

THIS DOCUMENT IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION. If you are in any doubt about the contents of this document you are recommended immediately to seek your own independent financial advice from your stockbroker, bank manager, solicitor, accountant or other independent financial adviser duly authorised under the Financial Services and Markets Act 2000 if you are resident in the United Kingdom or, if not, another appropriately authorised independent financial adviser in your own jurisdiction.

If you have sold or transferred all of your Ordinary Shares, you should forward this document and the accompanying Form of Proxy as soon as possible to the purchaser or transferee, or to the stockbroker, bank or other agent through whom the sale or transfer was effected for transmission to the purchaser or transferee.

This document has been drawn up in accordance with the Prospectus Rules and Listing Rules and is an approved prospectus for the purposes of section 85(1) of FSMA. Accordingly, this prospectus has been approved as a combined prospectus and class 1 circular by the FSA (as the competent authority in the United Kingdom) under section 87A(1) of FSMA and has been filed with the FSA in accordance with Rule 3.2 of the Prospectus Rules.

Application will be made to the UK Listing Authority for the New Ordinary Shares to be admitted to the Official List and to the London Stock Exchange for the New Ordinary Shares to be admitted to trading on the London Stock Exchange's market for listed securities. It is expected that Admission will become effective and that dealings on the London Stock Exchange in the New Ordinary Shares will commence at 8.00 a.m. on 17 October 2007.

The New Ordinary Shares will only be made available to the KSA Vendors. No New Ordinary Shares have been marketed to, nor are any available for purchase in whole or in part by, the public in the United Kingdom or elsewhere in connection with Admission. This document does not constitute an offer or invitation to any person to subscribe for or purchase any securities in Management Consulting Group PLC.

The whole text of this document should be read. For a discussion of certain risks and other factors that should be considered in connection with an investment in the New Ordinary Shares, see the section entitled "Risk Factors" on pages 9 to 12.



Management Consulting Group PLC

(Incorporated in England and Wales under the Companies Act 1948 with registered number 1000608)

Proposed acquisition of Kurt Salmon Associates, Inc.

Issue of up to 53,643,103 new Ordinary Shares as consideration to the KSA Vendors

Increase of Authorised Share Capital

Notice of Extraordinary General Meeting

Notice of an Extraordinary General Meeting of Management Consulting Group PLC to be held at the offices of Baker & McKenzie LLP, 100 New Bridge Street, London EC4V 6JA at 11.00 a.m. on 11 October 2007 is set out at the end of this document. The Form of Proxy for use at the meeting accompanies this document and, to be valid, should be completed and returned in accordance with the instructions set out thereon as soon as possible but in any event so as to reach Capita Registrars, The Registry, 34 Beckenham Road, Beckenham, Kent, BR3 4TU not later than 11.00 a.m. on 9 October 2007. If you are a member of CREST or a CREST sponsored member you may be able to use the CREST electronic proxy appointment service. Proxies sent electronically must be sent as soon as possible and, in any event, so as to be received by not later than 11.00 a.m. on 9 October 2007 (or, in the case of an adjournment, not later than 48 hours before the time fixed for the holding of the adjourned meeting). Return of a Form of Proxy will not preclude a Shareholder from attending and voting at the EGM.

N M Rothschild & Sons Limited, which is authorised and regulated in the United Kingdom by the FSA, is acting exclusively for the Company as financial adviser and sponsor in connection with the matters referred to herein and will not be responsible to anyone other than the Company for providing the protections afforded to customers of N M Rothschild & Sons Limited or for advising any such person in connection with the matters referred to herein.

No person has been authorised to give any information or make any representations other than those contained in this document and, if given or made, such information or representations must not be relied upon as having been so authorised.

The contents of this document are not to be construed as legal, business or tax advice. Each prospective investor should consult his, her or its own solicitor, independent financial adviser or tax adviser for legal, financial or tax advice.

The New Ordinary Shares have not been, and will not be, registered under the United States Securities Act of 1933, as amended (the "Securities Act"), or under the securities laws of any state of the United States and may not be offered or sold, except pursuant to an exemption from, or in a transaction not subject to, the registration requirements of the Securities Act and applicable state securities laws. The New Ordinary Shares may not be resold unless they are registered under the Securities Act and applicable state securities laws or an exemption from registration is available. The relevant clearances have not been, and will not be, obtained from the Securities Commission of any province or territory of Canada; no prospectus in relation to the Admission has been, or will be, lodged with, or registered by, the Australian Securities and Investments Commission; and no registration statement has been, or will be, filed with the Japanese Ministry of Finance in relation to the Admission. Accordingly, subject to certain exceptions, the New Ordinary Shares may not, directly or indirectly, be offered or sold within Canada, Australia or Japan or offered or sold to a resident of Canada, Australia or Japan.

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PART 1

SUMMARY

THIS SUMMARY SHOULD BE READ AS AN INTRODUCTION TO THE PROSPECTUS. ANY DECISION TO INVEST IN THE NEW ORDINARY SHARES SHOULD BE BASED ON CONSIDERATION OF THE PROSPECTUS AS A WHOLE BY THE INVESTOR.

Where a claim relating to the information contained in a prospectus is brought before a court, the claimant investor might, under the national legislation of the EEA States, have to bear the costs of translating the prospectus before the legal proceedings are initiated.

Civil liability attaches to those persons who are responsible for the summary including any translation of the summary, but only if the summary is misleading, inaccurate or inconsistent when read together with the other parts of the prospectus.

1. Introduction

It was announced on 19 September 2007 that MCG, the international management consultancy group, had entered into a conditional agreement whereby it would acquire, by way of merger, the entire issued share capital of KSA, a leading management consultancy practice with a focus on the retail, consumer products and health care industries.

The total consideration agreed for the Acquisition is US\$125.0 million (£62.7 million), which will be satisfied by the payment of US\$75.0 million (£37.6 million) in cash, the issue of 48,278,793 New Ordinary Shares (the number of which may be adjusted to up to a maximum of 53,643,103 New Ordinary Shares or down to a minimum of 43,889,812 New Ordinary Shares pursuant to the Share Consideration Adjustment) and the grant of options over 6,293,124 Ordinary Shares in exchange for KSA Options (the number of Ordinary Shares the subject of options may be adjusted up to a maximum of 7,471,466 Ordinary Shares or down to a minimum of 5,525,105 Ordinary Shares pursuant to an adjustment mechanism linked to the Share Consideration Adjustment).

The cash element of the consideration will be funded from a new €81,450,000 and US\$111,325,000 multicurrency debt facility which will additionally refinance the existing Group borrowings and provide further working capital and acquisition capital.

The proposed Acquisition constitutes a Class 1 transaction under the Listing Rules. Accordingly, it is subject to the approval of Shareholders, which is to be sought at the Extraordinary General Meeting.

The Board believes that the Acquisition is a key development in the Group's strategy to deliver profitable and sustainable revenue growth by broadening and deepening its consulting offerings and diversifying the Group's geographic reach.

2. Information on MCG

The Group currently comprises six specialist consultancies: CBH Consulting, Ineum Consulting, Parson Consulting, Proudfoot Consulting, Salzer Consulting and Viaduct Consulting.

On 5 September 2007 (being after the dates of the Company's most recent audited and unaudited balance sheets), the Company acquired CBH, a California corporation, by way of merger for a total consideration of approximately US\$10.6 million. CBH Consulting provides performance management and business intelligence solutions for enterprises. It assists management to obtain timely, accurate and well presented information on business performance and information in order to make well informed business decisions. CBH Consulting serves the commercial and public sectors with particular industry expertise in financial services, health care and state and local government. It works closely with and is a preferred partner of Cognos, a corporate performance planning and business intelligence software provider.

Ineum Consulting provides a range of services to businesses in the private and public sectors through its dedicated industry groups and offers market, strategic, functional and technology expertise. Ineum Consulting serves the financial, manufacturing, utilities, telecoms and media, public and transportation sectors. It also has a specialist middle market group to meet the needs of dynamic and growing businesses.

Parson Consulting develops excellence in finance and operations. It assists chief financial officers by providing valuable financial information and insight to stakeholders through strategic finance, accounting and finance operations, governance and risk management, and corporate transaction support. It does not undertake auditing or resell software and is therefore free of conflicts of interest.

Proudfoot Consulting implements sustainable operational improvements at no net annualised cost to its clients through process improvements, People Solutions™ and management operating systems. The successful combination of these three disciplines results in installed change. The change process is project managed using the proprietary technique of Co-Venture® which, through partnership with Proudfoot Consulting's clients, accelerates the pace of change from the consulting engagement.

Salzer Consulting markets itself as the partner of choice for companies in the Asia-Pacific region that are expanding rapidly. It provides human resources project management and human effectiveness improvement through proven products and tailor-made solutions and it combines deep commercial knowledge with a sound cultural understanding of the Asia-Pacific region.

Viaduct Consulting assists private equity providers and corporates in making investment decisions. It undertakes commercial and operational due diligence and synergy assessments and critiques market and enterprise growth strategies. The practice serves defined industry sectors and draws on the expertise in other MCG Group consultancies.

The businesses of the Group are primarily focused on the main geographic markets for consulting services, which are currently North America and Europe, and, in addition, provide services in other smaller consulting markets such as Australia, Brazil, China and South Africa.

3. Background to, and reasons for, the Acquisition

The Group's strategy is to:

- operate and continually invest in its consultancies and its people to deliver profitable, sustainable revenue growth that is ahead of the market rates of growth for the consultancy sector; and
- acquire consultancies that either diversify the range of consulting offerings available to clients or deepen the coverage of existing Group offerings. Each consulting offering goes to market through its own brand and is operated separately by its own dedicated management team.

The proposed Acquisition secures a high quality consulting practice focused geographically on North America, Western Europe, China, Japan and India and with industry specialisms in consumer products and retail, and health care. It will broaden the client base of, and services provided by, the MCG Group.

KSA's industry led business will continue to trade under the KSA brand and brings to the Group client relationships with leading global suppliers and retailers and leading US hospital groups.

MCG will continue to invest in its existing consulting offerings through recruitment of suitably qualified and experienced people and will continue to seek bolt-on acquisitions of suitable management consulting and professional services businesses.

4. Benefits of the Acquisition

The Board believes that the Acquisition is an important step in the execution of the Group's strategic goals and will have operational benefits (including securing an international market leader in consulting to the consumer products and retail sectors and a strong health care practice, as well as broadening the Group's range of industry-led consulting offerings in sectors where it is not currently strong), geographic benefits (as the Acquisition will not only rebalance the Group's mix of revenues towards the world's largest consulting market, the United States, but will also provide complementary consulting offerings in geographies where the Group is already well established) and financial benefits (as the Acquisition will add a well-managed and profitable business with growing revenues, create an opportunity to reduce unit infrastructure costs and offer a more balanced revenue mix in terms of market and type of services).

5. Summary financial information on MCG

Presented below is the selected financial information on MCG in accordance with International Financial Reporting Standards as at and for (i) the three years ended 31 December 2006 and reflected in the audited financial statements for the same period and (ii) the six month periods ended 30 June 2006 and 30 June 2007 and reflected in the unaudited interim reports for those periods. Investors should read the whole of this document and not rely solely on the summarised financial information set out below.

	Years ended 31 December			Six months ended 30 June	
	2004 ¹ £'000	2005 £'000	2006 £'000	2006 £'000	2007 £'000
Revenue	119,248	129,601	146,890	67,343	100,539
Operating profit before amortisation of acquired intangible assets and non-recurring items	11,679	12,662	16,156	6,574	10,159
Profit attributable to Shareholders	8,457	9,792	8,750	5,301	5,149
Earnings per Ordinary Share (basic) before amortisation of acquired intangible assets and non-recurring items/pence	4.2	4.9	5.4	2.7	2.6
Earnings per Ordinary Share (basic)/pence per share	4.6	5.3	4.1	2.9	1.9
As at 31 December/30 June:					
Total assets	95,143	107,931	225,515	106,600	221,497
Net current assets/(liabilities)	(3,860)	4,352	(17,545)	5,492	(18,854)
Net debt	—	—	(28,769)	—	(28,829)
Shareholders' funds	48,276	57,932	112,189	63,233	115,763

6. Information on KSA

Background

KSA is a leading international management consulting firm operating through two divisions: the Consumer Products and Retail Division and the Health Care Division. The Consumer Products and Retail Division operates internationally, primarily in North America, Europe and the Asia Pacific region. The Health Care Division operates primarily in the United States.

Operations

The Consumer Products and Retail Division consults on business growth, inventory efficiency, margin management, productivity improvement, technology effectiveness programmes and supply chain management. Its services address strategy, processes, organisation and technology support in the core areas of merchandising, inventory and supply management. Clients include the full spectrum from suppliers to retailers, including within the last five years 30 of the 50 largest global retailers.

The Health Care Division consults on strategy, facility planning and IT to hospitals, medical centres and physician group practices. Its services address strategic planning, clinical programme planning, organisation and governance, facility and operational planning and consulting services related to IT strategy, system selection, negotiation and project management. Clients are typically major private sector hospital providers in the United States such as academic medical centres, community hospitals, children's hospitals and physician groups and include all of the 2001-2006 US News & World Report "Honor Roll" institutions.

KSA has an international network of offices. The business operates out of nine cities in North America: Atlanta, Los Angeles, Mexico City, Minneapolis, New York, Philadelphia, Princeton, San Bruno and San Francisco; from four countries in Europe: France, Germany, the Netherlands and the United Kingdom; and from two countries in Asia: China and Japan. KSA additionally has collaboration arrangements with consultancies in India and Spain.

The KSA Group employs approximately 550 people working in six languages.

7. Summary financial information on KSA

The revenue and operating profit (before and after restructuring and exceptional bad debt charges) for the three years ended 31 December 2006, which are presented in accordance with International Financial

¹ The selected financial information on MCG under IFRS in relation to the year ended 31 December 2004 has been extracted from the audited consolidated financial statements for the year ended 31 December 2005 set out in Part 8 of this document. The audit report of Deloitte & Touche LLP on the consolidated financial statements for that year covers notes 28 and 29 (included in Part 8 of this document as notes 28 and 29), which set out the restatement of the consolidated financial information for the year ended 31 December 2004 under IFRS.

Reporting Standards, are summarised below and have been extracted without material adjustment from KSA's accountant's report. The operating profit margin (before restructuring and exceptional bad debt charges) has been calculated to one decimal place on the basis of the figures extracted without material adjustment set out below. Shareholders should read the whole of this document and not just rely on the summarised financial information set out below.

	Years ended 31 December		
	2004 US\$'000	2005 US\$'000	2006 US\$'000
Revenue	156,925	141,070	152,936
Operating profit before restructuring and exceptional bad debt charges	12,567	7,515	12,794
Operating profit after restructuring and exceptional bad debt charges	8,412	1,830	10,610
Operating profit margin before restructuring and exceptional bad debt charges	8.0%	5.3%	8.4%
Net current assets/(liabilities)	6,911	6,612	(577)

8. Continuation of business

The Board has no current intention to introduce any major changes in the business or strategy of the Enlarged Group or to make any changes to employees' terms of engagement.

9. No significant change

There has been no significant change in the financial or trading position of the Group since 30 June 2007, the date to which the unaudited interim results of the Group were prepared.

There has been no significant change in the financial or trading position of the KSA Group since 31 December 2006, the date to which the KSA Group's latest audited accounts were prepared.

10. Current trading and prospects

The Board gave an update on trading at the time of its interim results published on 13 August 2007 and reported that Ineum Consulting's inaugural contribution to the first-half results showed significant like-for-like growth and that Proudfoot Consulting performed slightly better than in the second half of last year. Parson Consulting's results were mixed. The outlook for the Group has not changed since that announcement and the Board remains confident that the Group will show good progress in 2007. The Board has a confident outlook for the Enlarged Group's performance for the remainder of 2007.

Revenue of KSA for the period from 1 January to 11 August 2007 was approximately 18 per cent. ahead of the comparable period last year.

11. Dilution of ordinary share capital upon Completion

Upon Completion and following allotment and issue of the New Ordinary Shares and assuming (i) no further exercise of any rights to subscribe for new Ordinary Shares under the Share Option Scheme and (ii) there is no Share Consideration Adjustment, the Enlarged Share Capital is expected to be 323,535,651 Ordinary Shares (or 328,899,961 Ordinary Shares if the maximum upwards adjustment pursuant to the Share Consideration Adjustment is made). On this basis, the New Ordinary Shares will represent approximately 14.9 per cent. of the Enlarged Share Capital (or 16.3 per cent. if the Share Consideration Adjustment results in the maximum upwards adjustment in the number of New Ordinary Shares).

Following the issue of all of the New Ordinary Shares and (i) assuming no further exercise of any rights to subscribe for new Ordinary Shares under the Share Option Scheme and (ii) before the effect of the Share Consideration Adjustment, existing Shareholders will suffer an immediate dilution of approximately 14.9 per cent. in their interest in the Company (or 16.3 per cent. if the Share Consideration Adjustment results in the maximum upwards adjustment in the number of New Ordinary Shares).

12. Summary timetable

The Extraordinary General Meeting is expected to take place at the offices of Baker & McKenzie LLP, 100 New Bridge Street, London EC4V 6JA at 11.00 a.m. on 11 October 2007. The latest time and date for receipt of Forms of Proxy for the Extraordinary General Meeting is 11.00 a.m. on 9 October 2007. It is expected that Admission will become effective and that dealings in the New Ordinary Shares will commence at 8.00 a.m. on 17 October 2007.

13. Memorandum and articles of association

MCG's memorandum and articles of association contain provisions of a usual nature with regard to the nature of the business of MCG.

14. Risk factors

The following is a summary of the material risk factors identified by the Directors in relation to MCG, the MCG Group and, following the Acquisition, the Enlarged Group, consulting markets generally, the Acquisition and in relation to the Ordinary Shares, not set out in any particular order of priority:

Risks relating to MCG, the MCG Group and, following the Acquisition, the Enlarged Group

- Loss of clients to other suppliers of consultancy services may result in a decline in revenues.
- Loss of personnel or failure to recruit skilled employees may be detrimental to the business.
- Fluctuations of operating results may mean that future results may not match expectations.
- Further fundraising may restrict operating activities and dilute shareholdings.
- Major weaknesses in business process systems in the Enlarged Group may adversely affect results.
- As the business expands to foreign jurisdictions, there may be greater exposure to global currency fluctuations.
- Interest rate increases may reduce client demand for our services, thereby affecting the business' financial performance.
- Failure to comply with employment law in the business' various locations may result in litigation.
- Failure to select or successfully implement and integrate acquisitions may affect the Group's ability to achieve its growth objectives and adversely affect its financial condition.
- Professional liability risk due to the Enlarged Group's services involve professional judgment; resultant litigation may harm the Enlarged Group's reputation.
- If goodwill on the Enlarged Group's balance sheet post-Acquisition is written down, reported profits may decrease.

Risks associated with the management consulting market generally

- Fluctuations in demand for consulting services may adversely affect financial performance.
- The financial performance of the Enlarged Group may be adversely affected due to the competitive nature of the management consulting market if the Enlarged Group fails to compete successfully with other consultancies.

Risks relating to the Acquisition

- Unforeseen difficulties may result from the post-Acquisition integration of the KSA Group and the MCG Group.
- The new debt facility will increase the Enlarged Group's exposure to capital risk and interest costs.
- There is a risk of failure to realise the perceived benefits of the Acquisition.

Risks relating to the Ordinary Shares

- Shareholders will suffer dilution of ownership following issue of the New Ordinary Shares.
- Ordinary Share price volatility may mean that Shareholders do not recover their original investments.
- Substantial sales of existing Ordinary Shares or further issues of Ordinary Shares may result in Shareholders experiencing difficulty selling their Ordinary Shares, due to a decline in price and/or demand.

15. Directors

Dr Rolf Stomberg

Kevin Parry

Craig Smith

Alan Barber

Jean Paul Bolduc

Baroness Cohen of Pimlico

Stephen Ferriss

Andrew Simon

Chairman

Chief Executive

Finance Director

Non-Executive Director

Non-Executive Director

Non-Executive Director

Non-Executive Director

Non-Executive Director

PART 2

RISK FACTORS

In addition to the other information presented in this document, the following risk factors should be carefully considered by Shareholders and potential investors when deciding what action to take in relation to the issue of the New Ordinary Shares and the resolutions to be proposed at the EGM and by others when deciding whether to make an investment in the Company. The Directors have identified these risks as material risks, but additional risks and uncertainties not currently known to the Directors, or that the Board currently considers immaterial, may also adversely affect the business of the MCG Group and, following the Acquisition, the Enlarged Group and the trading price of the Ordinary Shares. If any of the risks actually occur, the business, financial condition or results of future operations of the MCG Group or, following the Acquisition, the Enlarged Group could be materially adversely affected. In that case, the trading price of the Ordinary Shares could decline and Shareholders and potential investors may lose all or part of their investments. Before making any investment decision, prospective investors are strongly advised to consult an independent adviser authorised under FSMA who specialises in advising upon investments.

The risks and uncertainties are described in the following general categories:

- Risks relating to the Company, the MCG Group and, following the Acquisition, the Enlarged Group
 - Risks relating to the Acquisition
 - Risks relating to the management consulting market generally
 - Risks relating to the Ordinary Shares
- 1. Risks relating to the Company, the MCG Group and, following the Acquisition, the Enlarged Group**

Clients

Individual clients of the Company, the MCG Group and, following the Acquisition, the Enlarged Group can change their preferred suppliers of consulting services and/or can change permanently or temporarily the quantity of such consulting services and/or the price at which they buy such services. These changes can adversely impact the revenues of the Company, the MCG Group and, following the Acquisition, the Enlarged Group, either permanently or in a particular reporting period. The extent of the adverse impact on profitability depends, amongst other things, on the speed at which management decides or is able to reduce headcount and the level of other costs.

Management and employees

The success of the Enlarged Group will, to an extent, depend on its ability to recruit and retain key employees of the Enlarged Group and to ensure their continued motivation. The Directors intend to maintain suitable remuneration schemes for employees, including the KSA employees, that are consistent with market levels of remuneration and with MCG Group practice. To the extent that such arrangements fail to ensure that key employees are retained by the Enlarged Group, it is possible that such failure may be detrimental to the business of the Enlarged Group.

The success of the Company, the MCG Group and, following the Acquisition, the Enlarged Group is dependent upon its ability to attract, retain and motivate skilled professionals at all levels. The MCG Group seeks to pay salaries and bonuses in line with the market.

Current operating results

The Company's, the MCG Group's and, following the Acquisition, the Enlarged Group's operating results may fluctuate significantly in the future due to a variety of factors, many of which are outside management control. Accordingly, investors should not rely on comparisons with the Company's, the MCG Group's, or KSA's historic results to date as an indication of future performance of the Enlarged Group. Factors that may affect the Enlarged Group's operating results include a downturn in business, a downturn in the economies of the countries in which the Enlarged Group operates, increased competition, increased employment costs and changes to statutory and regulatory regimes. It is possible that, in the future, the Enlarged Group's operating results will fall below the expectations of securities analysts or investors. If this occurs, the trading price of the Ordinary Shares may decline significantly.

Geographic spread of consulting fees and exchange rate risk

The Company, the MCG Group and, following the Acquisition, the Enlarged Group operate in and provide services to clients in countries other than the UK and conduct business in currencies other than UK pounds Sterling (the currency in which the MCG Group reports its financial statements). Fees are generally charged to clients in local currencies and generally services are provided by employees who are remunerated in the same currency. Consequently, the reported revenues and profits are dependent on the prevailing average exchange rates, although the profit impact is mitigated to some extent by intra-group hedging mechanisms.

The geographic spread of consulting fees determines the taxable profits in individual countries. The tax charge of the MCG Group is dependent on the spread of profits between countries.

Exposure of the MCG Group to foreign currency movements will be increased as a result of the Acquisition because KSA conducts its business principally in currencies other than UK pounds Sterling. Material fluctuations in the exchange rate of UK pounds Sterling against other currencies, in particular US dollars, Euros and Yen, could have an adverse impact on the MCG Group's operations and reported results.

Business process risks and systems

Business process risks are present in all of the Company's, the MCG Group's and, following the Acquisition, the Enlarged Group's businesses, including the risk of direct and/or indirect loss resulting from inadequate or failed internal and external processes, systems and human error or from external events. The Company's, the MCG Group's and, following the Acquisition, the Enlarged Group's systems are designed to ensure that business process risks associated with its activities are appropriately controlled, but any weaknesses in the systems, processes or business continuity arrangements could have a negative effect on the results of their operations during the affected period.

Employment law

The Company, the MCG Group and, following the Acquisition, the Enlarged Group are subject to various employment law regimes around the world and seek to comply with all such laws that apply to their respective activities. To the extent that the Company, the MCG Group and, following the Acquisition, the Enlarged Group fails to comply on a systematic basis with such laws, they could be subject to litigation which, in some circumstances, may result in a liability that is not insured or that existing insurance policies do not cover fully and that could harm the reputation of the Company, the MCG Group and, following the Acquisition, the Enlarged Group.

Professional liability

The Company, the MCG Group and, following the Acquisition, the Enlarged Group provide services that typically involve analysis and the exercise of professional judgement. As a result, the Company, the MCG Group and, following the Acquisition, the Enlarged Group are subject to the risk of professional liability where a client undertakes successful litigation. In some circumstances this may result in a liability that is not insured or that existing insurance policies do not cover fully and that could harm the reputation of the Company, the MCG Group and, following the Acquisition, the Enlarged Group. In particular, the Company, the MCG Group and, following the Acquisition, the Enlarged Group will carry on a significant amount of business in the United States of America, where there is generally believed to be a higher risk of litigation than in other countries in which the Company, the MCG Group and, following the Acquisition, the Enlarged Group carry on business.

Goodwill

The MCG Group carries goodwill arising on past acquisitions on its balance sheet at a value represented by historic cost, reduced for amortisation. The Enlarged Group will carry additional goodwill on the balance sheet arising on the Acquisition. The carrying value of this goodwill is required to be regularly reviewed and, if necessary written down to the extent that there has been a permanent diminution in value. Any such write-down that becomes necessary would reduce reported profits of the Enlarged Group.

Risks relating to future acquisitions

The MCG Group is committed to a strategy of growth, including by means of further acquisitions where the Directors believe these to be in the interests of Shareholders. The MCG Group's ability to implement

this strategy is dependent on the willingness of the current owners of target businesses to sell and the active support of those involved in the target business for a future within the Enlarged Group. As a result, the MCG Group cannot control the timing of acquisitions. Furthermore, the failure of the Enlarged Group to select, undertake or successfully implement and integrate future acquisitions may affect its ability to achieve its growth objectives and have an adverse effect on the financial condition and results of operations of the Enlarged Group. Were the Company to issue shares in relation to any future acquisition, Shareholders would suffer a reduction in their proportionate ownership and voting interests in the ordinary share capital of the Company.

The possible need for additional capital in the future

The Enlarged Group's capital requirements will depend upon a number of factors, including the ability to capitalise on potential future acquisition opportunities. The MCG Group may require further financing in order to complete such acquisitions. Any additional equity financing may be dilutive to Shareholders and debt financing, if available, may involve restrictions on the Enlarged Group's operating activities. If the Company is unable to obtain any necessary additional financing on appropriate terms, or at all, it may affect its ability to grow by acquisitions.

Interest rate risk

The Enlarged Group's interest costs in respect of borrowings will increase in the event of rising interest rates. Rising interest rates may also have a more general effect upon demand from clients for consulting services in the markets in which the Enlarged Group participates, with a potential adverse impact upon its financial performance.

Dilution of ownership

If passed, the Resolutions would mean that Shareholders will suffer a reduction in their proportionate ownership and voting interests in the ordinary share capital of the Company as the Company would then intend to issue the New Ordinary Shares.

2. Risks relating to the Acquisition

Integration of KSA into the MCG Group

Following the Acquisition, it will be necessary to make some changes to the management and operational structure of KSA in order to align the business with the management and operational structure of MCG. The Enlarged Group may face unforeseen difficulties as those changes are carried out and issues may come to light during the course of the post-Acquisition integration that may have an adverse effect on the financial condition and results of operations of the Enlarged Group, such as the failure to retain certain individuals.

New debt facilities

The Enlarged Group has concluded a new debt facility to satisfy part of the cash element of the consideration due for the Acquisition which will additionally refinance the existing Group borrowings and provide further working capital and acquisition capital. The use of this borrowing increases the Enlarged Group's exposure to capital risk and interest costs.

Failure to realise the perceived benefits of the Acquisition

The Company may not realise the perceived benefits of the Acquisition. The Board is recommending the Acquisition, and other matters contemplated by the Resolutions, because it believes that the Acquisition will be a significant step towards the implementation of the Company's strategy. However, the Company may encounter substantial difficulties in achieving these perceived benefits. There can be no assurance that the Company will realise these benefits in the time expected or at all.

Representation and warranty recovery risk

The Company is receiving the benefit of representations and warranties relating to the business and affairs of KSA from the KSA Vendors. In the event of the bankruptcy of any of the KSA Vendors, the Company would have to bear any irrecoverable losses itself. The Directors have sought to mitigate this risk in relation to the KSA Vendors by securing the indemnifications given against any losses by reason of any inaccuracy in, or breach of, the representations and warranties given by the KSA Vendors by retaining a portion of the cash and shares to be issued to the KSA Vendors in escrow accounts up to 31 March 2009.

3. Risks relating to the management consulting market generally

Demand for management consulting services

Demand for management consulting services in all markets is affected, to some extent, by the level of business activity of clients, which in turn is affected by the level of economic activity in the industries and markets that they serve. A decline in the level of business activity of the clients of the Company, the MCG Group and, following the Acquisition, the Enlarged Group could have an adverse impact upon its financial performance.

Competitive nature

The market for management consulting services, in which the Company, the MCG Group and, following the Acquisition, the Enlarged Group operate in various countries around the world is highly competitive and includes a large number of participants. The ability of the Company, the MCG Group and, following the Acquisition, the Enlarged Group to compete depends, in part, on the ability of competitors to hire, retain and motivate skilled consultants, the price at which they offer comparable services and their responsiveness to clients. If the Company, the MCG Group and, following the Acquisition, the Enlarged Group are unable to compete successfully with existing competitors or with any new competitors, there may be an adverse impact upon the financial performance of that company or those groups.

4. Risks relating to the Ordinary Shares

Possible volatility of the price of the Ordinary Shares

The market price of the Ordinary Shares could be subject to significant fluctuations due to a change in sentiment in the market regarding the Ordinary Shares (or securities similar to them) or in response to various factors and events, including: any regulatory changes affecting the Company's, the MCG Group's or, following the Acquisition, the Enlarged Group's operations; variations in the Company's, the MCG Group's or, following the Acquisition, the Enlarged Group's operating results; and business developments of the Company, the MCG Group or, following the Acquisition, the Enlarged Group or its competitors.

Stock markets have from time to time experienced significant price and volume fluctuations which have affected the market prices for securities which may be unrelated to the Company's, the MCG Group's or, following the Acquisition, the Enlarged Group's operating performance or prospects. Furthermore the Company's, the MCG Group's or, following the Acquisition, the Enlarged Group's operating results and prospects from time to time may be below the expectations of market analysts and investors. Any of these events could result in a decline in the market price of the Ordinary Shares. The trading prices of the Ordinary Shares may go down as well as up and Shareholders may therefore not recover their original investments.

Substantial sales of Ordinary Shares could cause the price of Ordinary Shares to decline

There can be no assurance that the Directors or other Shareholders will not elect to sell their Ordinary Shares. The market price of Ordinary Shares could decline as a result of any such sales or as a result of the perception that these sales may cause. If these or any other sales were to occur, the Shareholders may in the future have difficulty in selling Ordinary Shares at a time or at a price deemed appropriate.

Impact of further issues of Ordinary Shares on the market price of Ordinary Shares

The Company has no current plans for a subsequent issue of Ordinary Shares. However, it is possible that the Company may decide to issue additional Ordinary Shares in the future, particularly as its stated policy is one of growth and its intention is to satisfy consideration due for such acquisitions wholly or partly in its own shares. In addition, the grant of options and deferred awards under the Share Schemes is an integral element of the Company's and of the MCG Group's, and following the Acquisition, the Enlarged Group's remuneration policies. An additional issue of Ordinary Shares by the Company, or the public perception that such an issue may cause, could have an adverse effect on the market price of Ordinary Shares.

Before making any investment decision, Shareholders and prospective investors are strongly advised to consult an independent adviser authorised under FSMA who specialises in advising upon investments.

The risks listed above are not presented in any order of priority.

PART 3

EXPECTED TIMETABLE OF PRINCIPAL EVENTS

2007

Latest time and date for receipt of Forms of Proxy	11.00 a.m. on 9 October
Extraordinary General Meeting	11.00 a.m. on 11 October
Expected date of Completion	16 October
Admission and commencement of dealings in the New Ordinary Shares	8.00 a.m. on 17 October

PART 4

PERSONS RESPONSIBLE AND ADVISERS

Directors:	Dr Rolf Stomberg, Non-Executive Chairman Kevin Parry, Chief Executive Craig Smith, Finance Director Alan Barber, Non-Executive Director Jean Paul Bolduc, Non-Executive Director Baroness Cohen of Pimlico, Non-Executive Director Stephen Ferriss, Non-Executive Director Andrew Simon, Non-Executive Director all of: Fleet Place House 2 Fleet Place Holborn Viaduct London EC4M 7RF
Secretary:	Charles Ansley
Registered Office:	Fleet Place House 2 Fleet Place Holborn Viaduct London EC4M 7RF
Sponsor and Financial Adviser:	N M Rothschild & Sons Limited New Court St. Swithin's Lane London EC4P 4DU
Auditors to the Company and Reporting Accountants on the Enlarged Group:	Deloitte & Touche LLP Hill House 1 Little New Street London EC4A 3TR
Reporting Accountants on KSA:	KPMG LLP 1 Puddle Dock London EC4V 3PD
Solicitors to the Company:	Baker & McKenzie LLP 100 New Bridge Street London EC4V 6JA
Registrars:	Capita Registrars The Registry 34 Beckenham Road Beckenham Kent BR3 4TU

PART 5

LETTER FROM THE CHAIRMAN OF MANAGEMENT CONSULTING GROUP PLC *(Incorporated in England and Wales under the Companies Act 1948 with registered number 1000608)*

Registered Office:
Fleet Place House
2 Fleet Place
Holborn Viaduct
London
EC4M 7RF

Directors:

R.W.H. Stomberg (Chairman)*
K.A.H. Parry (Chief Executive)
C.H. Smith (Finance Director)
A.J. Barber*
J.P. Bolduc*
Rt Hon Baroness Cohen of Pimlico*
S.A. Ferriss*
A.H. Simon, OBE*

** Non-Executive Director*

21 September 2007

To Shareholders and, for information only, to holders of options under the Share Option Scheme

Dear Shareholders

Proposed acquisition of KSA, issue of the New Ordinary Shares as consideration to KSA Vendors, increase of authorised share capital, notice of Extraordinary General Meeting

1. Introduction

The Board announced on 19 September 2007 that the Company had entered into a conditional agreement whereby it would acquire, by way of merger, the entire issued share capital of KSA, an international management consulting practice specialising in services to consumer product suppliers, retailers and health care providers.

The total consideration agreed for the Acquisition is US\$125.0 million (£62.7 million), which will be satisfied by the payment of US\$75.0 million (£37.6 million) in cash, the issue of 48,278,793 New Ordinary Shares (which may be adjusted to up to a maximum of 53,643,103 New Ordinary Shares or down to a minimum of 43,889,812 New Ordinary Shares pursuant to the Share Consideration Adjustment) and the grant of options over 6,293,124 Ordinary Shares in exchange for KSA Options, as explained further in paragraph 4 of Part 6 of this document. The number of Ordinary Shares the subject of options may be adjusted to up to a maximum of 7,471,466 Ordinary Shares or down to a minimum of 5,525,105 Ordinary Shares pursuant to an adjustment mechanism linked to the Share Consideration Adjustment.

The cash element of the consideration will be funded from a new €81,450,000 and US\$111,325,000 multicurrency debt facility which will additionally refinance the existing Group borrowings and provide further working capital and acquisition capital. The new debt facilities are described in further detail in paragraph 10.1 of Part 13 of this document.

The Board believes that the Acquisition is a key development in the execution of the Group's strategic goal to be a multidisciplinary consulting and professional services group and will further broaden and deepen its consulting offerings whilst diversifying the risks of the Group.

The proposed Acquisition constitutes a Class 1 transaction under the Listing Rules. Accordingly, it is subject to the approval of Shareholders, which is to be sought at the Extraordinary General Meeting (along with the approval of certain other matters), the notice of which is included in this document.

The KSA Vendors will, immediately following Completion and before the effect of any Share Consideration Adjustment, together hold 48,278,793 Ordinary Shares representing 14.9 per cent. of the

Enlarged Share Capital (or 16.3 per cent. if the Share Consideration Adjustment results in the maximum upwards adjustment in the number of New Ordinary Shares or 13.8 per cent. if the Share Consideration Adjustment results in the maximum downwards adjustment in the number of New Ordinary Shares).

The purpose of this document is to explain the background to, and reasons for, the Acquisition and other Proposals and why the Directors believe that the Acquisition and other Proposals are in the best interests of MCG and its Shareholders as a whole, and to recommend that you vote in favour of all of the Resolutions to be proposed at the Extraordinary General Meeting, all of which relate to matters connected with the Acquisition.

2. Information on MCG

The Group currently comprises six specialist consultancies: CBH Consulting, Ineum Consulting, Parson Consulting, Proudfoot Consulting, Salzer Consulting and Viaduct Consulting.

On 5 September 2007 (being after the dates of the Company's most recent audited and unaudited balance sheets), the Company acquired CBH, a California corporation, by way of merger for a total consideration of approximately US\$10.6 million. CBH Consulting provides business performance management and business intelligence solutions for enterprises. It assists management to obtain timely, accurate and well presented information on business performance and information in order to make well informed business decisions. CBH Consulting serves the commercial and public sectors with particular industry expertise in financial services, health care and state and local government. It works closely with and is a preferred partner of Cognos, a corporate performance planning and business intelligence software provider.

Ineum Consulting provides a range of services to businesses in the private and public sectors through its dedicated industry groups and offers market, strategic, functional and technology expertise. Ineum Consulting serves the financial, manufacturing, utilities, telecoms and media, public and transportation sectors. It also has a specialist middle market group to meet the needs of dynamic and growing businesses.

Parson Consulting develops excellence in finance and operations. It assists chief financial officers by providing valuable financial information and insight to stakeholders through strategic finance, accounting and finance operations, governance and risk management, and corporate transaction support. It does not undertake auditing or resell software and is therefore free of conflicts of interest.

Proudfoot Consulting implements sustainable operational improvements at no net annualised cost to its clients through process improvements, People Solutions™ and management operating systems. The successful combination of these three disciplines results in installed change. The change process is project managed using the proprietary technique of Co-Venture® which, through partnership with Proudfoot Consulting's clients, accelerates the pace of change from the consulting engagement.

Salzer Consulting markets itself as the partner of choice for companies in the Asia-Pacific region that are expanding rapidly. It provides human resources project management and human effectiveness improvement through proven products and tailor-made solutions and it combines deep commercial knowledge with a sound cultural understanding of the Asia-Pacific region.

Viaduct Consulting assists private equity providers and corporates in making investment decisions. It undertakes commercial and operational due diligence and synergy assessments and critiques market and enterprise growth strategies. The practice serves defined industry sectors and draws on the expertise available in other MCG Group consultancies.

The businesses of the MCG Group are primarily focused on the main geographic markets for consulting services, which are currently North America and Europe, and, in addition, provide services in other smaller consulting markets such as Australia, Brazil, China and South Africa.

Certain risk factors in respect of MCG are set out in Part 2 (the "Risk Factors" section) of this document.

3. Selected financial information on MCG

The selected financial information on MCG, presented in accordance with International Financial Reporting Standards, set out below as at and for (i) the three years ended 31 December 2006 has been extracted, without material adjustment, from pages 40 to 43 of MCG's 2005 annual report and accounts and pages 47 to 50 of MCG's 2006 annual report and accounts and (ii) the six month periods ended 30 June 2006 and 30 June 2007 has been extracted, without material adjustment, from pages 8 to 11 of MCG's 2006 unaudited interim report and pages 8 to 11 of MCG's 2007 interim report (which is included

in Part 9 of this document). Investors should read the whole of this document and not rely solely on the selected financial information set out below.

	Years ended 31 December			Six months ended 30 June	
	2004 ¹ £'000	2005 £'000	2006 £'000	2006 £'000	2007 £'000
Revenue	119,248	129,601	146,890	67,343	100,539
Operating profit before amortisation of acquired intangible assets and non-recurring items	11,679	12,662	16,156	6,754	10,159
Profit attributable to Shareholders	8,457	9,792	8,750	5,301	5,149
Earnings per Ordinary Share (basic) before amortisation of acquired intangible assets and non-recurring items/pence	4.2	4.9	5.4	2.7	2.6
Earnings per Ordinary Share (basic)/pence per share	4.6	5.3	4.1	2.9	1.9
As at 31 December/30 June:					
Total assets	95,143	107,931	225,515	106,600	221,497
Net current assets/(liabilities)	(3,860)	4,352	(17,545)	5,492	(18,854)
Net debt	—	—	(28,769)	—	(28,829)
Shareholders' funds	48,276	57,932	112,189	63,233	115,763

4. Background to, and reasons for, the Acquisition

The Group's strategy is to:

- operate and continually invest in its consultancies and its people to deliver profitable, sustainable revenue growth that is ahead of the market rates of growth for the consulting sector; and
- acquire consultancies that either diversify the range of consulting offerings available to clients or deepen the coverage of existing Group offerings. Each consulting offering goes to market through its own brand and is operated separately with its own dedicated management team.

Group management co-ordinates the introduction of clients as between the different offerings, provides oversight of key client relationships and broadens the range of consulting offerings available to clients by shaping consultancies' strategies and by acquisitions. The Group management additionally determines the investment priorities and provides expert financial and other infrastructure skills and assets.

The proposed Acquisition secures a high quality consulting practice focused on the retail, consumer products and health care industries. It will broaden the client base of, and services provided by, the MCG Group and provides the opportunity for the clients of KSA to be introduced to the Group's other consultancies and for clients of the MCG Group to be introduced to the services of KSA.

KSA provides the Group with a further major consulting offering focusing on industry specialisms. Its industry led business will continue to trade under the KSA brand.

MCG will continue to invest in its existing consulting offerings through recruitment of suitably qualified and experienced people and will continue to seek bolt-on acquisitions of suitable management consulting and professional services businesses.

5. Benefits of the Acquisition

The Board believes that the Acquisition is an important step in the execution of the Group's strategic goals. In particular, the Board believes the Acquisition will have the following key benefits:

Operational

- Secures an international market leader in consulting to the consumer products and retail sectors and a strong health care practice in the United States

¹ The selected financial information on MCG under IFRS in relation to the year ended 31 December 2004 has been extracted from the audited consolidated financial statements for the year ended 31 December 2005 set out in Part 8 of this document. The audit report of Deloitte & Touche LLP on the consolidated financial statements for that year covers notes 28 and 29 (included in Part 8 of this document as notes 28 and 29), which set out the restatement of the consolidated financial information for the year ended 31 December 2004 under IFRS.

- Broadens the Group's range of industry-led consulting offerings in sectors where it is not currently strong
- Strong KSA brand raises the Group's profile in the United States, Europe and Asia
- Deepens the Group's talent pool with internationally experienced principals
- Increases the Group's client base and enables it to cross sell its services to that enlarged client base

Geographic

- Rebalances the Group's mix of revenues towards the world's largest consulting market, the United States, following the acquisition of the substantially European Ineum business in 2006
- Provides complementary consulting offerings in geographies where the Group is already well established
- Increases the Group's Asian presence
- Provides a platform for further development in growing markets

Financial

- Adds a well-managed and profitable business with growing revenues
- Expected to be earnings enhancing in 2008 before one-off integration costs and the amortisation of intangible assets¹
- Creates an opportunity to reduce unit infrastructure costs
- Offers a more balanced revenue mix in terms of market and service offerings and so spreads the risks inherent in the Group over an enlarged portfolio of businesses

6. Information on KSA

Background

KSA is a leading international management consulting firm operating through two divisions: the Consumer Products and Retail Division and the Health Care Division. The business was founded in Washington, D.C. in 1935 and has its global headquarters in Atlanta.

The Consumer Products and Retail Division operates internationally, principally in North America, Europe and the Asia Pacific region. The Health Care Division operates primarily in the United States.

