26,000).

The directors recommend the payment of a final dividend in respect of 2006 of 1.0 pence per share to be paid on 9 May 2007 to ordinary shareholders on the register on 13 April 2007. The proposed final dividend is subject to approval by shareholders at the Annual General Meeting and has not been included as a liability in these financial statements.

9. Earnings per share

The calculation of the basic and diluted earnings per share is based on the following data:

	2006 £'000	*2005 £'000*
Earnings		
Earnings for the purposes of basic earnings per share and diluted earnings per share being net profit attributable to equity holders of the parent	**8,750**	*9,792*
Amortisation of acquired intangibles	**943**	*–*
Earnings for the purpose of basic earnings per share excluding amortisation of acquired intangibles,	**9,693**	*9,792*
Non-recurring items	**1,765**	*(897)*
Non-cash tax items and adjustments in respect of prior years	**1,582**	*392*
Earnings for the purpose of basic earnings per share excluding amortisation of acquired intangibles, non-recurring items, non-cash tax, and adjustments in respect of prior years	**13,040**	*9,287*

Number of shares	**Number (million)**	*Number (million)*
Weighted average number of ordinary shares for the purposes of basic earnings per share, basic excluding amortisation and basic excluding amortisation and non-recurring items	**212.5**	*185.2*
Effect of dilutive potential ordinary shares:		
– Share options	**1.3**	*1.4*
– Long term incentive plan	**0.2**	*0.2*
Weighted average number of ordinary shares for the purposes of diluted earnings per share	**214.0**	*186.8*
	Pence	*Pence*
Basic earnings per share	**4.1**	*5.3*
Diluted earnings per share	**4.1**	*5.2*
Basic-excluding amortisation of acquired intangibles	**4.6**	*5.3*
Basic-excluding amortisation of acquired intangibles, non-recurring, non-cash and prior year tax items	**6.1**	*5.0*

The average share price for the year ended 31 December 2006 was 54.3 pence (2005: 51.5 pence). There is no 'cash' tax associated with the non-recurring items and amortisation.

10. Intangible assets

Group

Cost	**Goodwill £'000**	**Customer relationships £'000**	**Customer orders £'000**	**Other intangibles £'000**	**Total intangibles £'000**
At 1 January 2006	68,278	–	–	3,042	71,320
Additions	–	–	–	1,363	1,363
Acquisitions (Note 28)	89,054	8,430	541	815	98,840
Exchange differences	(4,535)	1	–	(301)	(4,835)
Eliminated on disposals	–	–	–	(69)	(69)
At 31 December 2006	**152,797**	**8,431**	**541**	**4,850**	**166,619**
Amortisation					
At 1 January 2006	–	–	–	2,624	2,624
Charge for the year	–	402	541	847	1,790
Exchange differences	–	–	–	(272)	(272)
Eliminated on disposals	–	–	–	(69)	(69)
At 31 December 2006	**–**	**402**	**541**	**3,130**	**4,073**
Carrying Amount					
At 31 December 2006	**152,797**	**8,029**	–	**1,720**	**162,546**
At 31 December 2005	68,278	–	–	418	68,696

Company

Cost	Software Costs £'000
At 1 January 2006	204
Additions	1,100
At 31 December 2006	1,304
Amortisation	
At 1 January 2006	131
Charge for the year	282
At 31 December 2006	413
Carrying amount	
At 31 December 2006	**891**
At 31 December 2005	73

Group intangible assets consist of goodwill, acquired customer related intangibles such as order books and customer relationships and software costs. In line with historic experience, intangible assets relating to customer orders acquired during the year have been fully amortised by 31 December 2006. Intangible assets relating to customer relationships are amortised on a straight line basis over seven years from their date of acquisition. Both amortisation periods reflect the periods during which the Group expects to derive benefit from these assets. Capitalised software costs are amortised on a straight line basis over three years or the life of the software contract if shorter. All other intangible assets are amortised from three years to a maximum of 15 years depending on useful economic life.

Analysis of goodwill

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

Group

Cost	**2006 £'000**	*2005 £'000*
Ineum Consulting	**88,354**	–
Parson Consulting	**27,112**	*30,856*
Proudfoot Consulting Europe	**36,638**	*37,422*
Salzer Consulting	**693**	–
	152,797	*68,278*

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

The recoverable amounts of the CGU are determined from value in use calculations. The key assumptions for the value in use calculations are those regarding the discount rates, growth rates and expected changes to contribution during the period. Management estimates discount rates using pre-tax rates that reflect current market assessments of the time value of money and the risks specific to the CGU.

The Group prepares cash flow forecasts based on the most recent financial budgets and forecasts approved by management. The cash flows are extrapolated based on long-term industry wide revenue growth assumptions of 5% and contribution rates which are consistent with past experience and industry norms.

The rate used to discount the forecast cash flows for each CGU is 8% (2005: 9%).

11. Property, plant and equipment

Fixtures, fittings and equipment	Group £'000	Company £'000
Cost		
At 1 January 2006	2,883	533
Acquisitions	750	–
Additions	1,202	278
Exchange differences	(433)	–
Eliminated on disposal	(571)	(36)
At 31 December 2006	3,831	775
Accumulated depreciation		
At 1 January 2006	1,362	178
Charge for the year	1,000	174
Exchange differences	(333)	–
Eliminated on disposal	(492)	(16)
At 31 December 2006	1,537	336
Carrying amount		
At 31 December 2006	**2,294**	**439**
At 31 December 2005	1,521	355

12. Investments held as fixed assets

Company

Investment in Group companies	Shares £'000	Loans £'000	Total £'000
At 1 January 2006	141,096	128	141,224
Additions	82,643	12,767	95,410
Transfer to subsidiary undertakings	(82,325)	–	(82,325)
At 31 December 2006	**141,414**	**12,895**	**154,309**

Shares are stated net of provisions of £6,655,000 (2005: £6,655,000) against impairment in value. Additions in the year reflect the Ineum acquisition and increased investment in an intermediate holding company.