Over the course of 2005 and 2006, the Consumer Products and Retail Division completed a restructuring of its operations and its consulting offerings that included the withdrawal from certain consulting activities associated with IT services. The impact of this period of restructuring was reflected in the reported revenues and operating profits of the KSA business in the three years ended 31 December 2004, 2005 and 2006. The revenues of KSA increased by 8.4 per cent. from US\$141.1 million in 2005 to US\$152.9 million in 2006.

Operations

The Consumer Products and Retail Division consults on business growth, inventory efficiency, margin management, productivity improvement, technology effectiveness programmes and supply chain management. Its services address strategy, processes, organisation and technology support in the core areas of merchandising, inventory and supply management. Clients include the full spectrum from suppliers to retailers, including within the last five years 30 of the 50 largest global retailers. Its clients include, for example, AEON, Carrefour, The Home Depot, J Sainsbury, Macy's, Procter & Gamble, Sara Lee and Wal-Mart, together with private equity firms that are active in this industry sector. The revenues of the Consumer Products and Retail Division in the year ended 31 December 2006 were approximately US\$125 million, approximately 66 per cent. of which related to the United States, approximately 25 per cent. to Europe and approximately 9 per cent. to the Asia Pacific region.

¹ This statement is not intended to constitute a profit forecast and should not be interpreted to mean that the actual earnings of the Enlarged Group following the Acquisition will necessarily match or exceed the historic published earnings.

The Health Care Division consults on strategy, facility planning and IT to hospitals, medical centres and physician group practices. Its services address strategic planning, clinical programme planning, organisation and governance, facility and operational planning and consulting services related to IT strategy, system selection, negotiation and project management. Clients are typically major private sector hospital providers in the United States such as academic medical centres, community hospitals, children's hospitals and physician groups and include all of the 2001-2006 US News & World Report "Honor Roll" institutions such as John Hopkins Hospital, The Mayo Clinic, Cleveland Clinic, Massachusetts General Hospital, UCLA Medical Center and the Children's Hospital of Philadelphia. The Health Care Division has also provided consulting services to health care providers in the Middle East including Saudi Arabia, Qatar and the United Arab Emirates. The revenues of the Health Care Division in the year ended 31 December 2006 were approximately US\$28 million.

KSA operates from a network of offices in North America: Atlanta, Los Angeles, Mexico City, Minneapolis, New York, Philadelphia, Princeton, San Bruno and San Francisco; from four countries in Europe (France, Germany, the Netherlands and the United Kingdom); and from two countries in Asia (China and Japan). KSA additionally has collaboration arrangements with consultancies in India and Spain.

The Board believes that (i) the size of the global markets for consulting services to the consumer products and retail industry sectors is approximately US\$12 billion and US\$13 billion respectively and (ii) the growth in those markets will be between six and ten per cent. per annum over the next three years.

The Board further believes that the size of the global market for consulting services to the health care sector is approximately US\$25 billion, and that the growth will be approximately six per cent. per annum over the next three years.

Management and employees

The employees of the KSA business who are also shareholders are referred to as "principals". There are currently 77 principals who in aggregate own 100 per cent. of the common stock of KSA.

The KSA Group employs approximately 550 people working in six languages. KSA was ranked as one of the "Ten Best Consulting Firms to Work For" by Consulting Magazine in each of the six years from 2002-2007.

7. Summary financial information on KSA

The accountant's report in Part 7 of this document shows that KSA had consolidated gross assets as at 31 December 2006 of US\$86.8 million and profits before tax for the year ended 31 December 2006 of US\$9.4 million.

The revenue and operating profit (before and after restructuring and exceptional bad debt charges) for the three years ended 31 December 2006, which are presented in accordance with International Financial Reporting Standards and have been extracted without material adjustment from the accountant's report in Part 7 of this document, are summarised below. The operating profit margin (before restructuring and exceptional bad debt charges) has been calculated to one decimal place on the basis of the figures extracted without material adjustment set out below. Shareholders should read the whole of this document and not just rely on the summarised financial information set out below.

	Years ended 31 December		
	2004	2005	2006
	US\$'000	US\$'000	US\$'000
Revenue	156,925	141,070	152,936
Operating profit before restructuring and exceptional bad debt charges	12,567	7,515	12,794
Operating profit after restructuring and exceptional bad debt charges	8,412	1,830	10,610
Operating profit margin before restructuring and exceptional bad debt charges	8.0%	5.3%	8.4%
Net current assets/(liabilities)	6,911	6,612	(577)

A financial information table, including three years of historic financial information for KSA, presented on the basis of MCG's own accounting policies, is set out in Part 7 of this document. For the reasons set out in Part 7 of this document, the accountant's report accompanying the financial information table has been modified in relation to International Accounting Standard ("IAS") 32 and IAS 39. As set out in Part 7 of this document, the application of IAS 32 and IAS 39 would require KSA to classify its common

shares as a liability and initially recognise that liability at fair value under IFRS because of KSA's obligation under certain circumstances to repurchase its common shares. Historically, under US generally accepted accounting principles, the common shares have been classified as equity. The implication for the financial statements is the recognition of a financial liability within current liabilities, a corresponding decrease in equity and the inclusion of an additional line in the income statement to record the finance cost related to the liability due to members.

It is not possible to quantify the financial effect of this departure from IFRS as adopted by MCG, on which basis the financial information contained in Part 7 of this document is otherwise presented, but the Directors do not believe that this modification is significant because the sole financial effect of this modification is that a financial liability to reflect KSA's obligation is recognised in equity rather than liabilities.

The Directors believe that, notwithstanding the modification of the accountant's report for the financial years ended 31 December 2004, 2005 and 2006 of KSA, the Acquisition is in the best interests of the Company and its Shareholders as a whole for the reasons set out above and in paragraph 5 of this Part 5.

8. Financial effects of the Acquisition

MCG proposes to finance the Acquisition from new bank borrowing facilities, through the issue of the New Ordinary Shares to the KSA Vendors and by granting options over Ordinary Shares in exchange for KSA Options.

An unaudited pro forma balance sheet of the Enlarged Group, prepared for illustrative purposes only and showing the effects of the Acquisition, the issue of the New Ordinary Shares and the new bank borrowing facilities is set out in Part 11 of this document.

It is envisaged that one-off costs (excluding fees in relation to the Acquisition) estimated to amount to £4 million in aggregate associated with the integration of KSA into the Enlarged Group will be incurred in the financial year ending 31 December 2007 and the two subsequent financial years.

The Acquisition will result in the recognition of intangible assets. In accordance with IFRS, intangible assets other than goodwill are amortised in the income statement over their estimated economic life.

Excluding one-off costs and the amortisation of intangibles, the Board believes that the Acquisition will enhance earnings per share in the year to 31 December 2008. This statement is not intended to constitute a profit forecast and should not be interpreted to mean that the actual earnings of the Enlarged Group following the Acquisition will necessarily match or exceed the historic published earnings.

Excluding one-off costs and the amortisation of intangibles, the Board believes that if the Acquisition had occurred at the beginning of the year ended 31 December 2006, then it would have had a dilutive impact on the Enlarged Group's earnings per share in that year.

9. Summary terms of the Acquisition

The principal agreements relating to the Acquisition are (i) the Agreement and Plan of Merger, (ii) the Stockholders Agreement and (iii) the Share Escrow Agreement. Summaries of the key terms of these agreements are set out below. Please see Part 6 of this document for a fuller description of the principal agreements relating to the Acquisition.

Agreement and Plan of Merger

Under the terms of the Agreement and Plan of Merger, MCG has conditionally agreed to acquire KSA by way of merger under Delaware law as a result of which KSA is dissolved and a newly formed subsidiary of MCG holds all of the business, assets and liabilities of KSA.

The merger consideration payable by MCG for KSA is US\$125 million, satisfied as to US\$75.0 million in cash, by the issue of 48,278,793 New Ordinary Shares (having an aggregate value of US\$47,433,817 million), the number of which may be adjusted down to a minimum of 43,889,812 New Ordinary Shares or up to a maximum of 53,643,103 New Ordinary Shares pursuant to the Share Consideration Adjustment, which will be issued as fully paid on Completion, and by the grant of options over 6,293,124 Ordinary Shares in exchange for KSA Options, as explained further in paragraph 4 of Part 6 of this document. The number of Ordinary Shares the subject of options may be adjusted to up to a maximum of 7,471,466 Ordinary Shares or down to a minimum of 5,525,105 Ordinary Shares pursuant to an adjustment mechanism linked to the Share Consideration Adjustment. Representations and warranties of a usual nature have been given by KSA.

Completion is conditional upon, *inter alia*:

- (i) the passing of resolutions necessary to approve the Acquisition and to authorise the issue of the New Ordinary Shares;
- (ii) approval of the merger transaction by the KSA common stockholders; and
- (iii) the expiration or termination of any applicable waiting period under the United States Hart Scott Rodino Antitrust Improvements Act of 1976.

Completion will take place shortly after satisfaction of the above conditions precedent, and is expected to occur on 16 October 2007. Admission of the New Ordinary Shares to the Official List and to trading on the London Stock Exchange's market for listed securities is intended to occur on the first business day after Completion.

In return for the cancellation and surrender of approximately 60 per cent. of the KSA Options held by each KSA Optionholder, each KSA Optionholder will receive a cash cancellation payment equal to the amount by which the market value of the KSA Shares under those KSA Options at Completion exceeds their exercise price. In return for the cancellation and surrender of the remaining approximately 40 per cent. of the KSA Options, KSA Optionholders will receive new options to acquire Ordinary Shares ("New Options") of equivalent value to the KSA Options. Further details of the treatment of the KSA Options are set out in paragraph 4 of Part 6 of this document.

Stockholders Agreement

Under the Stockholders Agreement, which is to be entered into on or shortly before Completion, MCG and the KSA Vendors have agreed to certain restrictions in respect of the New Ordinary Shares.

Subject to the provisions relating to lock up (as outlined in paragraph 2 of Part 6 of this document) (i) each KSA Vendor may only dispose of up to 50 per cent. of his New Ordinary Shares after the fourth anniversary but prior to and including the fifth anniversary of Completion and (ii) after the fifth anniversary of Completion, all New Ordinary Shares will be released from any restrictions on disposal.

In the event that a KSA Vendor ceases to be employed by a member of the Enlarged Group (except if as a result of termination without cause, retirement, permanent disability, death, redundancy or resignation for good reason or after the age of 62), that KSA Vendor agrees to pay liquidated damages to MCG equal to the value of certain of the New Ordinary Shares held by such KSA Vendor on the following basis (which can be satisfied in cash or by arranging to sell such number of New Ordinary Shares as are required to satisfy the amount due):

- (i) where the date of that KSA Vendor's employment ceases on or before the first anniversary of Completion, 75 per cent. of the New Ordinary Shares issued to him;
- (ii) where the date of that KSA Vendor's employment ceases after the first anniversary but on or before the second, the relevant percentage is 50 per cent.;
- (iii) where the date of that KSA Vendor's employment ceases after the second anniversary but on or before the third, the relevant percentage is 25 per cent.

Share Escrow Agreement

The Share Escrow Agreement will be executed on or shortly before the date of Completion between the Stockholder Representative, MCG and JP Morgan Chase Bank, National Association (the "Escrow Agent"). Under the Share Escrow Agreement, the parties agree that the Escrow Agent will hold share certificates and stock transfer forms relating to the New Ordinary Shares in escrow and, in certain circumstances, will release certain of the New Ordinary Shares for sale, with the sale proceeds being remitted to MCG.

10. Dilution of ordinary share capital upon Completion

Upon Completion and following allotment and issue of the New Ordinary Shares, and before the effect of the Share Consideration Adjustment, the Enlarged Share Capital is expected to be 323,535,651 Ordinary Shares (or a maximum of 328,889,961 Ordinary Shares pursuant to the Share Consideration Adjustment) (in each case assuming no further exercise of options to subscribe for new Ordinary Shares under the Share Option Scheme). On this basis, the New Ordinary Shares will represent approximately

14.9 per cent. of the Enlarged Share Capital and the Existing Ordinary Shares will represent approximately 85.1 per cent. of the Enlarged Share Capital (or 16.3 per cent. and 83.7 per cent. respectively if the Share Consideration Adjustment results in the maximum upwards adjustment in the number of New Ordinary Shares).

Following issue of all of the New Ordinary Shares and (i) assuming no further exercise of any rights to subscribe for New Ordinary Shares under the Share Option Scheme and (ii) before the effect of the Share Consideration Adjustment, existing Shareholders will suffer an immediate dilution of approximately 14.9 per cent. in their interests in the Company (or 16.3 per cent. if the Share Consideration Adjustment results in the maximum upwards adjustment in the number of New Ordinary Shares).

11. Employee retention

The Board recognises the importance of retaining key people in the business and aligning their interests with those of the Shareholders generally. For that reason, the consideration payable to the KSA Vendors includes New Ordinary Shares that cannot (subject to certain exceptions described in Part 6) be realised until the fourth or fifth anniversaries following Completion, as described above in paragraph 9.

12. Current trading and prospects

The Board gave an update on trading at the time of its interim results published on 13 August 2007 and reported that Ineum Consulting's inaugural contribution to the first-half results showed significant like-for-like growth and that Proudfoot Consulting performed slightly better than in the second half of last year. Parson Consulting's results were mixed. The outlook for the Group has not changed since that announcement and the Board remains confident that the Group will show good progress in 2007. The full text of the Company's interim results announcement is set out in Part 9 of this document.

Revenue of KSA for the period from 1 January to 11 August 2007 was approximately 18 per cent. ahead of the comparable period last year.

The Board has a confident outlook for the Enlarged Group's performance for the remainder of 2007.

13. Details of banking facilities

MCG has entered into a new, multicurrency, committed term facility, comprised of a US\$50,600,000 term A facility commitment and a €37,000,000 term B facility commitment, and a revolving credit facility (RCF), comprised of a US\$60,725,000 RCF A commitment and a €44,450,000 RCF B commitment, arranged by Barclays Capital, HSBC Bank plc and Lloyds TSB Corporate Markets pursuant to a facilities agreement dated 18 September 2007 between (1) MCG and certain of its subsidiaries (as original borrowers) (2) MCG and certain of its subsidiaries (as original guarantors) (3) Barclays Bank PLC as agent, security agent and original issuing bank and (4) Barclays Bank PLC, HSBC Bank plc and Lloyds TSB Bank plc (as the original lenders) (the "Facilities Agreement"). The commitment fee for the loans is 40 per cent. of the applicable margin on the undrawn portion of the facilities, the combined facility and security agency fee is £25,000 per annum and the margin over LIBOR on the loans is 1.5 per cent. per annum until 31 December 2008 and subsequently between 0.8 per cent. per annum and 1.5 per cent. per annum dependent on the ratio of Total Net Debt on the last day of a Relevant Period to Adjusted EBITDA in respect of that Relevant Period (as such terms are defined in the Facilities Agreement). The new term loan will be for five years; it will be available for drawing from the date of the Facilities Agreement for a period of 90 days. The revolving credit facility will be available from the date of the Facilities Agreement until one week prior to the date falling five years after the date of the Facilities Agreement.

14. Dividend policy

The Board intends to continue a progressive dividend policy dependent on the performance of the underlying business of the Enlarged Group, its debt servicing requirements and future acquisition opportunities. This statement should not be construed as a dividend forecast or as a guarantee that any dividends will be paid in the future. The Board intends for there to be two dividends per annum.

15. Extraordinary General Meeting

Set out at the end of this document is a notice convening an Extraordinary General Meeting of the Company to be held at the offices of Baker & McKenzie LLP, 100 New Bridge Street, London EC4V 6JA at 11.00 a.m. on 11 October 2007 for the purpose of considering and, if thought fit, passing the following resolutions in connection with the proposals outlined above:

1. the approval of the Acquisition;
2. the approval of an increase of the authorised share capital of the Company from £125,000,000 divided into 500,000,000 Ordinary Shares to £175,000,000 divided into 700,000,000 Ordinary Shares, such increase representing approximately 73 per cent. of the Existing Ordinary Shares (and an increase of 40 per cent. of the authorised ordinary share capital of the Company as at the date of this document); and
3. the authorisation of the Directors, pursuant to section 80 of the Act, to allot relevant securities up to a maximum nominal amount of £13,410,775.75 (53,643,103 Ordinary Shares) (representing approximately 16.3 per cent. of the Enlarged Share Capital) in connection with the Acquisition, such authority to expire at the conclusion of the annual general meeting of the Company to be held in 2008.

Resolution 2 is conditional on Resolution 1 being passed and Resolution 3 is conditional on the Agreement and Plan of Merger becoming unconditional (save for the obligation to satisfy the consideration due thereunder and Admission), as set out in the EGM Notice at the end of this document.

The Acquisition requires the approval of Shareholders due to its size as it constitutes a Class 1 transaction under the Listing Rules. Further details of the Acquisition are set out above and in Part 6 of this document.

The increase in share capital contemplated by the EGM Notice set out at the end of this document is required in order to leave the Company with a balance of authorised but unissued ordinary share capital of at least £90,000,000 (360,000,000 Ordinary Shares) which the Directors believe is an appropriate level of authorised but unissued share capital to maintain following the Acquisition.

The authority under section 80 of the Act is required to implement the Acquisition and is in addition to any subsisting authorities to allot Ordinary Shares.

The Board has no present intention of using the authorities granted by the Resolutions to issue any of the Company's ordinary share capital other than pursuant to the Acquisition and to satisfy the exercise of options under the Share Option Scheme.

The Acquisition is conditional, inter alia, upon the passing of the Resolutions.

Following Admission, assuming that the Resolutions are passed, that there is no further exercise of options under the Share Option Scheme and that there is no Share Consideration Adjustment, the Company will have an authorised share capital of £175,000,000 divided into 700,000,000 Ordinary Shares, of which £80,883,912.75 divided into 323,535,651 Ordinary Shares (or £82,224,990.25 divided into 328,899,961 Ordinary Shares if the Share Consideration Adjustment results in the maximum upwards adjustment in the number of New Ordinary Shares) will be in issue.

16. Action to be taken

You will find enclosed with this document a Form of Proxy for use at the EGM. Whether or not you propose to attend the EGM in person, you are asked to complete the Form of Proxy in accordance with the instructions printed thereon and to return it to the Company's registrars, Capita Registrars, The Registry, 34 Beckenham Road, Beckenham, Kent, BR3 4TU so as to arrive as soon as possible, but in any event so as to be received not later than 11.00 a.m. on 9 October 2007. Completion and return of a Form of Proxy will not preclude you from attending the EGM and voting in person should you so wish.

If you hold shares in CREST or are a CREST sponsored member, you may appoint a proxy by completing and transmitting a CREST Proxy Instruction so that it is received by no later than 11.00 a.m. on 9 October 2007. Further details are given in the notes to the EGM Notice.

17. Additional information

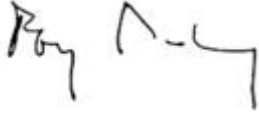
Your attention is drawn to the further information set out in Parts 1 to 4 and 6 to 13 of this document.

18. Recommendation

The Board, which has received financial advice from Rothschild, considers the Proposals to be in the best interests of Shareholders as a whole. In providing advice to the Board, Rothschild has placed reliance upon the Directors' commercial assessments of the Proposals.

Accordingly, the Board unanimously recommends that Shareholders vote in favour of the Resolutions to be proposed at the EGM as the Directors intend to do in respect of their own beneficial shareholdings, which in aggregate amount to 3,078,942 Ordinary Shares (representing approximately one per cent. of the current issued ordinary share capital of the Company).

Yours faithfully

A handwritten signature in black ink, appearing to read 'R. W. H. Stomberg', written in a cursive style.

R.W.H. Stomberg
Chairman

PART 6

SUMMARY OF THE TERMS OF THE ACQUISITION

1. Agreement and Plan of Merger

The Agreement and Plan of Merger is dated 18 September 2007. The parties to it are: (1) MCG, (2) KSA Acquisition Corporation, (3) KSA Subco Corporation, (4) KSA and (5) the Stockholder Representative (as defined in the Agreement and Plan of Merger). Under the Agreement and Plan of Merger, MCG has conditionally agreed to acquire KSA by way of merger under Delaware law. This will involve a two step process. In the first step, a new Delaware subsidiary of MCG will merge into KSA, with KSA being the surviving corporation. In the second step, KSA will merge into a new Delaware corporation that is a subsidiary of MCG, with that corporation being the surviving entity and the KSA operating entity going forward. As a result of these steps, the current KSA entity will dissolve and this corporation will hold all of the business, assets and liabilities of KSA.

The merger consideration payable by MCG for KSA is US\$125 million, satisfied as to US\$75 million in cash, by the issue of 48,278,793 New Ordinary Shares (having an aggregate value of US\$47,433,817), the number of which may be adjusted down to a minimum of 43,889,812 New Ordinary Shares or up to a maximum of 53,643,103 New Ordinary Shares pursuant to the Share Consideration Adjustment, which will be issued as fully paid on Completion, and the grant of options over 6,293,124 Ordinary Shares in exchange for KSA Options (which may be adjusted down to a minimum of 5,525,105 options over Ordinary Shares and up to a maximum of 7,471,466 options over Ordinary Shares, as explained in paragraph 4 below).

The number of the New Ordinary Shares being issued is, subject to adjustment, 48,278,793, which number was calculated by reference to (i) the price per Ordinary Share resulting from taking the average mid-market Closing Price over the 30 trading days prior to the signing of the Agreement and Plan of Merger on 18 September 2007 and (ii) the average Sterling/US\$ exchange rate, as published in the UK edition of the Financial Times, for the 30 trading days prior to the signing of the Agreement and Plan of Merger on 18 September 2007. The adjustment in the number of New Ordinary Shares referred to above may arise depending on the movement in the share price of Ordinary Shares and the Sterling/US\$ exchange rate between signing of the Agreement and Plan of Merger and Completion. However, no such adjustment will be made for any price fluctuation in excess of 10 per cent. The maximum number of New Ordinary Shares that could be issued as a result of the adjustment mechanism is 53,643,103. The number of New Ordinary Shares issued could also, as a result of the adjustment mechanism, be reduced to a minimum of 43,889,812.

Completion is conditional upon, *inter alia*:

- (i) the passing of resolutions necessary to approve the Acquisition and to authorise the issue of the New Ordinary Shares;
- (ii) approval of the merger transaction by the KSA common stockholders; and
- (iii) the expiration or termination of any applicable waiting period under the United States Hart Scott Rodino Antitrust Improvements Act of 1976.

Completion will take place shortly after satisfaction of the above conditions precedent, and is expected to occur on 16 October 2007. Admission of the New Ordinary Shares to the Official List and to trading on the London Stock Exchange's market for listed securities is intended to occur on the first business day after Completion.

KSA is providing certain representations and warranties relating to the business and affairs of KSA in favour of MCG. The warranties provided by KSA are customary for a transaction of the nature and type of the Acquisition. Such representations and warranties are deemed to be given at the date of the agreement and their continued material accuracy will be a condition precedent to Completion. Pursuant to the Agreement and Plan of Merger, the KSA Vendors will (in the same proportion as the consideration they each have received) indemnify severally MCG against any losses suffered by reason of any inaccuracy in, or breach of, the relevant warranties subject to certain limitations. Any payment by the KSA Vendors will be treated as a reduction in the purchase price of the KSA Shares. In order to secure the indemnification from the KSA Vendors, a cash and share escrow account will be established in the amount of US\$5 million, US\$3 million of which will be in the form of cash and US\$2 million of which will be in the form of New Ordinary Shares.

The KSA Vendors' liability in respect of the warranties is subject to certain limitations. In particular, it is subject to an overall aggregate cap of US\$5 million. A claim will only lie where the amount of loss in respect of a single claim or series of claims exceeds US\$5,000 and where the aggregate liability exceeds US\$1 million. The KSA Vendors will have no liability for a breach of warranty unless MCG provides them with a notice of claim: (i) prior to the expiration of the applicable statute of limitations period in respect of certain matters, including tax matters, or (ii) by 31 March 2009 for all other matters.

The Agreement and Plan of Merger also contains certain limited representations and warranties by MCG in relation to authorisation, execution and issue of the New Ordinary Shares with an indemnity in favour of the KSA Vendors in a form similar to that provided by the KSA Vendors in the event of breach.

The KSA Vendors have agreed that between the date of the Agreement and Plan of Merger and Completion, the business of the KSA Group will be operated in the ordinary course and subject to certain specific restrictions which are usual in the circumstances where there is a period between exchange and completion of legally binding contracts.

Each KSA Vendor will continue to be subject to a covenant, for a period of two years from their date of departure as an employee, not to solicit any customer accounts with respect to which, at any time during the two year period prior to such departure, that KSA Vendor was the primary contact or served as the project manager therefor. In addition, each KSA Vendor will continue to be subject to a covenant, for a period of 18 months after his departure, not to solicit or induce any employee of KSA to leave their employment with KSA.

KSA will pay a break fee to MCG in the amount of US\$5 million, plus MCG's accrued fees and expenses, capped in aggregate at US\$10 million, in the event that KSA terminates the Agreement and Plan of Merger in order to accept a superior proposal.

2. Stockholders Agreement

The Stockholders Agreement is to be entered into on or shortly before Completion. The parties to it are the KSA Vendors, MCG and KSA Subco Corporation. Under the Stockholders Agreement, MCG and the KSA Vendors have agreed to certain restrictions in respect of the New Ordinary Shares.

Subject to the provisions relating to lock up (certain of which are outlined below), (i) each KSA Vendor may only dispose of up to 50 per cent. of his New Ordinary Shares after the fourth anniversary but prior to and including the fifth anniversary of Completion and (ii) after the fifth anniversary of Completion, all New Ordinary Shares will be released from any restrictions on disposal.

Each KSA Vendor has agreed to use reasonable endeavours to procure that any sales of New Ordinary Shares between the fourth anniversary of Completion and the date falling five years and six months following Completion will be effected through MCG's brokers. Furthermore the provisions of the Stockholders Agreement relating to disposals of New Ordinary Shares do not apply, among other things, to (i) an offer to acquire the entire issued share capital of MCG made on the same terms in relation to all shares to which it relates, (ii) any disposal required by an order of a court of competent jurisdiction, (iii) an offer by MCG to purchase its own shares made on identical terms to all holders of the same class of share or (iv) a disposal pursuant to the terms of the Share Escrow Agreement.

In the event that a KSA Vendor ceases to be employed by a member of the Enlarged Group (except if as a result of termination without cause, retirement, permanent disability, death, redundancy or resignation for good reason or after the age of 62), that KSA Vendor agrees to pay liquidated damages to MCG equal to the value of certain of the New Ordinary Shares held by such KSA Vendor on the following basis (which can be satisfied in cash or by arranging to sell such number of New Ordinary Shares as are required to satisfy the amount due):

- (i) where the date of that KSA Vendor's employment ceases on or before the first anniversary of Completion, 75 per cent. of the New Ordinary Shares issued to him;
- (ii) where the date of that KSA Vendor's employment ceases after the first anniversary but on or before the second, the relevant percentage is 50 per cent.;
- (iii) where the date of that KSA Vendor's employment ceases after the second anniversary but on or before the third, the relevant percentage is 25 per cent.

The KSA Vendors have appointed Mark Wietecha to act as their representative for the purposes of receiving notices and negotiating settlements under the terms of the Agreement and Plan of Merger and the Stockholders Agreement.

3. Share Escrow Agreement

The Share Escrow Agreement will be executed on or shortly before the date of Completion. The parties to it are: (1) the Stockholder Representative, (2) MCG and (3) JP Morgan Chase Bank, National Association (the “Escrow Agent”). Under the Share Escrow Agreement, the parties agree that the Escrow Agent will hold share certificates and stock transfer forms relating to the New Ordinary Shares in escrow and, in certain circumstances (set out below), will release certain of the New Ordinary Shares for sale, with the proceeds being remitted to MCG.

Either MCG or any KSA Vendor may, by serving a written notice, require the Escrow Agent to sell certain of the New Ordinary Shares to satisfy claims brought by MCG pursuant to the leaver provisions described at paragraph 2 above. Under the Share Escrow Agreement, the Escrow Agent agrees that, unless the representative of the KSA Vendors serves a claim dispute notice within 10 days of the date of a share sale notice, it will instruct MCG’s broker to sell for cash the number of New Ordinary Shares stipulated in the share sale notice and remit the sale proceeds to MCG or KSA Subco Corporation. In the event of a dispute, the Escrow Agent will retain such New Ordinary Shares to the value of the amount claimed until instructed either jointly in writing by MCG and the relevant KSA Vendor or by an arbitrator or court of competent jurisdiction.

The Escrow Agent is not liable for any loss suffered by MCG or the KSA Vendors incurred as a result of the Escrow Agent performing its duties under the Escrow Agreement. MCG and the KSA Vendors have agreed to indemnify the Escrow Agent against any losses incurred as a result of the performance by it of duties under the Escrow Agreement. MCG has agreed to pay the Escrow Agent’s fees.

4. Option Consideration

KSA Optionholders hold KSA Options under the Kurt Salmon Associates, Inc. 2002 Stock Option and Incentive Plan (the “KSA Plan”). The following paragraphs describe the consideration that the KSA Optionholders will receive in return for the cancellation of their KSA Options (the “Option Consideration”).

In return for the cancellation and surrender of approximately 60 per cent. (final percentages being subject to adjustment at Completion based on changes in MCG’s share price but subject to the minimum and maximum adjustments described in paragraph 1 of this Part 6) of the KSA Options held by each KSA Optionholder, each KSA Optionholder will receive a cash cancellation payment equal to the amount by which the market value of the KSA Shares under those KSA Options at Completion exceeds their exercise price. The cash cancellation payments will be paid to the KSA Optionholders after Completion after the deduction of any amounts of income tax, employee social security contributions or National Insurance contributions or other taxes, state taxes or similar charges that are required to be withheld and accounted to any revenue authorities.

In return for the cancellation and surrender of the remaining KSA Options (approximately 40 per cent.), KSA Optionholders will receive new options to acquire Ordinary Shares (“New Options”) of equivalent value to the KSA Options. The number of Ordinary Shares over which New Options are granted, and the exercise price per Ordinary Share under each New Option, will be determined according to a formula that is designed to ensure that the intrinsic value of a New Option will, immediately on the option exchange on Completion, be equal to the intrinsic value of the corresponding KSA Option that has been exchanged. Accordingly, it is intended that the total market value of the shares subject to the KSA Options being exchanged will be equal to the total market value, immediately after the grant of the New Options, of the Ordinary Shares subject to the New Options. In addition, it is intended that the total amount payable by the KSA Optionholders to exercise their New Options shall be equal to the total amount that would have been so payable under the KSA Options being exchanged. The option exercise price per Ordinary Share under the New Options will be adjusted to reflect the application of the formula and, as such New Options will have an intrinsic value immediately on their grant following Completion, will be granted at a discount to the market value of an Ordinary Share at that time.

The option exercise formula takes into account the Share Consideration Adjustment, and the total number of Ordinary Shares over which New Options may be granted is therefore subject to adjustment such that the maximum number of Ordinary Shares over which New Options may be granted is 7,471,466 and the minimum is 5,525,105.

No New Option will be granted with an exercise price below the nominal value of an Ordinary Share. If (for any reason, including currency fluctuations) the strict application of the formula would otherwise lead

to a New Option being granted with an exercise price below the nominal value of an Ordinary Share, the New Options will be granted with an exercise price of the nominal value of an Ordinary Share, and the number of shares under option will be increased to compensate the option holders for the increase in the total exercise price. Consequently, the holders of New Options will still retain immediately after the grant of the New Options the same inherent value that they previously had in their KSA Options immediately before they were exchanged.

The New Options will (apart from the adjustments described above) otherwise remain subject to the rules of the KSA Plan.

The KSA Plan will be operated by the Board. After the initial exchange of KSA Options for New Options, no further options may be granted under the KSA Plan. Only the holders of KSA Options will be granted New Options. The number of Ordinary Shares issued or issuable pursuant to New Options will not count towards the plan limit under the 1998 Scheme described in paragraph 16.1(iv)(a) of Part 13 of this document.

Each New Option shall vest and become exercisable according to the vesting schedule and on the terms specified in relation to the corresponding KSA Option. Options cannot be exercised after the tenth anniversary of the date the KSA Option was granted.

If the holder of a New Option ceases to be employed by the Company or a subsidiary of the Company, the New Option, or such portion of the New Option as remains unexercised on the date of cessation, shall lapse on the date of cessation. In the event of a takeover of the Company, the Board may in relation to each New Option (i) deem the New Option to be fully vested and exercisable, or (ii) unilaterally cancel the New Option in exchange either for such number of Ordinary Shares which the holder of the New Option would have received had the New Option been exercised on a date fixed by the Board prior to such takeover or for cash or other property of equivalent value. If no such determination is made by the Board, and the New Options are not exchanged for options over the new acquiring company's shares, the New Options shall become fully vested and exercisable immediately prior to the takeover.

On a variation of the Company's share capital including a capitalisation or rights issue, the exercise price and the number of Ordinary Shares comprised in a New Option may be adjusted by the Board. The Board may amend the rules provided that no amendment may be made which would materially prejudice a participant's rights under a New Option without the participant's consent. In addition, no amendment to the advantage of participants may be made to the provisions relating to the maximum period for the exercise of New Options without the consent of the Shareholders in general meeting. The benefits received under the New Options are not pensionable.

PART 7

ACCOUNTANTS' REPORT AND HISTORICAL FINANCIAL INFORMATION RELATING TO KSA

(i) Accountants' Report on Historical Financial Information



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1 Puddle Dock
London EC4V 3PD
United Kingdom

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Fax +44 (0) 20 7311 3311
DX 38050 Blackfriars

Private & confidential

The Directors
Management Consulting Group PLC
Fleet Place House
2 Fleet Place, Holborn Viaduct
London
EC4M 7RF

21 September 2007

Dear Sirs

Kurt Salmon Associates Inc

We report on the financial information set out on pages 31 to 81 of the combined Class 1 circular and prospectus dated 21 September 2007 of Management Consulting Group PLC. This financial information has been prepared for inclusion in the Prospectus and Class 1 circular (the 'Prospectus') relating to the acquisition of Kurt Salmon Associates Inc on the basis of the accounting policies set out in Note 2. This report is required by paragraph 13.5.21R of the Listing Rules of the Financial Services Authority and is given for the purpose of complying with that paragraph and for no other purpose.

Responsibilities

The Directors of Management Consulting Group PLC are responsible for preparing the financial information on the basis of preparation set out in Note 2a to the financial information.

It is our responsibility to form an opinion on the financial information and to report our opinion to you.

Save for any responsibility arising under Prospectus Rule 5.5.3R (2)(f) to any person as and to the extent there provided, to the fullest extent permitted by law we do not assume any responsibility and will not accept any liability to any other person (other than for the avoidance of doubt, to you pursuant to this letter) for any loss suffered by any such other person as a result of, arising out of, or in connection with this report or our statement, required by and given solely for the purposes of complying with Listing Rule 13.4.1R(6) and paragraph 23.1 of Annex 1 of the Prospectus Directive Regulation, consenting to its inclusion in the combined Class 1 circular and prospectus.

Basis of opinion

We conducted our work in accordance with Standards for Investment Reporting issued by the Auditing Practices Board in the United Kingdom. Our work included an assessment of evidence relevant to the amounts and disclosures in the financial information. It also included an assessment of the significant estimates and judgments made by those responsible for the preparation of the financial information and whether the accounting policies are appropriate to the entity's circumstances, consistently applied and adequately disclosed.

We planned and performed our work so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial information is free from material misstatement whether caused by fraud or other irregularity or error.

Qualified opinion arising from disagreement about accounting treatment

Within the financial information the company has not included a financial liability to reflect its obligation under certain circumstances to repurchase its common shares. As explained in note 2a the company is unable to determine either the initial fair value of the liability or subsequent finance costs. In our opinion, in accordance with Adopted IAS 32 *Financial Instruments: Disclosure and Presentation* and IAS 39 *Financial Instruments: Recognition and Measurement* such a financial liability should have been presented as liabilities due to members. The implication for the financial statements is the recognition of a financial liability within liabilities with a corresponding decrease in equity and the inclusion of an additional line in the income statement to record the finance cost related to the liability due to members. It is not possible to quantify the financial effect of this departure from Adopted IFRS.

Except for the financial effect of not recognising a financial liability to reflect its obligation under certain circumstances to repurchase its common shares referred to in the preceding paragraph, in our opinion, the financial information gives, for the purposes of the Class 1 circular dated 21 September 2007, a true and fair view of the state of affairs of Kurt Salmon Associates Inc as at the dates stated and of its profit and loss, cash flows and recognised income and expense for the periods then ended in accordance with the basis of preparation set out in note 2a and has been prepared in a form that is consistent with the accounting policies adopted in Management Consulting Group PLC's annual accounts for the year ended 31 December 2006.

Declaration

For the purposes of Prospectus Rule 5.5.3R (2)(f) we are responsible for this report as part of the Prospectus and declare that we have taken all reasonable care to ensure that the information contained in this report is, to the best of our knowledge, in accordance with the facts and contains no omission likely to affect its import. This declaration is included in the prospectus in compliance with paragraph 1.2 of Annex 1 of the Prospectus Directive Regulation.

Yours faithfully

KPMG LLP

(ii) Historical Financial Information — KSA

Group income statement

For the years ended 31 December	Note	2004 \$'000	2005 \$'000	2006 \$'000
Continuing operations				
Revenue	3	156,925	141,070	152,936
Cost of sales		(126,529)	(115,353)	(121,387)
Gross profit		30,396	25,717	31,549
Administrative expenses — underlying		(17,829)	(18,202)	(18,755)
Profit from operations before restructuring & exceptional bad debt charges		12,567	7,515	12,794
Administrative expenses — restructuring & exceptional bad debt charges		(4,155)	(5,685)	(2,184)
Total administrative expenses		(21,984)	(23,887)	(20,939)
Operating profit	3	8,412	1,830	10,610
Investment income	6a	383	448	178
Foreign exchange (loss)/gain		(95)	(120)	996
Finance costs	6b	(2,278)	(2,381)	(2,426)
Net finance costs		(1,990)	(2,053)	(1,252)
Profit/(loss) before tax	4	6,422	(223)	9,358
Tax expense	7	(2,420)	(2,354)	(6,779)
Profit/(loss) from continuing operations for the year		4,002	(2,577)	2,579
Profit/(loss) from discontinued joint venture activity	14b	171	(31)	—
Profit/(loss) for the year attributable to equity holders of the parent		4,173	(2,608)	2,579
Earnings/(loss) per share	10	\$	\$	\$
From continuing operations				
Basic		3.74	(2.70)	2.91
Diluted		3.57	(2.70)	2.58
From discontinued operations				
Basic		0.16	(0.03)	—
Diluted		0.15	(0.03)	—
Total earnings/(loss) per share				
Basic		3.90	(2.73)	2.91
Diluted		3.72	(2.73)	2.58

Group statement of recognised income and expense

For the years ended 31 December	Note	2004 \$'000	2005 \$'000	2006 \$'000
Exchange differences on translation of foreign operations	22	715	(1,161)	482
Actuarial loss related to retirement benefit scheme	19c	(43)	(655)	(797)
Gain on available for sale financial assets		161	290	346
Unrealised (loss)/gain on investment, net of deferred tax		(26)	4	(28)
Tax on items taken directly to equity	8b	15	223	279
Net income/(expense) recognised directly in equity		822	(1,299)	282
Profit/(loss) for the year		4,173	(2,608)	2,579
Total recognised income and expense for the period attributable to equity holders of the parent		4,995	(3,907)	2,861

Group balance sheet

As at 31 December	Note	2004 \$'000	2005 \$'000	2006 \$'000
Non-current assets				
Intangible assets	11	13,467	12,985	13,128
Plant and equipment	12	3,775	2,909	2,051
Financial assets	13	11,391	10,478	11,174
Other non-current assets	14a	3,158	2,481	1,292
Interest in joint venture	14b	1,078	—	—
Deferred tax assets	17	12,637	12,858	13,714
Total non-current assets		45,506	41,711	41,359
Current assets				
Trade and other receivables	15	39,825	34,642	33,923
Income taxes receivable	17	3,087	2,881	3,105
Other current assets		837	111	384
Cash and cash equivalents	24	3,775	6,116	7,988
Total current assets		47,524	43,750	45,400
Total assets		93,030	85,461	86,759
Current liabilities				
Financial liabilities	18	3,362	2,750	2,373
Trade and other payables	16	35,116	31,625	39,434
Current tax liabilities	17	2,135	2,763	4,170
Total current liabilities		40,613	37,138	45,977
Non-current liabilities				
Financial liabilities	18	21,901	24,990	17,862
Employee benefits	19	9,436	9,180	11,800
Deferred income	20a	895	746	597
Provisions	20b	10,362	8,922	9,104
Total non-current liabilities		42,594	43,838	39,363
Total liabilities		83,207	80,976	85,340
Net assets		9,823	4,485	1,419
Equity				
Share capital	21a	1,911	1,911	1,911
Share premium account	22	15,367	15,790	15,490
Translation reserve	22	2,037	876	1,358
Own shares held	22	(50,197)	(52,051)	(57,505)
Retained earnings	23	40,705	37,959	40,165
Total equity attributable to equity holders of parent		9,823	4,485	1,419

Group cash flow statement

For the years ended 31 December	Note	2004 \$'000	2005 \$'000	2006 \$'000
Profit/(loss) for year		4,173	(2,608)	2,579
Adjustment for:				
Depreciation of plant and equipment		1,250	1,311	1,473
Amortisation of intangible assets		1,290	1,100	878
Impairment of intangible asset		—	415	—
Gain on disposal of plant and equipment		(139)	(104)	(112)
Loss on sale of affiliate		—	31	—
Unrealised gain on trading securities		(148)	(383)	(502)
Equity in earnings of joint venture		(171)	—	—
Foreign exchange loss/(gain)		95	120	(996)
Finance costs		2,278	2,381	2,426
Investment income		(383)	(448)	(178)
Tax expense		2,420	2,354	6,779
Share option charge		58	93	1,427
Operating cash flows before movements in working capital		10,723	4,262	13,774
Decrease/(increase) in trade and other receivables		1,648	4,748	(1,674)
Decrease/(increase) in other current assets		231	726	(273)
(Increase)/decrease in income tax receivables		(1,918)	206	(224)
Increase/(decrease) in trade and other payables		1,415	(8,207)	6,424
Cash generated by operations		12,099	1,735	18,027
Income taxes (paid)/received		(1,592)	1,407	691
Net cash from operating activities		10,507	3,142	18,718
Investing activities				
Interest received		383	448	178
Acquisitions of subsidiaries, net of cash and overdrafts acquired		(361)	(125)	(385)
Sale of joint venture		—	638	—
Dividends received from joint venture		—	495	—
Purchase of plant and equipment		(1,509)	(993)	(533)
Purchase of available for sale investments		(539)	(273)	(19)
Proceeds from sale of available for sale investments		759	719	641
Purchases of intangible assets		(1,430)	(844)	(286)
Proceeds on disposal of property, plant and equipment		33	231	4
Net cash (used in)/raised by investing activities		(2,664)	296	(400)
Financing activities				
Interest paid		(1,902)	(2,035)	(2,097)
Dividends paid	9	(238)	—	(173)
Proceeds from notes receivables related to sale of shares		897	1,398	1,198
Purchase of own shares		(3,429)	(3,487)	(5,476)
(Repayment of)/proceeds from borrowings		(3,215)	4,868	(7,569)
Term debt payments		(3,532)	(3,391)	(2,750)
Proceeds from issue of shares		1,906	1,911	168
Net cash used in financing activities		(9,513)	(736)	(16,699)
Net (decrease)/increase in cash and cash equivalents		(1,670)	2,702	1,619
Cash and cash equivalents at beginning of year		5,108	3,775	6,116
Effect of foreign exchange rate changes		337	(361)	253
Cash and cash equivalents	24	3,775	6,116	7,988

NOTES TO THE FINANCIAL STATEMENT

1. General information

Kurt Salmon Associates, Inc. is a company incorporated in the state of Delaware, USA. Its registered address is at 1355 Peachtree Street, NE, Atlanta, Georgia, 30319, USA. The nature of its and its subsidiaries' (together the 'Group') operations and its principal activity are set out in note 3.

2. Significant accounting policies

The following accounting policies have been applied consistently in the current and preceding years, in preparing an opening balance sheet at 1 January 2004, and in dealing with items which are considered material in relation to the financial statements.

Judgements made by the directors, in the application of these accounting policies that have a significant effect on the financial statements and estimates with a significant risk of material adjustment in the next period are discussed below.

The directors have reviewed the KSA Group's projected working capital requirements and fixed asset expenditure and believe that the KSA Group has sufficient funding for the foreseeable future. The financial statements have therefore been prepared on a going concern basis.

(a) Basis of preparation

The financial information has been prepared for the purposes of a single document comprising the prospectus and circular for a Class 1 acquisition by Management Consulting Group PLC in accordance with the requirements of the Listing Rules of the Financial Services Authority (the "FSA"), the Prospectus Rules of the FSA, the Prospectus Directive Regulation and in accordance with this basis of preparation, including the significant accounting policies, described below.

The financial information has been prepared in accordance with International Financial Reporting Standards as adopted by the European Union (Adopted IFRS) except for the material departure described below.

In preparing the financial information certain accounting conventions commonly used for the presentation of historical financial information for inclusion in investment circulars as described in the Annexure to SIR 2000 (Investment Reporting Standard Applicable to Public Reporting Engagements on Historical Financial Information) issued by the UK Auditing Practices Board have been applied.

Material departure from International Financial Reporting Standards — recognition of financial liability associated with put rights on common shares

Background

The common shares of KSA held by individual shareholders fall into the following categories;

- Series 1999 common shares (purchased shares) — common shares issued by the company
- Series 1999 common shares (exchanged shares) — common shares issued by the company in exchange for shares of the company's former 1976 common shares
- Series 1999 common shares (acquisition shares) — common shares issued by the company in connection with the acquisition by the company of a company formerly owned by the shareholders

The terms of shareholder agreements provide for the following:

- The share capital gives rise to equal ownership rights
- Upon death or full disability of a shareholder the company is obligated to repurchase Purchased Shares, Exchanged Shares and Acquisition Shares of Series 1999 common shares with cash or preference shares
- Redemptions shall be made at the Formula Value (which approximates fair value) of the underlying shares at that time

US GAAP accounting

Previously the 1999 common shares had been classified as equity under US GAAP, this was because FAS 150-3 states that for the shares (together with related agreements) to be treated as liabilities, they must be redeemable on a fixed date for amounts that are either fixed or are determined by reference to an interest rate index, currency index, or another external index.

Adopted IFRS accounting

The accounting treatment under Adopted IFRS differs from that of US GAAP. IAS 32 para 18 (b) notes that if a financial instrument gives the holder the right to 'put' them back to the issuer for cash or other financial assets, then it should be classified as a financial liability of the issuer. The rights shareholders have to require the company to repurchase the shares upon death or full disability create a contractual obligation that the issuer does not have the unconditional ability to avoid. Under Adopted IFRS this creates a separate financial instrument.

The classification of such financial instruments as financial liabilities is independent of considerations such as when the right is exercisable, how the amount is payable on exercise is determined and whether the instrument has a fixed maturity.

The company's obligation on death or full disability creates such an unconditional requirement to repurchase the shares and therefore would result in the recognition of a financial liability.

Valuation

IAS 39 provides that the liabilities would be recognised initially at fair value and debited to equity. Subsequently the changes to the expected cash flows would give rise to finance costs under the effective interest rate method.

Determining the fair value on initial recognition would require obtaining information concerning when individuals purchased their shares and also the life expectancy of the individuals who own the shares as well as the anticipated future cashflows of the business as they stood at the time the initial purchase was made, and market rates of interest. Determining the finance costs which would be recognised in the income statement would require the anticipated cash flows and life expectancy to be updated annually. It is impracticable to recreate such information now, it having not been collected in the past.

In addition to the above, the terms of the shareholder agreements also contain an option for the company to repurchase when the shareholder leaves the company's employment, therefore providing an alternative timing of payment of cash that would also need to be considered in the initial measurement of the financial liability and subsequent finance cost.

Going forward the shares are to be extinguished and the shareholder agreements cancelled. Any liabilities under the shareholder agreements (until they are cancelled) will be to another company within the enlarged Group and such a corporate holder will not be susceptible to either death or full disability. These rights therefore will not have any economic impact on the enlarged Group going forward. Performing the calculations referred to above, were it possible, would therefore provide no value to the shareholders nor would it provide relevant further information on the historical performance of Kurt Salmon Associates, Inc.

In the light of the above considerations, no liabilities to reflect the repurchase obligation under the shareholder agreements have been reflected in the financial information and this represents a material departure from the requirement of Adopted IFRS.

If the information were available to calculate the carrying amount of the above financial liability, the restated historical financial information would include a liability due to members and a corresponding reduction in equity. Changes in the expected future cash flows would result in finance cost recognised in the income statement. Adopted IFRS permits the use of descriptors to show that total members' interests comprise items such as reserves that meet the definition of equity and puttable instruments that do not. This would clearly distinguish the liabilities due to members, and related gains and losses, from other liabilities and gains and losses related thereto. The potential amendments to the historical financial information are therefore ring fenced to one additional line item in each of the balance sheet and income statement.

First-time adoption of Adopted IFRSs

KSA is not a first time adopter of Adopted IFRS and will continue to prepare its statutory financial statements in accordance with US GAAP for the foreseeable future. It will be consolidated into the financial statements of Management Consulting Group PLC from the date of acquisition by that company.

Management Consulting Group PLC prepares its consolidated financial statements in accordance with Adopted IFRS. This financial information is prepared by applying the exceptions and exemptions of IFRS 1 by analogy, as described in note 29.

The accounting policies that the directors have applied when preparing the KSA Group restated historical financial information are detailed below, including the first-time adoption provisions set out in IFRS 1 (see note 29) which have been applied by analogy and are consistent with accounting policies adopted by Management Consulting Group PLC for the year ending 31 December 2006.

A reconciliation of the historical financial information to that included in KSA's statutory financial statements for the year ended 31 December 2006 (including comparatives) is given in note 29.

Statement of compliance with Adopted IFRS

Except for the financial effect of not recognising a financial liability to reflect its obligation under certain circumstances to repurchase its common shares, the financial information for the three years ended 31 December 2006 has been prepared in accordance with Adopted IFRS.

The historical financial information does not constitute statutory financial statements for the three years ended 31 December 2006 but is derived from the statutory financial statements of the Group for the years ended 31 December 2006, 31 December 2005 and 31 December 2004. The financial statements for that period (which were prepared under US GAAP) have been reported on by KSA's auditors. The reports of the auditors were (i) unqualified; and (ii) did not include a reference to any matters to which the auditors drew attention by way of emphasis without qualifying their report.

The historical financial information is prepared on the historical cost basis except that the following assets and liabilities are stated at their fair value: financial instruments classified as available for sale are measured at fair value; and, liabilities for cash settled share based payment arrangements are measured at fair value.

New standards and interpretations of existing standards that have been issued but are not yet effective and have not been early adopted by the Group

The following interpretations all of which have been approved by the European Union, 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 and they are not expected to have a material impact.

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.

IAS 23 (Revised) — Borrowing costs. IAS 23 (Revised) removes the option of immediately recognising as an expense borrowing costs that relate to assets that take a substantial period of time to get ready for use or sale. This is not expected to have any significant impact on the Group and is first effective for the Group for the accounting period beginning 1 January 2009.

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.

IFRIC 14, IAS 19 — The limit on a defined benefit asset, minimum funding requirements and their interaction. IFRIC 14 clarifies that an employer only needs to have an unconditional right to use a surplus in a retirement benefit plan during the life of the plan or on its winding up in order for that surplus to be recognised. This is first effective for the Group for the accounting period beginning 1 January 2008 and is not expected to have any significant impact on the Group.

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

The following interpretations to existing standards, all of which have been approved by the European Union, 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.

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 others would be required under the contract, in which case reassessment is required. As none of the Group entities have changed the terms of their contracts, IFRIC 9 is not relevant to the Group's operations.

IFRIC 11, IFRS 2 — Group and Treasury Share Transactions requires a share based payment arrangement in which an entity received goods or services as consideration for its own shares to be accounted for as an equity settled share-based payment transaction, regardless of how the equity instruments are obtained. IFRIC 11 will become mandatory for the Group's 2008 financial instruments, with retrospective application required. It is not expected to have any impact on the consolidated financial statements.

Critical accounting policies and key sources of estimation uncertainty

The Group's consolidated financial statements have been prepared in accordance with Adopted IFRS. The preparation of the financial statements requires the development of estimates and judgements 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 the four policies described below, in addition to the treatment of share based payments and financial instruments discussed in 2(i) and 2(p) respectively.

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. Where billing occurs in advance of services being provided these amounts are recognised as deferred income, and recognised as revenue at the time the services are provided. 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 based on cost and time incurred and recorded as revenue.

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.

Employee benefits

Accounting for pensions and other post-retirement benefits involves judgements about uncertain events, including, but not limited to, discount rates, life expectancy, future pay inflation, and expected rate of

return on plan assets. Changes in estimates and assumptions used to determine the projected benefit obligations for the Group's defined benefit pension scheme and post-retirement plans could change the 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 19 to the financial statements.

Income taxes

The Group is subject to income taxes in numerous jurisdictions. Judgement 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 KSA Associates, Inc. and entities controlled by it (its subsidiaries). Control is achieved where the Group has the power to govern the financial and operating policies of an investee entity so as to obtain benefits from its activities. The Company owns, directly or indirectly, 100 per cent. of the shareholding of all subsidiaries. The results of subsidiaries acquired during the period are included in the Group financial statements from the date control is obtained. 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.

(ii) Joint venture

The Company invested in a 10 year joint venture in India which ended in December 2005. Until its disposal, the investment was accounted for using the equity method.

(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 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. 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 US GAAP amount subject to being tested for impairment at that date.

(e) Intangible assets

Acquired intangible assets 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, and it is probable that the asset will generate future economic benefits. Costs associated with maintaining computer software programmes are recognised as an expense as incurred.

(f) Plant and equipment

Plant and equipment are stated at cost less accumulated depreciation and any accumulated impairment losses.

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

(g) Leasehold improvements

Leasehold improvements are depreciated using the straight-line method over the shorter of their estimated useful lives or the term of the related lease.

(h) 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.

(i) Share-based payments

Share options are awarded to selected employees on a discretionary basis. Awards are measured at their fair value using the Black Scholes pricing model. The fair value of the amounts payable to employees in respect of the KSA Stock Option Plan and Incentive Plan (the Option Plan) and the Employee Loan Share Purchase Scheme options, which are settled in cash, is recognised as an expense, with a corresponding increase in liabilities, over the period in which the employees become unconditionally entitled to the payment. The liability is remeasured at each reporting date and at settlement date. Any changes in fair value of the liability are recognised as an employee expense in the income statement.

(j) 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 US dollars, which is Kurt Salmon Associates, Inc's functional and presentation currency. In preparing the financial statements, transactions in currencies other than US dollars 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 US dollars 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 recognised in 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.

(k) Dividend distribution

Dividends to holders of common shares are recognised as a liability in the financial statements in the period in which the entity has an obligation to pay.

Dividends on preferred shares are accrued based on the applicable coupon rate of the preferred shares.

(l) 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.

(m) Financial liabilities

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.

(n) Taxation

The tax expense represents the sum of the tax currently payable and deferred tax and is measured at the amount expected to be paid to/(recovered from) the tax authorities. 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.

(o) 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.

(p) Investment securities

Investment securities consist of investments in U.S. treasury obligations, domestic and foreign equity securities, and mutual funds. Investments are reported at fair value and classified as non-current assets. The Group's investments are classified as available for sale financial assets. Subsequent to initial recognition, they are measured at fair value and changes therein, other than impairment losses and foreign exchange gains and losses on available for sale monetary items, are recognised directly in equity. When an investment is derecognised, the cumulative gain or loss in equity is transferred to profit or loss.

(q) Revenue recognition

Revenue is measured at the fair value of the consideration received and represents amounts receivable for services provided to third parties in the normal course of business, net of discounts, and 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 not billed, estimates are made of the amounts receivable. If amounts are billed to third parties in advance of services being provided, revenue is not recognised until the services are provided, and until this point is treated as deferred income.

(r) Interest income

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

(s) Dividend income

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

(t) 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.

(u) 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 defined benefit scheme, the amounts charged to the income statement are service costs and interest costs within administrative expenses and finance costs respectively. The actuarial gains and losses are recognised immediately in the statement of recognised income and expense.

The German defined benefit pension scheme is unfunded. Liabilities in relation to the scheme 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 updated at each balance sheet date. The resulting defined benefit liability is presented separately on the face of the balance sheet.

(v) Restructuring and exceptional bad debt charges

Items described as restructuring and exceptional bad debt charges represent significant one-off income and costs, which do not arise in the normal course of business and are not expected to recur.

(w) 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.

3. Business and geographic segments

The Group has one business reporting segment, management consulting. The Group is an international management consulting firm specializing in retailing, consumer products, and health care. The principal

clients include direct marketers; mass merchants; discounters; food, grocery, drug, do-it-yourself, specialty and department stores; internet marketers and manufacturers which supply these retail channels; health care providers; and e-commerce businesses that serve these sectors.

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, by location of asset (and location of customer):

(a) Income statement

Year ended 31 December 2004	Americas \$'000	Europe \$'000	Rest of World \$'000	Total \$'000
Revenue				
Revenue before expenses recovered from clients	87,905	28,255	11,242	127,402
Expenses recovered from clients	<u>16,827</u>	<u>10,859</u>	<u>1,837</u>	<u>29,523</u>
Total revenue	<u>104,732</u>	<u>39,114</u>	<u>13,079</u>	<u>156,925</u>
Profit from operations before depreciation, amortisation, restructuring and exceptional bad debt charges	12,372	1,618	1,175	15,165
Share option expense	(58)	—	—	(58)
Depreciation and other amortisation	(1,827)	(641)	(72)	(2,540)
Restructuring and exceptional bad debt charges	<u>(729)</u>	<u>(3,426)</u>	<u>—</u>	<u>(4,155)</u>
Operating profit/(loss)	9,758	(2,449)	1,103	8,412
Investment income				383
Foreign exchange loss				(95)
Finance costs				<u>(2,278)</u>
Profit before tax				6,422
Tax expense				<u>(2,420)</u>
Profit from continuing operations for the year				4,002
Profit from discontinued joint venture activity				<u>171</u>
Profit for the year				<u>4,173</u>

Year ended 31 December 2005	Americas \$'000	Europe \$'000	Rest of World \$'000	Total \$'000
Revenue				
Revenue before expenses recovered from clients	89,510	23,710	7,950	121,170
Expenses recovered from clients	<u>12,154</u>	<u>6,063</u>	<u>1,683</u>	<u>19,900</u>
Total revenue	<u>101,664</u>	<u>29,773</u>	<u>9,633</u>	<u>141,070</u>
Profit/(loss) from operations before depreciation, amortisation, restructuring and exceptional bad debt charges	10,242	1,223	(1,446)	10,019
Share option expense	(93)	—	—	(93)
Depreciation and other amortisation	(1,858)	(459)	(94)	(2,411)
Restructuring and exceptional bad debt charges	<u>(1,384)</u>	<u>(4,301)</u>	<u>—</u>	<u>(5,685)</u>
Operating profit/(loss)	6,907	(3,537)	(1,540)	1,830
Investment income				448
Foreign exchange loss				(120)
Finance costs				<u>(2,381)</u>
Loss before tax				(223)
Tax expense				<u>(2,354)</u>
Loss from discontinued joint venture activity				<u>(31)</u>
Loss for the year				<u>(2,608)</u>

Year ended 31 December 2006	Americas \$'000	Europe \$'000	Rest of World \$'000	Total \$'000
Revenue				
Revenue before expenses recovered from clients	98,942	25,761	9,019	133,722
Expenses recovered from clients	<u>13,264</u>	<u>4,356</u>	<u>1,594</u>	<u>19,214</u>
Total revenue	<u>112,206</u>	<u>30,117</u>	<u>10,613</u>	<u>152,936</u>
Profit/(loss) from operations before depreciation, amortisation, restructuring and exceptional bad debt charges	16,950	(754)	376	16,572
Share option expense	(1,427)	—	—	(1,427)
Depreciation and other amortisation	(1,515)	(711)	(125)	(2,351)
Restructuring and exceptional bad debt charges	<u>(237)</u>	<u>(1,947)</u>	<u>—</u>	<u>(2,184)</u>
Operating profit/(loss)	13,771	(3,412)	251	10,610
Investment income				178
Foreign exchange gain				996
Finance costs				<u>(2,426)</u>
Profit before tax				9,358
Tax expense				<u>(6,779)</u>
Profit for the year				<u>2,579</u>

(b) Net assets

	Americas \$'000	Europe \$'000	Rest of World \$'000	Total \$'000
At 31 December 2004				
Assets				
Intangibles, including goodwill	12,461	1,006	—	13,467
Other segment assets	34,433	31,504	2,865	68,802
Unallocated corporate assets	—	—	—	10,761
Consolidated total assets	46,894	32,510	2,865	93,030
Liabilities				
Segment liabilities	(38,841)	(6,811)	(12,239)	(57,891)
Unallocated corporate liabilities	—	—	—	(25,316)
Net assets/(liabilities)	8,053	25,699	(9,374)	9,823
At 31 December 2005				
Assets				
Intangibles, including goodwill	12,354	631	—	12,985
Other segment assets	26,221	27,361	5,176	58,758
Unallocated corporate assets	—	—	—	13,718
Consolidated total assets	38,575	27,992	5,176	85,461
Liabilities				
Segment liabilities	(34,123)	(15,743)	(3,329)	(53,195)
Unallocated corporate liabilities	—	—	—	(27,781)
Net assets	4,452	12,249	1,847	4,485
At 31 December 2006				
Assets				
Intangibles, including goodwill	12,515	613	—	13,128
Other segment assets	25,280	21,874	8,883	56,037
Unallocated corporate assets	—	—	—	17,594
Consolidated total assets	37,795	22,487	8,883	86,759
Liabilities				
Segment liabilities	(43,975)	(15,991)	(3,016)	(62,982)
Unallocated corporate liabilities	—	—	—	(22,358)
Net (liabilities)/assets	(6,180)	6,496	5,867	1,419

(c) Capital additions, depreciation and amortisation

	Americas \$'000	Europe \$'000	Rest of World \$'000	Total \$'000
Year ended 31 December 2004				
Capital additions	889	616	44	1,549
Depreciation and amortisation	1,827	641	72	2,540
Year ended 31 December 2005				
Capital additions	674	166	161	1,001
Depreciation and amortisation	1,858	459	94	2,411
Year ended 31 December 2006				
Capital additions	268	178	172	618
Depreciation and amortisation	1,515	711	125	2,351

The most important foreign currencies for the Group are the Euro, the Pound, the Yen, the Swiss Franc, the Chinese RMB, and the Canadian Dollar. The relevant exchange rates to US Dollar were:

	2004		2005		2006	
	Average	Closing	Average	Closing	Average	Closing
\$1 = Pound	0.5406	0.5212	0.5512	0.5812	0.5460	0.5107
\$1 = Euro	0.7661	0.7371	0.7909	0.8446	0.8011	0.7575
\$1 = Yen	104.89	102.41	110.18	117.94	118.48	119.01
\$1 = Swiss Franc	1.1902	1.1400	1.2269	1.3137	1.2663	1.2189
\$1 = Chinese RMB	NA	NA	8.1742	8.0702	7.9389	7.8075
\$1 = Canadian Dollar	1.2479	1.1995	1.1812	1.1628	1.1644	1.1660

4. (a) Profit before tax

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

	2004 \$'000	2005 \$'000	2006 \$'000
Net foreign exchange losses/(gains)	95	120	(996)
Amortisation of intangible assets	1,290	1,100	878
Impairment of intangible assets	—	415	—
Depreciation of plant and equipment	1,250	1,311	1,473
Loss on disposal of fixed assets	139	104	112
Restructuring costs & exceptional bad debt charges costs (note 4b)	4,155	5,685	2,184
Staff costs (note 5)	74,764	77,085	87,966
Total auditors' remuneration	1,076	1,207	1,202

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

Auditors' remuneration

	2004	2004	2005	2005	2006	2006
	\$'000	%	\$'000	%	\$'000	%
Fees payable to the Group's auditors and their associates for the audit of these financial statements	226	21	263	22	294	25
Fees payable to the Group's auditors and their associates for other audits	17	2	20	2	38	3
Total audit fees	243	23	283	24	332	28
Other services pursuant to legislation	1	—	4	—	3	—
Tax services	832	77	920	76	867	72
Total non-audit fees	833	77	924	76	870	72
Total auditors' remuneration	1,076	100	1,207	100	1,202	100

4. (b) Restructuring & exceptional bad debt charges

The Group's UK based subsidiary worked on a project for two UK based clients. Disputes arose with the clients resulting in the Group making exceptional write offs of amounts billed to the clients which it was unable to collect and incurring professional fees. Also, as a result of a softening UK consulting practice, the Group decided to restructure its operations in the UK, resulting in reductions in staff and office space. In addition, in 2003 management adopted a restructuring plan to refocus its IT practice. The plan included exiting non-core IT practices and reductions in staff. The cost relating to the above items which have been separately identified in this historical financial information were as follows:

	2004	2005	2006
	\$'000	\$'000	\$'000
Exceptional bad debt charges	2,485	3,076	696
UK restructuring	123	470	166
IT restructuring (2005 includes \$415,000 impairment of capitalised software)	1,547	2,139	1,322
	<u>4,155</u>	<u>5,685</u>	<u>2,184</u>

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:

	2004	2005	2006
Consultants	337	345	353
Support staff	143	136	123
	<u>480</u>	<u>481</u>	<u>476</u>

The aggregate payroll costs of these persons were as follows:

	2004	2005	2006
	\$'000	\$'000	\$'000
Wages and salaries	66,975	70,712	79,482
Social security costs	2,838	3,076	2,846
Other pension costs	4,893	3,204	4,211
Share based compensation	58	93	1,427
	<u>74,764</u>	<u>77,085</u>	<u>87,966</u>

6. (a) Investment income

	2004 \$'000	2005 \$'000	2006 \$'000
Interest receivable on bank deposits and similar income	383	448	178
	<u>383</u>	<u>448</u>	<u>178</u>

(b) Finance costs

	2004 \$'000	2005 \$'000	2006 \$'000
Interest payable on bank overdraft and loans and similar charges	1,902	2,035	2,097
Interest on retirement benefits plans (see note 19a)	376	346	329
Total	<u>2,278</u>	<u>2,381</u>	<u>2,426</u>

7. Tax expense

	2004 \$'000	2005 \$'000	2006 \$'000
Tax in respect of current year			
U.S federal and state	2,023	1,587	6,350
Foreign tax	826	1,272	1,319
Deferred tax	(429)	(505)	(890)
Total current year tax	<u>2,420</u>	<u>2,354</u>	<u>6,779</u>
Total	<u>2,420</u>	<u>2,354</u>	<u>6,779</u>

US corporation tax in the year ended 31 December 2006 is calculated at 35% (2004: 34%; 2005: 34%) 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:

	2004 \$'000	2004 %	2005 \$'000	2005 %	2006 \$'000	2006 %
Profit/(loss) before tax	6,422		(223)		9,358	
Total income tax expense	<u>(2,420)</u>		<u>(2,354)</u>		<u>(6,779)</u>	
Profit/(loss) from continuing operations for the year	<u>4,002</u>		<u>(2,577)</u>		<u>2,579</u>	
Tax at the statutory rate of 35% (2004: 34%; 2005: 34%)	2,183	34.0	(76)	34.0	3,275	35.0
Overseas tax rate differences	(1,004)	(15.6)	1,096	(491.5)	2,355	25.2
Expenses not deductible for tax purposes	1,212	18.9	1,265	(567.3)	—	—
Deferred tax asset not recognised/deferred tax asset written off	(407)	(6.3)	444	(199.1)	1,135	12.1
Other	<u>436</u>	<u>6.8</u>	<u>(375)</u>	<u>168.2</u>	<u>14</u>	<u>0.1</u>
	<u>2,420</u>	<u>37.8%</u>	<u>2,354</u>	<u>(1,055.7%)</u>	<u>6,779</u>	<u>72.4%</u>

The change in tax rate reflects the change in US legislation.

8. (a) Income tax expense in the income statement

	2004 \$'000	2005 \$'000	2006 \$'000
Current tax expense			
Current period	<u>2,827</u>	<u>1,910</u>	<u>5,644</u>
	<u>2,827</u>	<u>1,910</u>	<u>5,644</u>
Deferred tax expense			
Origination and reversal of temporary differences	<u>(407)</u>	<u>444</u>	<u>1,135</u>
	<u>(407)</u>	<u>444</u>	<u>1,135</u>
Income tax expense from continuing operations	<u>2,420</u>	<u>2,354</u>	<u>6,779</u>

(b) Income tax recognised directly in equity

	2004 \$'000	2005 \$'000	2006 \$'000
Income tax on income and expense recognised directly in equity — actuarial gains and losses	<u>15</u>	<u>223</u>	<u>279</u>
Total income tax recognised directly in equity	<u>15</u>	<u>223</u>	<u>279</u>

9. Dividends

	2004 \$'000	2005 \$'000	2006 \$'000
Amounts recognised as distributions to equity holders in the year	238	—	173
Final dividend for the year of \$0.11, nil, \$0.07 per share	—	—	—

10. Earnings per share

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

	2004 \$'000	2005 \$'000	2006 \$'000
Earnings			
Earnings/(loss) from continuing operations	4,002	(2,577)	2,579
Earnings/(loss) from discontinued joint venture activity	171	(31)	—
Total earnings/(loss) for the purposes of basic earnings per share and diluted earnings per share being profit attributable to equity holders of the parent	4,173	(2,608)	2,579
Number of shares	Number (thousand)	Number (thousand)	Number (thousand)
Weighted average number of ordinary shares for the purposes of basic earnings per share	1,070	954	887
Effect of dilutive potential ordinary shares:			
— Share options	50	82	94
— Restricted Units	—	—	19
Weighted average number of ordinary shares for the purposes of diluted earnings per share	1,120	1,036	1,000
From continuing operations	\$	\$	\$
Basic earnings/(loss) per share	3.74	(2.70)	2.91
Diluted earnings/(loss) per share	3.57	(2.70)	2.58
From discontinued activity	\$	\$	\$
Basic	0.16	(0.03)	—
Diluted	0.15	(0.03)	—
Total earnings per share			
Basic	3.90	(2.73)	2.91
Diluted	3.72	(2.73)	2.58

Treasury shares are excluded from the weighted average numbers of shares included in the earnings per share calculations.

11. Intangible assets

Group	Goodwill \$'000	Capitalised software \$'000	Total intangibles \$'000
Cost			
At 1 January 2004	9,978	6,106	16,084
Additions	862	1,430	2,292
Exchange differences	(35)	—	(35)
Eliminated on disposals	(146)	(919)	(1,065)
At 31 December 2004	10,659	6,617	17,276
Additions	250	844	1,094
Exchange differences	(53)	144	91
Eliminated on disposals	—	(1,614)	(1,614)
At 31 December 2005	10,856	5,991	16,847
Additions	—	286	286
Acquisitions	654	—	654
Exchange differences	62	72	134
Eliminated on disposals	—	(15)	(15)
At 31 December 2006	11,572	6,334	17,906
Amortisation			
At 1 January 2004	—	(3,406)	(3,406)
Charge for the year	—	(1,290)	(1,290)
Eliminated on disposals	—	887	887
At 31 December 2004	—	(3,809)	(3,809)
Charge for the year	—	(1,100)	(1,100)
Impairment charge	—	(415)	(415)
Exchange differences	—	78	78
Eliminated on disposals	—	1,384	1,384
At 31 December 2005	—	(3,862)	(3,862)
Charge for the year	—	(878)	(878)
Exchange differences	—	(50)	(50)
Eliminated on disposals	—	12	12
At 31 December 2006	—	(4,778)	(4,778)
Carrying Amount			
At 1 January 2004	9,978	2,700	12,678
At 31 December 2004	10,659	2,808	13,467
At 31 December 2005	10,856	2,129	12,985
At 31 December 2006	11,572	1,556	13,128

The additions to goodwill in 2004 and 2005 arise from the payment of deferred consideration for acquisitions made before 1 January 2004.

In May 2006 the Group acquired Katz Consulting Group. The purchase price was comprised of cash with a fair value of \$378,000 and the issuance of Kurt Salmon Associates, Inc's common shares with a fair value of \$378,000. The purchase agreement provides for additional future payments based on certain performance targets. The maximum future payments are \$732,000 of which \$nil is accrued at 31 December 2006. The net assets acquired were \$102,000 and no fair value adjustments were made. Goodwill arising on the acquisition was \$654,000. The operations of Katz Consulting were merged into those of the KSA Group and it has therefore not been possible to determine the turnover and profit arising in the post-acquisition period to 31 December 2006. Information on Katz Group revenue and profit in the period 1 January 2006 to the date of acquisition was not collected at the time of acquisition and is therefore not disclosed.

Group intangible assets consist of goodwill and software. Capitalised software costs are amortised on a straight line basis over a maximum of three years. Goodwill is not amortised.

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	2004 \$'000	2005 \$'000	2006 \$'000
<i>Cost</i>			
Standford Business Systems, Inc.	133	133	133
Health Care Management Consultants, a Division of Robert A Eisner & Company, LLP	1,758	1,758	1,758
Cleversys S.A.	1,292	1,292	1,292
Swander Pace & Company, Inc.	5,944	5,944	5,944
Katz Consulting Group	—	—	654
Space Diagnostics, Inc.	1,028	1,278	1,278
MMM Holdings Ltd	504	451	513
	10,659	10,856	11,572

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

The recoverable amount of goodwill is estimated based on its value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate.

In each of the three years in the above table the key assumptions from these calculations are those regarding the discount rates, growth rates and expected changes to contribution during the period. Management uses a consistent discount rate of 8%.

The Group prepares cash flow forecasts based on the most recent financial budgets and forecasts approved by management. In 2004, 2005 and 2006 the cash flows were extrapolated based on long-term revenue growth assumptions of (10% in the Americas, 10% in Europe and 0% in Rest of World) and profit margins which are consistent with past experience.

Impairment

The impairment charge in 2005 relates to the write off of purchased software licenses following the Group's decision no longer to seek to sell this software. The impairment charge is included in restructuring and exceptional bad debt charges in the income statement and the Americas reportable segment. No other impairment losses or reversals occurred in the three years ended 31 December 2006.

12. Plant and equipment

Plant and equipment	Total \$'000
<i>Cost</i>	
At 1 January 2004	11,077
Additions	1,549
Eliminated on disposals	(838)
At 31 December 2004	11,788
Additions	1,001
Exchange differences	(738)
Eliminated on disposals	(939)
At 31 December 2005	11,112
Acquisitions	13
Additions	618
Exchange differences	535
Eliminated on disposals	(448)
At 31 December 2006	11,830
<i>Accumulated depreciation</i>	
At 1 January 2004	(7,545)
Charge for the year	(1,250)
Eliminated on disposals	782
At 31 December 2004	(8,013)
Charge for the year	(1,311)
Exchange differences	546
Eliminated on disposals	575
At 31 December 2005	(8,203)
Charge for the year	(1,473)
Exchange differences	(402)
Eliminated on disposals	299
At 31 December 2006	(9,779)
<i>Carrying Amount</i>	
At 1 January 2004	3,532
At 31 December 2004	3,775
At 31 December 2005	2,909
At 31 December 2006	2,051

The acquisition in 2006 is discussed in Note 11. The fixed assets acquired were sundry fixtures and fittings and IT equipment.

13. Financial assets

	Group \$'000
<i>Cost</i>	
At 1 January 2004	11,698
Additions	4,074
Exchange differences	409
Eliminated on disposals	<u>(4,790)</u>
At 31 December 2004	11,391
Additions	3,288
Exchange differences	(698)
Eliminated on disposals	<u>(3,503)</u>
At 31 December 2005	10,478
Additions	3,373
Exchange differences	606
Eliminated on disposals	<u>(3,283)</u>
At 31 December 2006	<u>11,174</u>

No provisions against the carrying value of financial assets were held in any of the above periods. The financial assets were designated as available for sale.

The above fair values are based on the reports received at the balance sheet date from independent investment advisors.

Dividends are recorded when received or when declared if this information is known in advance.

The above values represent the principal amounts on which dividends are paid. The timing of dividend payments varies but generally they are paid every six months or annually. Dividend income is recorded in the income statement.

14. (a) Other non-current assets

	Group \$'000
<i>Cost</i>	
At 1 January 2004	3,330
Additions	505
Exchange differences	122
Eliminated on disposals	<u>(799)</u>
At 31 December 2004	3,158
Additions	717
Exchange differences	(365)
Eliminated on disposals	<u>(1,029)</u>
At 31 December 2005	2,481
Additions	147
Exchange differences	142
Eliminated on disposals	<u>(1,478)</u>
At 31 December 2006	<u>1,292</u>

Assets included above include life assurance policies held by the Group measured at the cash surrender value (2004: \$1,535,000; 2005: \$1,299,000; 2006: \$670,000).

No provisions were held against the above assets in any of the periods under review.

14. (b) Interest in joint venture

	\$'000
Cost	
At 1 January 2004	907
Result for the year	171
Cost at 31 December 2004	1,078
Disposal	(1,078)
Cost at 31 December 2005 and 31 December 2006	—

The joint venture was disposed of in 2005 for cash consideration of \$638,000 and the Group recognised a loss on sale of \$344,000.

15. Trade and other receivables

	Group		
	2004	2005	2006
	\$'000	\$'000	\$'000
Trade receivables	33,957	29,615	30,051
Notes receivable	3,861	2,530	1,470
Other receivables	609	1,498	929
Prepayments and accrued income	1,398	999	1,473
	<u>39,825</u>	<u>34,642</u>	<u>33,923</u>

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. The provision against doubtful receivables amounts to \$6,492,435 (2005: \$15,617,371; 2004: \$13,860,407). The directors consider that the carrying value of trade and other receivables approximates to their fair value.

16. Trade and other payables

	Group		
	2004	2005	2006
	\$'000	\$'000	\$'000
Trade payables	9,486	9,836	7,172
Other taxes and social security	2,752	2,679	1,486
Deferred income	4,415	3,133	3,463
Accrued compensation	14,411	11,854	22,996
Accrued pension contributions	3,187	3,247	3,624
Other payables	865	876	693
	<u>35,116</u>	<u>31,625</u>	<u>39,434</u>

Trade and other payables principally comprise amounts outstanding for trade purchases and ongoing costs. The directors consider that the carrying amount of trade payables approximates to their fair value.

17. Tax assets and liabilities

	Group		
	2004	2005	2006
	\$'000	\$'000	\$'000
Current tax assets/(liabilities)			
Current tax receivables	3,087	2,881	3,105
Current tax liabilities	(2,135)	(2,763)	(4,170)
	<u>952</u>	<u>118</u>	<u>(1,065)</u>
Non-current tax assets			
Deferred tax assets	<u>12,637</u>	<u>12,858</u>	<u>13,714</u>

Group

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

Deferred tax assets	Compensation and benefits \$'000	Tax losses \$'000	Other \$'000	Total \$'000
At 1 January 2004	5,885	—	6,360	12,245
Charge to income	—	—	(1,810)	(1,810)
Credit to income	809	1,129	279	2,217
Amount recognised in equity	(15)	—	—	(15)
At 31 December 2004	6,679	1,129	4,829	12,637
Charge to income	(1,179)	—	(770)	(1,949)
Credit to income	—	202	2,191	2,393
Amounts recognised in equity	(223)	—	—	(223)
At 31 December 2005	5,277	1,331	6,250	12,858
Charge to income	—	(755)	(2,381)	(3,136)
Credit to income	3,983	—	288	4,271
Amounts recognised in equity	(279)	—	—	(279)
At 31 December 2006	8,981	576	4,157	13,714

Other deferred tax assets largely arise on temporary differences relating to allowances for receivables. Judgement has been applied when assessing the deferred tax asset to recognise in respect of tax losses. The Group has the following unrecognised deferred tax assets relating to tax losses: 2004 \$104,000; 2005 \$1,497,000; 2006 \$4,007,000. Management have assessed the recoverability of the deferred tax asset and consider future taxable profits to be sufficient to support utilisation of the asset in the future.

The Company intends to reinvest for the foreseeable future undistributed earnings of certain foreign subsidiaries, which approximated \$13,600,000 at 31 December 2006 (2005: \$12,300,000; 2004: \$13,887,000), and has therefore made no provision for U.S. income taxes on these earnings. If such earnings were to be distributed to the parent company, U.S. income taxes of approximately \$3,000,000 would be incurred (2005: \$3,100,000; 2004: \$3,387,000). The foreign tax carryforwards expire from 2011 through 2016. At 31 December 2006, certain foreign subsidiaries of the Company had net operating loss carryforwards of \$13,900,000 (2005: \$4,310,000, \$1,210,000 of which expire in 2012, and \$3,100,000 can be carried forward; 2004: \$58,000 which expire 2008), all of which may be carried forward until utilised.

18. Financial liabilities

Group

	2004 \$'000	2005 \$'000	2006 \$'000
Current: Notes payable	(3,362)	(2,750)	(2,373)
Non-current: Notes payable	(7,217)	(4,438)	(2,065)
Non-current: Bank borrowings	(2,701)	(7,569)	—
Non-current: Preferred stock	(11,983)	(12,983)	(15,797)
Total non-current borrowing	(21,901)	(24,990)	(17,862)
Total borrowings	(25,263)	(27,740)	(20,235)

Notes payable

Kurt Salmon Associates, Inc has notes payable to former stockholders for the repurchase of Company common stock. The interest rates vary from 7.14% to 10.64%. The notes are payable in instalments or lump-sum payments through 2009.

Bank Borrowings

The Group maintains a revolving credit facility of \$25,000,000. The facility bears an interest rate of LIBOR (the London Interbank Offering Rate) plus 1.75%. The revolving facility is secured by the Group's U.S. accounts receivable and all related proceeds. The Group must pay an annual commitment

fee of 0.25% on the average unused portion of the agreement. The agreement contains certain restrictions and requires the maintenance of certain financial ratios and net worth. The Group is in compliance with these debt covenants at 31 December 2006, 31 December 2005, and 31 December 2004.

Preferred Stock

As part of a 2002 recapitalisation, the shareholders authorised 1,000,000 preferred shares. Of these 1,000,000 shares, 500,000 are designated Series A preferred stock with a par value of \$0.001 and 500,000 shares are undesignated preferred stock with a par value of \$0.001. The shareholders authorised the boards of directors to create a series of preferred shares from time to time from the authorised but undesignated preferred shares.

The holders of the outstanding shares of Series A Preferred are entitled to receive preferential cumulative dividends, whether or not earned or whether or not paid, at an annual rate equal to the Three-Year Treasury Rate plus 2% payable, if and when declared semi-annually in arrears on 31 May and 30 November each year. Such dividends accrue from the issue date of each share of Series A Preferred until paid. In the event that no dividend is declared or paid for a consecutive three year period, then the dividend rate shall thereafter be equal to the Three-year Treasury Rate plus 4%.

In the event of any liquidation, dissolution or winding up of the Corporation, whether voluntary or involuntary, or in the event of the Corporation's insolvency, before any distribution or payment is made to any holders of any shares of the Series 1999 Common Shares or any other class or series of capital stock of the Corporation designated to be junior to the Series A Preferred, and subject to the liquidation rights and preferences of any class or series of Preferred Shares designated to be senior to, or on a parity with Series A Preferred, the holders of each share of Series A Preferred are entitled to be paid first out of the assets of the Corporation available for distribution to holders of the Corporation's capital stock of all classes whether such assets are capital, surplus or earnings, an amount equal to the Stated Value of the Series A Preferred plus all accrued and unpaid dividends thereon, whether or not earned or declared, up to and including the date full payment shall be tendered to the holders of the Series A Preferred with respect to such liquidation, dissolution, winding up or insolvency.

Fair-value of non-current borrowings

The fair value of non-current borrowings is shown below. The fair value of current notes payable approximates to their book value.

Group

	2004	2005	2006
	\$'000	\$'000	\$'000
Non-current: Notes payable	(7,217)	(4,438)	(2,065)
Non-current: Bank borrowings	(2,576)	(7,101)	—
Non-current: Preferred stock	(11,983)	(12,983)	(15,797)
Total	(21,776)	(24,522)	(17,862)

The fair value of current borrowings and current notes payable equals their carrying amount, as the impact of discounting is not significant. The fair values for non current borrowings, non current notes payable and preferred stock are based on cash flows discounted using a rate based on the current rates of each.

19. Employee benefits

Total employee benefits

	<u>Note</u>	<u>2004</u> <u>\$'000</u>	<u>2005</u> <u>\$'000</u>	<u>2006</u> <u>\$'000</u>
Recognised liability for retirement benefits obligations — defined benefit scheme		6,869	7,045	8,237
Cash settled share based payment liability — KSA stock options and incentive plan	21b	58	151	1,578
Cash settled shares based payment liability — employee loan scheme	21c	<u>2,509</u>	<u>1,984</u>	<u>1,985</u>
Total employee benefits		<u>9,436</u>	<u>9,180</u>	<u>11,800</u>

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 2006: \$4,102,968 (2005: \$3,204,237; 2004: \$3,531,064); representing contributions payable to these schemes by the Group at rates specified in the rules of the plans.

Defined benefit schemes

In Germany, the Group has an unfunded post-retirement benefit obligation. The German obligation is unfunded and therefore holds no plan assets, and no contributions are made. The Group has investment securities totalling \$6,955,000 in 2006; (2005: \$5,268,000; 2004: \$5,484,000) which are maintained to provide the Group to meet its obligations. These assets are not required by the German arrangements and are general assets of the Group. These assets are recorded within non-current assets under financial assets.

The retirement benefit obligations are summarised below:

	<u>2004</u> <u>\$'000</u>	<u>2005</u> <u>\$'000</u>	<u>2006</u> <u>\$'000</u>
German benefit obligation	<u>6,869</u>	<u>7,045</u>	<u>8,237</u>

The actuarial valuations of plan assets and the present value of the defined benefit obligation were carried out at each year end by Rudi Krebs and A Sabine Zillig. 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:

	<u>2004</u> <u>%</u>	<u>2005</u> <u>%</u>	<u>2006</u> <u>%</u>
Rate of increase in salaries	3.5%	3.5%	3.5%
Discount rate	5.5%	4.5%	4.5%
General inflation assumption	1.75%	1.75%	1.75%

There are neither guaranteed nor discretionary increases to benefits after retirement. In 2004 and 2005 the mortality table used was the Heubeck 1998 table; the Heubeck 2005 G mortality table was used in 2006. The discount rate assumption was changed to reflect changes in long term corporate bond yields.

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

	<u>2004</u> <u>\$'000</u>	<u>2005</u> <u>\$'000</u>	<u>2006</u> <u>\$'000</u>
<i>German unfunded scheme</i>			
Interest on pension scheme liabilities (see note 6b)	<u>376</u>	<u>346</u>	<u>329</u>

Actuarial gains and losses have been reported in the statement of recognised income and expense.

(b) The amount included in the balance sheet arising from the Group's obligations in respect of the German unfunded scheme is as follows:

	2004 \$'000	2005 \$'000	2006 \$'000
Present value of defined benefit obligations	6,869	7,045	8,237
Liability recognised in the balance sheet	<u>6,869</u>	<u>7,045</u>	<u>8,237</u>

(c) Movements in balance sheet amounts:

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

	2004 \$'000	2005 \$'000	2006 \$'000
Opening defined benefit obligation	6,447	6,869	7,045
Service cost, included in administrative expenses	179	233	231
Interest cost (see note 6b)	376	346	329
Actuarial losses, included in statement of recognised income and expense	43	655	797
Exchange differences	26	(800)	96
Benefits paid	(202)	(258)	(261)
Closing defined benefit obligation	<u>6,869</u>	<u>7,045</u>	<u>8,237</u>

(d) History of experience gains and losses:

German obligation

The history of experience adjustments in relation to the German obligation is as follows:

	2004 \$'000	2005 \$'000	2006 \$'000
Present value of defined obligations	6,869	7,045	8,237
Fair value of scheme assets	—	—	—
Deficit	<u>6,869</u>	<u>7,045</u>	<u>8,237</u>
Experience adjustments on scheme liabilities amount	66	749	56
Percentage of scheme liabilities	0.8%	12.5%	0.8%
Experience adjustments on scheme assets	—	—	—
Amount	—	—	—
Percentage of scheme assets	<u>—</u>	<u>—</u>	<u>—</u>

No contributions are expected to be paid to the scheme during 2006 (2004: \$nil; 2005: \$nil).

In the US the Group operates an unfunded non-qualified retirement plan for certain employees. Each year, the Group makes a fully discretionary award to participants in the arrangement. This award is recorded as part of provisions in the balance sheet and staff costs in the income statement. Participants in the arrangement can make requests for payments of amounts rewarded to them following retirement, termination of employment or death. The timing of the payment is at the Group's discretion.