Details of the Company's principal subsidiary undertakings are set out in note 27.

13. Trade and other receivables

	Group		Company	
	2006	*2005*	**2006**	*2005*
	£'000	*£'000*	**£'000**	*£'000*
Trade receivables – net	**28,399**	*11,269*	–	–
Amounts owed by Group undertakings	**–**	–	**73,336**	*19,235*
Other receivables	**3,015**	*1,375*	**117**	*85*
Taxation recoverable	**373**	*175*	**–**	–
Prepayments and accrued income	**15,013**	*1,982*	**321**	*135*
	46,800	*14,801*	**73,774**	*19,455*

Credit risk

The Group's credit risk is primarily attributable to its trade receivables. The Group has no significant concentration of credit risk, with exposure spread over a large number of counterparties and clients. Debtor days at the year end were 39 days (2005: 18 days). No interest was charged on receivables. The provision against doubtful receivables amounts to £315,000. The directors consider that the carrying value of trade and other receivables approximates to their fair value.

14. Trade and other payables

	Group		Company	
	2006	*2005*	**2006**	*2005*
	£'000	*£'000*	**£'000**	*£'000*
Trade payables	**11,470**	*1,809*	**104**	*181*
Amounts owed by Group undertakings	**–**	–	**17,615**	*12,871*
Other taxes and social security	**10,535**	*2,407*	**34**	*284*
Other payables	**215**	*144*	**6**	*6*
Deferred income	**5,958**	*2,878*	**–**	–
Accruals	**25,925**	*20,807*	**3,259**	*4,211*
	54,103	*28,045*	**21,018**	*17,553*

Trade and other payables principally comprise amounts outstanding for trade purchases and ongoing costs. The average credit period taken for trade purchases is 50 days (2005: 15 days). The directors consider that the carrying amount of trade payables approximates to their fair value.

15. Tax assets and liabilities

	Group		Company	
	2006	*2005*	**2006**	*2005*
	£'000	*£'000*	**£'000**	*£'000*
Current tax liabilities	**5,728**	*3,959*	**1,000**	*394*
Non-current tax liabilities				
Tax liabilities	**1,859**	*1,859*	**–**	–
Deferred tax liabilities	**5,852**	*2,815*	**–**	–
	7,711	*4,674*	**–**	–
Total tax liabilities	**13,439**	*8,633*	**1,000**	*394*

The following are the major deferred tax assets and liabilities recognised by the Group and movements thereon during the current year.

Group

Deferred tax assets	Tax losses £'000	Other £'000	Total £'000
At 1 January 2006	1,101	257	1,358
Acquisition of subsidaries	–	1,089	1,089
Charge to income	(1,100)	(97)	(1,197)
Credit to income	2,347	–	2,347
At 31 December 2006	**2,348**	**1,249**	**3,597**

Deferred tax liabilities	Profits taxable in future years £'000	Arising on acquisitions £'000	Other £'000	Total £'000
At 1 January 2006	1,100	1,715	–	2,815
Transfer to corporation tax creditor	(465)	–	–	(465)
Acquisition of subsidiaries	–	3,005	–	3,005
Charge to income	115	813	85	1,013
Credit to income	(200)	(316)	–	(516)
At 31 December 2006	**550**	**5,217**	**85**	**5,852**

Additionally the Group has potential unrealised deferred tax assets at the year end of approximately £24 million (2005: £25 million) in respect of tax losses. The tax losses are partly not yet agreed with tax authorities and/or may be subject to adjustment on tax audits. Consequently, they are subject to uncertain and unquantifiable adjustments. Due to these uncertainties, and uncertainty as to the likely jurisdictions of future profits against which the losses can be offset, the deferred tax asset recognised is limited to the amount stated above.

Company

Deferred tax asset	Other £'000
At 1 January 2006	137
Credit to income	25
At 31 December 2006	**162**

16. Borrowings

Group

	2006	*2005*
	£'000	*£'000*
Current: Bank borrowings	**14,792**	–
Non-Current: Bank borrowings	**24,255**	–
Total borrowings	**39,047**	–

Bank Borrowings

Borrowings denominated in Sterling bear interest of LIBOR plus 1.5% annually. Borrowings denominated in Euros bear interest of EURIBOR plus 1.5%. Bank borrowings are secured on the shares of certain Group companies. Bank borrowings mature at different dates until 1 April 2009 as shown below.

	2006	*2005*
	£'000	*£'000*
On demand or within one year	**14,792**	–
In the second year	**6,064**	–
In the third to fifth year	**18,191**	–
Total	**39,047**	–

The loans drawn down under committed facilities expire at various dates to 2009. The other facilities have been arranged to help finance the expansion of the Group's activities in Europe.

The exposure of the Group's borrowings to interest rate changes at the balance sheet dates are as follows:

	2006	*2005*
	£'000	*£'000*
6 months or less	**39,047**	–

The carrying amounts and fair values of the non–current borrowings are as follows:

	Carrying amount 2006	*Carrying amount 2005*	**Fair value 2006**	*Fair value 2005*
	£'000	*£'000*	**£'000**	*£'000*
Bank borrowings	**24,255**	–	**22,265**	–

The fair value of current borrowings equals their carrying amount, as the impact of discounting is not significant. The fair values for non-current borrowings are based on cash flows discounted using a rate based on the borrowing rate of 5.6%.
The carrying amounts of the Group's borrowings are denominated in the following currencies:

	2006	*2005*
Currency	**£'000**	*£'000*
Euro	**33,047**	–
Sterling	**6,000**	–
	39,047	–

The Group has the following undrawn borrowing facilities:

	2006	*2005*
	£'000	*£'000*
Floating rate	**11,000**	–

Company

	2006	*2005*
Current	**£'000**	*£'000*
Bank borrowings	**6,000**	–

The fair value of current borrowings equals their carrying amount, as the impact of discounting is not significant. Borrowings denominated in Sterling bear interest of LIBOR plus 1.5% annually.