The Group has investment securities which are maintained to provide the Group with funds to meet its obligations under the German plan and the American non-qualified retirement plan. These assets are not required by the plans and are general assets of the Group. Under German and American law, benefits under these plans cannot be funded into separate trust accounts.

20 (a) Deferred income

2004 \$'000	2005 \$'000	2006 \$'000
<u>895</u>	<u>746</u>	<u>597</u>

Non-current deferred income relates to the deferred gain on a sale and leaseback transaction on the Group's US headquarters buildings in 2000. The gain on the sale of \$1,641,771 has been deferred and is being amortised on a straight line basis over the lease back term of 11 years.

20. (b) Provisions

	2004 \$'000	2005 \$'000	2006 \$'000
Balance at 1 January	12,056	10,362	8,922
Utilised during the year	(7,718)	(7,736)	(5,842)
Charged during the year	6,230	6,682	5,190
Released during the year	(206)	(453)	(104)
Foreign exchange	—	67	938
At 31 December	10,362	8,922	9,104

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. Provisions primarily relate to contributions payable after more than one year to defined contribution schemes. The other elements to provisions comprise an accrual for cash-settled equity based payments and deferred rent on certain properties in the USA.

21. Share capital

(a) Called up share capital

	2004 \$'000	2005 \$'000	2006 \$'000
Common shares authorised: 2 million (2004: 2 million; 2005: 2 million)			
Shares \$1 par each	2,000	2,000	2,000
Common shares issued and fully paid: 1,910,766 shares of \$1 par each	1,911	1,911	1,911
Common shares in treasury: 1,067,466 (2004: 935,666; 2005: 968,916) shares of \$1 par each	936	969	1,067
Common shares issued and fully paid not held by the company: shares of \$1 par each	844	975	942
Common shares in treasury: 1,067,466 (2004: 935,666; 2005: 968,916) at cost	47,688	50,066	53,901

The Company has one class of shares, Common shares. Common shares have a par value of \$1 per share. Common shares have voting rights and may receive dividends when declared by the board.

In 2006, the option exercise price for options exercised was \$57.56 (2004: \$57.56; 2005: \$57.56). Treasury shares are not included in the earnings per share calculation.

(b) Share options — KSA stock options and incentive plan

Year ended 31 December 2004

At 31 December 2004, there were options outstanding to subscribe for new common shares of 64,005 each as set out below.

Option grant date	Number of shares under option	Exercise price (dollar)	Weighted average price (dollar)	Exercisable not earlier than
April 30, 2003	20,710	53.43	53.43	2007
April 30, 2004	43,295	57.56	57.56	2008
Total	64,005		56.22	

The number of options outstanding at 31 December 2003 was 22,600 with a weighted average price of \$53.43.

In 2004, 46,565 options were granted with an exercise price of \$57.56 per share. The following options were exercised during the year.

<u>Exercised</u>	<u>Number</u>	<u>Par Value (dollar)</u>	<u>Weighted average price (dollar)</u>	<u>Consideration \$</u>
April 30, 2004	2,000	\$1	57.56	115,120

The options exercised in 2004 relate to a one-off arrangement connected with the recruitment of a senior employee.

During 2004, 3,160 options, with a weighted average price of \$55.09, over new ordinary shares lapsed or were forfeited. Share options under the Stock Option Plan and Incentive Plan expire 90 days after the date of vesting.

The total subscription price if all share options over new shares are exercised is \$3,598,361.

The fair value of options granted was determined using the Black-Scholes model. An expense of \$58,302 has been recognised in the period as employee costs. The cumulative liability at 31 December 2004 is \$58,302.

The inputs into the Black-Scholes model for the 2004 options are as follows:

Fair value of option	\$0.91
Exercise price and share price on date of grant	\$57.56
Expected life	0.5-5
Expected volatility	13.5%
Risk free rate	1.16-3.84%
Expected dividend yield	0%

The inputs into the Black-Scholes model for the 2003 options are as follows:

Fair value of option	\$0.91
Exercise price and share price on date of grant	\$53.43
Expected life	2-2.5
Expected volatility	13.5%
Risk free rate	1.28%
Expected dividend yield	0%

Year ended 31 December 2005

At 31 December 2005, there were options outstanding to subscribe for 90,915 shares of common stock as set out below.

<u>Option grant date</u>	<u>Number of shares under option</u>	<u>Exercise price (dollar)</u>	<u>Weighted average price (dollar)</u>	<u>Exercisable not earlier than</u>
April 30, 2003	19,910	53.43	53.43	2007
April 30, 2004	40,465	57.56	57.56	2008
April 30, 2005	30,540	57.92	57.92	2009
Total	90,915		56.78	

In 2005, 30,690 options were granted with a exercise price of \$57.92 per share. The following options were exercised during the year:

<u>Exercised</u>	<u>Number</u>	<u>Par Value (dollar)</u>	<u>Weighted average price (pence)</u>	<u>Consideration (dollar)</u>
April 30, 2005	1,000	\$1	57.56	57,560

During 2005, 2,780 options, with a weighted average price of \$56.24 lapsed or were forfeited. An expense of \$93,000 has been recognised in the period as employee costs. The cumulative liability at 31 December 2005 is \$151,000.

The inputs into the Black-Scholes model for the 2005 options are as follows:

Fair value of option	\$2.91
Exercise price and share price on date of grant	\$57.92
Expected life	1-5
Expected volatility	13.5%
Risk free rate	3.33-3.97%
Expected dividend yield	0%

The inputs into the Black-Scholes model for the 2004 options are as follows:

Fair value of option	\$2.91
Exercise price and share price on date of grant	\$57.56
Expected life	0.5-6
Expected volatility	13.5%
Risk free rate	1.16-3.84%
Expected dividend yield	0%

Year ended 31 December 2006

At 31 December 2006, there were 95,090 options outstanding to subscribe for shares of common stock as set out below.

Option grant date	Number of shares under option	Exercise price (pence)	Weighted average price (pence)	Exercisable not earlier than
April 30, 2003	11,780	53.43	53.43	2007
April 30, 2004	16,545	57.56	57.56	2008
April 30, 2005	13,350	57.92	57.92	2009
April 30, 2006	53,415	46.53	46.53	2010
Total	95,090		50.90	

In 2006, 59,495 options were granted with an exercise price of \$46.53 per share. No options were exercised during 2006.

During the year, 55,320 options, with a weighted average price of \$55.86, lapsed or were forfeited. An expense of \$1,427,000 has been recognised in the period as employee costs. The cumulative liability at 31 December 2006 is \$1,578,000.

The inputs into the Black-Scholes model for the 2006 options are as follows:

Fair value of option	\$4.33
Exercise price and share price on date of grant	\$46.53
Expected life	1-5
Expected volatility	13.5%
Risk free rate	4.89-4.9%
Expected dividend yield	0%

The inputs into the Black-Scholes model for the 2005 options are as follows:

Fair value of option	\$4.33
Exercise price and share price on date of grant	\$57.92
Expected life	1-5
Expected volatility	13.5%
Risk free rate	3.33-3.97%
Expected dividend yield	0%

The inputs into the Black-Scholes model for the 2004 options are as follows:

Fair value of option	\$4.33
Exercise price and share price on date of grant	\$57.56
Expected life	0.5-6
Expected volatility	13.5%
Risk free rate	1.16-3.84%
Expected dividend yield	0%

The inputs into the for Black-Scholes model the 2003 options are as follows:

Fair value of option	\$4.33
Exercise price and share price on date of grant	\$53.43
Expected life	2-2.5
Expected volatility	13.5%
Risk free rate	1.28%
Expected dividend yield	0%

(a) Stock Option Plan

In 2003, the Company adopted the 2002 KSA Stock option Plan and Incentive Plan (the Option Plan) under which the board of directors may grant to certain of its officers and principals a non-transferable right to purchase a designated number of common shares at the fair value of the shares as of the preceding 31 December. Certain options granted in 2006 have graded vesting terms after 5 years from the date of grant and the remaining options vest pro-rata over three years from the date of grant. Compensation expense is recognised for options with pro-rata vesting in accordance with IFRS 2. The options expire within the same year they vest. The Option Plan authorises grants of options to purchase up to 250,000 shares of authorised common stock. All options granted to date under the Option Plan have had an exercise price equal to the estimated fair value (i.e. the Formula Value as of the preceding 31 December) of the underlying common stock on the date of the grant.

(b) Restricted Stock and Stock Unit Award

On 15 December 2005, the board of directors of the Company adopted the Retention and Equity Incentive Plan (the Incentive Plan), which allows the board of directors to authorise the granting of up to an aggregate of 130,000 shares of restricted stock awards and restricted stock unit awards to employees that are designated as principals by the Company. The purpose of the Incentive Plan is to attract and retain key employees and reward them for long-term performance and to increase their ownership of the Company. Holders of restricted stock awards entitle the shareholders to all rights of common stock ownership except that the shares may not be sold, transferred, pledged, exchanged or otherwise disposed of until the shares are fully vested. Holders of restricted stock unit awards will have no voting rights and will have no rights to dividends until shares are issued upon the vesting of such units. Pursuant to the Incentive Plan, awards are granted on 30 April 2006 and 2007 and vest over a period of 3 years, contingent on continued employment on the vesting date. Shares granted as restricted share awards are subject to forfeiture until fully vested. Common shares represented by restricted stock unit awards will be issued only upon full vesting of each unit. However, a change in control of the Company (as defined in the Incentive Plan) will accelerate vesting of the awards.

During 2006, the Company granted 35,002 shares of restricted stock and 29,502 stock units under the Incentive Plan. The grant-date fair value of the awards, excluding estimated forfeitures, was approximately \$3.0 million, based on an estimated fair value of \$46.53 per common share. As of 31 December 2006, no shares of restricted stock and no stock units were fully vested. Compensation cost charged against operations for these awards for the year ended 31 December 2006 was \$1,104,302, which is net of forfeitures of approximately 10%. There is \$1,606,257 of unrecognised compensation cost related to non-vested shares at 31 December 2006 which is expected to be recognised over a weighted-average period of 1.4 years. There were 3,625 shares of restricted stock and 2,625 stock units forfeited during 2006.

(c) Employee loan scheme

Prior to 2005, some Series 1999 shares were sold to certain principals in exchange for three-year or five-year promissory notes. Such promissory notes are to be forgiven in full if the respective principal remains active with the Company for the term of the promissory note. The promissory notes are

collateralised by the related shares, and have been deducted from stockholders' equity in the accompanying consolidated financial statements. A cash settled liability is recognised over the vesting period with a corresponding charge to the income statement. The fair value of this liability is remeasured at each balance sheet date with a corresponding charge recognised as an employee expense in the income statement.

22. Equity

	Share capital \$'000	Share premium account \$'000	Translation reserve \$'000	Own shares held \$'000
At 1 January 2004	1,911	14,768	1,322	(43,761)
Currency translation differences	—	—	715	—
Sale of treasury shares	—	243	—	2,972
Vesting of discount on shares sold	—	356	—	—
Purchase of treasury shares	—	—	—	(9,408)
At 31 December 2004	1,911	15,367	2,037	(50,197)
Currency translation differences	—	—	(1,161)	—
Sale of treasury shares	—	423	—	2,956
Purchase of treasury shares	—	—	—	(4,810)
At 31 December 2005	1,911	15,790	876	(52,051)
Currency translation differences	—	—	482	—
Sale of treasury shares	—	(224)	—	2,247
Shares issued as compensation	—	(169)	—	169
Vesting of discount on shares sold	—	135	—	—
Shares issued as acquisition	—	(42)	—	421
Purchase of treasury shares	—	—	—	(8,291)
At 31 December 2006	1,911	15,490	1,358	(57,505)

Translation reserve represents accumulated translation gains and losses relating to the difference in the average rate used on the profit and loss accounts and the closing rate used to translate the balance sheet accounts of foreign subsidiaries into the U.S. dollar. Translation reserve also includes unrealised gains and losses related to certain investments held by the Group.

Own shares held represents Kurt Salmon Associates, Inc. shares held in treasury at cost.

23. Retained earnings

	\$'000
At 1 January 2004	36,663
Profit for the year attributable to equity shareholders of the parent	4,173
Dividends paid	(238)
Gain on available for sale financial assets, net of deferred tax	135
Actuarial loss related to retirement benefit scheme	(43)
Tax on items taken directly to equity	15
At 31 December 2004	40,705
Loss for the year attributable to equity shareholders of the parent	(2,608)
Gain on available for sale financial assets, net of deferred tax	294
Actuarial loss related to retirement benefit scheme	(655)
Tax items taken directly to equity	223
At 31 December 2005	37,959
Profit for the year attributable to equity shareholders of the parent	2,579
Dividends paid	(173)
Gain on available for sale financial assets, net of deferred tax	318
Actuarial loss related to retirement benefit scheme	(797)
Tax on items taken directly to equity	279
At 31 December 2006	40,165

24. 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.

	Group		
	2004 \$'000	2005 \$'000	2006 \$'000
Cash at bank and in hand	3,775	6,116	7,988

25. 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.

The Group maintains investment securities totalling \$6,954,890, \$5,268,160 and \$5,483,921 at 31 December 2006, 2005 and 2004 respectively, to provide the Group with funds to meet its obligation under the German subsidiary's retirement plan. These assets are not required by the plan and are general assets of the Group. Under German law, pension benefits under this plan cannot be funded into a separate trust account. These investments are reviewed regularly with respect to the obligation.

The Group maintains investment securities totalling \$4,219,253, \$4,594,068 and \$4,892,010 at 31 December 2006, 2005 and 2004 respectively, which are maintained to provide the Group with funds to meet its obligation under the Non-Qualified Plan for its domestic subsidiary employees. These assets are not required by the plan and are general assets of the Group. These assets are designated as assets held for sale with gains or losses, other than impairment losses and foreign exchange gains and losses, recognised directly in equity.

The Group had investments in U.S. treasury instruments totalling \$569,338 and \$1,001,476 at 31 December 2005 and 2004 respectively, which are maintained to provide the Group with funds to meet its obligation under a defined contribution deferred compensation plan for its U.S. employees. These assets are not required by the plan and are general assets of the Group.

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 18.

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

Financial assets and liabilities	2004	2005	2006
	Floating rate \$'000	Floating rate \$'000	Floating rate \$'000
Currency			
US Dollars	627	2,601	2,263
Pounds	2,078	79	(43)
Euro	566	1,878	1,337
Other	504	1,558	4,431
Cash	3,775	6,116	7,988
US Dollars	20,057	16,430	17,451
Pounds	10,805	7,317	1,148
Euro	5,896	5,820	7,145
Other	3,067	5,075	8,179
Trade and other receivables	39,825	34,642	33,923
US Dollars	26,977	24,273	30,484
Pounds	1,746	1,726	836
Euro	2,955	3,257	2,745
Other	3,438	2,369	5,369
Trade and other payables	35,116	31,625	39,434

The fair value of current borrowings and current notes payable equals their carrying amount, as the impact of discounting is not significant.

Interest rate risk

The cash and short-term deposits attract interest rates based on LIBOR (the London Interbank Offering Rate) for periods of up to three months. The Group's bank borrowings bear an interest rate of LIBOR plus 1.75%. The Group does not face any other interest rate risks.

Credit risk

Exposure to credit risk is monitored on an ongoing basis. The Group does not require collateral in respect of financial assets. Investments are made in accordance with approved Group policies. The Group does not use derivatives. There was no significant concentration of credit risk at any of the balance sheet dates included in this financial information.

Foreign exchange risk

The Group is not exposed to significant foreign exchange risk since revenues and related costs generally arise in the same currency. In preparing consolidated financial information the unrealised foreign exchange differences arise on translating non-dollar assets and liabilities of subsidiary undertakings.

Sensitivity analysis

In managing interest rate and currency risks the Group aims to reduce the impact of short-term fluctuations on the Group's earnings. Over the longer term, permanent changes in foreign exchange and interest rates will have an impact on profit.

At 31 December 2006 it is estimated that an increase of one percentage point in interest rates would decrease the Group's profit before tax by approximately \$300,000.

At 31 December 2006 it is estimated that an increase of one percentage point in the value of the euro against the dollar would increase the Group's reported profit before tax by less than \$100,000.

26. Operating lease arrangements

Group	2004 \$'000	2005 \$'000	2006 \$'000
Minimum lease payments under operating leases recognised in the income statement for the year	7,343	6,463	6,359

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	2004		2005		2006	
	Land and buildings \$'000	Other \$'000	Land and buildings \$'000	Other \$'000	Land and buildings \$'000	Other \$'000
Within one year	5,112	707	5,159	595	5,836	505
In the second to fifth years inclusive	17,218	1,201	16,472	750	18,790	599
After five years	6,624	—	7,549	—	5,360	7
	<u>28,954</u>	<u>1,908</u>	<u>29,180</u>	<u>1,345</u>	<u>29,986</u>	<u>1,111</u>

Operating lease payments primarily represent rentals payable by the Group for certain of its office properties.

27. Related party transactions

No Group company entered into a transaction with a related party that is not a member of the Group. There are no material outstanding related party balances at 31 December 2004, 31 December 2005 or 31 December 2006.

Remuneration of key management personnel

The aggregate remuneration of the key management personnel of the Group, is set out below.

	2004 \$'000	2005 \$'000	2006 \$'000
Short-term employee benefits	4,456	6,351	5,793
Post-employment benefits	444	572	601
Other long-term benefits	—	—	—
Share based payments	—	—	112
	<u>4,900</u>	<u>6,923</u>	<u>6,506</u>

Directors emoluments

The aggregate remuneration of the directors of Kurt Salmon Associates, Inc. is set out below:

	2004 \$'000	2005 \$'000	2006 \$'000
Short-term employee benefits	1,158	1,828	2,647
Post-employment benefits	184	197	271
	<u>1,342</u>	<u>2,025</u>	<u>2,918</u>

28. Principal subsidiary undertakings

At 31 December 2006, Kurt Salmon Associates, Inc. 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 directly. Each of the subsidiaries is included in the consolidation.

Kurt Salmon Associates Ltd	United Kingdom
Kurt Salmon Associates AG	Switzerland
Kurt Salmon Associates GmbH	Germany
Kurt Salmon Associates SA	France
Kurt Salmon Associates BV	The Netherlands
Kurt Salmon Associates Canada Ltd	Canada
KSA Americas Ltd	Bermuda
Kurt Salmon Associates Capital Advisors, Inc.	United States
Kurt Salmon Management Consulting (Shanghai) Ltd	China

29. Restatement of information under International Financial Reporting Standards

For the purpose of this Prospectus, the Group's financial information has been restated from US GAAP to IFRS. The IFRS transition date is 1 January 2004. This note explains the extent to which and how the Directors have applied accounting policies that are consistent with Adopted IFRS in preparing the restated financial information and identifies any significant departures from Adopted IFRS. While KSA is not a first time adopter in this financial information, the main differences to the company between Adopted IFRS and the previously adopted US GAAP are summarised below:

IFRS 2, Share based payments

Under IFRS 2, the Group recognises a charge for the fair value of outstanding share options granted to employees. The charge has been calculated using the Black-Scholes pricing model and the resulting cost has been charged to the income statement over the relevant option vesting periods, adjusted to reflect actual and expected levels of vesting. There was no charge to the income statement in 2004 and 2005 under US GAAP. The impact of IFRS 2 is a charge of \$58,000 for the year ended 31 December 2004, \$93,000 for the year ended 31 December 2005 and \$26,000 for the year ended 31 December 2006. The credit entry of these charges is reflected as a cash settled liability under IFRS 2 in accordance with US GAAP, the share option charge for the year ended 31 December 2006 was credited to the reserve for own shares held and has been reclassified to cash settled liabilities under IFRS 2.

Under IFRS a cash settled liability arising is held until the liability is settled. Under US GAAP this liability was eliminated on vesting in respect of the Employee Loan Scheme. The impact of IFRS 2 is a gross up of this liability of \$1,715,000 as of 1 January 2004, \$2,094,000 as at 31 December 2004, \$1,899,000 as at 31 December 2005, and \$1,985,000 as at 31 December 2006.

IAS 21, The effects of changes in foreign exchange

Under IFRS, translation differences arising from the date of transition to IFRS that are permitted to be taken to reserves must be tracked in a separate foreign exchange reserve. Under US GAAP, although translation differences were tracked, a separate reserve was not shown. There has therefore been a reclassification of reserves within the amounts previously reported under US GAAP (with IFRS reclassifications). This has had no impact on equity or net results.

IAS 32, Financial Instruments: presentation

Under IFRS, financial instruments may only be classified as equity if they contain no contractual obligations. As a result, on restatement to IFRS, the preferred stock, which is classified as equity under US GAAP, has been reclassified to debt. The impact of this has been to reduce equity by \$6,011,000 at 1 January 2004, \$11,983,000 at 31 December 2004, \$12,983,000 at 31 December 2005 and \$15,797,000 at 31 December 2006. Dividends paid on the preferred stock have also been reclassified as finance costs in the income statement. The impact of this has been to reduce reported results by \$369,000 in 2004, \$713,000 in 2005 and \$958,000 in 2006. In addition, under IFRS, amounts receivable from shareholders have been reclassified from Own Shares Held, a component of equity under US GAAP, to other receivables. The impact of this has been to increase equity by \$3,976,000 at 1 January 2004, \$3,861,000 at 31 December 2004, \$2,530,000 at 31 December 2005 and \$1,470,000 at 31 December 2006.

IAS 1, Presentation of Financial Statements

Under IAS 1, items accounted for using the equity method are required to be shown separately on the income statement. In the US GAAP financial statements, equity-accounted results were included in Other Income along with incidental non-operating income and costs. In the IFRS financial statements, costs which are unusual, either by nature or amount, have been shown separately as restructuring and exceptional bad debt charges. In the IFRS financial statements, items included within Other Income have been reclassified in the income statement, and the equity accounted results shown separately in the income statement. The reclassifications have had no impact on the reported net results or equity. With the exception of reclassifications, there are no material differences between cashflows presented under Adopted IFRS and the cashflows presented under US GAAP.

In addition, the amounts previously reported under US GAAP in the income statement and balance sheet as presented in the following reconciliations have been reclassified to follow IAS 1 presentation requirements.

IFRS 5, Non-current assets held for sale and discontinued operations

Under IFRS 5, a discontinued operation should be shown as a single amount on the face of the income statement comprising the total of the post-tax result of the discontinued operation and the post-tax gain or loss arising on disposal. In the 2005 US GAAP financial statements, these items were included in Other Income along with incidental non-operating income and costs. In the IFRS financial statements, the items relating to the 2005 discontinued activity have been reclassified in the income statement, and shown separately in the income statement. The reclassifications have had no impact on the reported net results or equity.

IAS 19, Employee benefits

Under IFRS, interest expense arising on defined benefit obligations should be categorised as a finance cost. Under US GAAP it is included in operating costs. As a result, there have been reclassifications from operating costs to finance costs in the IFRS restatement. There has also been a reclassification from retirement benefit obligation to provisions, so that the reported retirement benefit obligation reflects amounts arising under defined benefit schemes. The amounts reclassified to provisions relate to defined contribution schemes. The reclassifications have had no impact on the reported net results or equity. Actuarial gains and losses of \$109,000 (2005: \$655,000; 2004: \$797,000) have been recognised in the statement of income and expense.

IAS 12, Income taxes

Under IFRS, all deferred tax is classified as non-current. Under US GAAP, it is classified as either current or non-current depending on the dates at which the deferred tax is expected to be recovered or crystallise. In the IFRS restatement, the deferred tax classified as current in the US GAAP financial statements has been reclassified as a non-current item. The reclassifications have had no impact on the reported net results or equity. In addition deferred tax has been recognised under IFRS for the impact of actuarial gains and losses (IAS 19 Employee Benefits) and the share option charges recorded under IFRS 2 Share Based Payments.

IFRS 1, First time Adoption of International Financial Reporting Standards

The Group has taken advantage of the following exemptions in IFRS 1: not to restate business combinations which occurred before 1 January 2004; not to apply IFRS 2 to equity settled share based payments granted either before 7 November 2002 or granted after 7 November 2002 but vested by 1 January 2005.

IAS 39, Financial Instruments recognition and measurement

Under IFRS investment securities are carried at fair value and changes in fair value are recognised directly in equity. Under US GAAP changes in fair value were recognised in the income statement since they were classified as fair value through profit and loss investments. The carrying value of these investments in the US GAAP Financial Statements were \$11,698,000 1 January 2004, \$11,391,000 at 31 December 2004, \$10,478,000 at 31 December 2005 and \$11,174,000 at 31 December 2006.

The impact on the income statement was \$346,000 in 2006 (2005: \$290,000, 2004: \$161,000). There has been no impact on equity on any of the periods under review.

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

	Previously reported under US GAAP (with IFRS re-classifications) \$'000	Notes Receiv. Reclass \$'000	Preferred Stock Reclass \$'000	Restructuring and exceptional bad debts \$'000	Option Expense £'000	Other income reclassifies \$'000	German Pension £'000	Deferred Tax \$'000	Other Balance Sheet Reclassifies \$'000	Restated under IFRS \$'000
Non-current assets										
Intangible assets	12,623	—	—	—	—	—	—	—	—	12,623
Plant and equipment	3,449	—	—	—	—	—	—	—	—	3,449
Deferred tax assets	7,105	—	—	—	—	—	—	(52)	5,141	12,194
Investments	11,698	—	—	—	—	—	—	—	—	11,698
Other non-current assets	4,237	—	—	—	—	—	—	—	—	4,237
Total non-current assets	39,112	—	—	—	—	—	—	(52)	5,141	44,201
Current assets										
Trade and other receivables	37,150	3,976	—	—	—	—	—	—	—	41,126
Deferred income tax receivable	5,141	—	—	—	—	—	—	—	(5,141)	—
Income tax receivable	1,169	—	—	—	—	—	—	—	—	1,169
Cash and cash equivalents	5,108	—	—	—	—	—	—	—	—	5,108
Other current assets	1,068	—	—	—	—	—	—	—	—	1,068
Total current assets	49,636	3,976	—	—	—	—	—	—	(5,141)	48,471
Total assets	88,748	3,976	—	—	—	—	—	(52)	—	92,672

Reconciliation of equity as at 1 January 2004 (date of transitions to IFRS)

	Previously reported under US GAAP (with IFRS re-classifications) \$'000	Notes Receiv. Reclass \$'000	Preferred Stock Reclass \$'000	Restructuring and exceptional bad debts \$'000	Option Expense £'000	Other income reclassifies \$'000	German Pension £'000	Deferred Tax \$'000	Other Balance Sheet Reclassifies \$'000	Restated under IFRS \$'000
Current liabilities										
Trade and other payables	(29,896)	—	—	—	—	—	—	—	—	(29,896)
Borrowings	(3,967)	—	—	—	—	—	—	—	—	(3,967)
Retirement benefits obligation	(3,548)	—	—	—	—	—	—	—	3,548	—
Other current liabilities	(1,190)	—	—	—	—	—	—	—	(3,548)	(4,738)
Current tax liabilities	(1,231)	—	—	—	—	—	—	—	—	(1,231)
Total current liabilities	(39,832)	—	—	—	—	—	—	—	—	(39,832)
Non-current liabilities										
Retirement benefits obligation	(13,767)	(1,715)	—	—	—	—	152	—	7,444	(7,886)
Borrowings	(15,984)	—	(6,011)	—	—	—	—	—	—	(21,995)
Provisions	(4,612)	—	—	—	—	—	—	—	(7,444)	(12,056)
Total non-current liabilities	(34,363)	(1,715)	(6,011)	—	—	—	152	—	—	(41,937)
Total liabilities	(74,195)	(1,715)	(6,011)	—	—	—	152	—	—	(81,769)
Net assets	14,553	2,261	(6,011)	—	—	—	152	(52)	—	10,903
Equity										
Share capital	(7,922)	—	6,011	—	—	—	—	—	—	(1,911)
Share premium account	(14,768)	—	—	—	—	—	—	—	—	(14,768)
Translation reserve	(1,322)	—	—	—	—	—	—	—	—	(1,322)
Own shares held	46,022	(2,261)	—	—	—	—	—	—	—	43,761
Retained earnings	(36,563)	—	—	—	—	—	(152)	52	—	(36,663)
Total equity	(14,553)	(2,261)	6,011	—	—	—	(152)	52	—	(10,903)

Reconciliation of income for the year ended 31 December 2004

	Previously reported under US GAAP (with IFRS re-classifications) \$'000	Notes Receiv. Reclass \$'000	Preferred Stock Reclass \$'000	Restructuring and exceptional bad debts \$'000	Option Expense £'000	Other income reclassifies \$'000	German Pension £'000	Deferred Tax \$'000	Investment Securities \$'000	Other Balance Sheet Reclassifies \$'000	Restated under IFRS \$'000
Operating Revenue	126,743	—	—	659	—	—	—	—	—	—	127,402
Other Revenue	29,523	—	—	—	—	—	—	—	—	—	29,523
Revenue	156,266	—	—	659	—	—	—	—	—	—	156,925
Cost of sales	(131,408)	—	—	3,895	—	608	376	—	—	—	(126,529)
Gross profit	24,858	—	—	4,554	—	608	376	—	—	—	30,396
Administrative expenses — underlying	(17,372)	—	—	(399)	(58)	—	—	—	—	—	(17,829)
Profit from operation before non-recurring expenses	7,486	—	—	4,155	(58)	608	376	—	—	—	12,567
Administrative expenses — non-recurring	—	—	—	(4,155)	—	—	—	—	—	—	(4,155)
Total administrative expenses	(17,372)	—	—	(4,554)	(58)	—	—	—	—	—	(21,984)
Operating profit	7,486	—	—	—	(58)	608	376	—	—	—	8,412
Investment income	383	—	—	—	—	161	—	—	(161)	—	383
Foreign exchange loss	(95)	—	—	—	—	—	—	—	—	—	(95)
Other income/(expense)	940	—	—	—	—	(940)	—	—	—	—	—
Finance costs	(1,553)	—	(349)	—	—	—	(376)	—	—	—	(2,278)
Profit before tax	7,161	—	(349)	—	(58)	(171)	—	—	(161)	—	6,422
Tax	(2,440)	—	—	—	—	—	—	20	—	—	(2,420)
Profit for the period before discontinued activity	4,721	—	(349)	—	(58)	(171)	—	20	(161)	—	4,002
Profit from discontinued joint venture	—	—	—	—	—	171	—	—	—	—	171
Profit for the year	4,721	—	(349)	—	(58)	—	—	20	(161)	—	4,173

Balance sheet as at 31 December 2004

	Previously reported under (with IFRS re-classifications) US GAAP \$'000	Notes Receiv. Reclass \$'000	Preferred Stock Reclass \$'000	Restructuring and exceptional bad debts \$'000	Option Expense £'000	Other income reclassifies \$'000	German Pension £'000	Deferred Tax \$'000	Other Balance Sheet Reclassifies \$'000	Restated under IFRS \$'000
Non-current assets										
Intangible assets	13,467	—	—	—	—	—	—	—	—	13,467
Plant and equipment	3,775	—	—	—	—	—	—	—	—	3,775
Deferred income tax assets	7,684	—	—	—	—	—	—	(17)	4,970	12,637
Investments	11,391	—	—	—	—	—	—	—	—	11,391
Other non-current assets	4,236	—	—	—	—	—	—	—	—	4,236
Total non-current assets	40,553	—	—	—	—	—	—	(17)	4,970	45,506
Current assets										
Trade and other receivables	35,964	3,861	—	—	—	—	—	—	—	39,825
Deferred income taxes, current	4,970	—	—	—	—	—	—	—	(4,970)	—
Income tax receivable	3,087	—	—	—	—	—	—	—	—	3,087
Cash and cash equivalents	3,775	—	—	—	—	—	—	—	—	3,775
Other current assets	837	—	—	—	—	—	—	—	—	837
Total current assets	48,633	3,861	—	—	—	—	—	—	(4,970)	47,524
Total assets	89,186	3,861	—	—	—	—	—	(17)	—	93,030

Deferred Tax – refer to note 17

Trade and other receivable – refer to note 15

Balance sheet as at 31 December 2004

	Previously reported under US GAAP (with IFRS re-classifications) \$'000	Notes Receiv. Reclass \$'000	Preferred Stock Reclass \$'000	Restructuring and exceptional bad debts \$'000	Option Expense £'000	Other income reclassifies \$'000	German Pension £'000	Deferred Tax £'000	Other Balance Sheet Reclassifies \$'000	Restated under IFRS \$'000
Current liabilities										
Trade and other payables	(31,069)	—	—	—	—	—	—	—	—	(31,069)
Borrowings	(3,362)	—	—	—	—	—	—	—	—	(3,362)
Defined contribution plan accrual	(3,187)	—	—	—	—	—	—	—	3,187	—
Other current liabilities	(860)	—	—	—	—	—	—	—	(3,187)	(4,047)
Current tax liabilities	(2,135)	—	—	—	—	—	—	—	—	(2,135)
Total current liabilities	(40,613)	—	—	—	—	—	—	—	—	(40,613)
Non-current liabilities										
Employee benefits	(13,907)	(2,094)	—	—	(58)	—	109	—	6,514	(9,436)
Financial liabilities	(9,918)	—	(11,983)	—	—	—	—	—	—	(21,901)
Deferred income	—	—	—	—	—	—	—	—	(895)	(895)
Provisions	(4,743)	—	—	—	—	—	—	—	(5,619)	(10,362)
Total non-current liabilities	(28,568)	(2,094)	(11,983)	—	(58)	—	109	—	—	(42,594)
Total liabilities	(69,181)	(2,094)	(11,983)	—	(58)	—	109	—	—	(83,207)
Net assets	20,005	1,767	(11,983)	—	(58)	—	109	(17)	—	9,823
Equity										
Share capital	(13,894)	—	11,983	—	—	—	—	—	—	(1,911)
Share premium account	(15,367)	—	—	—	—	—	—	—	—	(15,367)
Translation reserve	(2,037)	—	—	—	—	—	—	—	—	(2,037)
Own shares held	51,964	(1,767)	—	—	—	—	—	—	—	50,197
Retained earnings	(40,671)	—	—	—	58	—	(109)	17	—	(40,705)
Total equity	(20,005)	(1,767)	11,983	—	58	—	(109)	17	—	(9,823)

Employee benefits – refer to note 19

Borrowings – refer to note 18

Provisions – refer to note 20b

Share Capital – refer to note 21a

Own shares held – refer to note 22

Retained Earnings – refer to note 23

Reconciliation of income for the year ended 31 December 2005

	Previously reported under US GAAP (with IFRS reclassifications) \$'000	Notes Receiv. Reclass \$'000	Preferred Stock Reclass \$'000	Restructuring and exceptional bad debts \$'000	Option Expense £'000	Other income reclasses \$'000	German Pension £'000	Deferred Tax \$'000	Investment Securities \$'000	Balance Sheet Reclasses \$'000	Restated under IFRS \$'000
Revenue before expenses recovered from clients	121,170	—	—	—	—	—	—	—	—	—	121,170
Expenses recovered from clients	19,900	—	—	—	—	—	—	—	—	—	19,900
Total Revenue	141,070	—	—	—	—	—	—	—	—	—	141,070
Cost of sales	(121,209)	—	—	4,943	—	567	346	—	—	—	(115,353)
Gross profit	19,861	—	—	4,943	—	567	346	—	—	—	25,717
Administrative expenses — underlying	(18,851)	—	—	742	(93)	—	—	—	—	—	(18,202)
Profit from operation before non-recurring expense	1,010	—	—	5,685	(93)	567	346	—	—	—	7,515
Administrative expenses — non-recurring	—	—	—	(5,685)	—	—	—	—	—	—	(5,685)
Total administrative expenses	(18,851)	—	—	(4,943)	(93)	—	—	—	—	—	(23,887)
Operating profit	1,010	—	—	—	(93)	567	346	—	—	—	1,830
Investment income	448	—	—	—	—	290	—	—	(290)	—	448
Foreign exchange loss	(120)	—	—	—	—	—	—	—	—	—	(120)
Other income/expense	826	—	—	—	—	(826)	—	—	—	—	—
Finance costs	(1,322)	—	(713)	—	—	—	(346)	—	—	—	(2,381)
Profit before tax	842	—	(713)	—	(93)	31	—	—	(290)	—	(223)
Tax	(2,386)	—	—	—	—	—	—	32	—	—	(2,354)
Loss from continuing operations	(1,544)	—	(713)	—	(93)	31	—	32	(290)	—	(2,577)
Loss discontinued joint venture activity	—	—	—	—	—	(31)	—	—	—	—	(31)
Retained loss for the year	(1,544)	—	(713)	—	(93)	—	—	32	(290)	—	(2,608)

Balance sheet as at 31 December 2005

	Previously reported under US GAAP (with IFRS re-classifications) \$'000	Notes Receiv. Reclass \$'000	Preferred Stock Reclass \$'000	Restructuring and exceptional bad debts \$'000	Option Expense £'000	Other income reclassifies \$'000	German Pension £'000	Deferred Tax \$'000	Other Balance Sheet Reclassifies \$'000	Restated under IFRS \$'000
Non-current assets										
Intangible assets	12,985	—	—	—	—	—	—	—	—	12,985
Plant and equipment	2,909	—	—	—	—	—	—	—	—	2,909
Deferred tax assets	7,004	—	—	—	—	—	—	237	5,617	12,858
Investments	10,478	—	—	—	—	—	—	—	—	10,478
Other non-current assets	2,481	—	—	—	—	—	—	—	—	2,481
Total non-current assets	35,857	—	—	—	—	—	—	237	5,617	41,711
Current assets										
Trade and other receivables	32,112	2,530	—	—	—	—	—	—	—	34,642
Deferred income taxes, current	5,617	—	—	—	—	—	—	—	(5,617)	—
Income tax receivable	2,881	—	—	—	—	—	—	—	—	2,881
Cash and cash equivalents	6,116	—	—	—	—	—	—	—	—	6,116
Other current assets	111	—	—	—	—	—	—	—	—	111
Total current assets	46,837	2,530	—	—	—	—	—	—	(5,617)	43,750
Total assets	82,694	2,530	—	—	—	—	—	237	—	85,461

Deferred Tax – refer to note 17

Trade and other receivable – refer to note 15

Balance sheet as at 31 December 2005

	Previously reported under US GAAP \$'000	Notes Receiv. Reclass \$'000	Preferred Stock Reclass \$'000	Non Recurring items \$'000	Option Expense £'000	Other income reclasses \$'000	German Pension £'000	Deferred Tax \$'000	Other Balance Sheet Reclasses \$'000	Restated under IFRS \$'000
Current liabilities										
Trade and other payables	(27,502)	—	—	—	—	—	—	—	—	(27,502)
Financial liabilities	(2,750)	—	—	—	—	—	—	—	—	(2,750)
Defined contribution plan accrual	(3,516)	—	—	—	—	—	—	—	3,516	—
Other current liabilities	(876)	—	—	—	—	—	—	—	(3,247)	(4,123)
Current tax liabilities	(2,763)	—	—	—	—	—	—	—	—	(2,763)
Total current liabilities	(37,407)	—	—	—	—	—	—	—	269	(37,138)
Non-current liabilities										
Employee benefits	(11,665)	(1,899)	—	—	(151)	—	(545)	—	5,080	(9,180)
Financial liabilities	(12,007)	—	(12,983)	—	—	—	—	—	—	(24,990)
Deferred income	—	—	—	—	—	—	—	—	(746)	(746)
Provisions	(4,319)	—	—	—	—	—	—	—	(4,603)	(8,922)
Total non-current liabilities	(27,991)	(1,899)	(12,983)	—	(151)	—	(545)	—	(269)	(43,838)
Total liabilities	(65,398)	(1,899)	(12,983)	—	(151)	—	(545)	—	—	(80,976)
Net assets	17,296	631	(12,983)	—	(151)	—	(545)	237	—	4,485
Equity										
Share capital	(14,894)	—	12,983	—	—	—	—	—	—	(1,911)
Share premium account	(15,790)	—	—	—	—	—	—	—	—	(15,790)
Translation reserve	(876)	—	—	—	—	—	—	—	—	(876)
Own shares held	52,682	(631)	—	—	—	—	—	—	—	52,051
Retained earnings	(38,418)	—	—	—	151	—	545	(237)	—	(37,959)
Total equity	(17,296)	(631)	12,983	—	151	—	545	(237)	—	(4,485)

Employee benefits – refer to note 19

Borrowing – refer to note 18

Provisions – refer to note 20b

Share capital – refer to note 21a

Own shares held – refer to note 22

Retained earnings – refer to note 23

Reconciliation of income for the year ended 31 December 2006

	Previously reported under US GAAP \$'000	Notes Receiv. Reclass \$'000	Preferred Stock Reclass \$'000	Non Recurring items \$'000	Option Expense £'000	Other income reclasses \$'000	German Pension Other £'000	Deferred Tax \$'000	Investment Securities \$'000	Other Balance Sheet Reclasses \$'000	Restated under IFRS \$'000
Revenue before expenses recovered from clients	133,722	—	—	—	—	—	—	—	—	—	133,722
Expenses recovered from clients	19,214	—	—	—	—	—	—	—	—	—	19,214
Total revenue	152,936	—	—	—	—	—	—	—	—	—	152,936
Cost of sales	(124,962)	—	—	2,873	—	373	329	—	—	—	(121,387)
Gross profit	27,974	—	—	2,873	—	373	329	—	—	—	31,549
Administrative expenses — underlying	(18,040)	—	—	(689)	(26)	—	—	—	—	—	(18,755)
Profit from operations before non-recurring expenses	9,934	—	—	2,184	(26)	373	329	—	—	—	12,794
Administrative expenses — non-recurring	—	—	—	(2,184)	—	—	—	—	—	—	(2,184)
Total administrative expenses	(18,040)	—	—	(2,873)	(26)	—	—	—	—	—	(20,939)
Operating profit	9,934	—	—	—	(26)	373	329	—	—	—	10,610
Investment income	178	—	—	—	—	346	—	—	(346)	—	178
Foreign exchange gain	996	—	—	—	—	—	—	—	—	—	996
Other income/expense	719	—	—	—	—	(719)	—	—	—	—	—
Finance costs	(1,139)	—	(958)	—	—	—	(329)	—	—	—	(2,426)
Profit before tax	10,688	—	(958)	—	(26)	—	—	—	(346)	—	9,358
Tax	(6,788)	—	—	—	—	—	—	9	—	—	(6,779)
Retained profit after tax	3,900	—	(958)	—	(26)	—	—	9	(346)	—	2,579

Balance sheet as at 31 December 2006

	Previously reported under US GAAP \$'000	Notes Receiv. Reclass \$'000	Preferred Stock Reclass \$'000	Non Recurring items \$'000	Option Expense £'000	Other income reclasses \$'000	German Pension £'000	Deferred Tax \$,000	Other Balance Sheet Reclasses \$'000	Restated under IFRS \$'000
Non-current assets										
Intangible assets	13,128	—	—	—	—	—	—	—	—	13,128
Plant and equipment	2,051	—	—	—	—	—	—	—	—	2,051
Deferred tax assets	5,298	—	—	—	—	—	—	525	7,891	13,714
Investments	11,174	—	—	—	—	—	—	—	—	11,174
Other non-current assets	1,292	—	—	—	—	—	—	—	—	1,292
Total non-current assets	32,943	—	—	—	—	—	—	525	7,891	41,359
Current assets										
Trade and other receivables	32,453	1,470	—	—	—	—	—	—	—	33,923
Deferred income taxes, current	7,891	—	—	—	—	—	—	—	(7,891)	—
Income tax receivable	3,105	—	—	—	—	—	—	—	—	3,105
Cash and cash equivalents	7,988	—	—	—	—	—	—	—	—	7,988
Other current assets	384	—	—	—	—	—	—	—	—	384
Total current assets	51,821	1,470	—	—	—	—	—	—	(7,891)	45,400
Total assets	84,764	1,470	—	—	—	—	—	525	—	86,759

Deferred Tax – refer to note 17

Trade and other receivable – refer to note 15

Balance sheet as at 31 December 2006

	Previously reported under US GAAP \$'000	Notes Receiv. Reclass \$'000	Preferred Stock Reclass \$'000	Non Recurring items \$'000	Option Expense £'000	Other income reclasses \$'000	German Pension £'000	Deferred Tax \$,000	Other Balance Sheet Reclasses \$'000	Restated under IFRS \$'000
Current liabilities										
Trade and other payables	(35,117)	—	—	—	—	—	—	—	—	(35,117)
Financial liabilities	(2,373)	—	—	—	—	—	—	—	—	(2,373)
Dividend to shareholders	—	—	—	—	—	—	—	—	—	—
Defined contribution plan accrual	(3,970)	—	—	—	—	—	—	—	3,970	—
Other current liabilities	(998)	—	—	—	—	—	—	—	(3,319)	(4,317)
Current tax liabilities	(4,170)	—	—	—	—	—	—	—	—	(4,170)
Total current liabilities	(46,628)	—	—	—	—	—	—	—	651	(45,977)
Non-current liabilities										
Employee benefits	(12,951)	(1,985)	—	—	(1,578)	—	(1,342)	—	6,056	(11,800)
Financial liabilities	(2,065)	—	(15,797)	—	—	—	—	—	—	(17,862)
Deferred income	—	—	—	—	—	—	—	—	(597)	(597)
Provisions	(3,472)	—	—	—	—	—	—	—	(5,632)	(9,104)
Total non-current liabilities	(18,488)	(1,985)	(15,797)	—	(1,578)	—	(1,342)	—	(173)	(39,363)
Total liabilities	(65,116)	(1,985)	(15,797)	—	(1,578)	—	(1,342)	—	478	(85,340)
Net assets	19,648	(515)	(15,797)	—	(1,578)	—	(1,342)	525	478	1,419
Equity										
Share capital	(17,708)	—	15,797	—	—	—	—	—	—	(1,911)
Share premium account	(15,490)	—	—	—	—	—	—	—	—	(15,490)
Translation reserve	(880)	—	—	—	—	—	—	—	(478)	(1,358)
Own shares held	55,589	515	—	—	1,401	—	—	—	—	57,505
Retained earnings	(41,159)	—	—	—	177	—	1,342	(525)	—	(40,165)
Total equity	(19,648)	515	15,797	—	1,578	—	1,342	(525)	(478)	(1,419)

Employee benefits – refer to note 19

Borrowing – refer to note 18

Provisions – refer to note 20b

Share capital – refer to note 21a

Own shares held – refer to note 22

Retained earnings – refer to note 23

30. Post balance sheet events

There are no post balance sheet events requiring disclosure or reflection in the IFRS financial information.

In June 2007 the Group paid \$0.6 million deferred consideration relating to the Katz Consulting Group acquisition. The amount payable was not determinable at the time the 2006 accounts were approved and signed, since information on Katz Consulting Group earnings was not available at that date.

In June 2007, the UK corporation tax rate was changed from 30% to 28%. This will reduce the carrying value of deferred tax assets relating to UK tax losses, but the impact on the Group is not expected to be significant.

PART 8

HISTORICAL FINANCIAL INFORMATION RELATING TO MCG

The audited consolidated financial statements of MCG for the year ended 31 December 2006 are included in this Part 8.

For the year ended 31 December 2005 MCG was required for the first time to prepare audited consolidated financial statements in accordance with IFRS.

For the year ended 31 December 2004, MCG prepared consolidated financial statements under the historical cost convention in accordance with UK Generally Accepted Accounting Principles (UK GAAP).

The audit report of Deloitte & Touche LLP on the consolidated financial statements of MCG for the year ended 31 December 2005 covers note 28 and 29 (which is included in this Part 8), which sets out the restatement of the consolidated financial information for the year ended 31 December 2004 under IFRS.

The audit report of Deloitte & Touche LLP on the consolidated financial statements of MCG for the year ended 31 December 2006 and the audited consolidated financial statements of MCG for the years ended 31 December 2004 and 31 December 2005, together with audit reports thereon prepared by Deloitte & Touche LLP are incorporated by reference into this document.

Statutory accounts for each of the three years ended 31 December 2006 have been delivered to the Registrar of Companies.

The auditor's report of Deloitte & Touche LLP for each of the three years ended 31 December 2006 was unqualified and did not contain a statement under section 237 (2) or (3) of the Act.

In this Part 8, the term "the Company" refers to Management Consulting Group PLC and the term "the Group" refers to Management Consulting Group PLC and its subsidiary undertakings.

I. Group income statement (IFRS)

	Note	Year ended 31 December		
		2004 £'000	2005 £'000	2006 £'000
Continuing operations				
Revenue	3	119,248	129,601	146,890
Cost of sales		(60,414)	(64,847)	(73,415)
Gross profit		58,834	64,754	73,475
Selling costs		(30,448)	(34,931)	(40,169)
Administrative (expenses) — underlying		(16,707)	(17,161)	(17,150)
Profit from operations before non-recurring expenses and amortisation of acquired intangibles		11,679	12,662	16,156
Administrative (expenses)/income — non-recurring		757	897	(1,765)
Profit from operations before amortisation of acquired intangibles		12,436	13,559	14,391
Administrative (expenses) — amortisation of acquired intangibles		—	—	(943)
Total administrative expenses		(15,950)	(16,264)	(19,858)
Profit from operations	3	12,436	13,559	13,448
Investment income	6a	421	453	1,176
Finance costs	6b	(455)	(92)	(1,276)
Profit before tax	4	12,402	13,920	13,348
Tax expense	7	(3,945)	(4,128)	(4,598)
Profit for the year		8,457	9,792	8,750
Earnings per share — pence				
From continuing operations				
Basic	9	4.6	5.3	4.1
Diluted	9	4.5	5.2	4.1

II. Group statement of recognised income and expense (IFRS)

	Note	Year ended 31 December		
		2004 £'000	2005 £'000	2006 £'000
Exchange differences on translation of foreign operations	19	(1,745)	1,488	(4,904)
Actuarial gains/(losses) on defined benefit pension fund and medical schemes	16	(1,696)	(1,646)	3,284
Tax on items taken directly to equity		—	825	600
Net (expense)/income recognised directly in equity		(3,441)	667	(1,020)
Profit for the year		8,457	9,792	8,750
Total recognised income and expense for the period		5,016	10,459	7,730

III. Group balance sheet (IFRS)

	Note	Year ended 31 December		
		2004 £'000	2005 £'000	2006 £'000
Non-current assets				
Intangible assets	10	66,501	68,696	162,546
Property, plant and equipment	11	1,397	1,521	2,294
Deferred income tax assets	14	2,161	1,358	3,597
Total non-current assets		<u>70,059</u>	<u>71,575</u>	<u>168,437</u>
Current assets				
Trade and other receivables	12	10,574	14,801	46,800
Cash and cash equivalents	22	14,510	21,555	10,278
Total current assets		<u>25,084</u>	<u>36,356</u>	<u>57,078</u>
Total assets		<u>95,143</u>	<u>107,931</u>	<u>225,515</u>
Current liabilities				
Borrowings	15	—	—	(14,792)
Trade and other payables	13	(24,222)	(28,045)	(54,103)
Current tax liabilities	14	(4,722)	(3,959)	(5,728)
Total current liabilities		<u>(28,944)</u>	<u>(32,004)</u>	<u>(74,623)</u>
Net current (liabilities)/assets		<u>(3,860)</u>	<u>4,352</u>	<u>(17,545)</u>
Non-current liabilities				
Borrowings	15	—	—	(24,255)
Retirement benefit obligation	16	(11,383)	(11,869)	(5,411)
Non-current tax liabilities	14	(4,080)	(4,674)	(7,711)
Long-term provisions	17	(1,774)	(871)	(829)
Non-current accruals		<u>(686)</u>	<u>(581)</u>	<u>(497)</u>
Total non-current liabilities		<u>(17,923)</u>	<u>(17,995)</u>	<u>(38,703)</u>
Total liabilities		<u>(46,867)</u>	<u>(49,999)</u>	<u>(113,326)</u>
Net assets		<u>48,276</u>	<u>57,932</u>	<u>112,189</u>
Equity				
Share capital	18	47,256	47,373	67,735
Share premium account	19	38,026	38,146	38,163
Merger reserve	19	5,683	5,683	32,513
Shares to be issued	19	185	46	46
Share compensation reserve	19	616	1,256	1,492
Own share held by employee share trust	19	(970)	(1,270)	(1,270)
Translation reserve	19	(1,745)	(257)	(5,161)
Other reserves	19	7,064	7,064	7,064
Retained earnings	20	<u>(47,839)</u>	<u>(40,109)</u>	<u>(28,393)</u>
Total equity	21	<u>48,276</u>	<u>57,932</u>	<u>112,189</u>

IV. Group cash flow statement (IFRS)

		Year ended 31 December		
		2004 £'000	2005 £'000	2006 £'000
Net cash inflow/(outflow) from operating activities	22	<u>8,242</u>	<u>8,826</u>	<u>(1,954)</u>
Investing activities				
Net interest received		206	323	1,013
Acquisitions of subsidiaries, net of cash and overdrafts acquired		(1,074)	—	(44,932)
Purchase of property, plant and equipment		(1,061)	(669)	(1,202)
Purchases of intangible assets		(377)	(454)	(1,363)
Proceeds on disposal of property, plant and equipment		<u>117</u>	<u>13</u>	<u>—</u>
Net cash used in investing activities		<u>(2,189)</u>	<u>(787)</u>	<u>(46,484)</u>
Financing activities				
Dividends paid	8	(925)	(1,241)	(1,486)
Purchase of own shares		—	(181)	—
Proceeds from borrowings		—	—	39,009
Refinancing of acquired borrowings by term debt		—	—	(15,211)
Proceeds from issue of shares		<u>48</u>	<u>35</u>	<u>282</u>
Net cash raised by/(used in) financing activities		<u>(877)</u>	<u>(1,387)</u>	<u>22,594</u>
Net increase/(decrease) in cash and cash equivalents		5,176	6,652	(25,844)
Cash and cash equivalents at beginning of year		9,738	14,510	21,555
Effect of foreign exchange rate changes		<u>(404)</u>	<u>393</u>	<u>(225)</u>
Cash and cash equivalents net of current borrowings at end of the year	22	<u><u>14,510</u></u>	<u><u>21,555</u></u>	<u><u>(4,514)</u></u>

**Notes to the financial statement
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 14 of this document. 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 of the Annual Report and Audited Accounts of MCG for the year ended 31 December 2006.

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 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.

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.

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 share 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.

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 16 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.

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 on 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.

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.

(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.

(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, at 31 December 2006, 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 2004	Americas £'000	Europe £'000	Rest of World £'000	Group £'000
Revenue				
External sales	77,656	33,670	7,922	119,248
Profit/(loss) from operations before release of provision, depreciation and amortisation of acquired intangibles	13,306 ¹	320 ¹	(783) ¹	12,843 ¹
Depreciation and other amortisation	(819) ¹	(254) ¹	(91) ¹	(1,164) ¹
Profit/(loss) from operations before non-recurring items	12,487	66	(874)	11,679
Release provision in respect of management incentive plan	—	—	757	757
Profit/(loss) from operations	12,487	66	(117)	12,436
Finance expense (net)				(34)
Profit before tax				12,402
Income tax expense				(3,945)
Profit for the period				8,457
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

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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 expense (net)				(100)
Profit before tax				13,348
Income tax expense				(4,598)
Profit for the year				8,750

(b) Net assets

At 31 December 2004	Americas £'000	Europe £'000	Rest of World £'000	Group £'000
Assets				
Intangibles, including goodwill	28,096 ¹	38,405 ¹	— ¹	66,501 ¹
Other segment assets	7,509 ¹	3,261 ¹	332 ¹	11,102 ¹
	35,605	41,666	332	77,603
Unallocated corporate assets				17,540
Consolidated total assets				95,143
Liabilities				
Segment liabilities	(12,605)	(8,678)	(2,052)	(23,335)
Unallocated corporate liabilities				(23,532)
Consolidated total liabilities				(46,867)
Net assets				48,276

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

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<u>At 31 December 2006</u>	<u>Americas £'000</u>	<u>Europe £'000</u>	<u>Rest of World £'000</u>	<u>Group £'000</u>
Assets				
Intangibles, including goodwill	27,112	134,741	693	162,546
Other segment assets	<u>3,374</u>	<u>42,192</u>	<u>1,085</u>	<u>46,651</u>
	30,486	176,933	1,778	209,197
Unallocated corporate assets				<u>16,318</u>
Consolidated total assets				<u>225,515</u>
Liabilities				
Segment liabilities	(12,422)	(46,101)	(2,275)	(60,798)
Unallocated corporate liabilities				<u>(52,528)</u>
Consolidated total liabilities				<u>(113,326)</u>
Net assets				<u>112,189</u>

(c) Capital additions, depreciation and amortisation

<u>Year ended 31 December 2004</u>	<u>Americas £'000</u>	<u>Europe £'000</u>	<u>Rest of World £'000</u>	<u>Group £'000</u>
Capital additions	857	126	25	1,008
Unallocated corporate additions				<u>430</u>
Total capital additions				1,438
Depreciation and amortisation	742	230	82	1,054
Unallocated corporate depreciation and amortisation				<u>110</u>
Depreciation and amortisation				<u>1,164</u>
 <u>Year ended 31 December 2005</u>	 <u>Americas £'000</u>	 <u>Europe £'000</u>	 <u>Rest of World £'000</u>	 <u>Group £'000</u>
Capital additions	718	168	83	969
Unallocated corporate additions				<u>154</u>
Total capital additions				<u>1,123</u>
Depreciation and amortisation	<u>885</u>	<u>121</u>	<u>59</u>	<u>1,065</u>
 <u>Year ended 31 December 2006</u>	 <u>Americas £'000</u>	 <u>Europe £'000</u>	 <u>Rest of World £'000</u>	 <u>Group £'000</u>
Acquisitions	—	10,536	—	10,536
Capital additions	393	709	64	1,166
Unallocated corporate additions				<u>1,399</u>
Total capital additions				<u>13,101</u>
Depreciation and amortisation	<u>860</u>	<u>1,869</u>	<u>61</u>	<u>2,790</u>

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

	<u>2004</u>		<u>2005</u>		<u>2006</u>	
	<u>Average</u>	<u>Closing</u>	<u>Average</u>	<u>Closing</u>	<u>Average</u>	<u>Closing</u>
£1 = US\$	<u>1.83</u>	<u>1.92</u>	<u>1.82</u>	<u>1.72</u>	<u>1.84</u>	<u>1.96</u>
£1 = Euro	<u>1.47</u>	<u>1.41</u>	<u>1.46</u>	<u>1.45</u>	<u>1.47</u>	<u>1.48</u>

4. Profit before tax

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

	2004 £'000	2005 £'000	2006 £'000
Net foreign exchange losses/(gains)	(29)	(120)	317
Amortisation of intangible assets	346	461	1,790
Depreciation of property, plant and equipment	818	604	1,000
Loss on disposal of fixed assets	—	14	79
Staff costs (note 5)	65,816	70,953	80,723
Release of indemnity provision	—	(897)	(335)
Release of provision in respect of management incentive plan	(757)	—	—
Auditors' remuneration for audit services	<u>290</u>	<u>310</u>	<u>375</u>

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

Auditors' remuneration	2004 £'000	2004 %	2005 £'000	2005 %	2006 £'000	2006 %
Fees payable to the Company's auditors for the audit of the Company's annual accounts	30	6	32	5	32	4
Fees payable to the Company's auditors and their associates for other services to the Group — audit of the Company's subsidiaries pursuant to legislation	<u>260</u>	<u>50</u>	<u>278</u>	<u>49</u>	<u>343</u>	<u>40</u>
Total audit fees	290	56	310	54	375	44
Other services pursuant to legislation	—	—	—	—	—	—
Tax services	189	37	205	36	205	24
Other assurance services	<u>37</u>	<u>7</u>	<u>55</u>	<u>10</u>	<u>281</u>	<u>32</u>
Total non-audit fees	<u>226</u>	<u>44</u>	<u>260</u>	<u>46</u>	<u>486</u>	<u>56</u>
Total auditors' remuneration	<u>516</u>	<u>100</u>	<u>570</u>	<u>100</u>	<u>861</u>	<u>100</u>

Fees for other assurance services comprise in 2006 £276,000 relating to acquisitions (2005: £—; 2004: £—) and £5,000 for reporting on compliance with bank covenants (2005: £—; 2004: £—). 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 of the Annual Report and Audited Accounts for the year ended 31 December 2006 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:

	2004	2005	2006
Sales and marketing	183	201	248
Consultants	454	459	555
Support staff	<u>120</u>	<u>136</u>	<u>167</u>
	<u>757</u>	<u>796</u>	<u>970</u>

The number of Group employees at the year end 2006 was 1,448 (2005: 793; 2004: 755¹), the increase in 2006 was largely attributable to the acquisition of Ineum Consulting.

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The aggregate payroll costs of these persons were as follows:

	2004 £'000	2005 £'000	2006 £'000
Wages and salaries	58,670	62,936	67,571
Social security costs	6,346	6,932	11,934
Other pension costs	800	1,085	1,218
	<u>65,816</u>	<u>70,953</u>	<u>80,723</u>

A charge of £5,000 (2005: £—; 2004: £1,000) is included in the operating results in respect of the current cost of the closed US retirement benefit schemes (see note 16). Wages and salaries includes £804,000 (2005: £640,000; 2004: £439,000) relating to charges in respect of share options.

6. (a) Investment income

	2004 £'000	2005 £'000	2006 £'000
Interest receivable on bank deposits and similar income	421	453	1,013
Net finance income on retirement benefits plans (see note 16)	—	—	163
	<u>421</u>	<u>453</u>	<u>1,176</u>

(b) Finance costs

	2004 £'000	2005 £'000	2006 £'000
Interest payable on bank overdraft and loans and similar charges	(183)	(10)	(1,276)
Net finance charge on retirement benefits plans (see note 16)	<u>(272)</u>	<u>(82)</u>	<u>—</u>
	<u>(455)</u>	<u>(92)</u>	<u>(1,276)</u>

7. Tax expense

	2004 £'000	2005 £'000	2006 £'000
Tax in respect of current year			
UK corporation tax	127	500	326
Foreign tax	3,828	4,899	5,540
Deferred tax — acquired intangible assets	— ¹	—	(316)
Deferred tax — tax losses and other temporary differences	(1,420) ¹	(838)	(2,250)
Deferred tax — US goodwill	920 ¹	795	813
Total deferred tax	(500)	(43)	(1,753)
Total current year tax	3,455	5,356	4,113
Prior year taxation	<u>490</u>	<u>(1,228)</u>	<u>485</u>
	<u>3,945</u>	<u>4,128</u>	<u>4,598</u>

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 and 2004: 30%) of the estimated assessable profit for the year. Taxation for other jurisdictions is calculated at the rates prevailing in the respective jurisdictions.

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

	2004 £'000	2005 £'000	2006 £'000
Profit before tax	12,402	13,920	13,348
Tax at the average tax rate applicable across the group of 35% (2005: 36%; 2004: 38%)	4,713	5,011	4,672
Net tax effect of unrelieved losses	1,660	1,967	(1,279)
Net tax effect of permanent differences and other	(2,918)	(1,622)	720
Relating to prior year	490	(1,228)	485
Tax expense for the year	3,945	4,128	4,598
Effective tax rate for the year	32%	30%	34%

8. Dividends

	2004 £'000	2005 £'000	2006 £'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; 2003: 0.5p) per share	925	1,241	1,486

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; 2004: £19,000).

The directors recommended the payment of a final dividend in respect of 2006 of 1.0 pence per share which was paid on 9 May 2007 to ordinary shareholders on the register on 13 April 2007. The proposed final dividend was subject to approval by shareholders at the Annual General Meeting and was not 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:

	<u>2004</u> <u>£'000</u>	<u>2005</u> <u>£'000</u>	<u>2006</u> <u>£'000</u>
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	8,457	9,792	8,750
Amortisation of acquired intangibles	—	—	943
Earnings for the purpose of basic earnings per share excluding amortisation of acquired intangibles	8,457	9,792	9,693
Non-recurring items	(757)	(897)	1,765
Non-cash tax items and adjustments in respect of prior years	<u>1,410¹</u>	<u>392</u>	<u>1,582</u>
Earnings for the purpose of basic earnings per share excluding amortisation of acquired intangibles, non-recurring items, non-cash items and adjustments in respect of prior years	<u>9,110</u>	<u>9,287</u>	<u>13,040</u>
Number of shares	<u>Number</u> <u>(million)</u>	<u>Number</u> <u>(million)</u>	<u>Number</u> <u>(million)</u>
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	185.0	185.2	212.5
Effect of dilutive potential ordinary shares:			
— Share options	1.8	1.4	1.3
— Long term incentive plan	—	<u>0.2</u>	<u>0.2</u>
Weighted average number of ordinary shares for the purposes of diluted earnings per share	<u>186.8</u>	<u>186.8</u>	<u>214.0</u>
	<u>Pence</u>	<u>Pence</u>	<u>Pence</u>
Basic earnings per share	4.6	5.3	4.1
Diluted earnings per share	4.5	5.2	4.1
Basic-excluding amortisation of acquired intangibles	4.6	5.3	4.6
Basic-excluding amortisation of acquired intangibles, non-recurring, non-cash and prior year tax items	<u>4.9¹</u>	<u>5.0</u>	<u>6.1</u>

The average share price for the year ended 31 December 2006 was 54.3 pence (2005: 51.5 pence; 2004: 41.3). There is no 'cash' tax associated with the non-recurring items and amortisation.

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10. Intangible assets

Group	Goodwill £'000	Customer relationships £'000	Customer orders £'000	Other intangibles £'000	Total intangibles £'000
Cost					
At 1 January 2004	69,206 ¹	— ¹	— ¹	2,102 ¹	71,308 ¹
Additions	— ¹	— ¹	— ¹	378 ¹	378 ¹
Adjustment to consideration	(1,137) ¹	— ¹	— ¹	— ¹	(1,137) ¹
Exchange differences	(1,960) ¹	— ¹	— ¹	(144) ¹	(2,104) ¹
At 31 December 2004	66,109	—	—	2,336	68,445
At 1 January 2005	66,109	—	—	2,336	68,445
Additions	—	—	—	454	454
Exchange differences	2,169	—	—	258	2,427
Eliminated on disposals	—	—	—	(6)	(6)
At 31 December 2005	68,278	—	—	3,042	71,320
At 1 January 2006	68,278	—	—	3,042	71,320
Additions	—	—	—	1,363	1,363
Acquisitions (Note 27)	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 2004	— ¹	— ¹	— ¹	1,715 ¹	1,715 ¹
Charge for the year	— ¹	— ¹	— ¹	346 ¹	346 ¹
Exchange differences	— ¹	— ¹	— ¹	(117) ¹	(117) ¹
At 31 December 2004	—	—	—	1,944	1,944
At 1 January 2005	—	—	—	1,944	1,944
Charge for the year	—	—	—	461	461
Exchange differences	—	—	—	219	219
Eliminated on disposals	—	—	—	—	—
At 31 December 2005	—	—	—	2,624	2,624
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 2004	66,109	—	—	392	66,501
At 31 December 2005	68,278	—	—	418	68,696
At 31 December 2006	152,797	8,029	—	1,720	162,546

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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	2004 £'000	2005 £'000	2006 £'000
Cost			
Ineum Consulting	—	—	88,354
Parson Consulting	27,745	30,856	27,112
Proudfoot Consulting Europe	38,364	37,422	36,638
Salzer Consulting	—	—	693
	<u>66,109</u>	<u>68,278</u>	<u>152,797</u>

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 and 2004: 9%).

11. Property, plant and equipment

Fixtures, fittings and equipment	Group £'000
<i>Cost</i>	
At 1 January 2004	1,795 ¹
Additions	1,060 ¹
Exchange differences	(210) ¹
Eliminated on disposals	<u>(416)¹</u>
At 31 December 2004	<u>2,229</u>
At 1 January 2005	2,229
Additions	669
Exchange differences	308
Eliminated on disposals	<u>(323)</u>
At 31 December 2005	<u>2,883</u>
At 1 January 2006	2,883
Acquisitions	750
Additions	1,202
Exchange differences	(433)
Eliminated on disposals	<u>(571)</u>
At 31 December 2006	<u>3,831</u>
<i>Accumulated depreciation</i>	
At 1 January 2004	533 ¹
Charge for the year	818 ¹
Exchange differences	(220) ¹
Eliminated on disposals	<u>(299)¹</u>
At 31 December 2004	<u>832</u>
At 1 January 2005	832
Charge for the year	604
Exchange differences	202
Eliminated on disposals	<u>(276)</u>
At 31 December 2005	<u>1,362</u>
At 1 January 2006	1,362
Charge for the year	1,000
Exchange differences	(333)
Eliminated on disposals	<u>(492)</u>
At 31 December 2006	<u>1,537</u>
<i>Carrying Amount</i>	
At 31 December 2004	<u>1,397</u>
At 31 December 2005	<u>1,521</u>
At 31 December 2006	<u>2,294</u>

¹ This information is unaudited and has not previously been disclosed in the Group's 2004 audited financial statements. It has been included to provide information that is comparable and consistent with 2005 and 2006 and was not previously required to be disclosed in this format. It has been extracted without material adjustment from the Group's 2004 historical financial accounting records, on a basis consistent with the 2005 and 2006 audited financial statements, in accordance with the accounting policies disclosed on pages 86 to 92.

12. Trade and other receivables

	Group		
	2004	2005	2006
	£'000	£'000	£'000
Trade receivables — net	7,121	11,269	28,399
Other receivables	1,525	1,375	3,015
Taxation recoverable	204	175	373
Prepayments and accrued income	<u>1,724</u>	<u>1,982</u>	<u>15,013</u>
	<u>10,574</u>	<u>14,801</u>	<u>46,800</u>

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; 2004: 16 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.

13. Trade and other payables

	Group		
	2004	2005	2006
	£'000	£'000	£'000
Trade payables	1,708	1,809	11,470
Other taxes and social security	2,066	2,407	10,535
Other payables	7	144	215
Deferred income	1,966	2,878	5,958
Accruals	<u>18,475</u>	<u>20,807</u>	<u>25,925</u>
	<u>24,222</u>	<u>28,045</u>	<u>54,103</u>

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; 2004: 15 days). The directors consider that the carrying amount of trade payables approximates to their fair value.

14. Tax assets and liabilities

	Group		
	2004	2005	2006
	£'000	£'000	£'000
Current tax liabilities	4,722	3,959	5,728
Non current tax liabilities			
Tax liabilities	1,859	1,859	1,859
Deferred tax liabilities	<u>2,221</u>	<u>2,815</u>	<u>5,852</u>
	<u>4,080</u>	<u>4,674</u>	<u>7,711</u>
Total tax liabilities	<u>8,802</u>	<u>8,633</u>	<u>13,439</u>

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 2004	— ¹	— ¹	— ¹
Credit to income	2,001 ¹	160 ¹	2,161 ¹
At 31 December 2004	2,001	160	2,161
At 1 January 2005	2,001	160	2,161
Charge to income	(2,000)	—	(2,000)
Credit to income	1,100	97	1,197
At 31 December 2005	1,101	257	1,358
At 1 January 2006	1,101	257	1,358
Acquisitions of subsidiaries	—	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 2004	1,296 ¹	— ¹	— ¹	1,296 ¹
Transfer to corporation tax creditors	(736) ¹	— ¹	— ¹	(736) ¹
Charge to income	551 ¹	920 ¹	190 ¹	1,661 ¹
At 31 December 2004	1,111	920	190	2,221
At 1 January 2005	1,111	920	190	2,221
Transfer to corporation tax creditors	(561)	—	—	(561)
Charge to income	550	795	—	1,345
Credit to income	—	—	(190)	(190)
At 31 December 2005	1,100	1,715	—	2,815
At 1 January 2006	1,100	1,715	—	2,815
Transfer to corporation tax creditors	(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; 2004: £23 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.

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15. Borrowings

Group	2004 £'000	2005 £'000	2006 £'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.

	2004 £'000	2005 £'000	2006 £'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:

	2004 £'000	2005 £'000	2006 £'000
6 months or less	—	—	39,047

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

	Carrying amount			Fair value		
	2004 £'000	2005 £'000	2006 £'000	2004 £'000	2005 £'000	2006 £'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:

	2004 £'000	2005 £'000	2006 £'000
Currency			
Euro	—	—	33,047
Sterling	—	—	6,000
	—	—	39,047

The Group has the following undrawn borrowing facilities:

	2004 £'000	2005 £'000	2006 £'000
Floating rate	—	—	11,000

16. 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; 2004: £800,000), 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:

	2004 £'000	2005 £'000	2006 £'000
US defined benefit pension scheme	10,262	10,863	4,437
US post retirement medical costs	1,121	1,006	852
French statutory obligation	—	—	122
	<u>11,383</u>	<u>11,869</u>	<u>5,411</u>

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:

	2004 %	2005 %	2006 %
Rate of increase in salaries	Not applicable	Not applicable	Not applicable
Expected long term return on scheme assets	8.00	8.00	8.00
Discount rate	5.75	5.50	5.80
General inflation assumption	<u>3.00</u>	<u>3.00</u>	<u>3.00</u>

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:

	2004 £'000	2005 £'000	2006 £'000
<i>US defined benefit pension scheme</i>			
Expected return on pension scheme assets	1,764	2,039	2,232
Interest on pension scheme liabilities	(1,968)	(2,056)	(2,020)
	(204)	(17)	212
<i>US medical benefits plan</i>			
Interest on plan liabilities	(68)	(65)	(49)
Net finance income/(charge)	(272)	(82)	163

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; 2004: £2,332,000).

(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:

	2004 £'000	2005 £'000	2006 £'000
Present value of defined benefit obligations	(35,770)	(41,915)	(35,434)
Fair value of scheme assets	24,387	30,046	30,145
Liability recognised in the balance sheet	(11,383)	(11,869)	(5,289)
Defined benefit pension scheme (note (16) (e) (i))	(10,262)	(10,863)	(4,437)
Medical benefit plan (note (16) (e) (ii))	(1,121)	(1,006)	(852)
	(11,383)	(11,869)	(5,289)

(c) Movements in balance sheet amounts:

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

	2004 £'000	2005 £'000	2006 £'000
Opening defined benefit obligation	(35,586)	(35,770)	(41,915)
Service cost	(1)	—	—
Interest cost	(2,037)	(2,121)	(2,069)
Actuarial gains/(losses)	(2,263)	(1,369)	1,905
Exchange differences	2,583	(4,226)	5,000
Benefits paid	1,534	1,571	1,645
Closing defined benefit obligation	(35,770)	(41,915)	(35,434)

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

	2004 £'000	2005 £'000	2006 £'000
Opening fair value of plan assets	22,373	24,387	30,046
Expected return	1,765	2,039	2,232
Actuarial gains/(losses)	567	(277)	1,379
Contributions by employer	2,912	2,528	2,008
Exchange differences	(1,696)	2,940	(3,875)
Benefits paid	(1,534)	(1,571)	(1,645)
Closing fair value of plan assets	24,387	30,046	30,145
Net retirement benefit obligation	(11,383)	(11,869)	(5,289)

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

	Expected return 2004		Expected return 2005		Expected return 2006	
	%	£'000	%	£'000	%	£'000
Equities	9.0	17,099	9.0	20,954	9.0	19,947
Bonds	5.5	6,903	5.5	8,317	5.5	10,056
Cash	5.5 ¹	385	5.5	775	5.5	142
	8.0	24,387	8.0	30,046	8.0	30,145

(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:

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

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; 2004: £3.0 million¹).

(ii) *Unfunded US medical benefit plan*

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

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

(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.

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

	2006
	£'000
Interest on liabilities	<u>3</u>

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	<u>—</u>
Liability recognised in the balance sheet	<u>(122)</u>

(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	<u>(3)</u>
Closing defined benefit obligation	<u>(122)</u>

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.

17. Long-term provisions

	£'000
At 1 January 2004	1,884
Utilised	<u>(110)</u>
At 31 December 2004	<u>1,774</u>
At 1 January 2005	1,774
Utilised	(36)
Released	(897)
Foreign exchange movement	<u>30</u>
At 31 December 2005	871
At 1 January 2006	871
Acquired	452
Utilised	(98)
Released	(335)
Foreign exchange movement	<u>(61)</u>
At 31 December 2006	<u>829</u>

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 27) 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.

18. Share capital

(a) Called up share capital

	2004 £'000	2005 £'000	2006 £'000
Authorised: 500 million (2005: 300 million; 2004: 300 million) shares 25p each	75,000	75,000	125,000
Allotted, called up and fully paid: 270,940,137 (2005: 189,493,412; 2004: 189,024,358) shares of 25p each	47,256	47,373	67,735

Shares issued were:

	Number	Nominal value £'000	Consideration £'000
At 1 January 2004	188,790,907 ¹	47,198 ¹	— ¹
Acquisitions made in prior years – Parson Consulting	69,103 ¹	17 ¹	27 ¹
Employee share options exercised	164,348 ¹	41 ¹	48 ¹
At 31 December 2004	189,024,358	47,256	75
Issued to the employee share trust	333,049	83	202
Employee share options exercised	136,005	34	35
At 31 December 2005	189,493,412	47,373	237
Acquisition of Ineum Consulting	80,388,159	20,097	46,927
Employee share options exercised	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; 2004: 25.00 pence to 29.13 pence¹).

(b) Share options

At 31 December 2004, there were options outstanding to subscribe for new ordinary shares of 25 pence each as set out below. The number of options outstanding at the previous year end over new ordinary shares was 12,245,641.

Option grant date	Number of shares under option	Exercise price (pence)	Weighted average price (pence)	Exercisable not earlier than
The Closed Schemes				
March 1996	150,405	29.13	29.13	March 1999
October 1996	459,862	25.00	25.00	October 1999
The 1998 Scheme				
September 1999	643,765	25.00	25.00	September 2002
March 2000	2,027,090	29.85	29.85	March 2003
March 2002	1,120,668	68.20	68.20	March 2005
June 2002	525,000	71.50	71.50	June 2005
March 2003	3,565,535	39.50	39.50	March 2006
March 2004	4,583,560	36.25	36.25	March 2007
Total	13,075,885		39.28	

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At 31 December 2005, there were options outstanding to subscribe for new ordinary shares of 25 pence each as set out below. The number of options outstanding at the previous year end over new ordinary shares was 13,075,885.

<u>Option grant date</u>	<u>Number of shares under option</u>	<u>Exercise price (pence)</u>	<u>Weighted average price (pence)</u>	<u>Exercisable not earlier than</u>
<i>The Closed Schemes</i>				
March 1996	133,904	29.13	29.13	March 1999
October 1996	442,911	25.00	25.00	October 1999
<i>The 1998 Scheme</i>				
September 1999	540,762	25.00	25.00	September 2002
March 2000	2,027,090	29.85	29.85	March 2003
March 2003	3,163,370	39.50	39.50	March 2006
March 2004	4,041,362	36.25	36.25	March 2007
March 2005	3,753,604	59.75	59.75	March 2008
Total	14,103,003		41.46	

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

<u>Option grant date</u>	<u>Number of shares under option</u>	<u>Exercise price (pence)</u>	<u>Weighted average price (pence)</u>	<u>Exercisable not earlier than</u>
<i>The 1998 Scheme</i>				
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 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:

<u>Granted</u>	<u>Number</u>	<u>Nominal Value £</u>	<u>Weighted average price p</u>	<u>Consideration £</u>
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 2006, 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; 2004: £5,134,000).

The above amounts exclude options over 2,842,000 shares (2005: 2,250,750; 2004: 1,696,720 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; 2004: £439,000) 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; 2004: £616,000).

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

	<u>3 year vesting</u>	<u>5 year vesting</u>
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	<u>1.39%</u>	<u>1.39%</u>

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

	<u>3 year vesting</u>	<u>5 year vesting</u>
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	<u>1.12%</u>	<u>1.12%</u>

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

	<u>3 year vesting</u>	<u>5 year vesting</u>
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	<u>1.38%</u>	<u>1.38%</u>

19. 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 2004	38,009	5,683	2,166	177	(970)	—
Currency translation differences	—	—	—	—	—	(1,745)
Share compensation expense	—	—	—	439	—	—
Deferred consideration issued	—	—	(27)	—	—	—
Management incentive plan	—	—	(817)	—	—	—
Adjustment to deferred consideration	10	—	(1,137)	—	—	—
Share option schemes	7	—	—	—	—	—
At 31 December 2004	38,026	5,683	185	616	(970)	(1,745)
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 2004, 1 January 2005, 1 January 2006 and 31 December 2006				5,878	1,186	7,064

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; 2004: 3,879,584 shares) issued at a value of £1,270,000 (2005: £1,270,000; 2004: £970,000).

20. Retained earnings

	Group		
	2004 £'000	2005 £'000	2006 £'000
At 1 January	(53,675)	(47,839)	(40,109)
Net profit for the year	8,457	9,792	8,750
Dividends paid	(925)	(1,241)	(1,486)
Actuarial gain/(loss) related to retirement benefit schemes	(1,696)	(1,646)	3,284
Tax on items taken directly to equity	—	825	600
Reclassification from share compensation reserve (note 19)	—	—	568
At 31 December	(47,839)	(40,109)	(28,393)

21. Statement of changes in equity

	Group		
	2004	2005	2006
	£'000	£'000	£'000
At 1 January	45,652	48,276	57,932
Dividends paid	(925)	(1,241)	(1,486)
Profit for the period	8,457	9,792	8,750
Own shares purchased for deferred share awards	—	(181)	—
Issue of share capital			
On acquisition of subsidiary undertaking	—	—	46,927
Exercise of share options	48	35	282
Share compensation expense	439	640	804
Adjustment to deferred consideration	(1,137)	—	—
Movement in reserve for management incentive plan	(817)	(56)	—
Other recognised income and expense	(3,441)	667	(1,020)
At 31 December	<u>48,276</u>	<u>57,932</u>	<u>112,189</u>

22. Notes to the cash flow statement

	Group		
	2004	2005	2006
	£'000	£'000	£'000
Profit from operations	12,436	13,559	13,448
Adjustment for:			
Depreciation of property, plant and equipment	818	604	1,000
Amortisation of intangible assets	346	462	1,790
Loss on disposal of plant and equipment	—	14	79
Management incentive plan	(757)	(56)	—
Adjustment for pension funding	(2,911)	(2,528)	(2,008)
Adjustment for share options charge	439	640	804
Decrease in provisions	(110)	(903)	(493)
Operating cash flows before movements in working capital	10,261	11,792	14,620
Increase in receivables	(4,053)	(4,153)	(6,447)
Increase/(Decrease) in payables	<u>5,840</u>	<u>3,911</u>	<u>(5,858)</u>
Cash generated by operations	12,048	11,550	2,315
Income taxes paid	<u>(3,806)</u>	<u>(2,724)</u>	<u>(4,269)</u>
Net cash from/(used in) operating activities	<u>8,242</u>	<u>8,826</u>	<u>(1,954)</u>

Cash and cash equivalents

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

	Group		
	2004	2005	2006
	£'000	£'000	£'000
Cash at bank and on hand	14,510	21,555	10,278
Bank borrowings-current	—	—	(14,792)
	<u>14,510</u>	<u>21,555</u>	<u>(4,514)</u>

23. 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 15.

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

Currency	2004	2005	2006
	Floating rate £'000	Floating rate £'000	Floating rate £'000
Financial assets			
Sterling	884	1,102	1,237
US Dollars	11,870	16,789	2,827
Euro	932	2,079	4,993
Other	824	1,585	1,221
Cash	14,510	21,555	10,278
Sterling	1,438 ¹	4,093	2,855
US Dollar	6,649 ¹	7,182	2,947
Euro	1,908 ¹	2,348	40,019
Other	579 ¹	1,178	979
Trade and other receivables	10,574	14,801	46,800
Financial liabilities			
Sterling	9,751 ¹	(10,818)	(6,349)
US Dollar	9,380 ¹	(10,323)	(6,544)
Euro	2,758 ¹	(4,131)	(38,972)
Other	2,333 ¹	(2,773)	(2,629)
Trade and other payable	24,222	(28,045)	(54,494)

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

¹ This information is unaudited and has not previously been disclosed in the Group's 2004 audited financial statements. It has been included to provide information that is comparable and consistent with 2005 and 2006 and was not previously required to be disclosed in this format. It has been extracted without material adjustment from the Group's 2004 historical financial accounting records, on a basis consistent with the 2005 and 2006 audited financial statements, in accordance with the accounting policies disclosed on pages 86 to 92.

24. Operating lease arrangements

Group	2004 £'000	2005 £'000	2006 £'000
Minimum lease payments under operating leases recognised in the income statement for the year	<u>2,123</u>	<u>1,961</u>	<u>2,026</u>

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	2004		2005		2006	
	Land and buildings £'000	Other £'000	Land and buildings £'000	Other £'000	Land and buildings £'000	Other £'000
Within one year	1,486	165	71	13	180	6
In the second to fifth years inclusive	5,028	28	2,314	6	2,856	25
After five years	<u>1,999</u>	<u>—</u>	<u>6,305</u>	<u>46</u>	<u>18,746</u>	<u>—</u>
	<u>8,513</u>	<u>193</u>	<u>8,690</u>	<u>65</u>	<u>21,782</u>	<u>31</u>

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.

25. 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.

	2004 £'000	2005 £'000	2006 £'000
Year-end balances arising from purchase of services			
Payables to related party entities controlled by key management personnel	<u>—</u>	<u>—</u>	<u>—</u>

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; 2004: £—) 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 (2005 and 2004: £—) from the rental of office space to GEM SAS and paid £61,000 (2005 and 2004 £—) 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 of the Annual Report and Audited Accounts for the year ended 31 December 2006.

	2004 £'000	2005 £'000	2006 £'000
Short-term employee benefits	2,750	2,331	2,640
Post-employment benefits	153	146	150
Other long-term benefits	—	163	3
Share based payments	129	172	—
	<u>3,032</u>	<u>2,812</u>	<u>2,793</u>

26. Principal subsidiary undertakings

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

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.

† Acquired in 2006

* Held directly

** 51% interest

27. Acquisitions

During 2006, 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.

	2006 £'000
Ineum — at acquisition	88,340
Salzer — at acquisition	714
Foreign exchange	<u>(7)</u>
At 31 December 2006	<u><u>89,047</u></u>

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	<u>37,297</u>	(iii)	(857)	<u>36,440</u>
Total assets	<u>39,262</u>			<u>48,065</u>
Current liabilities	(29,874)	(iv)	(673)	(30,547)
Bank loans	(15,211)			(15,211)
Provisions	(60)	(v)	(392)	(452)
Deferred tax liability	<u>—</u>	(vi)	(3,005)	<u>(3,005)</u>
Total liabilities	<u>(45,145)</u>			<u>(49,215)</u>
Net liabilities	<u><u>(5,883)</u></u>			<u>(1,150)</u>
Consideration given				82,325
Acquisition costs				<u>4,865</u>
Goodwill				<u><u>88,340</u></u>
The fair value of the consideration given was:				
Cash				35,398
Shares issued				<u>46,927</u>
				<u><u>82,325</u></u>

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

	2006 £'000
Net cash (outflows)/inflows in respect of Ineum comprised:	
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)

In the year ended 31 December 2006, 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.

28. Restatement of Group financial information under International Financial Reporting Standards

The year ended 31 December 2005 was the first year that the Company presented its financial statements under IFRS. The following disclosures were required in the year of transition. The last financial statements under UK GAAP were for the year ended 31 December 2004 and the date of transition to IFRS was therefore 1 January 2004.

The standards giving rise to changes to the Group's consolidated results on transition from UK GAAP to IFRS and their financial impact were as follows:

IFRS 2 Share-based Payment

Under IFRS 2, the Group recognises a charge for the fair value of outstanding share options granted to employees after 7 November 2002. The charge has been calculated using the stochastic option pricing model and the resulting cost has been charged to the income statement over the relevant option vesting periods, adjusted to reflect actual and expected levels of vesting. There was no charge to the profit and loss account in 2004 under UK GAAP in relation to share options granted to employees. The impact of IFRS 2 is a reduction in retained earnings as at 1 January 2004 of £0.2 million and a pre-tax charge of £0.4 million for the year ended 31 December 2004. A deferred tax asset of £0.2 million was recorded in the year ended 31 December 2004 in relation to the share option scheme.

IFRS 3 Business Combinations

Under IFRS, goodwill is no longer amortised but held at carrying value in the balance sheet and tested annually for impairment (with a specific requirement to be tested at the date of transition) and when there are indications of impairment. The goodwill amortisation under UK GAAP of £3.8 million charged during the year has been reversed under IFRS. All goodwill has been tested for impairment for the year ended 31 December 2004 and at the transition date in accordance with IFRS, and no adjustment was deemed necessary. A deferred tax liability of £0.9 million has been recorded in the year ended 31 December 2004 relating to the temporary difference arising as the goodwill deductible for overseas tax purposes is no longer subject to amortisation under IFRS (IAS 12 Income Taxes).

Under the transitional rules of IFRS 1, the Group has taken advantage of the option not to apply IFRS 3 retrospectively to business combinations that took place before the date of transition. As a result, goodwill arising from past business combinations is recorded initially in the opening balance sheet at the amortised carrying value under UK GAAP on that date.