The exposure of the Company's borrowings to interest rate changes at the balance sheet dates are as follows:

	2006	*2005*
	£'000	*£'000*
6 months or less	**6,000**	–

The carrying amounts of the Company's borrowings are denominated in the following currencies:

	2006	*2005*
	£'000	*£'000*
Currency		
Sterling	**6,000**	–

The Company has the following undrawn borrowing facilities:

	2006	*2005*
	£'000	*£'000*
Floating rate	**11,000**	–

17. Retirement benefit obligations

Defined contribution schemes

The Group operates a number of defined contribution pension schemes throughout the world. The total cost charged to income in respect of defined contribution schemes was £1,218,000 (2005: £1,085,000), representing contributions payable to these schemes by the Group at rates specified in the rules of the plans.

Defined benefit schemes

In the United States the Group operates a closed defined benefit pension scheme and a closed unfunded plan which provides benefits in respect of post-retirement medical costs. In France, the Group has a statutory unfunded post-retirement benefit obligation.

The retirement benefit obligations are summarised below:

	2006	*2005*
	£000	*£000*
US defined benefit pension scheme	**4,437**	*10,863*
US post retirement medical costs	**852**	*1,006*
French statutory obligation	**122**	*–*
	5,411	*11,869*

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 September 1995 and to the post-retirement medical costs of a small number of current and former employees who were employed at that date.

The most recent actuarial valuations of plan assets and the present value of the defined benefit obligation were carried out at 31 December 2006 by Michael Von Behren and Julie Porcelli of Mercer Human Resource Consulting who meet the Qualification Standards of the American Academy of Actuaries to render the actuarial opinion contained in this report. The present value of the defined benefit obligation, the related current service cost and past service cost were measured using the projected unit credit method.

The principal assumptions used for the recent actuarial valuations were:

	2006	*2005*
	%	*%*
Rate of increase in salaries	**not applicable**	*not applicable*
Expected long term return on scheme assets	**8.00**	*8.00*
Discount rate	**5.80**	*5.50*
General inflation assumption	**3.00**	*3.00*

There are neither guaranteed nor discretionary increases to benefits after retirement. The mortality table used was the RP2005 White Collar Table. The discount rate assumption was changed to reflect changes in long term corporate bond yields. Mercer Human Resource Consulting advised that a reasonable discount rate to comply with IAS 19 is in the range 5.75% to 5.85%. The directors elected to take the mid-point of the advice received.

a) Amounts recognised in finance costs in respect of these benefit schemes are as follows:

	2006 £'000	2005 £'000
US defined benefit pension scheme		
Expected return on pension scheme assets	**2,232**	*2,039*
Interest on pension scheme liabilities	**(2,020)**	*(2,056)*
	212	*(17)*
US medical benefits plan		
Interest on plan liabilities	**(49)**	*(65)*
Net finance income/(charge)	**163**	*(82)*

Actuarial gains and losses have been reported in the statement of recognised income and expense. The actual return on scheme assets was £3,610,000 (2005: £1,762,000).

b) The amount included in the balance sheet arising from the Group's obligations in respect of the US defined benefit pension scheme and medical benefits plan is as follows:

	2006 £'000	2005 £'000
Present value of defined benefit obligations	**(35,434)**	*(41,915)*
Fair value of scheme assets	**30,145**	*30,046*
Liability recognised in the balance sheet	**(5,289)**	*(11,869)*
Defined benefit pension scheme (note (17) (e) (i))	**(4,437)**	*(10,863)*
Medical benefit plan (note (17) (e) (ii))	**(852)**	*(1,006)*
	(5,289)	*(11,869)*

c) Movements in balance sheet amounts:

Changes in the present value of the defined benefit obligations are as follows:

	2006 £'000	2005 £'000
Opening defined benefit obligation	**(41,915)**	*(35,770)*
Service cost	**–**	*–*
Interest cost	**(2,069)**	*(2,121)*
Actuarial gains/(losses)	**1,905**	*(1,369)*
Exchange differences	**5,000**	*(4,226)*
Benefits paid	**1,645**	*1,571*
Closing defined benefit obligation	**(35,434)**	*(41,915)*

Changes in the fair values of the plan assets are as follows:

	2006	*2005*
	£'000	*£'000*
Opening fair value of plan assets	**30,046**	*24,387*
Expected return	**2,232**	*2,039*
Actuarial gains/(losses)	**1,379**	*(277)*
Contributions by employer	**2,008**	*2,528*
Exchange differences	**(3,875)**	*2,940*
Benefits paid	**(1,645)**	*(1,571)*
Closing fair value of plan assets	**30,145**	*30,046*
Net retirement benefit obligation	**(5,289)**	*(11,869)*

d) The fair value of plan assets at the balance sheet date and the expected rate of return are analysed as follows:

	Expected return	**2006**	*Expected return*	*2005*
	%	**£'000**	*%*	*£'000*
Equities	**9.0**	**19,947**	*9.0*	*20,954*
Bonds	**5.5**	**10,056**	*5.5*	*8,317*
Cash	**5.5**	**142**	*5.5*	*775*
	8.0	**30,145**	*8.0*	*30,046*

e) History of experience gains and losses:

(i) US defined benefit pension scheme

The five-year history of experience adjustments in relation to the US defined benefit pension scheme is as follows:

	2006	*2005*	*2004*	*2003*	*2002*
	£'000	*£'000*	*£'000*	*£'000*	*£'000*
Present value of defined benefit obligations	**(34,582)**	*(40,909)*	*(34,649)*	*(34,232)*	*(34,077)*
Fair value of scheme assets	**30,145**	*30,046*	*24,387*	*22,374*	*20,569*
Deficit in the scheme	**(4,437)**	*(10,863)*	*(10,262)*	*(11,858)*	*(13,508)*
Experience adjustments on scheme liabilities					
Amount	**626**	*86*	*(123)*	*(136)*	*(1,001)*
Percentage of scheme liabilities	**1.8%**	*0.2%*	*(0.4%)*	*(0.4%)*	*(2.9%)*
Experience adjustments on scheme assets					
Amount	**1,379**	*(277)*	*567*	*2,973*	*(5,214)*
Percentage of scheme assets	**4.6%**	*(0.9%)*	*2.3%*	*13.3%*	*(25.3%)*

The estimated amounts of contributions expected to be paid to the scheme during the current financial year is £1.6 million (2005: £2.0 million).