IAS 10 Events after the Balance Sheet Date

IAS 10 requires that dividends are recognised in the period in which they are declared. This is different to UK GAAP where the proposed dividend is recognised in the profit and loss account. The final proposed dividend for 2003 of £0.9 million has been reversed out of the opening balance sheet and recorded at the amount paid in the year ended 31 December 2004. Similarly, the final proposed dividend for 2004 of £1.2 million has been reversed from the income statement.

IAS 19 Other Long-term Benefits

Deferred employee bonuses awarded in respect of the year ended 31 December 2004 but not payable in cash and shares until 31 December 2007, are accounted for under IAS 19 as deferred long-term benefits, and will be expensed to the income statement over the subsequent three year deferral period under IFRS. Under UK GAAP they are charged in full to the profit and loss account in 2004. This results in a credit to the 2004 income statement of £0.5 million, included in “Other adjustments”, and a corresponding reduction in liabilities at 31 December 2004. Deferred tax of £0.2 million was provided in the year ended 31 December 2004 under IFRS in respect of the deferred employee bonuses.

IAS 38 Intangible Assets

IAS 38 requires computer software costs, including development costs, to be classified as intangible assets. Capitalised software of £0.4 million is reclassified at 31 December 2004 as intangible assets, which continue to be amortised over three years or the life of the software contract if shorter. The opening balance sheet under IFRS includes a similar reclassification of £0.4 million.

IAS 21 The Effects of Changes in Foreign Exchange

Under IFRS, translation differences arising from the date of transition to IFRS that are permitted to be taken to reserves must be tracked in a separate foreign exchange reserve. Foreign exchange taken to reserves relating to translation of foreign equity investments must be recycled to the income statement on disposal of the investment.

The Group has elected to take the exemption, permitted under the transitional rules, of not applying IAS 21 retrospectively: this has allowed the Group to reset to zero its historic foreign exchange reserve at 1 January 2004 of £12.3 million by means of a reclassification to retained earnings. The gain or loss on any subsequent disposal of a foreign subsidiary will be adjusted only by those accumulated translation adjustments arising after 1 January 2004.

29. Restatement of Group financial information under International Financial Reporting Standards

(a) Reconciliation of income for the year ended 31 December 2004

	Previously reported under UK GAAP £'000	IFRS 2 Share based payment £'000	IFRS 3 Business combinations £'000	IAS 10 Dividend £'000	Other £'000	Restated under IFRS £'000
Revenue	119,248	—	—	—	—	119,248
Cost of sales	(60,270)	(144)	—	—	—	(60,414)
Gross profit	58,978	(144)	—	—	—	58,834
Selling costs	(30,362)	(86)	—	—	—	(30,448)
Goodwill amortisation	(3,792)	—	3,792	—	—	—
Administration expenses excluding goodwill amortisation	(16,275)	(209)	—	—	534	(15,950)
Operating profit	8,549	(439)	3,792	—	534	12,436
Finance costs	(34)	—	—	—	—	(34)
Profit before tax	8,515	(439)	3,792	—	534	12,402
Tax	(2,995)	160	(920)	—	(190)	(3,945)
Retained profit after tax	5,520	(279)	2,872	—	344	8,457
Dividends	(1,221)	—	—	296	—	(925)
Profit for the period	4,299	(279)	2,872	296	344	7,532
Earnings per share — basic	3.0p					4.6p
Earnings per share — diluted	3.0p					4.5p

(b) Reconciliation of equity as at 1 January 2004 (date of transition to IFRS)

	Previously reported under UK GAAP £'000	IFRS 2 Share based payment £'000	IAS 10 Dividends £'000	IAS 38 Intangible assets £'000	IAS 21 Foreign exchange reserve £'000	Restated under IFRS £'000
Non-current assets						
Goodwill	69,206	—	—	—	—	69,206
Other intangible assets	—	—	—	390	—	390
Property, plant and equipment	1,649	—	—	(390)	—	1,259
Total non-current assets	70,855	—	—	—	—	70,855
Current assets						
Trade and other receivables	7,910	—	—	—	—	7,910
Cash and cash equivalents	9,738	—	—	—	—	9,738
Total current assets	17,648	—	—	—	—	17,648
Total assets	88,503	—	—	—	—	88,503
Current liabilities						
Trade and other payables	(19,084)	—	—	—	—	(19,084)
Dividend to shareholders	(944)	—	944	—	—	—
Current tax liabilities	(3,987)	—	—	—	—	(3,987)
Total current liabilities	(24,015)	—	944	—	—	(23,071)
Net current assets/(liabilities)	(6,367)	—	944	—	—	(5,423)
Non-current liabilities						
Retirement benefits obligation	(13,213)	—	—	—	—	(13,213)
Non-current tax liabilities	(3,655)	—	—	—	—	(3,655)
Long-term provisions	(1,884)	—	—	—	—	(1,884)
Non-current accruals	(1,028)	—	—	—	—	(1,028)
Total non-current liabilities	(19,780)	—	—	—	—	(19,780)
Total liabilities	(43,795)	—	944	—	—	(42,851)
Net assets	44,708	—	944	—	—	45,652
Equity						
Share capital	47,198	—	—	—	—	47,198
Share premium account	38,009	—	—	—	—	38,009
Shares to be issued	2,166	—	—	—	—	2,166
Share compensation reserve	—	177	—	—	—	177
Own shares held by employee share trust	(970)	—	—	—	—	(970)
Translation reserve	(12,338)	—	—	—	12,338	—
Other reserves	12,747	—	—	—	—	12,747
Retained earnings	(42,104)	(177)	944	—	(12,338)	(53,675)
Total equity	44,708	—	944	—	—	45,652

(c) *Balance sheet as at 31 December 2004*

	Previously reported under UK GAAP £'000	IFRS 2 Share based payment £'000	IFRS 3 Business combinations £'000	IAS 10 Dividends £'000	IAS 38 Intangible assets £'000	IAS 21 Foreign exchange reserve £'000	Other £'000	Restated under IFRS £'000
Non-current assets								
Goodwill	62,317	—	3,792	—	—	—	—	66,109
Other intangible assets	—	—	—	—	392	—	—	392
Property, plant and equipment	1,789	—	—	—	(392)	—	—	1,397
Total non-current assets	64,106	—	3,792	—	—	—	—	67,898
Current assets								
Trade and other receivables	12,575	160	—	—	—	—	—	12,735
Cash and cash equivalents	14,510	—	—	—	—	—	—	14,510
Total current assets	27,085	160	—	—	—	—	—	27,245
Total assets	91,191	160	3,792	—	—	—	—	95,143
Current liabilities								
Trade and other payables	(24,756)	—	—	—	—	—	534	(24,222)
Dividend to shareholders	(1,240)	—	—	1,240	—	—	—	—
Current tax liabilities	(4,722)	—	—	—	—	—	—	(4,722)
Total current liabilities	(30,718)	—	—	1,240	—	—	534	(28,944)
Net current assets/(liabilities)	(3,633)	160	—	1,240	—	—	534	(1,699)
Non-current liabilities								
Retirement benefits obligation	(11,383)	—	—	—	—	—	—	(11,383)
Non-current tax liabilities	(2,970)	—	(920)	—	—	—	(190)	(4,080)
Long-term provisions	(1,774)	—	—	—	—	—	—	(1,774)
Non-current accruals	(686)	—	—	—	—	—	—	(686)
Total non-current liabilities	(16,813)	—	(920)	—	—	—	(190)	(17,923)
Total liabilities	(47,531)	—	(920)	1,240	—	—	344	(46,867)
Net assets	43,660	160	2,872	1,240	—	—	344	48,276
Equity								
Share capital	47,256	—	—	—	—	—	—	47,256
Share premium account	38,026	—	—	—	—	—	—	38,026
Shares to be issued	185	—	—	—	—	—	—	185
Share compensation reserve	—	616	—	—	—	—	—	616
Own shares held by employee share trust	(970)	—	—	—	—	—	—	(970)
Translation reserve	(14,083)	—	—	—	—	12,338	—	(1,745)
Other reserves	12,747	—	—	—	—	—	—	12,747
Retained earnings	(39,501)	(456)	2,872	1,240	—	(12,338)	344	(47,839)
Total equity	43,660	160	2,872	1,240	—	—	344	48,276

PART 9

UNAUDITED INTERIM FINANCIAL INFORMATION RELATING TO MCG

Set out below is the full text of the published unaudited interim results of Management Consulting Group PLC for the six months ended 30 June 2007, as announced on 13 August 2007. These results, together with comparatives, have been prepared on an IFRS basis and have been reviewed by Deloitte & Touche LLP. The Independent Review Report by Deloitte & Touche LLP to Management Consulting Group PLC is incorporated by reference into this document.

Management Statement

The Group's trading results are ahead of the board's expectations at the time of the trading update provided on 26 April 2007: Ineum Consulting's inaugural contribution to the first half results showed significant like-for-like growth and Proudfoot Consulting performed slightly better than in the second half of last year; Parson Consulting's results were mixed.

The results for the six months ended 30 June 2007 are summarised as follows:

	Unaudited Six months ended 30 June 2007 £'000	Unaudited Six months ended 30 June 2006 £'000	Audited Year ended 31 Dec 2006 £'000
Revenue			
Ineum Consulting	40,481	—	23,709
Parson Consulting	21,382	15,687	34,301
Proudfoot Consulting	38,203	51,656	88,658
Salzer Consulting	473	—	222
	<u>100,539</u>	<u>67,343</u>	<u>146,890</u>
Underlying profit/(loss) from operations*			
Ineum Consulting	4,584	—	2,780
Parson Consulting	(827)	(1,857)	(2,108)
Proudfoot Consulting	6,591	8,431	15,575
Salzer Consulting	(189)	—	(91)
	<u>10,159</u>	<u>6,574</u>	<u>16,156</u>

* before non-recurring items and acquired intangible asset amortisation. In 2007, these comprise £1,277,000 integration costs and £603,000 amortisation of acquired intangible assets (six months ended 30 June 2006: release of £335,000 surplus provision).

Group results

Revenue for the six months ended 30 June 2007 was up by 49% compared with the first half of 2006.

Ineum Consulting joined the Group on 1 September 2006. The aggregate revenue of the entities acquired grew by 27% to £49.9 million (2006 first half pre-acquisition revenue: £39.3 million). The acquired financial management business is now operating as Parson Consulting and the revenue has been split in the above table in line with the reorganised operating structure.

The performance of Parson Consulting continued to be mixed. Overall the like-for-like revenue declined by 9% compared with the first half of last year due to a shortfall in the US business. There was 8% revenue growth in Europe and the rest of the world which now accounts for 72% of the Parson Consulting business.

Proudfoot Consulting's revenue increased slightly compared with the second half of last year but, as previously anticipated, declined by 26% compared with the exceptionally strong first half of last year.

Sterling's strength against the US dollar adversely impacted the reported revenue by approximately £3.7 million compared with the first half of 2006.

In the period, 27% of Group revenue was attributable to the Americas (six months ended 30 June 2006: 53%). American revenues decreased by 26% compared with the corresponding period of 2006. Of that decrease, seven percentage points are accounted for by currency translation. Europe's share of revenue was 68% (six months ended 30 June 2006: 36%) with reported revenues 180% up compared with the corresponding period of 2006 reflecting the acquisition of Ineum; on a like-for-like basis, the revenue increased by 15%. Approximately 5% (six months ended 30 June 2006: 10%) of Group revenue is earned outside the Americas and Europe.

The Group's gross margin continued to be well managed and was 50% (six months ended 30 June 2006: 51%).

Selling and underlying administrative costs increased due to the acquisitions of Ineum and Salzer. There were one-off integration costs, associated with the acquisitions, of £1.3 million which have been incurred in line with the estimate in the Ineum prospectus and substantially comprise technology, people reorganisation, legal and travel costs. The remaining non-recurring costs to be incurred in the second half will be less than £0.5 million.

The underlying profit from operations before exceptional items and the amortisation of acquired intangible assets rose by 55% to £10.2 million (six months ended 30 June 2006: £6.6 million). Including those items, profit from operations increased by 20% to £8.3 million (six months ended 30 June 2006: £6.9 million).

Net finance costs increased by £1.2 million to £0.8 million, reflecting the debt taken on to finance the acquisition and operations of Ineum Consulting. The profit before tax was little changed at £7.5 million (2006: £7.3 million).

The tax charge on pre-tax profits is 31% compared with 28% for the first half of 2006. This includes four percentage points in respect of deferred tax that is required to be charged in respect of tax deductions for goodwill but will not become payable unless consulting businesses are sold. The underlying tax rate of 27% is below the statutory rate of tax due to the utilisation of brought forward losses that the Group has not previously been able to recognise as deferred tax assets.

The consultancies

Ineum Consulting has performed ahead of expectations at the time of its acquisition. It made an underlying operating profit of £4.6 million in the first half. All sectors have performed well with particularly strong results from the public and financial sectors. Ineum Consulting continues to invest in the expansion of its offerings outside France. The margin for Ineum Consulting remained little changed on the increased revenue due to the growth in the public sector which commands lower fee rates than the private sector.

Parson Consulting's performance remained weak in North America. Overall there was an operating loss of £0.8 million, down from a loss of £1.9 million in the first half of last year. It is however too soon to see an improvement in trading associated with the recent investment in people in the US. The businesses outside the US made solid progress with a particularly strong contribution from the merged French business.

Proudfoot Consulting revenues declined in the period, resulting in an operating profit of £6.6 million (2006 first half: £8.4 million). This result was expected due to the exceptionally strong first half last year where a number of large client engagements came to a natural end. Both the European and American businesses were adversely affected. The Brazilian business, which opened last year, has grown well and is already profitable. The margin for Proudfoot Consulting remained little changed on the reduced revenue.

Salzer Consulting made a small underlying operating loss of £0.2 million. In line with the strategy for its development, we are investing in expanding its resources to meet client demand.

Earnings per share

The basic earnings per share for the six months ended 30 June 2007 decreased by 34% to 1.9 pence compared with 2.9 pence in the corresponding period last year. Excluding the impact of non-recurring items and the amortisation of intangible assets, the earnings per share were little changed at 2.6 pence compared with 2.7 pence in the first half of last year. The acquisition of Ineum enhanced earnings by approximately 22% before the amortisation of intangibles but the overall earnings advancement was held back by the reduction in Proudfoot's operating profit.

Dividend

In the light of the increase in the Group's size and increased diversity of consulting offerings, the board is pleased to re-commence the payment of an interim dividend. It is our intention in future to target an interim dividend of approximately one third of the previous final dividend. Accordingly, a dividend of 0.33 pence per share will be paid on 22 October 2007 to shareholders on the register on 21 September 2007.

Balance sheet

The Group's net debt was £28.8 million compared with net cash of £23.5 million at 30 June 2006. The overall level of net debt is the same as at the year end reflecting the absorption of working capital resulting from the growth of Ineum Consulting and the seasonality of the Group's cash flows.

Progress has been made in improving Ineum's working capital management with a net inflow in the period from the better management of receivables.

The deficit related to the closed defined benefit pension and medical plans decreased substantially from £6.1 million at 30 June 2006 to £2.9 million at 30 June 2007 as a result of cash contributions, the investment performance and the weaker US dollar compared with Sterling.

Strategic direction

Our strategic focus is unchanged. We are building a Group comprising a series of consultancies with particular specialisations in different geographies. The diversification of the offerings in 2006 has added to the strength and decreased the risks of the Group from service line and geographical perspectives. Each of the consulting businesses currently comprising the Group has excellent medium term prospects.

Ineum Consulting added new depth to our consulting offerings, enabling clients to select a Group consultancy that has deep industry expertise. Its core domestic market is France and this has resulted in a bias in the Group's revenue towards Europe. It remains our desire to build a Group with a reasonably even balance of business between North America and Europe. The integration of Ineum has progressed well and slightly ahead of our timetable; it is now fully integrated into the Group as one of the core consultancies.

In the second half of the year, the Group commenced a start-up operation, Viaduct Consulting, which provides commercial due diligence, initially serving the European market. This is in response to an identified gap in the market place for independent commercial due diligence. Its revenue and profit contribution in the current year will be immaterial.

The co-ordination of major client relationships across the consultancies continues to increase through the global accounts programme, as does engagement specific co-operation, allowing us to bring a broad range of deep expertise to our clients.

Going forward we will continue to expand the geographical overlap of the businesses to maximise the benefit that comes from our existing infrastructure. We will also expand our offerings organically and by acquisitions commensurate with the market opportunities and the absorption of prior acquisitions into the Group. Whilst size in itself is not a measure of success, the diversification of risk that comes with size and the wider product offerings are important aspects of future success.

Outlook

As anticipated, the Group's order book is solidly ahead of its position at the beginning of the year and at the same time last year. On a like-for-like basis, taking account of the impact of acquisitions, the current order book is significantly higher in both Ineum Consulting and Proudfoot Consulting and marginally higher in Parson Consulting. The pipelines of work are good.

Work to be won in the remainder of the year is, as usual, a key determinant of the outcome for the year as a whole and so it is premature to comment specifically on the likely results for the current calendar year. Nevertheless, we remain confident that the Group will show good progress in 2007.

Dr Rolf Stomberg
Chairman

Kevin Parry
Chief Executive

13 August 2007

Group income statement

Six months ended 30 June 2007	Note	Unaudited Six months ended 30 June 2007 £'000	Unaudited Six months ended 30 June 2006 £'000	Audited Year ended 31 Dec 2006 £'000
Continuing operations				
Revenue	3	100,539	67,343	146,890
Cost of sales		(50,287)	(32,697)	(73,415)
Gross profit		50,252	34,646	73,475
Selling costs		(23,990)	(19,370)	(40,169)
Administrative expenses — underlying		(16,103)	(8,702)	(17,150)
Profit from operations before non-recurring expenses and amortisation of acquired intangibles		10,159	6,574	16,156
Administrative (expenses)/income — non-recurring		(1,277)	335	(1,765)
Profit from operations before amortisation of acquired intangibles		8,882	6,909	14,391
Administrative expenses — amortisation of acquired intangibles		(603)	—	(943)
Total administrative expenses		(17,983)	(8,367)	(19,858)
Profit from operations	3	8,279	6,909	13,448
Investment income		459	531	1,176
Finance costs		(1,271)	(125)	(1,276)
Profit before tax		7,467	7,315	13,348
Tax expense	5	(2,318)	(2,014)	(4,598)
Profit for the period		5,149	5,301	8,750
Profit for the period				
Earnings per share — pence				
From continuing operations				
Basic	6	1.9	2.9	4.1
Diluted	6	1.9	2.8	4.1
Basic — excluding amortisation of acquired intangibles and non-recurring items	6	2.6	2.7	5.4

Group statement of recognised income and expense

Six months ended 30 June 2007	Unaudited six months ended 30 June 2007 £'000	Unaudited six months ended 30 June 2006 £'000	Audited year ended 31 Dec 2006 £'000
Exchange differences on translation of foreign operations	(1,178)	(3,261)	(4,904)
Actuarial gains on defined benefit pension fund and medical schemes	1,783	3,734	3,284
Tax on items taken directly to equity	101	449	600
Net income/(expense) recognised directly in equity	706	922	(1,020)
Profit for the period	5,149	5,301	8,750
Total recognised income and expense for the period	5,855	6,223	7,730

Group balance sheet

	Unaudited 30 June 2007 £'000	Unaudited 30 June 2006 £'000	Audited 31 December 2006 £'000
Non-current assets			
Intangible assets	161,804	67,419	162,546
Property, plant and equipment	2,261	1,460	2,294
Deferred income tax assets	3,345	1,258	3,597
Total non-current assets	167,410	70,137	168,437
Current assets			
Trade and other receivables	44,447	12,979	46,800
Cash and cash equivalents	9,640	23,484	10,278
Total current assets	54,087	36,463	57,078
Total assets	221,497	106,600	225,515
Current liabilities			
Borrowings	(17,287)	—	(14,792)
Trade and other payables	(48,346)	(27,056)	(54,103)
Current tax liabilities	(7,308)	(3,915)	(5,728)
Total current liabilities	(72,941)	(30,971)	(74,623)
Net current (liabilities)/assets	(18,854)	5,492	(17,545)
Non-current liabilities			
Borrowings	(21,182)	—	(24,255)
Retirement benefit obligation	(2,857)	(6,146)	(5,411)
Non-current tax liabilities	(7,572)	(5,294)	(7,711)
Long-term provisions	(757)	(476)	(829)
Non-current accruals	(425)	(480)	(497)
Total non-current liabilities	(32,793)	(12,396)	(38,703)
Total liabilities	(105,734)	(43,367)	(113,326)
Net assets	115,763	63,233	112,189
Equity			
Share capital	67,775	47,488	67,735
Share premium account	38,189	38,151	38,163
Merger reserve	32,513	5,683	32,513
Shares to be issued	—	46	46
Share compensation reserve	1,225	1,133	1,492
Own shares held by employee share trust	(1,296)	(1,270)	(1,270)
Translation reserve	(6,339)	(3,518)	(5,161)
Other reserves	7,064	7,064	7,064
Retained earnings	(23,368)	(31,544)	(28,393)
Total equity	115,763	63,233	112,189

Group cash flow statement

<u>Six months ended 30 June 2007</u>	<u>Note</u>	<u>Unaudited Six months ended 30 June 2007 £'000</u>	<u>Unaudited Six months ended 30 June 2006 £'000</u>	<u>Audited Year ended 31 Dec 2006 £'000</u>
Net cash from operating activities	7	4,784	5,690	(1,954)
Investing activities				
Net interest received		297	442	1,013
Acquisitions of subsidiaries, net of cash and overdrafts acquired		(204)	—	(44,932)
Purchases of property, plant and equipment		(597)	(403)	(1,202)
Purchases of intangible assets		(510)	(1,193)	(1,363)
Net cash used in investing activities		(1,014)	(1,154)	(46,484)
Financing activities				
Dividends paid	4	(2,667)	(1,486)	(1,486)
Interest paid		(1,272)	—	—
Net (repayment of)/proceeds from borrowings		(523)	—	39,009
Refinancing of acquired borrowings by term debt		—	—	(15,211)
Proceeds from issue of shares		13	120	282
Net cash (used in)/raised by financing activities		(4,449)	(1,366)	22,594
Net (decrease)/increase in cash and cash equivalents		(679)	3,170	(25,844)
Cash and cash equivalents at beginning of period		10,278	21,555	21,555
Net impact of new borrowings and refinancing		—	—	14,792
Effect of foreign exchange rate changes		41	(1,241)	(225)
Cash and cash equivalents at end of period		9,640	23,484	10,278

Notes

1. General information

The information for the year ended 31 December 2006 does not constitute statutory accounts as defined in Section 240 of the Companies Act 1985. A copy of the statutory accounts for that year has been delivered to the Registrar of Companies. The auditors' report on those accounts was unqualified pursuant to Section 235 of the Companies Act 1985 and did not contain a statement under Section 237 (2) or (3) of that Act.

2. Significant accounting policies

(a) Basis of preparation

The interim report has been prepared using accounting policies consistent with International Financial Reporting Standards (IFRS).

The interim report was approved by the board on 13 August 2007.

(b) Accounting policies

The accounting policies and methods of computation applied by the Group in the interim report are consistent with those followed in the preparation of the Group's annual financial statements for the year ended 31 December 2006. The Group's consolidated financial statements for the year ended 31 December 2006 are available on our website: www.mcgplc.com.

3. Segmental information

The Group operates in three geographical areas — North America, Europe and Rest of the World. The following is an analysis of the revenue and results for the period, analysed by geographic segment, the Group's primary basis of segmentation:

Income statement

Six months ended 30 June 2007 (Unaudited)	Americas £'000	Europe £'000	Rest of World £'000	Consolidated £'000
Revenue				
External sales	26,723	68,669	5,147	100,539
Profit from operations before acquisition integration costs, depreciation and amortisation of acquired intangibles	2,955	7,592	512	11,059
Amortisation of acquired intangibles	—	(603)	—	(603)
Depreciation and other amortisation	(164)	(697)	(39)	(900)
Profit from operations before non-recurring items	2,791	6,292	473	9,556
Acquisition integration costs	—	(1,247)	(30)	(1,277)
Profit from operations	2,791	5,045	443	8,279
Finance costs (net)	—	—	—	(812)
Profit before tax	—	—	—	7,467
Tax expense	—	—	—	(2,318)
Profit for the period	—	—	—	5,149
Six months ended 30 June 2006 (Unaudited)	Americas £'000	Europe £'000	Rest of World £'000	Consolidated £'000
Revenue				
External sales	35,935	24,552	6,856	67,343
Profit/(loss) from operations before release of indemnity provision, acquisition integration costs, depreciation and amortisation of acquired intangibles	4,856	2,629	(325)	7,160
Amortisation of acquired intangibles	—	—	—	—
Depreciation and other amortisation	(348)	(218)	(20)	(586)
Profit/(loss) from operations before non-recurring items	4,508	2,411	(345)	6,574
Release of indemnity provision	—	—	335	335
Profit/(loss) from operations	4,508	2,411	(10)	6,909
Investment income (net)	—	—	—	406
Profit before tax	—	—	—	7,315
Tax expense	—	—	—	(2,014)
Profit for the period	—	—	—	5,301

4. Dividends

	Unaudited 2007 £'000	Audited 2006 £'000
Amounts recognised as distributions to equity holders in the period:		
Final dividend for the year ended 31 December 2006 of 1.0p (2005: 0.8p) per share	2,667	1,486

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 2007 (in respect of the year ended 31 December 2006) was £42,000 (2006: £34,000). An interim dividend of 0.33 pence per share will be paid on 22 October 2007 to shareholders on the register on 21 September 2007.

5. Taxation

The effective tax charge for the half year is 31% (30 June 2006: 28%), based on profit before tax. The tax charge includes four percentage points in respect of deferred tax. The underlying tax rate of 27% is below the statutory rate due to the utilisation of brought forward tax losses. Of the total tax charge, £0.2 million arises within the UK (2006: £0.2 million) and £2.1 million overseas (2006: £1.8 million).

6. Earnings per share

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

	Unaudited Six months ended 30 June 2007 £'000	Unaudited Six months ended 30 June 2006 £'000	Audited Year ended 31 Dec 2006 £'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	5,149	5,301	8,750
Amortisation of acquired intangibles	603	—	943
Non-recurring items	1,277	(335)	1,765
Earnings for the purpose of basic earnings per share excluding amortisation of acquired intangibles and non-recurring items	7,029	4,966	11,458
	Number (million)	Number (million)	Number (million)
Number of shares			
Weighted average number of ordinary shares for the purposes of basic earnings per share and basic excluding amortisation of acquired intangibles and non-recurring items	266.8	185.5	212.5
Effect of dilutive potential ordinary shares:			
Share options	0.8	1.5	1.3
Long-term incentive plan	—	0.2	0.2
Weighted average number of ordinary shares for the purposes of diluted earnings per share	267.6	187.2	214.0
	Pence	Pence	Pence
Basic earnings per share	1.9	2.9	4.1
Diluted earnings per share	1.9	2.8	4.1
Basic — excluding amortisation of acquired intangibles and non-recurring items	2.6	2.7	5.4

The average share price for the six months ended 30 June 2007 was 48.3 pence (30 June 2006: 57.3 pence and 31 December 2006: 54.3 pence).

7. Notes to the cash flow statement

	Unaudited Six months ended 30 June 2007 £'000	Unaudited Six months ended 30 June 2006 £'000	Audited Year ended 31 December 2006 £'000
Profit from operations	8,279	6,909	13,448
Adjustments for:			
Depreciation of property, plant and equipment	570	386	1,000
Amortisation of intangible assets	933	200	1,790
Loss on disposal of plant and equipment	9	—	79
Adjustment for pension funding	(530)	(1,235)	(2,008)
Adjustment for share options charge	375	444	804
Decrease in provisions	(72)	(395)	(493)
Operating cash flows before movements in working capital	9,564	6,309	14,620
Decrease/(Increase) in receivables	3,019	1,912	(6,447)
Decrease in payables	(5,953)	(1,429)	(5,858)
Cash generated by operations	6,630	6,792	2,315
Income taxes paid	(1,846)	(1,102)	(4,269)
Net cash from operating activities	4,784	5,690	(1,954)

Cash and cash equivalents comprise cash at bank and short term deposits with a maturity of three months or less.

PART 10

OPERATING AND FINANCIAL REVIEW OF MCG

1. Financial Information

The annual reports, including audited consolidated financial statements (including their respective audit reports) of MCG for the financial years ended 31 December 2004, 31 December 2005 and 31 December 2006 are incorporated by reference in this document.

The following sections are incorporated by reference from the annual report and accounts of MCG for the year ended 31 December 2004: the directors' remuneration report on pages 28 to 35; the independent auditor's report on pages 36 and 37; the consolidated primary statements (which include the Group profit and loss account, Group statement of total recognised gains and losses, Group balance sheet and Group cash flow statement) on pages 39 to 42; the parent company balance sheet on page 43, the Group accounting policies on pages 44 to 46 and the notes to the financial statements on pages 46 to 70.

The following sections are incorporated by reference from the annual report and accounts of MCG for the year ended 31 December 2005: the directors' remuneration report on pages 30 to 36; the independent auditors report on pages 37 and 38; the consolidated primary statements (which include the consolidated income statement, the consolidated statement of recognised income and expense, the consolidated balance sheet and the consolidated cash flow statement) on pages 40 to 43; the parent company balance sheet on page 44, the Group accounting policies on pages 46 to 50 and the notes to the financial statements on pages 51 to 81.

The following sections are incorporated by reference from the annual report and accounts of MCG for the year ended 31 December 2006: the directors' remuneration report on pages 36 to 43; the independent auditor's report on pages 44 and 45; the consolidated primary statements (which include the Group income statement, Group statement of recognised income and expense, Group balance sheet and Group cash flow statement) on pages 47 to 50; the parent company balance sheet on page 51, the Group accounting policies on pages 53 to 60 and the notes to the financial statements on pages 61 to 87.

The selected financial information on MCG under IFRS in relation to the year ended 31 December 2004 has been extracted from the audited consolidated financial statements for the year ended 31 December 2005 set out in Part 8 of this document. The audit report of Deloitte & Touche LLP on the consolidated financial statements for that year covers notes 28 and 29 to those financial statements (included as notes 28 and 29 in Part 8 of this document), which set out the restatement of the consolidated financial information for the year ended 31 December 2004 under IFRS.

The selected financial information on MCG for the six months ended 30 June 2006 and the six months ended 30 June 2007 has been extracted from the unaudited interim financial information for the six months ended 30 June 2007 which is set out in Part 9 ("Unaudited Interim Financial Information Relating to MCG") of this document.

Investors should read the whole of this prospectus and use the documents cited above for reference and should not just rely on the summary information contained in this Part 10. Documents included by reference contain an extensive review of the financial periods in question at both an operating and a financial level.

1.1 Overview of MCG

MCG is a consulting group currently comprised of six specialist Consultancies:

- Ineum Consulting, which provides services to enterprises and the public sector through its deep knowledge of issues relevant to specific industries, from offices in France, Luxembourg, Belgium, Netherlands and Switzerland.
- Parson Consulting, which develops excellence in finance and operations through financial management consulting services. It operates from 16 offices across the United States, Europe and Asia Pacific.
- Proudfoot Consulting, which implements sustainable operational improvements at no net annualised cost to its clients. It operates globally with offices in six continents.
- Salzer Consulting, which helps clients in starting, managing and restructuring businesses in Greater China and difficult Asian markets.

- Viaduct Consulting, which commenced operations in August 2007, specialises in commercial due diligence in Europe.
- CBH Consulting, which was acquired in September 2007, provides management performance and business intelligence solutions for enterprises and operates in the United States.

Ineum Consulting specialises in industry-specialist consultancy in seven discrete industry groupings. The groupings serve the enterprises in: the financial sector, manufacturing, consumer products, utilities, telecoms and media, public sector and transportation. In addition there is a specialist middle market group to meet the needs of dynamic and growing businesses.

Parson Consulting specialises in financial management consultancy. It is free of auditing conflicts and provides Sarbanes-Oxley compliant services. It has four service lines: governance and risk management; operational financial management; strategic financial management and transaction support. Parson Consulting's appeal is to chief financial officers intent on achieving the highest standards of financial management.

Proudfoot Consulting helps clients to achieve significantly increased profitability through the implementation of operational improvements leading to increased sales, lower operating and overhead costs, greater output and lower capital expenditure. Proudfoot Consulting's appeal is to operationally focused senior managers intent on executing strategy and achieving stretching goals.

Salzer Consulting offers a broad range of services to multinationals entering and operating in Greater China and the Asian region, including accelerating start-ups, acquisition support, restructuring and revitalisation, executive search and project management

Viaduct Consulting specialises in commercial due diligence in Europe.

	<u>6 months ended 30 June (IFRS)</u>		<u>Year ended 31 December (IFRS)</u>		
	<u>2007</u>	<u>2006</u>	<u>2006</u>	<u>2005</u>	<u>2004</u>
	<u>£m</u>	<u>£m</u>	<u>£m</u>	<u>£m</u>	<u>£m</u>
Revenue					
— Ineum	40.5	—	23.7	—	—
— Parson	21.4	15.7	34.3	43.2	37.8
— Proudfoot	38.2	51.6	88.7	86.4	81.4
— Salzer	0.5	—	0.2	—	—
Total	100.6	67.3	146.9	129.6	119.2
Profit from operations before non-recurring items and amortisation of acquired intangibles					
— Ineum	4.6	—	2.8	—	—
— Parson	(0.8)	(1.9)	(2.1)	2.3	2.3
— Proudfoot	6.6	8.5	15.6	10.3	9.3
— Salzer	(0.2)	—	(0.1)	—	—
Non-recurring items	(1.3)	0.3	(1.8)	0.9	0.8
Amortisation of acquired intangibles	(0.6)	—	(0.9)	—	—
Total	8.3	6.9	13.4	13.5	12.4

In 2004 both Parson Consulting and Proudfoot Consulting performed well. In particular, the performance of Parson Consulting improved significantly as a result of its restructuring, a broadening of its client base, new service offerings and increased client spending resulting from US regulatory changes under the guise of the Sarbanes-Oxley regulations. Revenue in 2004 was 35 per cent up compared to 2003 despite further weakening of the US\$. At constant exchange rates the growth was 44 per cent.

Trading in 2005 showed good progress in both Parson Consulting and Proudfoot Consulting. The performance of the Group improved as the year 2005 progressed, with the Group entering 2006 with a strong order book. Revenue for the year was up 9 per cent and the US\$:£ exchange rate showed little movement from the previous year.

In 2006 Proudfoot increased revenues by 3 per cent whilst Parson revenues declined by 21 per cent. Total revenue increased 13 per cent due to Ineum and Salzer being reported for the first time in the Group results.

Throughout the period the gross margin of the business has been tightly managed to a level very close to 50 per cent. Selling costs as a percentage of revenue have remained broadly constant over the period, 26 per cent in 2004 compared with 27 per cent in 2006. Underlying administrative expenses have fallen as a percentage of revenue from 14 per cent to 12 per cent as a result of increased revenue.

During the three financial years 2004, 2005 and 2006, we have expanded the geographical spread of our business through the growth of the Parson brand into the UK in 2003 and into France and Australia in 2005; through the re-establishment of the Proudfoot business in Hong Kong/China in 2004; and through the acquisitions of Ineum Consulting and Salzer Consulting in 2006. The expanded Parson and Proudfoot businesses contributed £11.7 million of revenue in 2005 and £14 million in 2006. Following their acquisition, Ineum Consulting and Salzer Consulting contributed £23.7 million of revenue in 2006.

Revenue for the six month period to 30 June 2007 was considerably ahead of the same period in the previous year, due to the impact of Ineum and improved performance in Parson Europe. There was a decline in Proudfoot revenue compared with the equivalent period in 2006 due to the exceptional activity in 2006 not being repeated in 2007.

1.2 Financial review

The Group first presented financial statements under IFRS for the year ended 31 December 2005. The results for 2006, 2005 and 2004 and for the six months ended 30 June 2006 and 2007 are presented in this document under IFRS.

1.3 Summary of trading results

A summary of the consolidated trading results of the Group for the three years ended 31 December 2006, which has been extracted without material adjustment from the audited financial statements for the year ended 31 December 2006 and for the year ended 31 December 2005, is set out below together with summary information for the six months ended 30 June 2006 and 30 June 2007, which has been extracted without material adjustment from the unaudited interim financial information set out in Part 9 of this document:

	<u>6 months ended 30 June (IFRS)</u>		<u>Year ended 31 December (IFRS)</u>		
	<u>2007 £m</u>	<u>2006 £m</u>	<u>2006 £m</u>	<u>2005 £m</u>	<u>2004 £m</u>
Revenue	100.6	67.3	146.9	129.6	119.2
Profit from operations before non-recurring items and amortisation of acquired intangibles	10.2	6.6	16.2	12.7	11.7
Operating profit margin	10.1%	9.8%	11.0%	9.8%	9.8%
Basic earnings per share (before non-recurring items and amortisation of acquired intangibles)	2.6 pence	2.7 pence	5.4 pence	4.8 pence	4.2 pence

1.4 Segmental information

The Group has one business reporting segment, management consultancy, comprising, in the periods under review, four consultancies: Ineum Consulting, Parson Consulting, Proudfoot Consulting and Salzer Consulting. Viaduct Consulting commenced operations in August 2007. The Group operates in three geographic areas — North America, Europe and the Rest of the World. The Group reports segment information on the basis of geographic area as follows:

	6 months ended 30 June (IFRS)		Year ended 31 December (IFRS)		
	2007 £m	2006 £m	2006 £m	2005 £m	2004 £m
Revenue					
— Americas	26.7	35.9	64.0	79.5	77.7
— Europe	68.7	24.5	70.3	40.7	33.7
— Rest of World	5.2	6.9	12.6	9.4	7.8
Total	100.6	67.3	146.9	129.6	119.2
Profit from operations before non-recurring items and amortisation of acquired intangibles					
— North America	2.8	4.5	9.8	14.0	12.4
— Europe	6.9	2.4	6.7	0.3	0.1
— Rest of World	0.5	(0.3)	(0.4)	(1.7)	(0.9)
Total	10.2	6.6	16.1	12.6	11.6
Non-recurring items	(1.3)	0.3	(1.8)	0.9	0.8
Amortisation of acquired intangibles	(0.6)	—	(0.9)	—	—
Total	8.3	6.9	13.4	13.5	12.4

1.5 Revenue

Revenue has grown by 23 per cent. over the three years ended 31 December 2006. This has been driven by growth in North America and Europe and the acquisitions of Ineum and Salzer. In North America, Proudfoot's turnover increased from £44.2 million to £47.5 million. The growth in the North American business has come from broadening the client base over the period. In Europe, Proudfoot's turnover increased from £29.4 million to £29.8 million and the Parson European business grew from £4.3 million to £16.7 million, which demonstrated the Group's ability to extend the brand offerings into new territories. Ineum Consulting was acquired on 1 September 2006 and contributed £23.7 million to European revenue in 2006. Salzer Consulting was acquired on 6 October 2006 and contributed £0.2 million to Rest of the World revenue in 2006.

Foreign exchange movements have had a significant impact on the Group's reported revenue results as a result of a significant portion of the Group's business being generated in the United States. Reported revenue growth in 2004 was 35 per cent., whilst in constant currency terms the growth was 44 per cent. Reported revenue growth in 2005 was 9 per cent. and in constant currency terms was 9 per cent. In 2006, on a like for like basis, revenue declined 5 per cent. due primarily to the performance of Parson in North America. In constant currency terms the decline was 6 per cent. Including the acquisitions of Ineum and Salzer reported revenue increased 13 per cent.

Proudfoot's North American business rebounded strongly in 2004 after a difficult 2003. Significant engagements were undertaken to increase output for natural resource clients who were benefiting from high commodity prices. The telecommunications sector and the financial services sector also increased their spending on our services with an emphasis on engagements to improve customer service and productivity. The Proudfoot European business was influenced more by the improving general economic conditions than by particular industry sectors. Early in 2004 the demand for services increased in the UK, Spain and Portugal and this extended to France and Germany in the latter part of 2004. The two smaller units were joined by a third unit in China but suffered from a slower demand profile than in 2003.

Parson made significant progress in 2004 in North America through selling Sarbanes-Oxley related services that had been developed in 2003 as well as introducing other service offerings. Revenue in North America increased by over 95 per cent., in constant currency terms, to £33.5 million. The European business increased its revenue over four-fold to £4.3 million.

Proudfoot's revenue in 2005 grew in both the dominant markets of North America and Europe. In North America, the same sectors continued to buy Proudfoot Consulting's services as in 2004, namely manufacturing, natural resources, telecommunications and financial services. The UK business continued to be the strongest in Europe although there were encouraging signs of increased activity in continental Europe in late 2005. Parson's revenue continued to grow through a very strong performance in Europe, where revenue grew by over 140 per cent. to £10.6 million.

Proudfoot's revenue in 2006 grew in both the Americas, where it re-entered the Brazilian market, and Europe. The performance was particularly driven by natural resource and manufacturing activities. Parson revenues declined in 2006 to £34.3 million due to its performance in North America. Good progress was made outside the US. Ineum contributed £23.7 million to 2006 revenues, particularly as a result of work in the financial services and public sectors. Salzer contributed £0.2 million to 2006 revenue.

Revenue for the six months ended 30 June 2007 was up 49 per cent. on the same period in the previous year due to the strong performance of Ineum Consulting. The performance of Parson Consulting was mixed. Proudfoot Consulting revenue declined 26 per cent compared with the exceptionally strong first half of 2006.

1.6 Operating profit

The operating profit margin has been around 10 per cent. for the three years to 31 December 2006.

The total profit from operations for the six months ended 30 June 2007 was £8.3 million compared with £6.9 million in the corresponding period of 2006. The increase in profitability in this period was attributable to the contribution made by Ineum Consulting. Proudfoot operating profit before non-recurring items and amortisation of acquired intangibles fell from £8.4 million to £6.6 million due to the exceptionally strong six months in 2006 which was not repeated in 2007. The revenue decline in North America resulted in Parson as a whole reporting a loss from operations before non-recurring items and amortisation of acquired intangibles of £0.8 million. This was lower than the loss reported in the equivalent period in 2006 due to reductions in North American operating costs and improved European performance. Salzer made an operating loss before non-recurring items and amortisation of acquired intangibles of £0.2 million in the six months ended 30 June 2007 (2006: £—)

1.7 Exceptional items

The following items have been removed from the underlying financial performance measures of the segments as they are not linked to the operating performance of the period in question.

	6 months ended 30 June (IFRS)		Year ended 31 December (IFRS)		
	2007 £m	2006 £m	2006 £m	2005 £m	2004 £m
Acquisition integration costs	(1.3)	—	(2.1)	—	—
Release of indemnity provision	—	0.3	0.3	0.9	—
Release of MIP provision	—	—	—	—	0.8
Total	(1.3)	0.3	(1.8)	0.9	0.8

The acquisition integration costs relate to the integration of Ineum and Salzer into the Group. The release of the indemnity provision relates to a credit arising from a time expired indemnity given in 2000 in connection with the sale of Proudfoot Consulting's Japanese operations. The release of the MIP provision relates to a credit arising from the release of a provision made in 2000 in respect of the estimated cost of a long term management incentive plan.

1.8 Profit before tax

Profit before taxation for the three years under review was as follows:

	6 months ended 30 June (IFRS)		Year ended 31 December (IFRS)		
	2007 £m	2006 £m	2006 £m	2005 £m	2004 £m
Revenue	100.6	67.3	146.9	129.6	119.2
Profit from operations before non-recurring items and amortisation of acquired intangibles	10.2	6.6	16.1	12.6	11.6
Non-recurring items	(1.3)	0.3	(1.8)	0.9	0.8
Amortisation of acquired intangibles	(0.6)	—	(0.9)	—	—
Total operating profit	8.3	6.9	13.4	13.5	12.4
Finance (cost)/ income	(0.8)	0.4	(0.1)	0.4	—
Profit before tax	7.5	7.3	13.3	13.9	12.4

The profit before taxation for the Group has increased over the period from £12.4 million to £13.4 million due to the acquisition of Ineum and underlying profit improvements. The decline in profit before tax between 2005 and 2006 is due to £2.1 million integration costs and £0.9 million amortisation of acquired intangible assets, both relating to the acquisitions in 2006.

1.9 Taxation

The tax charge for the six months ended 30 June 2007 was 31 per cent. compared with 28 per cent. for the first half of 2006.

The group tax charge for the year ended 31 December 2006 was £4.6 million and represented an effective rate of 34 per cent. on the profit before taxation. The group tax charge for the year ended 31 December 2005 was £4.1 million, which represented an effective tax rate of 30 per cent. The group tax charge for the year ended 31 December 2004 was £3.9 million, which represented an effective tax rate of 32 per cent.

1.10 Dividends

The Group has progressively increased its dividend over the three year period. The dividend proposed for the three years ended 31 December 2006 were 0.67p (2004), 0.80p (2005) and 1.0p (2006) respectively.

1.11 Summary of net assets

The Group's balance sheet development is summarised below:

	6 months ended 30 June (IFRS)		Year ended 31 December (IFRS)		
	2007 £m	2006 £m	2006 £m	2005 £m	2004 £m
Non-current assets					
— intangibles	161.8	67.4	162.5	68.7	66.5
— other fixed assets	5.6	2.7	5.9	2.9	3.6
Total	167.4	70.1	168.4	71.6	70.1
Current assets					
— Debtors	44.4	13.0	46.8	14.8	10.6
— Cash	9.6	23.5	10.3	21.6	14.5
Total	54.0	36.5	57.1	36.4	25.1
Current liabilities					
— Borrowings	(17.3)	—	(14.8)	—	—
— Other current liabilities	(55.6)	(31.0)	(59.8)	(32.0)	(28.9)
Total	(72.9)	(31.0)	(74.6)	(32.0)	(28.9)
Net current (liabilities)/assets	(18.9)	5.5	(17.5)	4.4	(3.8)
Non-current liabilities					
— Borrowings	(21.2)	—	(24.3)	—	—
— retirement benefit obligation	(2.9)	(6.1)	(5.4)	(11.9)	(11.4)
— other non-current liabilities	(8.6)	(6.3)	(9.0)	(6.1)	(6.5)
Net assets	115.8	63.2	112.2	58.0	48.4
Share capital	67.8	47.5	67.7	47.4	47.3
Share premium	38.2	38.2	38.2	38.1	38.0
Other reserves	33.2	9.0	34.7	12.6	10.9
Retained earnings	(23.4)	(31.5)	(28.4)	(40.1)	(47.8)
Total equity	115.8	63.2	112.2	58.0	48.4

The increase in intangibles in 2005 is due primarily to a positive foreign exchange impact of £2.2 million. In 2006, the acquisitions of Ineum and Salzer increased intangibles by £98.8 million. The remaining change compared with 2005 is mainly due to the impact of foreign exchange. The decrease in the six months to 30 June 2007 was also primarily related to foreign exchange.

Cash balances have increased between 2004 and 2005 as result of operational cash generation which resulted in the business having positive net current assets by 31 December 2005. The decrease in the cash balance in 2006 reflects the cash element of the consideration for the acquisitions in that year.

Current and non-current borrowings reflect the term loan and revolving bank facility obtained to finance the acquisitions of Ineum and the requirements of the enlarged group.

In 2004 and 2005 the retirement benefits obligation represents the actuarial estimates of the liability on a closed funded defined benefit pension scheme in North America and a closed unfunded post-retirement medical care plan. 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 defined medical benefits plan applies only to certain former employees who were employed at that date. Actuarial valuations are carried out annually. In 2006 a further £0.1 million retirement benefit obligation resulted from the acquisition of Ineum Consulting. The retirement benefits liability has developed as follows:

	Year ended 31 December (IFRS)		
	2006 £m	2005 £m	2004 £m
Provision at start of year	11.9	11.4	13.2
Past service costs	—	—	—
Net finance (income)/charges	(0.2)	0.1	0.3
Contributions made	(2.0)	(2.5)	(2.9)
Changes in actuarial assumptions	(3.3)	1.6	1.7
Acquisition	0.1	—	—
Exchange differences	(1.1)	1.3	(0.9)
Provision at end of year	5.4	11.9	11.4

The deficit related to the closed defined benefit pension and medical plans decreased substantially from £6.1 million at 30 June 2006 to £2.9 million at 30 June 2007 as a result of cash contributions, the investment performance, foreign exchange and a higher discount rate being applied to the long term liabilities following increases in market rates.

Whilst the consolidated balance sheet shows negative retained earnings of £28.4 million as at 31 December 2006 due to goodwill written-off to reserves in the 1990s, the parent company had positive retained earnings at that date of £68.1 million.

2. Capital Resources

2.1 Cashflows

Until the acquisition of Ineum Consulting on 1 September 2006, the Group was wholly financed through shareholders' equity. Following the acquisition the Group is financed through shareholders' equity and debt. Summarised information and brief commentary on the Group's cash inflows and outflows over the three year period ended 31 December 2006 and the six months ended 30 June 2006 and 2007 is set out below. The Group's cash flows do not typically exhibit any particular seasonal trends, except that dividends and staff bonus payments were made in the first half to 30 June.

	6 months ended 30 June (IFRS)		Year ended 31 December (IFRS)		
	2007 £m	2006 £m	2006 £m	2005 £m	2004 £m
Net cash from operating activities	4.8	5.7	(2.0)	8.8	8.2
Investing activities other than					
Acquisitions	(0.8)	(1.2)	(1.6)	(0.8)	(1.1)
Financing activities	(4.4)	(1.4)	37.4	(1.4)	(0.9)
	(0.4)	3.1	33.8	6.6	6.3
Acquisitions	(0.2)	—	(44.9)	—	(1.1)
Net cash flow	(0.7)	3.1	(11.1)	6.6	5.2
Cash at beginning of year	10.3	21.6	21.6	14.5	9.7
Foreign exchange	—	(1.2)	(0.2)	0.4	(0.4)
Cash at end of period	9.6	23.5	10.3	21.5	14.5

The Group generated net cash inflows from operating activities in the six months to 30 June 2007, 30 June 2006 and in 2005 and 2004 as a result of profitable operations. The cash outflow in 2006 is due to the funding of Ineum working capital requirements in the four months to 31 December 2006.

For the six months ended 30 June 2007, 30 June 2006, and for 2006, 2005 and 2004, net cash outflows for investing activities related to the purchases of tangible and intangible fixed assets, and the receipt of interest on cash balances.

For the six months ended 30 June 2006, and for 2005 and 2004 cash outflows from financing activities related to dividend payments, and also, in 2006 and the six months ended 30 June 2007, the finance costs associated with the borrowings.

In 2004 deferred consideration was paid on acquisitions made in previous years. Ineum was acquired on 1 September 2006 and Salzer on 6 October 2006. The final payment for the acquisition of Salzer was made in 2007.

The Group's foreign exchange exposure is primarily a translation risk as the Group's businesses operate mainly in their local currency and, as a result, the Group's transactional exposure to exchange rate movements is minimal. Translation risk arises primarily from the goodwill being denominated in US\$ and Euros whilst there is a partial hedge against translation movement from the US\$ long term retirement benefit liability.

Treasury activities are managed on a day-to-day basis by a treasurer who reports frequently to the executive directors. There are established treasury policies that are reviewed regularly to ensure that they remain relevant to the 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 specific country exposures. The interest rate and currency profile for financial assets and liabilities as at 31 December 2006 are disclosed in Part 8, note 23 of this document.

Investment of the Group's cash is made within policies that cover counterparty risk and liquidity. Surplus cash is invested generally on maturities of three months or less. The Group's cash and 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. Surplus funds are invested with approved counterparties, within authorised limits and with the aim of maintaining short term liquidity whilst maximising yield.

Until 1 September 2006, the Group had no bank or other borrowings or finance leases. Following the acquisition of Ineum, the Group has a term loan and a multicurrency revolving facility.

The principal source of the Group's liquidity is cash generated from operations and a revolving facility from Barclays Bank PLC.

The Group has a term loan of €45 million and a multicurrency revolving capital facility of up to £20 million. The only material restriction on the use of capital resources is the need to obtain permission from the lender under those facilities, Barclays Bank plc, for any significant acquisitions. On Completion, this facility will terminate. This facility is described in paragraph 10 of Part 13 of this document.

As at 31 December 2006, the amount drawn down under the term loan and multicurrency revolving facility was £30.3 million and £8.7 million respectively. As at 31 December 2006, the Group's net debt represented 1.69 times its earnings before interest, tax, amortisation and non-recurring items. As at 31 December 2006 the Group's interest cover was 18.0 : 1.

As at 30 June 2007, the amount drawn down under the term loan and multicurrency revolving facility was £27.2 million and £11.3 million respectively. As at 30 June 2007, the Group's net debt represented 1.39 times its earnings before interest, tax, amortisation and non-recurring items. As at 30 June 2007 the Group's interest cover was 15.4 : 1.

Under the terms of its existing bank agreement, the Group has to comply with certain financial covenants. Failure to do so will restrict its ability to utilise funds drawn under the term loan and multicurrency revolving facility. The Group was in compliance with its covenants on 31 December 2006 and 30 June 2007.

The Acquisition will require the Group to utilise a new €81,450,000 and US\$111,325,000 multicurrency debt facility to be provided by Barclays Bank PLC, HSBC Bank plc and Lloyds TSB Bank plc. The cash element of the consideration and the refinancing of the assumed debt will be partially satisfied out of MCG's existing cash resources and partially through the new multicurrency debt facilities comprised of a US\$50,600,000 term A facility commitment and a €37,000,000 term B facility commitment. In addition to these term facilities, a new working capital facility comprised of a US\$60,725,000 revolving credit facility A commitment and a €44,450,000 revolving credit facility B commitment will be available to the Enlarged Group, provided by the same lenders. These new facilities are described in paragraph 10.1 of Part 13 of this document.

2.2 Capitalisation and cash holdings

The following table sets out the cash holdings of the Group, extracted without material adjustment from MCG's unaudited interim financial information for the six months ended 30 June 2007 which is set out in Part 9 ("Unaudited Interim Financial Information Relating to MCG") of this document. The Group had net indebtedness of £28.8 million at 30 June 2007.

	<u>£m</u>
Cash and cash equivalents	9.6
Borrowings	<u>(38.5)</u>
Net indebtedness	<u>(28.9)</u>

The following table sets out the capitalisation of the Group, extracted without material adjustment from MCG's unaudited interim financial information for the six months ended 30 June 2007 which is set out in Part 9 ("Unaudited Interim Financial Information Relating to MCG") of this document.

Capital and reserves	<u>£m</u>
Called up share capital	67.8
Legal reserve ¹	38.2
Other reserves	<u>33.2</u>
Total capitalisation at 30 June 2007 ²	<u>139.2</u>

¹ The legal reserve represents the share premium account

² Capital and reserves do not include the profit and loss reserve ('Retained Earnings')

PART 11

UNAUDITED PRO FORMA STATEMENT OF NET ASSETS OF THE ENLARGED GROUP

The unaudited pro forma consolidated financial information has been prepared to illustrate the effect of the Acquisition on MCG's net assets as if it had taken place on 30 June 2007. This pro forma financial information has been prepared for illustrative purposes only and, because of its nature, the pro forma consolidated financial information addresses a hypothetical situation and therefore does not represent the actual financial position or results of the Enlarged Group.

The unaudited pro forma consolidated financial information has been prepared using the accounting policies adopted by Management Consulting Group PLC in preparing its audited financial statements for the year ended 31 December 2006 and its unaudited interim results for the six months ended 30 June 2007 and on the basis of the notes set out below, and is based on the consolidated balance sheet of MCG as at 30 June 2007.

The assets and liabilities of KSA as at 31 December 2006 have been extracted without material adjustment from the Financial Information relating to KSA set out in Part 7 of this document and translated at £1 = US\$2.0039, being the exchange rate ruling at 30 June 2007.

The adjustments in the table below reflect the acquisition of KSA.

	Management Consulting Group as at 30 June 2007 (note 1) £'000	KSA as at 31 December 2006 (note 2) £'000	Acquisition Adjustments (note 3) £'000	Pro forma for the Enlarged Group £'000
Non-current assets				
Goodwill and intangible assets	161,804	6,551	66,578	234,933
Property plant and equipment	2,261	1,024	—	3,285
Other non-current assets	3,345	13,065	—	16,410
Total non-current assets	<u>167,410</u>	<u>20,640</u>	<u>66,578</u>	<u>254,628</u>
Current assets				
Trade and other receivables	44,447	18,670	—	63,117
Cash and cash equivalents	9,640	3,986	(13,626)	—
Total current assets	<u>54,087</u>	<u>22,656</u>	<u>(13,626)</u>	<u>63,117</u>
Current liabilities				
Trade and other payables	(48,346)	(19,679)	—	(68,025)
Short term debt	(17,287)	(1,184)	(8,897)	(27,368)
Current tax liabilities	(7,308)	(2,081)	—	(9,389)
Total current liabilities	<u>(72,941)</u>	<u>(22,944)</u>	<u>(8,897)</u>	<u>(104,782)</u>
Non-current liabilities				
Retirement benefit obligation	(2,857)	(6,186)	—	(9,043)
Non-current tax liabilities	(7,572)	—	—	(7,572)
Long term debt	(21,182)	(8,914)	(19,904)	(50,000)
Long term provisions	(757)	(4,543)	—	(5,300)
Non-current accruals	(425)	—	—	(425)
	<u>(32,793)</u>	<u>(19,643)</u>	<u>(19,904)</u>	<u>(72,340)</u>
Total liabilities	<u>(105,734)</u>	<u>(42,587)</u>	<u>(28,801)</u>	<u>(177,122)</u>
Net assets	<u>115,763</u>	<u>709</u>	<u>24,151</u>	<u>140,623</u>

Notes

1. The assets and liabilities of MCG have been extracted without adjustment from the unaudited interim financial information of Management Consulting Group PLC for the six months ended 30 June 2007, which is set out in Part 9 ("Unaudited Interim Financial Information relating to MCG") of this document.
2. The assets and liabilities of KSA have been extracted without adjustment from the audited financial statements of KSA for the year ended 31 December 2006, which are set out in the Accountants' Report in Part 7 ("Historical Financial Information relating to KSA") of this document and translated at the exchange rate ruling at 30 June 2007 being £1 = US\$2.0039.

3. The acquisition of KSA has been accounted for using the purchase method of accounting. Goodwill and intangible assets have been adjusted to reflect the increase that results from the goodwill and intangible assets arising on the acquisition as calculated in the table below:

	<u>£'000</u>
48,278,793 New Ordinary Shares at 48.84 pence	23,579
US\$75,000,000 cash consideration	37,427
Grant of options over 6,293,124 Ordinary Shares	<u>1,281</u>
	62,287
Transaction costs	5,000
Total cost of the Acquisition	67,287
Net assets acquired	(709)
Increase in goodwill and intangible assets arising on the Acquisition	66,578
Goodwill and intangible assets of KSA at 31 December 2006	<u>6,551</u>
Increase in goodwill and intangible assets	<u><u>73,129</u></u>

The number of New Ordinary Shares to be issued and the number of options to be granted over Ordinary Shares are subject to the Share Consideration Adjustment.

The transaction costs (including those of the Acquisition) are estimated at £5 million.

The adjustments to cash and cash equivalents, short term debt and long term debt reflect drawdown of the new multicurrency debt facility to pay the cash consideration and to pay the estimated transaction costs as follows:

	<u>£'000</u>
Decrease in cash and cash equivalents	(13,626)
Increase in short term debt	(8,897)
Increase in long term debt	<u>(19,904)</u>
	<u><u>(42,427)</u></u>
Use of funds:	
Cash consideration	(37,427)
Transaction costs	<u>(5,000)</u>
	<u><u>(42,427)</u></u>

4. No account has been taken of the financial performance of MCG for the period since 30 June 2007 nor of KSA since 31 December 2006. No account has been taken of the acquisition of CBH on 5 September 2007 (such acquisition having been effected after the dates of the Company's most recent audited and unaudited balance sheets). No account has been taken of any fair value adjustments that may be applied to the purchase consideration or the separate assets and liabilities of KSA as at the date of completion. The final calculation of goodwill and other intangible assets will be based on the fair value of KSA's net assets at the completion date. The unaudited pro forma statement of net assets of the Enlarged Group does not constitute financial statements within the meaning of section 240 of the Companies Act 1985.

PART 12

REPORT ON UNAUDITED PRO FORMA STATEMENT OF NET ASSETS OF THE ENLARGED GROUP

Deloitte.

The Board of Directors
Management Consulting Group PLC
Fleet Place House
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London
EC4M 7RF

N M Rothschild & Sons Limited
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London
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21 September 2007

Dear Sirs,

Management Consulting Group PLC (the "Company")

We report on the pro forma financial information (the "Pro forma financial information") set out in Part 11 of the investment circular and Prospectus dated 21 September 2007 (the "Circular"), which has been prepared on the basis described in notes 1 to 4, for illustrative purposes only, to provide information about how the Transaction (as described in the Circular) might have affected the financial information presented on the basis of the accounting policies adopted by the Company in preparing the financial statements for the period ended 30 June 2007. This report is required by Annex I item 20.2 of Commission Regulation on Prospectuses (EC) No 809/2004 (the "Prospectus Directive Regulation") and is given for the purpose of complying with that requirement and for no other purpose.

Responsibilities

It is the responsibility of the directors of the Company (the "Directors") to prepare the Pro forma financial information in accordance with Annex I item 20.2 and Annex II items 1 to 6 of the Prospectus Directive Regulation.

It is our responsibility to form an opinion, in accordance with Annex I item 20.2 of the Prospectus Directive Regulation, as to the proper compilation of the Pro forma financial information and to report that opinion to you in accordance with Annex II item 7 of the Prospectus Directive Regulation.

Save for any responsibility arising under Prospectus Rule 5.5.3R (2)(f) to any person as and to the extent there provided, to the fullest extent permitted by law we do not assume any responsibility and will not accept any liability to any other person other than the Addressees of this letter for any loss suffered by any such other person as a result of, arising out of, or in accordance with this report or our statement, required by and given solely for the purposes of complying with Annex I item 23.1 of the Prospectus Directive Regulation, consenting to its inclusion in the Circular.

In providing this opinion we are not updating or refreshing any reports or opinions previously made by us on any financial information used in the compilation of the Pro forma financial information, nor do we accept responsibility for such reports or opinions beyond that owed to those to whom those reports or opinions were addressed by us at the dates of their issue.

Basis of Opinion

We conducted our work in accordance with the Standards for Investment Reporting issued by the Auditing Practices Board in the United Kingdom. The work that we performed for the purpose of making this report, which involved no independent examination of any of the underlying financial information, consisted primarily of comparing the unadjusted financial information with the source documents, considering the evidence supporting the adjustments and discussing the Pro forma financial information with the Directors.

We planned and performed our work so as to obtain the information and explanations we considered necessary in order to provide us with reasonable assurance that the Pro forma financial information has been properly compiled on the basis stated and that such basis is consistent with the accounting policies of the Company.

Our work has not been carried out in accordance with auditing or other standards and practices generally accepted in jurisdictions outside the United Kingdom, including the United States of America, and accordingly should not be relied upon as if it had been carried out in accordance with those standards or practices.

Opinion

In our opinion:

- (a) the Pro forma financial information has been properly compiled on the basis stated; and
- (b) such basis is consistent with the accounting policies of the Company.

For the purposes of Prospectus Rule 5.5.3R(2)(f) we are responsible for this report as part of the Circular and declare that we have taken all reasonable care to ensure that the information contained in this report is, to the best of our knowledge, in accordance with the facts and contains no omission likely to affect its import. This declaration is included in the Circular in compliance with Annex I item 1.2 of the Prospectus Directive Regulation.

Yours faithfully

Deloitte & Touche LLP Chartered Accountants

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PART 13

ADDITIONAL INFORMATION

1. Responsibility

- 1.1 The Company and each of the Directors, whose names are set out below, accept responsibility for the information contained in this document. To the best of the knowledge of the Directors and the Company, who have taken all reasonable care to ensure that such is the case, the information contained in this document is in accordance with the facts and does not omit anything likely to affect the import of such information.
- 1.2 The full names, business addresses and functions of the Directors are as follows:

Dr Rolf Wilhelm Heinrich Stomberg	Chairman
Kevin Allen Huw Parry	Chief Executive
Craig Harold Smith	Finance Director
Alan John Barber	Non-Executive Director
Jean Paul Bolduc	Non-Executive Director
Baroness Cohen of Pimlico	Non-Executive Director
Stephen Alan Ferriss	Non-Executive Director
Andrew Henry Simon	Non-Executive Director

The business address of the Directors is Fleet Place House, 2 Fleet Place, Holborn Viaduct, London EC4M 7RF.

2. Relevant expertise and experience of the Directors

R W H Stomberg, Chairman

Dr Rolf Stomberg, aged 67, joined the Board in September 1998. He is Chairman of the Supervisory Board of Lanxess AG and a non-executive director of a number of leading international companies including TNT Post Group NV, Reed Elsevier PLC, JSC Severstal and Smith & Nephew plc. He was formerly a director of British Petroleum Company Plc where he spent 27 years, latterly as Chief Executive of BP Oil International. He is Chairman of the Nominations Committee and a member of the Remuneration Committee.

K A H Parry, Chief Executive

Kevin Parry, aged 45, was appointed Chief Executive on 1 January 2000. A graduate in management studies from Cambridge University, he qualified as a Chartered Accountant with KPMG in 1986. He was appointed a London partner in that firm in 1994 and, on appointment as a managing partner in 1998, joined the UK firm's management team and was responsible for the Information, Communications & Entertainment practice. He left KPMG to join the Group on 31 December 1999. He is a non-executive director and chairman of the audit committee of Schroders plc and a non-executive adviser to Knight Frank LLP.

C H Smith, Finance Director

Craig Smith, aged 44, joined the board on 26 April 2007 as Group Finance Director. He holds a Master of Arts degree in Economics from the University of St Andrews and is a Fellow of the Chartered Association of Certified Accountants. He spent the early part of his career in various overseas financial positions with Coats Viyella PLC before returning to the UK where he worked as European Finance Director of two US based companies in the product identification and printing ink industries. From 2003 to 2007 he was Group Finance Director of Huntleigh Technology PLC.

A J Barber, Non-Executive Director

Alan Barber, aged 59, joined the Board in April 2005. He is a non-executive director of Invesco English & International Trust PLC, JP Morgan Japanese Investment Trust PLC, Witan Pacific Investment Trust Plc and Western & Oriental PLC as well as three other private companies. He is former non-executive director of Lastminute.com PLC and Teather and Greenwood Holdings PLC and was a partner in KPMG's London office up to 2004. He is Chairman of the Audit and Risk Committee.

J P Bolduc, Non-Executive Director

J P Bolduc, aged 68, joined the Board in September 1996. He is a US citizen and is currently Chairman and Chief Executive Officer of JPB Enterprises, Inc. He was formerly President and Chief Executive Officer of WR Grace & Co. and President and Chief Executive Officer of J.A. Jones, Inc. Mr Bolduc also serves on the boards of Unisys Corporation and EnPro Industries, Inc as well as several other private and not for profit enterprises.

Baroness Cohen of Pimlico, Non-Executive Director

Baroness Cohen, aged 67, joined the Board in August 2003. She was originally a solicitor, then had a career in the Department of Trade and Industry, and subsequently as a corporate financier and adviser in the Charterhouse Group. She sits as a Labour peer in the House of Lords. She is chairman of Inviseo Media Holdings Limited, a non-executive director of London Stock Exchange PLC, London Stock Exchange Group PLC, Borsa Italiana S.p.A. and Freshwater UK PLC as well as two other private companies. She is the senior independent director.

S A Ferriss, Non-Executive Director

Stephen Ferriss, aged 61, joined the Board on 3 March 2006. He is a US citizen residing in London. He spent 17 years at Bank of America working in the United States of America and latterly in London and Spain. In 1987 he joined Bankers Trust and served in various roles including managing director and partner of the Bankers Trust's Global Investment Bank in London and New York. He spent three years from 1999 to 2002 with Santander Central Hispano Investment Securities Inc. He is a non-executive director of Santander Bancorp in Puerto Rico and Seda Solubles, S.L. and Seda Cereales, S.L. in Spain.

A H Simon, Non-Executive Director

Andrew Simon, aged 62, joined the Board on 3 March 2006. He spent 23 years at the Evode Group PLC, including roles as the managing director, chief executive and chairman. Mr Simon holds an MBA from Wharton School of Finance in Philadelphia and has a diversified range of non-executive director and chairman positions. He is the Chairman of Azelis SA and Meretec Limited. He is a non-executive director of Dalkia PLC and Travis Perkins PLC in the UK and of Finning International Inc in Canada. He sits on the supervisory board of SGL Carbon AG. He is chairman of the Remuneration Committee.

There there are no current or potential conflicts of interest between any duties of the Directors to the Company and their private interests or other duties.

Save for the Directors, the Board does not believe that there are any other senior managers who are relevant in establishing that the Company has the appropriate expertise and experience for the management of the Company's business.

3. History and development of MCG

- 3.1 Alexander Proudfoot started the business that eventually became MCG in 1946 in Chicago.
- 3.2 In the late 1960's, the Proudfoot business expanded outside North America by opening a partnership in Brazil. In the early 1970's, Proudfoot opened its first European office in London. It later moved its European headquarters to Brussels, and then in the mid 1990's returned to London. The business expanded in the mid 1980's to Singapore, followed shortly thereafter by the establishment of companies in Sydney, Auckland, Kuala Lumpur, Hong Kong, Taipei, Bangkok, Tokyo and South Africa.
- 3.3 In 1987, Proudfoot went public on the London Stock Exchange via a reverse takeover.
- 3.4 In 1989, Proudfoot acquired Philip Crosby Associates, a public company traded on the American Stock Exchange. This acquisition was followed in 1991 by the acquisition of Indevo, a strategy consultancy with its main office in Stockholm.
- 3.5 Following a strategy review carried out in 1999, the non-executives led by the current chairman, Dr Rolf Stomberg, recruited a new management team led by Kevin Parry, the current chief executive.

- 3.6 This strategy review sought to identify the most effective way of delivering shareholder value in the medium term. During 2000, the executive team began to implement the four elements of that strategy: a focus on the core business, expansion of the range of services offered, ensuring adequate finance existed for investment and exploring the value of the Company's Japanese operation. The executive team concentrated on and developed the core business of Proudfoot Consulting.
- 3.7 In April 2000, the Company raised £6.8 million via a placing and open offer and by June 2000 had raised £28.5 million from the sale of Proudfoot Japan. The proceeds were used, inter alia, to provide funds for expansion in North America and Europe. By the end of 2000, the Company had also purchased IMR Europe, a well-established consultancy firm with a significant presence in France, for £21.3 million.
- 3.8 At the beginning of January 2001, the Company changed its name to Management Consulting Group PLC to avoid confusion between operating brands and the holding company.
- 3.9 In 2001 the Company acquired Czipin & Partners for £11 million. The Company's consulting practice in the German-speaking parts of Europe was renamed Czipin & Proudfoot Consulting to embrace the two companies' heritages.
- 3.10 An issue of new shares in May 2002 raised £39 million, which was used to finance the acquisition of Parson Consulting. Parson Consulting had a presence only in the USA and offers financial management consultancy, which complements the operational management consultancy offered by Proudfoot Consulting. Parson subsequently opened offices in London, Paris and Sydney.
- 3.11 Following the acquisition of Parson Consulting in May 2002, MCG focused on organic growth of its existing business, whilst continuing to seek acquisition opportunities to expand the range of consulting offerings available to clients and deepen the coverage of existing Group offerings.
- 3.12 On 1 September 2006, the Company acquired Ineum for a total consideration of €120 million satisfied by the payment of €54 million in cash and the issue of 80,388,159 new Ordinary Shares. This acquisition diversified the Group's consultancy offerings and deepened its European footprint particularly in the French speaking markets.
- 3.13 In early October 2006 the Group acquired 51% of The Salzer Group Asia Pacific Pte Limited for cash consideration of £0.5 million with the option to acquire the remaining share capital by July 2010. Salzer Consulting operates in Asia offering specialist human resource consulting.
- 3.14 On 5 September 2007, the Group acquired CBH, which provides business performance and business intelligence solutions for enterprises, for US\$10.6m, satisfied by the payment of US\$6.3m in cash and the issue of 4,156,054 new Ordinary Shares in the Company. This acquisition broadened the Group's portfolio of consultancies and added a new specialisation to its existing service offering.

4. The Company, its subsidiaries and investments

Management Consulting Group PLC was incorporated in England and Wales under the Companies Acts 1948 to 1967 under the name City and Foreign Investment Company Limited on 22 January 1971. On 9 February 1982, the Company was re-registered as a public company under the Companies Acts 1948 to 1980 in the name City and Foreign Investment plc. On 10 February 1987, the Company changed its name from City and Foreign Investment plc to City and Foreign Holdings Plc. On 11 December 1987 the Company changed its name from City and Foreign Holdings Plc to Alexander Proudfoot Plc. On 4 June 1993 the Company changed its name from Alexander Proudfoot Plc to Proudfoot Plc. On 1 July 1999 the Company changed its name from Proudfoot Plc to Proudfoot Consulting Plc. On 2 January 2001 the Company changed its name from Proudfoot Consulting Plc to Management Consulting Group PLC. The Company's registered number is 1000608. The principal legislation under which the Company operates is the Act and the regulations made thereunder.

The Company's registered and head office is at Fleet Place House, 2 Fleet Place, Holborn Viaduct, London EC4M 7RF. The telephone number for the registered office of the Company is 020 7710 5000.

MCG is the ultimate holding company of the Group. The principal trading subsidiaries of the Group that are considered by the Company to be likely to have a significant effect on the assessment of the assets and liabilities, the financial position and/or the profits and losses of the Group are:

Name	Country of incorporation or registration	Principal activity	Percentage of ordinary shares held by the Company
Proudfoot Consulting Company	USA	Management Consulting	100 per cent.
Proudfoot Consulting Inc	Canada	Management Consulting	100 per cent.
Proudfoot Consulting (Europe) Limited	England	Management Consulting	100 per cent.
Proudfoot Consulting GmbH	Germany	Management Consulting	100 per cent.
Ineum Conseil et Associés S.A.	France	Management Consulting	100 per cent.
Ineum Consulting SAS	France	Management Consulting	100 per cent.
Proudfoot Consulting GmbH	Austria	Management Consulting	100 per cent.
Proudfoot Consulting S.A.	Spain	Management Consulting	100 per cent.
Proudfoot South Africa (Pty) Ltd	South Africa	Management Consulting	100 per cent.
MCG Switzerland GmbH (trading as Proudfoot Consulting)	Switzerland	Management Consulting	100 per cent.
Parson Consulting LLC	USA	Management Consulting	100 per cent.
Parson Consulting Limited	England	Management Consulting	100 per cent.
Parson Consulting S.A.S.	France	Management Consulting	100 per cent.
Parson Consulting Pty Limited	Australia	Management Consulting	100 per cent.
The Salzer Group Asia Pacific Pte Ltd	Singapore	Management Consulting	51 per cent.
CBH Consulting, Inc.	USA	Management Consulting	100 per cent.

In addition, the Company, through its wholly owned subsidiary Alexander Proudfoot BV, ultimately holds 50 per cent of the issued share capital of Tracy & Proudfoot Consulting — Consultadoria e Organizacao de Empresas, LDA, a Portuguese limited liability company pursuant to the terms of a joint venture agreement with Tracy Consulting — Consultadoria e Organizacao de Empresas LDA dated 1 April 2002.

5. Share capital

5.1 The following table shows the authorised and issued share capital of the Company (i) as at the date of this document and (ii) following Admission (both with and without the maximum upwards adjustment to the number of New Ordinary Shares pursuant to the Share Consideration Adjustment):

	Authorised	Number of Ordinary Shares*	Issued and fully paid	Number of Ordinary Shares
(i) Current	£125,000,000	500,000,000	£68,814,215	275,256,858
(ii) Proposed (without upwards adjustment)**	£175,000,000	700,000,000	£80,883,912.75	323,535,651
Proposed (with maximum upwards adjustment)**	£175,000,000	700,000,000	£82,224,990.25	328,899,961

As at 19 September 2007 (the last practicable date prior to publication of this document), none of the share capital of the Company was held as treasury shares.

* The nominal value of each Ordinary Share is 25 pence.

** Assuming no further exercise of options under the Share Option Scheme.

5.2 The following alterations in the share capital of the Company have taken place in the three years preceding the date of this document:

- (i) On 12 April 2005, 1,051 Ordinary Shares were issued as a result of the exercise of options at 29.13 pence per share.
- (ii) On 12 April 2005, 104,054 Ordinary Shares were issued as a result of the exercise of options at 25.00 pence per share.

- (iii) On 18 April 2005, 333,049 Ordinary Shares were issued to the employee share trust at a price of 25.00 pence per share.
- (iv) On 25 April 2005, 15,450 Ordinary Shares were issued as a result of the exercise of options at 29.13 pence per share.
- (v) On 25 April 2005, 15,450 Ordinary Shares were issued as a result of the exercise of options at 25.00 pence per share.
- (vi) On 6 March 2006, 15,450 Ordinary Shares were issued as a result of the exercise of options at 25.00 pence per share.
- (vii) On 6 March 2006, 10,300 Ordinary Shares were issued as a result of the exercise of options at 29.13 pence per share.
- (viii) On 7 March 2006, 20,601 Ordinary Shares were issued as a result of the exercise of options at 29.13 pence per share.
- (ix) On 13 March 2006, 15,450 Ordinary Shares were issued as a result of the exercise of options at 25.00 pence per share.
- (x) On 13 March 2006, 10,300 Ordinary Shares were issued as a result of the exercise of options at 29.13 pence per share.
- (xi) On 13 March 2006, 15,450 Ordinary Shares were issued as a result of the exercise of options at 27.67 pence per share.
- (xii) On 17 March 2006, 20,601 Ordinary Shares were issued as a result of the exercise of options at 29.13 pence per share.
- (xiii) On 17 March 2006, 108,152 Ordinary Shares were issued as a result of the exercise of options at 25.00 pence per share.
- (xiv) On 21 March 2006, 20,601 Ordinary Shares were issued as a result of the exercise of options at 29.13 pence per share.
- (xv) On 22 March 2006, 15,450 Ordinary Shares were issued as a result of the exercise of options at 29.13 pence per share.
- (xvi) On 24 March 2006, 20,601 Ordinary Shares were issued as a result of the exercise of options at 27.67 pence per share.
- (xvii) On 30 March 2006, 25,750 Ordinary Shares were issued as a result of the exercise of options at 25.00 pence per share.
- (xviii) On 26 April 2006, 15,450 Ordinary Shares were issued as a result of the exercise of options at 25.00 pence per share.
- (xix) On 2 May 2006, 108,152 Ordinary Shares were issued as a result of the exercise of options at 25.00 pence per share.
- (xx) On 4 May 2006, 36,051 Ordinary Shares were issued as a result of the exercise of options at 25.00 pence per share.
- (xxi) On 21 August 2006, 250,000 Ordinary Shares were issued as a result of the exercise of options at 29.85 pence per share.
- (xxii) On 1 September 2006, 80,388,159 Ordinary Shares were issued at 56.00 pence per share as final consideration for the acquisition of Ineum.
- (xxiii) On 4 September 2006, 51,501 Ordinary Shares were issued as a result of the exercise of options at 25.00 pence per share.
- (xxiv) On 19 September 2006, 30,900 Ordinary Shares were issued as a result of the exercise of options at 25.00 pence per share.
- (xxv) On 21 September 2006, 180,254 Ordinary Shares were issued as a result of the exercise of options at 25.00 pence per share.
- (xxvi) On 2 October 2006, 36,051 Ordinary Shares were issued as a result of the exercise of options at 25.00 pence per share.

- (xxvii) On 12 October 2006, 51,501 Ordinary Shares were issued as a result of the exercise of options at 25.00 pence per share.
 - (xxviii) On 26 March 2007, 51,501 Ordinary Shares were issued as a result of the exercise of options at 25.00 pence per share.
 - (xxix) On 12 April 2007, 109,166 Ordinary Shares were issued to the employee share trust at a price of 48.625 pence per share.
 - (xxx) On 5 September 2007, 4,156,054 Ordinary Shares were issued at 48.38 pence per share as consideration for the acquisition of CBH.
- 5.3 Pursuant to the Resolution numbered 3 set out in the EGM Notice at the end of this document, which will only become effective on the Agreement and Plan of Merger becoming unconditional (save for the obligation to satisfy the consideration due thereunder and Admission) and the passing of the Resolution numbered 2, authority will be conferred on the Directors for the purposes of section 80 of the Act to allot relevant securities up to a maximum nominal amount of £13,410,775.75 (representing 19.5 per cent. of the issued ordinary share capital of the Company as at 19 September 2007, being the last practicable date prior to the publication of this document). Such authority will expire at the conclusion of the annual general meeting of the Company to be held in 2008.
- 5.4 Following successful Completion and assuming (i) no more exercise of options under the Share Option Scheme and (ii) there is no Share Consideration Adjustment, the available share authorities for the purposes of sections 80 and 95 of the Act will equate to approximately 22.7 per cent. and 4.0 per cent. respectively of the estimated then issued ordinary share capital of the Company (or 22.3 per cent. and 4.0 per cent. if the Share Consideration Adjustment results in the maximum upwards adjustment in the number of New Ordinary Shares allotted).
- 5.5 The provisions of section 89(1) of the Act confer on shareholders rights of pre-emption in respect of the allotment of equity securities (as defined in section 89(2) of the Act) which are to be paid up in cash and apply to the authorised but unissued share capital except to the extent disapplied by the resolution passed at the Company's extraordinary general meeting held on 30 August 2006. The Directors are empowered pursuant to section 95(1) of the Act to allot equity securities (as defined in section 94(2) of the Act) for cash as if section 89(1) of the Act did not apply until the earlier of 30 August 2011 and the date of the Annual General Meeting of the Company to be held in 2011 up to an aggregate nominal amount of £3,387,157 (representing approximately 4.9 per cent. of the issued ordinary share capital of the Company as at 19 September 2007, being the last practicable date prior to the date of publication of this document).
- 5.6 Save as set out above no share or loan capital of the Company or any of its subsidiaries has within the two years immediately preceding the date of this document been issued or is now proposed to be issued, fully or partly paid, for cash or otherwise. No commissions, discounts, brokerage or other special terms have, within the same two year period, been granted by the Company or any of its subsidiaries in connection with the issue or sale of any part of the share or loan capital thereof. Save as disclosed in paragraph 16 of this Part 13 and paragraph 4 of Part 6, no share or loan capital of the Company or any of its subsidiaries is under option or agreed conditionally or unconditionally to be put under option.
- 5.7 The Existing Ordinary Shares and the New Ordinary Shares will, on Admission, rank *pari passu* in all respects and will rank in full for all dividends and other distributions thereafter declared, made or paid on the ordinary share capital of the Company. The New Ordinary Shares are being issued credited as fully paid as part consideration for the Acquisition.
- 5.8 The Ordinary Shares are, and the New Ordinary Shares will be, in registered form and capable of being held in uncertificated form. Trading in the New Ordinary Shares will not be subject to pre-emption rights. None of the New Ordinary Shares are being marketed or made available in whole or in part to the public in conjunction with the applications for Admission. The New Ordinary Shares to be issued pursuant to the Acquisition are being issued credited as fully paid up at a price of 48.84 pence per share, representing a premium of 23.84 pence (or not less than 43.96 pence if the maximum upwards adjustment under the Share Consideration Adjustment is made) over the nominal value of 25 pence per share. The maximum number of New Ordinary Shares to be issued, and for which applications for Admission are being made, is 53,643,103.

- 5.9 Following the Acquisition, the Company's authorised but unissued ordinary share capital will be £94,116,087.25, comprising 376,464,349 Ordinary Shares (or £92,775,009.75, comprising 371,100,039 Ordinary Shares, if the Share Consideration Adjustment results in the maximum upwards adjustment in the number of New Ordinary Shares).
- 5.10 No temporary documents of title in respect of the New Ordinary Shares have been or will be issued.
- 5.11 The number of Ordinary Shares outstanding at the beginning and end of the three year period ended 31 December 2006 was as follows:

	Year to 31 December (number of Ordinary Shares)		
	2004	2005	2006
Shares in issue at commencement of period	188,790,907	189,024,358	189,493,412
Shares in issue at end of period	189,024,358	189,493,412	270,940,137
Difference	233,451	469,054	81,446,725

6. Memorandum and articles of association

6.1 Memorandum of Association

The principal objects of the Company, which are set out in Clause 4 of its Memorandum of Association, are to:

- (i) investigate and advise on all manner of economic, financial, commercial, and industrial questions and on problems relating to the administration and organisation of industry and business and the training of personnel for industry and business and to advise on the means and methods for extending, developing and improving all types of businesses or industries in all systems or processes relating to the production, storage, distribution, marketing and sale of goods and/or relating to the rendering of services;
- (ii) acquire and hold shares, stocks, debentures, debenture stocks, bonds, obligations and securities issued or guaranteed by any company constituted or carrying on business of any kind whatsoever in any part of the world; and
- (iii) carry on any other trade or business whatsoever which can in the opinion of the board of directors be advantageously carried on by the company in connection with or as ancillary to any of the above businesses or the general business of the company.

6.2 Articles of Association

The Company's Articles of Association ("Articles") contain, inter alia, provisions to the following effect:

(i) *Voting rights*

Subject to paragraph (vi) below, and to any special terms as to voting upon which any shares may, for the time being, be held, on a show of hands every member who (being an individual) is present in person or (being a corporation) is present in person or by representative or proxy shall have one vote for every ordinary share in the capital of the Company held by him. A proxy need not be a member of the Company.

(ii) *Variation of rights*

If at any time the capital of the Company is divided into different classes of shares all or any of the rights or privileges attaching to any class of shares in the Company may be varied or abrogated with the consent in writing of the holders of three-fourths in nominal value of the issued shares of that class or with the sanction of an extraordinary resolution passed at a separate general meeting of the holders of the shares of that class. At every such separate general meeting (except an adjourned meeting), the quorum shall be two persons holding or representing by proxy one-third in nominal value of the issued shares of that class.

(iii) *Alteration of capital*

The Company may by ordinary resolution increase its share capital, consolidate and divide all or any of its share capital into shares of a larger nominal value, sub-divide all or any of its shares into shares of a smaller nominal value and cancel any shares not taken, or agreed to be taken, by any person. The Company may, subject to the Companies Act, by special

resolution reduce or cancel its share capital or any capital redemption reserve or share premium account. Subject to and in accordance with the provisions of the Companies Act, the Company may purchase its own shares (including any redeemable shares).

(iv) *Transfer of shares*

A member may transfer all or any of his shares (1) in the case of certificated shares by instrument in writing in any usual or common form or in such other form as may be approved by the Directors and (2) in the case of uncertificated shares, through CREST in accordance with and subject to the CREST Regulations and the facilities and requirements of the relevant system concerned. The instrument of transfer of a certificated share shall be executed by or on behalf of the transferor and, if the share is not fully paid, by or on behalf of the transferee. The Directors may in their absolute discretion refuse to register a transfer of any share which is not fully paid, provided that dealings in the shares are not prevented from taking place on an open and proper basis. Subject to paragraph (vi) below, the Articles contain no restrictions on the free transferability of fully paid shares provided that the transfer is in respect of only one class of share and is accompanied by the share certificate and any other evidence of title required by the Directors and that the provisions in the Articles relating to the deposit of instruments for transfer have been complied with.

(v) *Dividends*

- (a) The Company may by ordinary resolution in general meeting declare dividends provided that no dividend shall be paid otherwise than out of profits and no dividend shall exceed the amount recommended by the Directors. The Directors may from time to time pay such interim dividends as appear to the Directors to be justified.
- (b) Subject to the rights of persons, if any, holding shares with special dividend rights, and subject to paragraph (vi) below, all dividends shall be apportioned and paid pro rata according to the amounts paid or credited as paid on the shares during any portion or portions of the period in respect of which the dividend is paid. No amount paid or credited as paid in advance of calls shall be regarded as paid on shares for this purpose.
- (c) All dividends unclaimed for a period of 12 years after the payment date for such dividend shall if the Directors so resolve be forfeited and shall revert to the Company.

(vi) *Suspension of rights*

If a member or any other person appearing to be interested in shares held by such shareholder has been duly served with notice under section 212 of the Companies Act and is in default in supplying to the Company within 14 days (or such longer period as may be specified in such notice) the information thereby required, then (if the Directors so resolve) such member shall not be entitled to vote or to exercise any right conferred by membership in relation to meetings of the Company in respect of the shares which are the subject of such notice. Where the holding represents more than 0.25 per cent. of the issued shares of that class, the payment of dividends may be withheld, and such member shall not be entitled to transfer such shares otherwise than by an arm's length sale.

(vii) *Return of capital*

Subject to any preferred, deferred or other special rights, or subject to such conditions or restrictions to which any shares in the capital of the Company may be issued, on a winding-up or other return of capital, the holders of ordinary shares are entitled to share in any surplus assets pro rata to the amount paid up on their ordinary shares. A liquidator may, with the sanction of an extraordinary resolution of the Company and any other sanction required by the Companies Act, divide amongst the members in specie or in kind the whole or any part of the assets of the Company, those assets to be set at such value as he deems fair. A liquidator may also vest the whole or any part of the assets of the Company in trustees on trust for the benefit of the members.