(ii) Unfunded US medical benefit plan

The five-year history of experience adjustments in relation to the US medical plan is as follows:

	2006	*2005*	*2004*	*2003*	*2002*
	£'000	£'000	*£'000*	*£'000*	*£'000*
Present value of plan liabilities	**(852)**	(1,006)	*(1,121)*	*(1,355)*	*(3,782)*
Experience adjustments of plan liabilities	**(42)**	210	*123*	*302*	*477*
Percentage of the plan liabilities	**(4.9%)**	20.9%	*11.0%*	*22.3%*	*12.6%*

(iii) Unfunded French retirement scheme

The principal assumptions used for the recent actuarial valuation of the French retirement scheme were:

	2006
Rate of increase in salaries	**5.8%**
Expected long term return on scheme assets	**–**
Remaining service lives	**18 years**
Discount rate	**4.5%**

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

f) Amounts recognised in finance costs in respect of the French post-retirement scheme are as follows:

	2006
	£'000
Interest on liabilities	**3**

At 31 December 2006, there are no actuarial gains and losses reported in the statement of recognised income and expense relating to the French scheme.

g) The amount included in the balance sheet arising from the Group's obligations in respect of the French post-retirement benefit scheme is as follows:

	2006
	£'000
Present value of defined benefit obligations	**(122)**
Fair value of scheme assets	–
Liability recognised in the balance sheet	**(122)**

h) Movements in balance sheet amounts:

Changes in the present value of the French defined benefit obligation from the date of the acquisition of Ineum are as follows:

	2006
	£'000
At acquisition	**(114)**
Service cost	**(5)**
Interest cost	**(3)**
Closing defined benefit obligation	**(122)**

The French obligation is unfunded and therefore holds no plan assets, and no contributions are made.

i) History of experience gains and losses:

No experience adjustments in relation to the French post-retirement scheme arise in the post-acquisition period.

18. Long-term provisions

	£'000
At 1 January 2006	871
Acquired	452
Utilised	(98)
Released	(335)
Foreign exchange movement	(61)
At 31 December 2006	**829**

The provisions primarily relate to surplus property, overseas tax liabilities and obligations to former employees of the Group. The most significant element relates to the surplus property provision acquired with Ineum (see note 28) which is expected to be utilised over the period to 31 December 2009. The provision release relates to a time-expired indemnity on the disposal of the Group's Japanese operations.

There are no provisions held by the Company.

19. Share capital

(a) Called up share capital

	2006	*2005*
	£'000	*£'000*
Authorised: 500 million (2005: 300 million) shares of 25p each	**125,000**	*75,000*
Allotted, called up and fully paid: 270,940,137 (2005: 189,493,412) shares of 25p each	**67,735**	*47,373*

Shares issued in the year were:

	Number	Nominal value £'000	Consideration in year £'000
At 1 January 2006	189,493,412	47,373	
Acquisition of Ineum Consulting	80,388,159	20,097	46,927
Issued to the employee share trust	–	–	–
Employee share options exercised (note 19 (b))	1,058,566	265	282
At 31 December 2006	**270,940,137**	**67,735**	**47,209**

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

The range of the exercise price of options exercised during the year was 25.00 pence to 29.85 pence (2005: 25.00 pence to 29.13 pence).

(b) Share options

At 31 December 2006, there were options outstanding to subscribe for new ordinary shares of 25 pence each as set out below.

Option grant date	Number of shares under option	Exercise price (pence)	Weighted average price (pence)	Exercisable not earlier than
The 1998 Scheme				
September 1999	309,007	25.00	25.00	September 2002
March 2000	1,777,090	29.85	29.85	March 2003
March 2004	3,372,362	36.25	36.25	March 2007
March 2005	2,892,531	59.75	59.75	March 2008
March 2006	3,984,340	57.75	57.75	March 2009
Total	12,335,330		47.50	

The number of options outstanding at the previous year end over new ordinary shares was 14,103,003 with a weighted average price of 41.46 pence.

The total shareholder return performance conditions, relating to the share options exercisable on 1 March 2007 were not achieved so the options did not vest.

In March 2006, 4,556,085 options over new ordinary shares were granted at a price of 57.75 pence per share. The following options over new ordinary shares were exercised during the year:

Granted	Number	Nominal Value £	Weighted average price p	Consideration £
March 1996	133,904	33,476	28.73	38,475
October 1996	442,908	110,727	25.00	110,727
September 1999	231,754	57,939	25.00	57,939
March 2000	250,000	62,500	29.85	74,634
	1,058,566	264,642		281,775

During the year, options, with a weighted average price of 44.46 pence, over 5,280,188 new ordinary shares lapsed. Share options under 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 £5,859,000 (2005: £5,847,000).

The above amounts exclude options over 2,842,000 shares (2005: 2,250,750 shares) which are already in issue and are owned by an employee trust.

The fair value of options granted was determined using the stochastic valuation model. Expected volatility was assessed by considering the historic volatility of the Company's share price. An expense of £804,000 (2005: £640,000) has been recognised in the period in respect of the share options granted . The cumulative share compensation reserve at 31 December 2006 is £1,492,000 (2005: £1,256,000).

The inputs into the stochastic valuation model for the 2006 options are as follows:

	3 year vesting	5 year vesting
Fair value of option	21 pence	26 pence
Exercise price and share price on date of grant	57.75 pence	57.75 pence
Expected life	5 years	7 years
Expected volatility	47.2%	58.6%
Performance condition discount	11%	15.6%
Risk free rate	4.35%	4.31%
Expected dividend yield	1.39%	1.39%

The inputs into the stochastic valuation model for the 2005 options are as follows:

	3 year vesting	5 year vesting
Fair value of option	26 pence	31 pence
Exercise price and share price on date of grant	59.75 pence	59.75 pence
Expected life	5 years	7 years
Expected volatility	54.9%	62.7%
Performance condition discount	9.5%	13.8%
Risk free rate	4.79%	4.79%
Expected dividend yield	1.12%	1.12%

The inputs into the stochastic valuation model for the 2004 options are as follows:

	3 year vesting	5 year vesting
Fair value of option	18 pence	19 pence
Exercise price and share price on date of grant	36.25 pence	36.25 pence
Expected life	5 years	7 years
Expected volatility	66.0%	67.0%
Performance condition discount	9.4%	14.6%
Risk free rate	4.66%	4.71%
Expected dividend yield	1.38%	1.38%

The inputs into the stochastic valuation model for the 2003 options are as follows:

	3 year vesting	5 year vesting
Fair value of option	19 pence	21 pence
Exercise price and share price on date of grant	39.50 pence	39.50 pence
Expected life	5 years	7 years
Expected volatility	64.8%	66.0%
Performance condition discount	10.0%	14.4%
Risk free rate	4.04%	4.21%
Expected dividend yield	1.27%	1.27%

20. Equity

Group

	Share premium account £'000	Merger reserve £'000	Shares to be issued £'000	Share compensation reserve £'000	Own shares held by employee share trust £'000	Currency translation reserve £'000
At 1 January 2005	38,026	5,683	185	616	(970)	(1,745)
Currency translation differences	–	–	–	–	–	1,488
Share compensation expense	–	–	–	640	–	–
Management incentive plan	–	–	(139)	–	83	–
Shares issued to employee share trust	119	–	–	–	(202)	–
Purchase of shares	–	–	–	–	(181)	–
Share option schemes	1	–	–	–	–	–
At 31 December 2005	38,146	5,683	46	1,256	(1,270)	(257)
At 1 January 2006	38,146	5,683	46	1,256	(1,270)	(257)
Currency translation differences	–	–	–	–	–	(4,904)
Arising on acquisition of Ineum	–	26,830	–	–	–	–
Share compensation expense	–	–	–	804	–	–
Reclassification to retained earnings	–	–	–	(568)	–	–
Share option schemes	17	–	–	–	–	–
At 31 December 2006	**38,163**	**32,513**	**46**	**1,492**	**(1,270)**	**(5,161)**

	Statutory reserves of subsidiary undertakings £'000	Capital redemption reserve £'000	**Total other reserves £'000**
At 1 January 2005, 1 January 2006 and 31 December 2006	**5,878**	**1,186**	**7,064**

Company

	Share premium account £'000	Merger reserve £'000	Shares to be issued £'000	Share compensation reserve £'000	Own shares held by employee share trust £'000	Capital redemption reserve £'000
At 1 January 2005	38,026	–	185	616	(970)	1,186
Share compensation expense	–	–	–	640	–	–
Management incentive plan	–	–	(139)	–	83	–
Shares issued to employee share trust	119	–	–	–	(202)	–
Purchase of shares	–	–	–	–	(181)	–
Share option schemes	1	–	–	–	–	–
At 31 December 2005	38,146	–	46	1,256	(1,270)	1,186
At 1 January 2006	*38,146*	–	*46*	1,256	*(1,270)*	*1,186*
Arising on acquisition of Ineum	–	26,830	–	–	–	–
Share compensation expense	–	–	–	804	–	–
Reclassification to retained earnings	–	–	–	(568)	–	–
Share option schemes	17	–	–	–	–	–
At 31 December 2006	**38,163**	**26,830**	**46**	**1,492**	**(1,270)**	**1,186**

Shares to be issued comprise the estimated value of shares that may be issued under the Management Incentive Plan. The share compensation reserve represents the net credit arising from the charge for share options less amounts transferred to retained earnings following the lapse of share options. Own shares held by the employee share trust represents 4,197,374 shares (2005: 4,197,374 shares) issued at a value of £1,270,000 (2005: £1,270,000).

21. Retained earnings

	Group		Company	
	2006	*2005*	**2006**	*2005*
	£'000	*£'000*	**£'000**	*£'000*
At 1 January	**(40,109)**	*(47,839)*	**57,731**	*54,361*
Net profit for the year	**8,750**	*9,792*	**11,291**	*4,611*
Dividends paid	**(1,486)**	*(1,241)*	**(1,486)**	*(1,241)*
Actuarial gain/(loss) related to retirement benefit schemes	**3,284**	*(1,646)*	**–**	–
Tax on items taken directly to equity	**600**	*825*	–	–
Reclassification from share compensation reserve (note 20)	**568**	**–**	**568**	**–**
At 31 December	**(28,393)**	(40,109)	**68,104**	57,731

In accordance with Section 230 of the Companies Act 1985, the Company has not presented its own income statement. The movement in the group income statement for the financial year includes a profit of £11,291,000 (2005: £4,611,000) dealt with in the financial statements of the Company.

22. Statement of changes in equity

	Group		Company	
	2006	*2005*	**2006**	*2005*
	£'000	*£'000*	**£'000**	*£'000*
At 1 January	**57,932**	*48,276*	**144,468**	*140,660*
Dividends paid	**(1,486)**	*(1,241)*	**(1,486)**	*(1,241)*
Profit for the period	**8,750**	*9,792*	**11,291**	*4,611*
Own shares purchased for deferred share awards	**–**	*(181)*	**–**	*(181)*
Issue of share capital				
On acquisition of subsidiary undertaking	**46,927**	*–*	**46,927**	*–*
Exercise of share options	**282**	*35*	**282**	*35*
Share compensation expense	**804**	*640*	**804**	*640*
Movement in reserve for management incentive plan	**–**	*(56)*	**–**	*(56)*
Other recognised income and expense	**(1,020)**	*667*	**–**	*–*
At 31 December	**112,189**	*57,932*	**202,286**	*144,468*

23. Notes to the cash flow statement

	Group		Company	
	2006	*2005*	**2006**	*2005*
	£'000	*£'000*	**£'000**	*£'000*
Profit/(loss) from operations	**13,448**	*13,559*	**1,627**	*(2,511)*
Adjustments for:				
Depreciation of property, plant and equipment	**1,000**	*604*	**174**	*111*
Amortisation of intangible assets	**1,790**	*462*	**282**	*14*
Loss on disposal of plant and equipment	**79**	*14*	**20**	*15*
Management incentive plan	**–**	*(56)*	**–**	*(56)*
Adjustment for pension funding	**(2,008)**	*(2,528)*	**–**	*–*
Adjustment for share options charge	**804**	*640*	**804**	*640*
Decrease in provisions	**(493)**	*(903)*	**–**	*–*
Operating cash flows before movements in working capital	**14,620**	*11,792*	**2,907**	*(1,787)*
Increase in receivables	**(6,447)**	*(4,153)*	**(7,391)**	*(285)*
Increase/(Decrease) in payables	**(5,858)**	*3,911*	**3,465**	*(208)*
Cash generated by operations	**2,315**	*11,550*	**(1,019)**	*(2,280)*
Income taxes (paid)/received	**(4,269)**	*(2,724)*	**–**	*2*
Net cash from operating activities	**(1,954)**	*8,826*	**(1,019)**	*(2,278)*

Cash and cash equivalents

Cash, cash equivalents and bank overdrafts include the following for the purposes of the cash flow statement:

	Group		Company	
	2006	*2005*	**2006**	*2005*
	£'000	*£'000*	**£'000**	*£'000*
Cash at bank and on hand	**10,278**	*21,555*	**729**	*1,171*
Bank borrowings–current	**(14,792)**	*–*	**(6,000)**	*–*
	(4,514)	*21,555*	**(5,271)**	*1,171*

24. Financial instruments

Capital structure and treasury policies

The Group is financed by shareholders' equity and debt. The Group's capital structure is reviewed regularly to ensure that it remains relevant to the business and its planned development. 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 country specific liquidity risks. Investment of the Group's cash is made within policies that cover counter party risk and liquidity. Surplus cash is invested generally on maturities of three months or less commensurate with the maturity of loan drawdowns. Drawdowns under the multi-currency facilities allow for interest maturities of up to six months in US dollars, Euros and Sterling. The Group's term loan is drawn down in Euros to provide a natural hedge against the Group's Euro earnings. The working capital facilities are drawn down in Euros and Sterling, two of the three major currencies in which the Groups operates. The Group's net debt 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. Information on borrowings is shown in note 16.

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

Financial assets	**2006**	*2005*
	Floating rate	*Floating rate*
Currency	**£'000**	*£'000*
Sterling	**1,237**	*1,102*
US Dollar	**2,827**	*16,789*
Euro	**4,993**	*2,079*
Other	**1,221**	*1,585*
Cash	**10,278**	*21,555*
Sterling	**2,855**	*4,093*
US Dollar	**2,947**	*7,182*
Euro	**40,019**	*2,348*
Other	**979**	*1,178*
Trade and other receivables	**46,800**	*14,801*
Financial liabilities		
Sterling	**(6,349)**	*(10,818)*
US Dollar	**(6,544)**	*(10,323)*
Euro	**(38,972)**	*(4,131)*
Other	**(2,629)**	*(2,773)*
Trade and other payables	**(54,494)**	*(28,045)*

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

25. Operating lease arrangements

Group	2006 £'000	*2005 £'000*
Minimum lease payments under operating leases recognised in the income statement for the year	**2,026**	*1,961*

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

Group	2006		*2005*	
	Land and buildings £'000	**Other £'000**	*Land and buildings £'000*	*Other £'000*
Within one year	**180**	**6**	*71*	*13*
In the second to fifth years inclusive	**2,856**	**25**	*2,314*	*6*
After five years	**18,746**	**–**	*6,305*	*46*
	21,782	**31**	*8,690*	*65*

Operating lease payments represent rentals payable by the Group for certain of its office properties. Leases are negotiated for an average term of seven years and rentals are fixed for an average of four years.

26. Related party transactions

Group

Transactions between the Company and its subsidiaries, which are related parties, have been eliminated on consolidation. Except as disclosed below, no Group company entered into a transaction with a related party that is not a member of the Group.

Goods and services are bought from entities controlled by key management personnel on normal commercial terms and conditions. The entities controlled by key management personnel are companies belonging to JP Bolduc, a director of the Company, and a company belonging to Mr Manardo, which provides concierge services to Ineum Consulting, and which rents space from Ineum Consulting.

	2006 £'000	*2005 £'000*
Year-end balances arising from purchases of services		
Payables to related party entities controlled by key management personnel	**–**	*–*

The payables to related parties arise mainly from purchase transactions and bear no interest. During the year, the Group entered into the following transactions with related parties:

Parson Consulting LLC paid £8,131 (2005: £4,123) to JP Enterprises, Inc for rental of office space. Mr Bolduc, a director of the Company, is the majority shareholder and director of JP Enterprises, Inc. In the period since acquisition, Ineum Consulting SAS earned £60,000 from the rental of office space to GEM SAS and paid £61,000 for concierge services provided by TO DO TODAY SAS. Mr Manardo, a director of the Company, is the majority shareholder and director of GEM SAS and TO DO TODAY SAS.

Remuneration of key management personnel

The aggregate remuneration of the key management personnel of the Group, is set out below. Further information about the remuneration of individual directors is provided in the audited part of the Directors' Remuneration Report on pages 36 to 43.

	2006 £'000	2005 £'000
Short-term employee benefits	**2,640**	*2,331*
Post-employment benefits	**150**	*146*
Other long-term benefits	**3**	*163*
Share based payments	**–**	*172*
	2,793	*2,812*

27. Principal subsidiary undertakings

At 31 December 2006, the Company had the following principal subsidiary undertakings engaged in the provision of management consultancy services. The shareholdings were 100% of the subsidiary undertakings' ordinary shares and were held indirectly, except where otherwise indicated. Each of the subsidiaries is included in the consolidation.

	Countries of incorporation/operation
Ineum Conseils et Associés S.A.	France
Ineum Consulting SAS	France
Parson Consulting Limited*	Great Britain
Parson Consulting LLC	USA
Parson Consulting Pty Limited	Australia
Parson Consulting S.A.S.	France
Proudfoot Company Management Services GmbH (trading as Proudfoot Consulting)	Switzerland/Australia, New Zealand, Hong Kong
Proudfoot Consulting Company	USA
Proudfoot Consulting (Europe) Limited*	Great Britain
Proudfoot Consulting GmbH	Austria
Proudfoot Consulting GmbH	Germany
Proudfoot Consulting Inc	Canada
Proudfoot Consulting S.A.	Spain
Proudfoot Consulting S.A.S.	France
Proudfoot South Africa (Pty) Ltd	South Africa/Africa
The Salzer Group Asia Pacific Pte Limited (trading as Salzer Consulting)**	Singapore

* Held directly

** 51% interest

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.

28. Acquisitions

During the year, the company made the following acquisitions: Ineum Conseils et Associés S.A. ('Ineum') and The Salzer Group Asia Pacific Pte Limited ('Salzer'). The provisional goodwill arising is summarised below.

Provisional goodwill	**2006 £'000**
Ineum – at acquisition	**88,340**
Salzer – at acquisition	**714**
Foreign exchange	**(7)**
At 31 December 2006	**89,047**

Ineum

On 1 September 2006 the Company acquired 100% of the issued share capital of Ineum Conseils et Associés SA ("Ineum"). Ineum is the parent company of a group of companies involved in management consulting in Europe. The following table sets out the values of the identifiable assets and liabilities acquired and their provisional fair values to the Group.

	Acquisition (IFRS) £000	Fair value adjustments £000	Provisional fair value to Group £000
Intangible assets	1,017	**(i)** 8,769	**9,786**
Property, plant and equipment	750	–	**750**
Deferred tax asset	198	**(ii)** 891	**1,089**
Current assets	37,297	**(iii)** (857)	**36,440**
Total assets	39,262		**48,065**
Current liabilities	(29,874)	**(iv)** (673)	**(30,547)**
Bank loans	(15,211)		**(15,211)**
Provisions	(60)	**(v)** (392)	**(452)**
Deferred tax liability		**(vi)**(3,005)	**(3,005)**
Total liabilities	(45,145)		**(49,215)**
Net liabilities	(5,883)		**(1,150)**
Consideration given			**82,325**
Acquisition costs			**4,865**
Goodwill arising			**88,340**

The fair value of the consideration given was:	
Cash	**35,398**
Shares issued	**46,927**
	82,325

Shares issued comprised 80,388,159 shares, with a nominal value of 25 pence each, and a fair value 58.375 pence each. The fair value of each share reflects the market price of a share in the Company on 1 September 2006. No accounting policy adjustments were necessary to align the accounting policies of Ineum Consulting with those of the Group.

Goodwill arises because the value of the Ineum business resides in its assembled workforce which is not required to be separately valued under IFRS. The fair value adjustments are provisional at the year end due to the recentness of the acquisition.

Provisional fair value adjustments comprise:

(i) Recognition of customer relationship intangible asset of £8,430,000 and customer order intangible asset of £541,000 offset by £202,000 impairment of capitalised software costs

(ii) Deferred tax asset arising on fair value adjustments

(iii) £1,210,000 additional provisions for potentially irrecoverable trade receivables and recognition of £353,000 accrued income

(iv) Additional accruals for employee related matters

(v) Provision for surplus space

(vi) Deferred tax liability arising on fair value adjustments

Net cash (outflows)/inflows in respect of Ineum comprised:	2006 £000
Cash consideration including acquisition costs	(40,263)
Cash at bank and in hand acquired	11,072
Bank loan and overdrafts acquired	(15,211)
Net cash outflow	(44,402)

The post-acquisition contribution of Ineum Consulting to the Group was £23.7 million to revenue, £2.8 million to profit from operations and £2.8 million to earnings before interest and tax. Had the acquisition been made at 1 January 2006 the Group's revenue for the period would have been £203.3 million, profit from operations before amortisation of acquired intangibles and reorganisation costs would have increased to £21.0 million, and earnings before interest and tax would have been £21.0 million.

Salzer Consulting

On 6 October 2006 the Group acquired 51% of the ordinary shares of The Salzer Group Asia Pacific Pte Limited ('The Salzer Group') for a fair value cash consideration of £531,414. At the same time it purchased an option for US $1 to acquire the remaining share capital between 31 December 2009 and 30 April 2010 . The option is accounted for at fair value through the income statement. On acquisition The Salzer Group had net assets with a book value and fair value of £2,414. The £529,000 excess of consideration over the fair value of net assets acquired and capitalised £185,000 acquisition costs gives rise to £714,000 goodwill at acquisition.

contacts for investors and clients

www.mcgplc.com

Registered office

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Company number 1000608

Registrar

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

Company secretary

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**

The Company's corporate governance report, corporate governance guidelines and terms of reference of the Board's committees can also be found at **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
Craig Smith, *Finance Director*
chsmith@mcgplc.com
London Office: +44 20 7710 5000

Enquiries and notification concerning dividends, share certificates or transfers and address changes should be sent to the Registrar at the address shown.

Financial calendar

Annual General Meeting	26 April 2007
Ex-dividend date	11 April 2007
Record date	13 April 2007
Final dividend payment	9 May 2007

Operational contacts

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

Share price information

The Company's share price information can be found at **www.mcgplc.com** or through your broker. The share symbol is MMC.L. The Financial Times City line service also provides this information on 0906 843 4677 (calls charged at 60p per minute).

Shareholder services

On-line services are available to private shareholders. To use these facilities visit www.capitaregistrars.com.

'Account Enquiry' allows shareholders to access their shareholding on the register including transaction history, dividend payment history and up-to-date share valuation. 'Amendment of Standing Data' allows shareholders to change their registered postal address and add, change or delete dividend mandate instructions. Certain forms can be downloaded, such as dividend mandate forms and Stock transfer forms.

Should you have any queries please contact Capita Registrars helpline on 0870 162 3100, overseas +44 20 8639 2157 or email ssd@capitaregistrars.com.

Share dealings

A quick and easy share dealing service is provided by Capita Share Dealing Services for UK registered certificated holders to either buy or sell shares. For further information on this service, or to buy and sell shares, please contact www.capitadeal.com (on-line dealing) or 0870 458 4577 (telephone dealing).

company advisers

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Legal adviser
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100 New Bridge Street
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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 Law Society's Halls, Old Council Chamber, 113 Chancery Lane, London, WC2A 1PL, on 26 April 2007, at 10am for the undermentioned purposes:

Ordinary business

1. To receive and adopt the Directors' report and annual accounts of the Company for the year ended 31 December 2006 together with the auditors' report on those accounts and on the auditable parts of the Directors' Remuneration Report.
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 2006.
3. To declare the final dividend for the year ended 31 December 2006 of one penny per share.
4. To re-appoint Kevin Parry as a director of the Company, who is retiring by rotation.
5. To re-appoint Alan Barber as a director of the Company, who is retiring by rotation.
6. To re-appoint Jacques Manardo as a director of the Company, who, having been appointed since the last Annual General Meeting, is required to stand down and offer himself for re-appointment.
7. To re-appoint Craig Smith as a director of the Company, who, having been appointed since the last Annual General Meeting, is required to stand down and offer himself for re-appointment.
8. To re-appoint Deloitte & Touche LLP as auditors to the Company, to hold office from the conclusion of the meeting until the conclusion of the next Annual General Meeting and to authorise the directors to determine the auditors' remuneration.

Special business

To consider and, if thought fit, pass the following resolutions, which will each be proposed, as a special resolution:

9. That the Company be and is hereby generally and unconditionally authorised for the purposes of section 166 of the Companies Act 1985 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') on such terms and in such manner as the Directors may from time to time determine, and where such shares are held as treasury shares, the company may use them for the purposes set out in section 162D of the Companies Act 1985, including for the purpose of its employee share schemes provided that:
   - (i) the maximum number of ordinary shares hereby authorised to be purchased shall be 27,094,014;
   - (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 (exclusive of expenses);
   - (iii) the maximum price which may be paid for an ordinary share is the higher of the amount equal to 105 per cent 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 contracted to be purchased; and the amount stipulated by article 5(1) of the Buy-back and Stabilisation Regulation 2003 (in each case exclusive of expenses); and
   - (iv) the authority hereby conferred shall expire at the conclusion of the next Annual General Meeting of the Company or 24 July 2008, whichever is earlier, unless such authority is renewed or revoked prior to such

notice of Annual General Meeting

(continued)

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 th expiry of such authority, and may make purchases of ordinary shares pursuant to any such contracts.

10. THAT the Company's Articles of Association be amended by deleting Article 164 and replacing it with the following:

"Subject to and to the fullest extent permitted by the Statutes, but without prejudice to any indemnity to which h may be otherwise entitled.

(a) every Director and alternate Director shall be entitled to be indemnified out of the assets of the Company agains all costs and liabilities incurred by him in relation to any proceedings (whether civil or criminal) which relate to anything done or omitted or alleged to have been done or omitted by him as a Director or alternate Director save that no Director or alternate Director shall be entitled to be indemnified:

(i) for any liability incurred by him to the Company or any associated company of the Company (as defined b the Statues for these purposes);

(ii) for any fine imposed in criminal proceedings which have become final;

(iii) for any sum payable to a regulatory authority by way of a penalty in respect of non compliance with any requirement of a regulatory nature howsoever arising;

(iv) for any costs for which he has become liable in defending any criminal proceedings in which he is convicte and such conviction has become final;

(v) for any costs for which he has become liable in defending any civil proceedings bought by the Company o an associated company in which a final judgment has been given against him; and

(vi) for any costs for which he has become liable in connection with any application under sections 144(3) or (4 or 727 of the Statues in which the court refuses to grant him relief and such refusal has become final.

(b) every Director and alternate Director shall be entitled to have funds provided to him by the Company to meet expenditure incurred or to be incurred in any proceedings (whether civil or criminal) brought by any party which relate to anything done or omitted or alleged to have been done or omitted by him as a Director or alternate Director, provided that he will be obliged to repay such amounts no later than:

(i) in the event he is convicted in proceedings, the date when the conviction becomes final;

(ii) in the event of judgment being given against him in proceedings, the date when the judgment becomes final; o

(iii) in the event of the court refusing to grant him relief on any application under sections 144(3) or (4) or 727 of the Statues, the date when the refusal becomes final."

By order of the Board

F Steven Hitchcock
Company Secretary

9 March 2007

notice of Annual General Meeting

(continued)

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 6pm on 24 April 2007, or, in the event that the Meeting is adjourned, less than 48 hours before the time of any adjourned meeting, 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 6pm on 24 April 2007 or, in the event that the Meeting is adjourned, less than 48 hours before the time of any adjourned meeting, 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, Bourne House, 34 Beckenham Road, Beckenham, Kent BR3 4TU not later than 10am on 24 April 2007.

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 executive directors' service contracts and the letters of appointment of non-executive directors 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.