(viii) *Pre-emption rights*

There are no rights of pre-emption under the Articles in respect of transfers of issued Ordinary Shares. In certain circumstances, the Company's shareholders may have statutory pre-emption rights under the Companies Act in respect of the allotment of shares in the Company. These statutory pre-emption rights would require the Company to offer shares for allotment by existing shareholders on a pro rata basis before allotting them to other persons. In such circumstances, the procedure for the exercise of such statutory pre-emption rights would be set out in the documentation by which such shares would be offered to the Company's shareholders.

(ix) *Borrowing powers*

The Directors may exercise all the powers of the Company to borrow money and to mortgage or charge its undertaking, property and assets both present and future (including uncalled capital). The aggregate amount at any one time owing by the Company and all its subsidiaries in respect of monies borrowed by them or any of them (exclusive of monies borrowed by the Company or any of its subsidiaries from such companies) shall not at any time, without the previous sanction of the shareholders in general meeting, exceed a sum equivalent to the greater of £120,000,000 and five times the aggregate of the share capital, share premium account, capital redemption reserve and credit balances on other reserves of the Company less any debit balances on any other reserves of the Company plus goodwill written off to reserves resulting from acquisitions and goodwill charged to the profit and loss account as reduced by amortisation attributable to subsidiary undertakings which have been disposed of or closed.

(x) *Annual General Meetings and Extraordinary General Meetings*

An annual general meeting shall be held once in every year, within 15 months of the previous annual general meeting. Unless all shareholders entitled to attend and vote agree to short notice, an annual general meeting shall be called by at least twenty-one clear days' notice in writing. All general meetings other than annual general meetings are called extraordinary general meetings. The Directors may, whenever they see fit, and shall on requisition, in accordance with the Act, convene an extraordinary general meeting. The length of written notice to convene such a meeting varies depending on the nature of the business to be transacted. Any extraordinary general meeting at which it is proposed to pass a special resolution or (except as provided by statute) a resolution for which special notice has been given to the Company, shall be called by at least twenty-one clear days' notice in writing. Any other extraordinary general meetings shall be called by at least fourteen clear days' notice in writing.

Notice shall be given to all members. Extraordinary general meetings can be called on shorter notice if it is agreed by a majority in number of the members having a right to attend and vote, being a majority together holding not less than 95 per cent., in nominal value of the shares giving that right.

Every notice calling a general meeting shall specify the place, day and hour of the meeting. Every notice must include a prominent statement that a member entitled to attend and vote is entitled to appoint a proxy or proxies to attend and, on a poll, vote instead of him and that a proxy need not be a member of the Company.

In the case of any general meeting at which business other than general business is to be transacted, the notice shall specify the general nature of such business. The notice shall say whether any resolution is to be proposed as an extraordinary resolution or a special resolution. In the case of an annual general meeting the notice shall also specify the meeting as such. "Ordinary business" shall include only business transacted at an annual general meeting in respect of the following matters: declaring dividends; receiving and considering the annual accounts of the Company, the reports of the directors and the auditors and other documents required by law to be attached or annexed thereto; appointing the auditors and fixing the remuneration of the auditors or determining the manner in which such remuneration is to be fixed; appointing or re-appointing directors to fill vacancies arising at the meeting on retirement whether by rotation or otherwise; and the voting of fees to the directors.

In the case of any general meeting or meeting of members, the notice shall contain a statement that a member is not entitled to attend and vote unless his name is entered on the register of members forty-eight hours before the date of the meeting.

The quorum of all general meetings is three members present in person, proxy or duly authorised representative provided that where a quorum is not present within thirty minutes of the time appointed for the meeting, the meeting shall be dissolved.

A poll may be demanded at any general meeting by the Chairman, not less than three members present in person or by proxy and entitled to vote, a member or members present in person or by proxy and representing not less than one tenth of the total voting rights of all the members having the right to vote at the meeting or by any member or members present in person or by proxy and holding shares in the Company conferring a right to vote at the meeting being shares on which an aggregate sum has been paid up equal to not less than one tenth of the total sum paid up on all the shares conferring that right. A poll demanded on a question of adjournment shall be held immediately. A poll demanded on any other question shall be held immediately or at such subsequent time (not being more than thirty days from the date of the meeting) and place as the Chairman may direct.

(xi) *Directors*

The number of the directors of the Company must not be less than two or more than fifteen. No shareholder qualification for directors is required. A director who is not a member of the Company is entitled to receive notice of, attend and speak at all general meetings.

The directors can appoint any director to be the holder of any executive office. So far as statute allows, the directors or any committee authorised by the Board may determine the period and terms of any such appointment and the salary or remuneration of any executive.

The total of the fees paid to the directors, other than executive directors, for their services as directors must not exceed £500,000 per annum or such larger amount as the Company may by ordinary resolution approve. The directors shall be entitled to be paid all reasonable travelling, hotel and other expenses properly incurred in attending directors' meetings, committee meetings or general meetings. The directors or any committee appointed by the Board can award extra remuneration, which is additional to fees payable as described above, to any director who devotes special attention to the business of the Company or who otherwise performs services which in the opinion of the Board are outside the scope of the ordinary duties of a director.

The office of a director will be vacated if the director resigns, becomes bankrupt or is the subject of other insolvency related proceedings, in certain circumstances where the director is suffering from mental disorder, if the director is absent from meetings of the Board for six months without leave, if the director is an executive director and ceases to hold that office, if the director is convicted of an indictable offence or his conduct is investigated by the Secretary of State or Serious Fraud Office and the directors resolve that it is undesirable in the interests of the Company that he remains a director, if the director is removed or becomes prohibited from being a director under any provision of applicable statutes or if requested in writing by all the other directors to resign.

At each annual general meeting one third of the directors or if their number is not a multiple of three, then such number as is nearest to but not exceeding one third, shall retire from office and be eligible for re-election. Such directors retiring by rotation will be those who have been in office the longest since their last appointment or re-appointment. No person other than a director retiring at the meeting shall, unless recommended by the Board, be eligible for election to the office of director at any general meeting unless not less than seven nor more than twenty-one days before the day appointed for the meeting there has been left a notice in writing at the registered office, signed by one or more members duly qualified to attend and vote at the meeting and holding in aggregate not less than 10 per cent. of the ordinary share capital of the company, of the intention to propose the person for election and a written notice signed by that person of his willingness to be elected.

The Company has power by extraordinary resolution or ordinary resolution (of which special notice has been given) to remove any director from office before the expiration of the term of his office and may by ordinary resolution appoint another person in his place.

At meetings of the Board questions are determined by a majority of votes and in the case of an equality of votes the chairman of the meeting shall have a second or casting vote.

The quorum at Board meetings may be fixed by the directors but otherwise shall be two. The provisions of the Companies Act restricting the appointment of a director or requiring him to stop being a director because he has attained the age of seventy apply to the Company.

A director cannot vote on any contract, transaction, arrangement or any other kind of proposal in which he has any material interest other than by virtue of his interests in shares or other securities of MCG, other than as described below. A director may not be included in the quorum of a meeting in relation to any resolution he is not allowed to vote on. However, a director can vote and be counted in the quorum of a meeting on any resolution about any of the following matters:

- the giving of any security, guarantee or indemnity in respect of (i) money lent or obligations incurred by him for the benefit of the Company or any of its subsidiary undertakings or (ii) a debt or obligation of the Company or any of its subsidiary undertakings in respect of which the director has assumed responsibility in whole or in part under a guarantee, indemnity or by giving security;
- an offer of shares, debentures or other securities of the Company or any of its subsidiary undertakings in which he is or is to be interested as a holder of securities or as a participant in the underwriting or sub-underwriting;
- any proposal involving any other company if the director is directly or indirectly interested, whether as an officer or shareholder of that company or otherwise, provided that he is not beneficially interested in shares representing one or more per cent. of the issued share capital of such company or the voting rights in any such companies;
- an arrangement for the benefit of the employees of the Company or any of its subsidiary undertakings which does not award him any privilege or benefit not generally awarded to the employees to whom such arrangement relates; or
- the purchase and/or maintenance of any insurance policy for the benefit of directors or for the benefit of persons including directors.

7. Directors' and others' interests

7.1 As at 19 September 2007 (being the last practicable date prior to the date of this document) and immediately following Completion, the interests of each Director, including those of any connected person (within the meaning of section 346 of the Act and the provisions of the Disclosure and Transparency Rules), the existence of which is known to, or could with reasonable diligence be ascertained by, that Director whether or not held through another party, in the share capital of the Company together with any options in respect of such capital were as follows:

Director	Current Number of Ordinary Shares	Percentage of Existing Ordinary Shares	Number of Ordinary Shares following Admission	Percentage of Enlarged Share Capital†
K A H Parry	1,197,042	0.43	1,197,042	0.37/0.36
C H Smith	—	—	—	—
R W H Stomberg	600,000*	0.22	600,000*	0.19/0.18
A J Barber	208,000**	0.08	208,000**	0.06/0.06
J P Bolduc	800,000***	0.29	800,000***	0.25/0.24
Baroness Cohen	61,800****	0.02	61,800****	0.02/0.02
S A Ferriss	200,000	0.07	200,000	0.06/0.06
A H Simon	12,100*****	<0.01	12,100*****	<0.01/<0.01

* These shares are registered in the name of Joh. Berenberg, Gossler & Co KG.

** These shares are registered in the name of Brewin Nominees.

*** These shares are registered in the name of HSBC Global Custody Nominee (UK) Limited.

**** These shares are registered in the name of Thesis Nominees Limited. 43,800 of these shares are held for the benefit of Baroness Cohen. Baroness Cohen is deemed to be interested in the remaining 18,000 shares, which are held for the benefit of her spouse.

***** These shares are registered in the name of Killik & Co for the benefit of Mr and Mrs Simon.

† Assuming that there is/is not a Share Consideration Adjustment resulting in the maximum upwards adjustment to the number of New Ordinary Shares.

- 7.2 Certain of the Directors are also interested in unissued Ordinary Shares under share options and awards held by them pursuant to the Share Option Scheme, all of which were granted for nil consideration, as follows:

Director	Granted	Ordinary Shares	Price (p)	Exercisable	Expiration
K A H Parry	23 March 2000	1,777,090	29.85	23 March 2003	22 March 2010
	7 March 2005	439,331	59.75	7 March 2008	6 March 2015
	6 March 2006	476,190	57.75	6 March 2009	5 March 2016
	12 March 2007	564,103	48.75	12 March 2010	11 March 2017
		3,256,714			
C H Smith	26 April 2007	276,382	49.75	26 April 2010	25 April 2017

Mr Parry and Mr Smith are also deemed to be interested in 4,197,374 shares held by the employee share trust, although there is no intention to grant them any rights over these shares except for 214,912 shares acquired by the Company on 5 January 2005 in connection with potential deferred bonus obligations to Mr Parry.

- 7.3 Save as disclosed above, no Director has any interest in the share capital of the Company or any of its subsidiaries nor does any connected person have any such interests, whether beneficial or non-beneficial.

- 7.4 The Directors have held the following directorships and/or been a partner in the following partnerships within the five years prior to the date of this document (other than directorships in the Group):

Director	Company	Current/ Previous
R W H Stomberg	Biesterfeld AG	Current
	Deutsche BP AG	Current
	Hoyer GmbH	Current
	JSC Severstal	Current
	Lanxess AG	Current
	Reed Elsevier Group PLC	Current
	Reed Elsevier NV	Current
	Reed Elsevier PLC	Current
	Smith & Nephew PLC	Current
	TNT Post Group NV	Current
	Aral AG	Previous
	Cordiant Communications Group Limited	Previous
	Cordiant Communications Group Trustees Limited	Previous
	Scania AB	Previous
	Stinnes AG	Previous
	Unipoly SA	Previous
K A H Parry	Veba Oel AG (now Deutsche BP AG)	Previous
	Association of Management Consulting Firms	Current
	Knight Frank LLP	Current
	Management Consultancies Association Limited (limited by guarantee)	Current
C H Smith	Royal Wanstead Children's Foundation	Current
	Schroders PLC	Current
	Huntleigh Renray Limited	Previous
	Huntleigh Technology Limited	Previous
	Huntleigh Healthcare Limited	Previous
	Care Records Limited	Previous
	Flexographic Inks (Sales) Ltd	Previous
	Usher-Walker (Printing Inks) Limited	Previous
	Usher-Walker Rollers Limited	Previous
	Usher-Walker (Liquid Inks) Limited	Previous
	C Wishart Hall & Company Limited	Previous
	Jackview Limited	Previous
	Sparkybrook Limited	Previous

Director	Company	Current/ Previous
A J Barber	Animal Health Institute Limited	Current
	Global Alliance for Livestock Veterinary Medicines	Current
	Hybridan LLP	Current
	Invesco English & International Trust PLC	Current
	JP Morgan Japanese Investment Trust PLC	Current
	Western & Oriental PLC	Current
	Witan Pacific Investment Trust Plc	Current
	KPMG LLP	Previous
	Lastminute.com PLC	Previous
	Teather and Greenwood Holdings PLC	Previous
J P Bolduc	AMCP 1, LLC	Current
	AMCP 2, LLC	Current
	AMCP 7550, LLC	Current
	Annie's Uniform Shoppe, LLC	Current
	B & B Partnership	Current
	B & S, Inc.	Current
	BD Panama City, LLC	Current
	BH Equity, LLC	Current
	Bolduc Family Foundation	Current
	BRS/Eggerl, LLC	Current
	BRS Developers, LLC	Current
	BRS Realty Advisory Services, LLC	Current
	Cattail Overlook, Inc.	Current
	Citygate Holding, LLC	Current
	Columbia 100, LLC	Current
	Columbia 100, II LLC	Current
	Columbia Credit Company, LLC	Current
	Columbia Venture, LLC	Current
	Davis Acquisition, Inc.	Current
	Davis Inotek Instruments, LLC	Current
	Davis Instruments, LLC	Current
	Davis Instrument Manufacturing Co., Inc.	Current
	DCF Florida III, LLC	Current
	Edison Preservation Foundation	Current
	Educational Tools Corporation	Current
	EnPro Industries, Inc.	Current
	ETB Enterprises, LLC	Current
	Friction Free Technologies, Inc.	Current
	Go3E, LLC	Current
	Greene Turtle Franchising Corporation	Current
	Hospice of Greater Baltimore	Current
	Instrument Lending, LLC	Current
	JJAM Enterprises, Inc.	Current
	JJAM Investments I, LLC	Current
	JPB Maryland Enterprises, LLC	Current
	JPB Enterprises, Inc.	Current
	JPB Bay Minnette, LLC	Current
	JPB Florida I, LLC	Current
	JPB Florida II, LLC	Current
	JPB Florida III, LLC	Current
	JPB Florida IV, LLC	Current
	JPB Florida V, LLC	Current
	JPB Capital Partners GP, LLC	Current
	JPB Capital Partners II, LP	Current
	JPB Office, LLC	Current
	JPB Office II, LLC	Current

Director	Company	Current/ Previous
J P Bolduc (continued)	JPB Office III, LLC	Current
	JPB Instrument Enterprises, LLC	Current
	JPBE Investments I, LLC	Current
	JPBE Investments II, LLC	Current
	JPBE Investments III, LLC	Current
	JPBE Investments IV, LLC	Current
	JPBE Investments V, LLC	Current
	JPBE Investments VI, LLC	Current
	JPBE Investments VII, LLC	Current
	JPB SportsCentral, LLC	Current
	Lance, Inc.	Current
	McCarsim Holding, Inc.	Current
	MEG Communications, LLC	Current
	Miami Dolphins, Inc.	Current
	Mid-Atlantic Development	Current
	Mid-Atlantic Development, LLC	Current
	Mid-Atlantic Development II, LLC	Current
	N'Site Solutions, LLC	Current
	N'Site Solutions, Inc.	Current
	PTFE, Inc.	Current
	Shturman Cardiology Systems, Inc.	Current
	Stronghold Advisors, LLC	Current
	St. Cloud State University	Current
	The Villas at Cattail Creek, LLC	Current
	Trails, Inc.	Current
	Unisys Inc.	Current
	University of Notre Dame Graduate School	Current
	Washington Crossing, LLC	Current
	William E. Simon Graduate School of Business	Current
	Anthony Woods, LLC	Previous
	BD Apalachicola, LLC	Previous
	BD Crestview, LLC	Previous
	Catterton-Simon, LLC	Previous
	Catterton-Simon Partners I, L.P.	Previous
	Catterton-Simon Partners II, L.P.	Previous
	Catterton-Simon Partners III, L.P.	Previous
	Chenango Rope Company, LLC	Previous
	Clarksville Associates, LLC	Previous
	Columbia Bancorp, Inc.	Previous
	Controlled Infrared Network, Inc.	Previous
	CRI Distribution, LLC	Previous
	Crowe Rope Industries, LLC	Previous
	Elk River Land Company	Previous
	Gladding Braided Products, LLC	Previous
	Grace Marketing, LLC	Previous
	J.A. Jones, Inc.	Previous
	Jones Group, Inc.	Previous
	Jericho, Inc	Previous
	JPB Maine Capital, LLC	Previous
	JPB Maine Holdings, LLC	Previous
	JPB Restaurant Concepts I, Inc.	Previous
	JPB Restaurant Concepts II, Inc.	Previous
	JPB Restaurant Concepts III, Inc.	Previous
	JPB Restaurant Concepts, IV, Inc.	Previous
	JPB Restaurant Concepts, V, Inc.	Previous
	JPB Restaurant Concepts, VI, Inc.	Previous
	JPB Restaurant Enterprises, LLC	Previous

Director	Company	Current/ Previous
J P Bolduc (continued)	JPB Rope & Cordage Enterprises, LLC	Previous
	JPBE Packaging, Inc.	Previous
	Kenny Rogers Rotisserie, Inc.	Previous
	Lockwood Greene, Inc.	Previous
	Lookout Knitwear, LLC	Previous
	Maine Poly, Inc.	Previous
	Maryland Roasters, Inc.	Previous
	Mashall & Hsley Corporation	Previous
	Millhiser, Inc.	Previous
	Moss Software, Inc.	Previous
	Russell Development, LLC	Previous
	Spectrix Corporation	Previous
	Sundstrand Corporation	Previous
	The Catterton Group, Inc.	Previous
	The Restaurant Enterprises Group, Inc.	Previous
	VSA Construction, LLC	Previous
Baroness Cohen	Borsa Italiana S.p.A.	Current
	Freshwater UK PLC	Current
	Inviso Media Holdings Limited	Current
	London Stock Exchange PLC	Current
	London Stock Exchange Group PLC	Current
	Roof Garden Restaurant Limited	Current
	The Cambridge Arts Theatre Trust Limited	Current
	BPP Holdings PLC	Previous
S A Ferriss	TRL Electronics PLC	Previous
	Santander Bancorp	Current
	Seda Cereales, S.L.	Current
	Seda Solubles, S.L.	Current
	Banco Santander Serfin SA	Previous
	Santander Central Hispano Investment Securities, Inc.	Previous
	Unión Espanola de Explosivos SA	Previous
	UEE-MSI, Inc.	Previous
A H Simon	Azelis SA	Current
	Dalkia PLC	Current
	Finning International Inc	Current
	Hildegard Simon Memorial Trust Limited	Current
	Meretec Limited	Current
	SGL Carbon AG	Current
	Travis Perkins PLC	Current
	Ascent Industries Limited	Previous
	Associated British Ports Holdings PLC	Previous
	Brake Bros Holding I Limited	Previous
	Diamant Boart	Previous
	Hampson Industries Plc	Previous
	Ibstock Pension Trust	Previous
	Kaffee Partner	Previous
	Price & Pearce Group Pension Trust Limited	Previous
	Property Internet PLC	Previous
	The British Food Trust	Previous
	Zeus Group	Previous

- 7.5 In February 2003, the Securities and Exchange Commission (“SEC”) and Mr Bolduc settled public administrative and cease-and-desist proceedings. Without admitting or denying the SEC’s findings, Mr Bolduc consented to the entry of a cease-and-desist order in which the SEC found that, between 1991 and 1995, while Mr Bolduc was president and either chief operating officer or chief executive officer of W. R. Grace & Co. (“Grace”) and a member of its board of directors, Grace fraudulently used reserves to defer income earned by a subsidiary, primarily to smooth earnings of

its health care segment, in violation of the antifraud provisions of the federal securities laws, as well as the provisions that require public companies to keep accurate books and records, maintain appropriate internal accounting controls and file accurate annual and quarterly reports. The order generally finds that Mr Bolduc, through his actions or omissions, was a cause of these violations. The order also notes that, during the period in question, Mr Bolduc did not sell any of the substantial number of Grace shares that he owned. The SEC ordered Mr Bolduc to cease and desist from committing or causing any violation or future violation of the antifraud and reporting requirements of the federal securities laws. It did not impose any fines, penalties or bars on Mr Bolduc.

- 7.6 Save as set out above, in the five years before the date of this document, the Directors:
- (i) do not have any convictions in relation to fraudulent offences;
 - (ii) have not been associated with any bankruptcies, receiverships or liquidations through acting in the capacity of a member of administrative, management or supervisory bodies or as a partner, founder or senior manager of any partnership or company; and
 - (iii) do not have any official public incrimination and/or sanctions by statutory or regulatory authorities (including designated professional bodies) and have not been disqualified by court from acting as a member of the administrative, management or supervisory bodies of any company or from acting in the management or conduct of the affairs of any company.
- 7.7 As at 19 September 2007 (being the last practicable date prior to the publication of this document) the Directors are not aware of any person who, directly or indirectly, jointly or severally, exercises or could exercise control over the Company.
- 7.8 As at 19 September 2007 (being the last practicable date prior to the publication of this document), other than the persons listed below, the Directors are not aware of any person (other than a member of the administrative, management or supervisory bodies) who is directly or indirectly interested in three per cent. or more of the issued share capital of the Company:

	<u>Current Number of Ordinary Shares</u>	<u>Percentage of Existing Ordinary Shares</u>	<u>Number of Ordinary Shares following Admission</u>	<u>Percentage of Enlarged Share Capital†</u>
Schroders PLC	26,489,930	9.62%	26,489,930	8.19%/8.05%
Barclays PLC	16,243,508	5.90%	16,243,508	5.02%/4.94%
UBS Investment Bank	14,042,513	5.10%	14,042,513	4.34%/4.27%
Legal & General Group Plc	13,674,983	4.97%	13,674,983	4.23%/4.16%

None of the Company's major holders of Ordinary Shares listed above has voting rights that are different from the other holders of Ordinary Shares.

- 7.9 As far as the Directors are aware, as at 19 September 2007 (being the last practicable date prior to the publication of this document), there are no arrangements the operation of which may at a later date result in a change of control of the Company.
- 7.10 No Director is or has been interested in any transaction which is or was unusual in its nature or conditions or significant to the business of the Group and which was effected by the Company or any of its subsidiaries during the current or immediately preceding financial year or which was effected by the Company or any of its subsidiaries during any earlier financial year and remains in any respect outstanding or unperformed.
- 7.11 There are no loans made or guarantees granted or provided by any member of the Group to or for the benefit of any Director.

8. Directors' remuneration and benefit

- 8.1 Dr Rolf Stomberg has a letter of appointment with the Company dated 26 April 2005 terminable when he resigns, is not re-appointed by shareholders following his retirement in accordance with the Articles of Association of the Company, is otherwise removed as a Director or vacates office pursuant to the provisions of the Act or the Articles of Association of the Company. His current annual fee is £100,000.

† Assuming that there is/is not a Share Consideration Adjustment resulting in the maximum upwards adjustment to the number of New Ordinary Shares.

- 8.2 Kevin Parry entered into a service contract with Alexander Proudfoot Company AG and the Company dated 29 November 1999 under which he is engaged as Chief Executive until he reaches the age of 65, subject to the right of either party giving to the other not less than 12 calendar months' notice.

Mr Parry is currently entitled to a basic annual salary of £575,000, a company car, membership of a private medical scheme, permanent health insurance, life assurance cover and pension contributions of 17.5 per cent. of his basic salary. Mr Parry participates in a performance related bonus scheme which, subject to achievement of targets set by the Remuneration Committee from time to time, may result in payment to Mr Parry of up to 200 per cent. of his basic salary.

- 8.3 Craig Smith has entered into a service contract with the Company dated 6 March 2007 under which he is engaged as Finance Director until he reaches the age of 65, subject to the right of either party giving to the other not less than six calendar months' notice. Mr Smith is currently entitled to a basic annual salary of £275,000, a company car, membership of a private medical scheme, permanent health insurance, life assurance cover and pension contributions of 17.5 per cent. of his basic salary. Mr Smith participates in a performance related bonus scheme which, subject to achievement of targets set by the Remuneration Committee from time to time, may result in payment to Mr Smith of up to 200 per cent. of his basic salary.

- 8.4 Alan Barber has a letter of appointment with the Company dated 26 April 2005, terminable when he resigns, is not re-appointed by shareholders following his retirement in accordance with the Articles of Association of the Company, is otherwise removed as a Director or vacates office pursuant to the provisions of the Act or the Articles of Association of the Company. His current annual fee is £35,000. He is also entitled to an additional £5,000 due to his role as Chairman of the Audit and Risk Committee.

- 8.5 Jean Paul Bolduc has a letter of appointment with the Company dated 12 May 2006, terminable when he resigns, is not re-appointed by shareholders following his retirement in accordance with the Articles of Association of the Company, is otherwise removed as a Director or vacates office pursuant to the provisions of the Act or the Articles of Association of the Company. His current annual fee is £35,000 and, in addition to his fee, he is entitled to US\$35,000 for his services as an introducer of business to the Group. In addition, Mr Bolduc may earn commission based on 2.5 per cent. of fees resulting from work introduced by him to the Group.

- 8.6 The services of Baroness Cohen of Pimlico, as non-executive Director, continue to be provided since her re-election at the Annual General Meeting of the Company in 2006 pursuant to the terms of a letter of appointment between Baroness Cohen and the Company dated 9 July 2003. The appointment is to last until either Baroness Cohen resigns, is not re-appointed nor deemed reappointed following retirement in accordance with the Company's Articles of Association or is otherwise removed in accordance with the Act or the Company's Articles of Association. The agreement provides for a fee per annum at a rate to be agreed at the Company's December board meeting each year. The rate for 2007 is £35,000. She is also entitled to an additional £5,000 due to her role as Senior Independent Director.

- 8.7 The services of Stephen Ferriss, as non-executive Director, are provided from 3 March 2006 under a letter of appointment between himself and the Company dated 3 March 2006 until either Mr Ferriss resigns, is not re-appointed nor deemed reappointed following retirement in accordance with the Company's Articles of Association, or is otherwise removed in accordance with the Act or the Company's Articles of Association. The agreement provides for a fee per annum at a rate to be agreed at the Company's December board meeting each year. The rate for 2007 is £35,000.

- 8.8 The services of Andrew Simon, as non-executive Director, are provided from 3 March 2006 under a letter of appointment between himself and the Company dated 3 March 2006 until either Mr Simon resigns, is not re-appointed nor deemed reappointed following retirement in accordance with the Company's Articles of Association, or is otherwise removed in accordance with the Act or the Company's Articles of Association. The agreement provides for a fee per annum at the rate to be agreed at the Company's December board meeting each year. The rate applicable for 2007 is £35,000. He is also entitled to an additional £5,000 due to his role as Chairman of the Remuneration Committee.

The remuneration of each Director for the year ended 31 December 2006 was as follows:

	Salary/Fees £	Bonus £	Deferred Bonus £	Taxable Benefits £	Pensions contributions £	Total £
Executive						
K A H Parry	550,000	343,750	—	23,058	96,250	1,013,058
Non-Executive						
R W H Stomberg	90,000	—	—	—	—	90,000
A J Barber	35,000	—	—	—	—	35,000
J P Bolduc	30,000	18,971	—	—	—	48,971
Baroness Cohen	35,000	—	—	—	—	35,000
S A Ferriss	25,000	—	—	—	—	25,000
A H Simon	27,917	—	—	—	—	27,917

Save as set out above, no other such contracts have been entered into or amended in the six months prior to the date of this document.

9. Litigation

- 9.1 There are no governmental, legal or arbitration proceedings (including any such proceedings which are pending or threatened of which the Company is aware), which during the 12 month period prior to the publication of this document may have, or have had in the recent past, significant effects on the Group's financial position or profitability.
- 9.2 There are no governmental, legal or arbitration proceedings (including any such proceedings which are pending or threatened of which the Company is aware), which during the 12 month period prior to the publication of this document may have, or have had in the recent past, significant effects on the financial position or profitability of the KSA Group.

10. Material contracts

10.1 MCG

The following contracts, not being contracts entered into in the ordinary course of business, have been entered into by the Company and its subsidiaries during the two years preceding the date of this document and are or may be material or contain any provision under which any member of the Group has any obligation or entitlement which is material to the Group as at the date of this document:

- (i) *The agreements summarised in Part 6 of this document*
- (ii) *The Ineum acquisition agreement dated 25 July 2006 between (1) the Ineum Partners, (2) Mr Manardo, (3) 3i Europartners III and 3i Coinvest III, (4) Tecnet Participations EURL and (5) MCG (as subsequently amended)*

Under the Ineum acquisition agreement, MCG agreed to purchase all of the outstanding share capital of Ineum from its shareholders in return for a total consideration of €122.2 million (£82.3 million), satisfied by the payment of €54.0 million (£35.4 million) in cash to all of the vendors and the issue of 80,388,159 new Ordinary Shares to the Ineum Partners and Mr Manardo on completion of the acquisition. Representations and warranties of a usual nature were given by the Ineum Partners.

- (iii) *The Ineum relationship agreement dated 1 September 2006 between (1) the Ineum Partners and (2) MCG*

Under the terms of the Ineum relationship agreement, MCG and the Ineum Partners agreed upon the strategic direction of the Group following the acquisition of Ineum and to certain restrictions in respect of the Ordinary Shares issued to the Ineum Partners.

Lock-up undertakings

Subject to the provisions relating to claw back and the strategic plan outlined below, (i) each Ineum Partner may dispose of up to 50 per cent. of his Ordinary Shares after the third anniversary but prior to and including the fourth anniversary of completion of the acquisition of Ineum and (ii) after the fourth anniversary of completion, all Ordinary Shares issued to the Ineum Partners will

be released from any restrictions on disposal. Apart from this, save in certain limited circumstances (including pursuant to a takeover offer or court order), each Ineum Partner agreed not to dispose of any Ordinary Shares within four years of completion of the acquisition of Ineum.

Claw back

In the event that an Ineum Partner ceases to be employed by the MCG Group (except if as a result of retirement, permanent disability or death), certain of the Ordinary Shares held by such Ineum Partner will be gifted back by the relevant Ineum Partner to MCG on the basis of (i) 75 per cent. in year one; (ii) 60 per cent. in year two; (iii) 45 per cent. in year three; and (iv) 30 per cent. in year four.

In the event that an Ineum Partner ceases to be employed by the MCG Group as a result of personal performance issues or redundancy of the occupied position, certain of the Ordinary Shares held by such Ineum Partner will be gifted back by the relevant Ineum Partner to MCG on the basis of (i) 50 per cent. in year one; (ii) 35 per cent. in year two; and (iii) 20 per cent. in years three and four.

Except where the requirement to gift back shares arises from a personal performance issue, such gifting back of Ordinary Shares will result in all remaining obligations and liabilities of the relevant Ineum Partner in relation to the Ineum acquisition agreement, the Ineum relationship agreement and the Ineum escrow agreement terminating other than with respect to certain undertakings in the Ineum acquisition agreement.

Strategic plan

MCG agreed to use its reasonable endeavours for four years from completion of the acquisition of Ineum to follow the strategy set out below in respect of the MCG Group:

MCG will seek to expand with different types of consulting and professional services to complement the existing divisions of Proudfoot Consulting (operational improvement); Parson Consulting (financial management); Ineum Consulting (industry sector led consulting). The Group does not intend to diversify into outsourcing and other consulting businesses that might create a conflict of interest or perceived conflict of interest with the existing MCG businesses. MCG will seek to reflect the broad geographic balance of the world's consulting spend. The transatlantic axis will be crucial with Europe and North America being reasonably balanced and there is a commitment to grow in Asia Pacific as that geography takes on greater world significance. MCG's objective is to deliver shareholder value over the medium term by acquisition and organic revenue and margin growth as a multidisciplinary consulting and professional services group.

Under the Ineum relationship agreement, if after extensive consultations with the Board, the representative nominated by the Ineum Partners determines (acting in good faith) that there has been a material change in the strategy, the Ineum Partners are released from their obligations under the Ineum relationship agreement and the Ordinary Shares held from time to time by the Ineum Partners will be voted as a single block by that nominated representative on behalf of all Ineum Partners in such manner as the Ineum Partners may determine.

- (iv) *The Ineum escrow agreement dated 1 September 2006 between (1) the Ineum Partners, (2) MCG and (3) JP Morgan Chase Bank, National Association*

The Ineum escrow agreement provides for the escrow agent to hold share certificates and stock transfer forms relating to the Ordinary Shares allotted to the Ineum Partners in escrow. In circumstances where MCG has a warranty claim under the Ineum acquisition agreement or a right to claw back shares under the Ineum relationship agreement, the escrow agent will release share certificates and stock transfer forms to MCG to cover the claim or as relate to the claw back (as the case may be).

- (v) *The agreement dated 18 September 2007 between (1) MCG and certain of its subsidiaries (as original borrowers), (2) MCG and certain of its subsidiaries (as original guarantors), (3) Barclays Bank PLC as agent, security agent and original issuing bank and (4) Barclays Bank PLC, HSBC Bank plc and Lloyds TSB Bank plc (as the original lenders) (the "Facilities Agreement") for a multicurrency committed term facility, comprised of a US\$50,600,000 term A facility commitment and a €37,000,000 term B facility commitment (the "Term Facility"), and a revolving credit facility, comprised of a US\$60,725,000 revolving credit facility A commitment and a €44,450,000 revolving credit facility B commitment (the "Revolving Facility")*

Unless otherwise defined in this document, and with the exception of “EBITDA”, capitalised terms used in this description of the Facilities Agreement have the same meaning as given to such terms in the Facilities Agreement.

The Term Facility is available to the Company and, on accession to the Facilities Agreement as Additional Borrowers, KSA and its subsidiaries (the “Target Group”) on the date of Completion for the funding of the Acquisition, payment of costs associated with the Acquisition, the refinancing of certain existing indebtedness of the Target Group and of the Company and its subsidiaries (the “Group”), and for the general corporate and working capital purposes of the Group.

The Revolving Facility is available for general corporate and working capital purposes of the Group. The Revolving Facility is available from the date of Completion and has a final maturity date of five years after the date of the Facilities Agreement and may be provided by way of letter of credit or an ancillary facility or an overdraft facility. A lender may agree to provide, on a bilateral basis, additional facilities such as a derivatives facility, foreign exchange facility or short term loan facility. Such facilities will reduce the amount of the Revolving Facility. The Facilities Agreement provides that subsidiaries of the Company, including KSA, may, subject to certain restrictions, become borrowers and guarantors under the Revolving Facility.

The Company is required to ensure that all Material Subsidiaries (as defined below) accede to the Facilities Agreement as guarantors within 90 days of Completion. The Company is also required to ensure that as at first utilisation, and during the life of the facilities, the aggregate EBITDA and aggregate turnover of the guarantors (in each case calculated on an unconsolidated basis and excluding all intra-group items of the guarantors) represents not less than 80 per cent. of EBITDA and consolidated turnover of the Group (excluding, until the date following 30 days after Completion, the Target Group). This covenant is relaxed in the case of legal impediment as a matter of local law. Some of the guarantees are subject to limitation language which varies depending on the jurisdiction in which the guarantor is established.

Under the Facilities Agreement, “Material Subsidiaries” is defined as the borrowers and the guarantors, and any other subsidiary of the Company, which has EBITDA calculated on an unconsolidated basis representing five per cent. or more of consolidated EBITDA of the Group, or has turnover, calculated on an unconsolidated basis, representing five per cent. or more of the turnover of the Group, calculated on a consolidated basis. Holding companies of Material Subsidiaries are deemed to be Material Subsidiaries.

Certain funds period

The Facilities Agreement will contain customary certain funds provisions to cover the Acquisition.

Security

The facilities provided under the Facilities Agreement will be secured over shares in certain French subsidiaries of MCG and will rank at least *pari passu* with all other obligations of the Company (subject to negative pledge carve-outs).

Interest rates and fees

For the Term Facility and the Revolving Facility, interest is payable at a floating rate equal to LIBOR or, in relation to advances in euro, EURIBOR plus the applicable margin and any mandatory costs. The margin is between 0.8 and 1.5 per cent. per annum, subject to a margin ratchet mechanism based on the ratio of Consolidated Total Net Borrowings to Consolidated EBITDA for the relevant period, each as defined in the Facilities Agreement. The opening margin will be 1.5 per cent. per annum. The margin ratchet is subject to both there being no Event of Default continuing, receipt by the Agent of the most recent financial statements and gearing in respect of the most recently completed relevant period being within the range specified in the margin ratchet. Default interest is also payable if an amount is not paid when due (at an additional 1.0 per cent. per annum).

The Company is required to pay a commitment fee equal to 40 per cent. of the applicable margin on the undrawn portion of the available facilities under the Facilities Agreement from the date of the Facilities Agreement. The combined facility and security agency fee is £25,000 per annum.

For letters of credit issued under the Revolving Facility, a commission is payable for the account of the lenders at a rate equal to the applicable margin for the Revolving Facility on the maximum actual and/or contingent liability outstanding under the letter of credit together with a fronting fee for the account of the bank issuing the letter of credit at the rate of 0.125 per cent. per annum on the outstanding amount which is counter-indemnified by the other lenders (if any). Pricing on ancillary facilities is determined by agreement between the relevant ancillary lenders and the borrowers of that facility based upon normal market rates and terms.

Prepayment and cancellation

In addition to scheduled repayment of principal, the facilities under the Facilities Agreement must be prepaid in whole or in part on the occurrence of certain events. If it becomes unlawful for any lender to perform its obligations under a finance document, the borrowers under the Facilities Agreements will prepay outstandings and cancel commitments to that lender, and there will be an obligation to mandatorily prepay the Facilities upon the occurrence of a Change of Control.

Standard provisions are included in relation to voluntary prepayment and voluntary cancellation.

Representations and covenants

The Facilities Agreement requires the Company (and in some cases Guarantors) to make a number of customary representations and warranties, and to comply with a number of customary general covenants and information covenants. It also requires the Company to maintain specified gearing and interest cover ratios.

Events of default

The Facilities Agreement contains customary events of default including non-payment, breach of other obligations under the finance documents, misrepresentation, cross default, insolvency events and proceedings in relation to the Parent and Material Subsidiaries, and invalidity of the finance documents.

- (vi) *The facility agreement dated 25 July 2006 between (1) MCG (as borrower), (2) MCG and certain subsidiaries (as guarantors), (3) Barclays Bank PLC as agent, security agent and original issuing bank and (4) Barclays Bank PLC (as the original lender) for a secured, multi-currency committed £30 million term and a £20 million revolving credit facility*

The arrangement fee for the loans was 1.25 per cent., the facility/security agent's fee is as agreed between the parties and the margin over LIBOR on the loans is between 0.8 per cent. and 1.5 per cent. dependent on the ratio of Total Debt to Consolidated EBITA (as such terms are defined in the agreement). The term loan is for three years with annual repayments of £6 million per annum in the first three years and the balance repayable, subject to refinancing, at final maturity. On Completion, this facility agreement will terminate.

- (vii) *The CBH merger agreement dated 5 September 2007 among (1) MCG, (2) California Merger Corp., (3) California Acquisition Subco (renamed CBH Consulting, Inc. pursuant to the merger agreement), (4) CBH, (5) the shareholders of CBH named therein and (6) Joseph Baird as the CBH Securityholder Representative*

Under the CBH merger agreement, MCG as the ultimate parent acquired CBH in a two-step merger of California Merger Corp. into CBH followed immediately by a merger of CBH into California Acquisition Subco (then renamed CBH Consulting, Inc.), and the outstanding CBH shares and options held by the securityholders of CBH were cancelled and converted into total consideration of US\$10.6 million, satisfied by the payment of approximately US\$6.3 million in cash and the issue of 4,156,054 Ordinary Shares upon the completion of the acquisition. Representations and warranties of a usual nature were given by CBH and its shareholders.

- (viii) *The CBH executive securityholders agreement dated 5 September 2007 among (1) MCG, (2) CBH Consulting, Inc. and (3) the executive securityholders named therein*

Under the CBH executive securityholders agreement, the executive securityholders agreed to certain restrictions in respect of the Ordinary Shares issued to them.

Lock-up undertakings

Subject to the provisions relating to the liquidated damages outlined below, (i) each of the executive securityholders is permitted to dispose of only up to 50 per cent. of his Ordinary Shares

after the fourth anniversary but prior to and including the fifth anniversary of completion of the merger, and (ii) after the fifth anniversary of completion of the merger, all Ordinary Shares held by each executive securityholder will be released from any restrictions on disposal.

Liquidated damages

In the event that an executive securityholder ceases to be employed by the MCG Group (except as a result of permanent disability, death, illegal termination, redundancy, termination by the Company of the executive's employment without good cause and without his agreement or resignation of the executive for good reason), such executive securityholder agrees to pay liquidated damages to CBH Consulting, Inc. equal to the value of certain Ordinary Shares held by such individual on the following basis (which can be satisfied in cash, by arranging to sell such number of Ordinary Shares as are required to satisfy the amount due, or a combination): (i) where the date of his employment ceases on or before the first anniversary of completion of the merger, 75 per cent. of the Ordinary Shares issued to him; (ii) where the date of his employment ceases after the first anniversary but on or before the second anniversary of completion of the merger, the relevant percentage is 50 per cent.; and (iii) where the date of his employment ceases after the second anniversary but on or before the third anniversary of completion of the merger, the relevant percentage is 25 per cent.

- (ix) *The CBH lock-up agreement dated 5 September 2007 among (1) MCG and (2) each shareholder of CBH that is not a party to the CBH executive securityholder agreement*

Under the CBH lock-up agreement, each shareholder is permitted to dispose of 100 per cent. of his Ordinary Shares only after the third anniversary of completion of the merger.

- (x) *The CBH escrow agreement for cash dated 5 September 2007 among (1) MCG, (2) CBH Consulting, Inc., (3) the shareholders of CBH named therein, (4) Joseph Baird as the CBH shareholder representative and (5) JPMorgan Chase Bank, National Association as the escrow agent*

The CBH escrow agreement for cash provides for the escrow agent to hold a certain amount of cash allotted to the shareholders of CBH in escrow to secure the indemnification obligations of CBH and its shareholders set forth in the CBH merger agreement. Subject to any authorised claims on such funds, the cash subject to escrow is released 18 months after completion of the merger.

- (xi) *The CBH escrow agreement for shares dated 5 September 2007 among (1) MCG, (2) CBH Consulting, Inc., (3) the executive securityholders named therein and (4) JPMorgan Chase Bank, National Association as the escrow agent*

The CBH escrow agreement for shares provides for the escrow agent to hold share certificates and stock transfer forms relating to the Ordinary Shares allotted to certain executive securityholders of CBH in order to administer the escrowed shares for the purposes of the CBH executive securityholders agreement.

There are no other contracts (not being contracts entered into in the ordinary course of business) entered into by any member of the Group under which any member of the Group has any obligation or entitlement which is material to the Group as at the date of this document.

10.2 **KSA**

The following contracts, not being contracts entered into in the ordinary course of business, have been entered into by KSA during the two years preceding the date of this document and are or may be material or contain any provision under which any member of the KSA Group has any obligation or entitlement which is material to the KSA Group as at the date of this document:

- (i) *345 California Street Office Lease between 345 California L.P. and Swander Pace & Company, Inc. dated 29 December 2000 (the "345 California Street Office Lease")*

Under the terms of the 345 California Street Office Lease, KSA's subsidiary Swander Pace & Company, Inc. ("Swander Pace") leases approximately 15,665 square feet of office space on the twenty-fifth floor of the 345 California Street building in San Francisco, California. Swander Pace has an option to lease an additional 1,756 square feet of space on the same floor of such building. The 345 California Street Office Lease is in effect until termination on 30 September 2015. Currently, the base annual rents due under the lease total US\$924,240. If Swander Pace elected to

exercise its option for additional space, the annual rent would increase by US\$103,608. In addition to the base rent, Swander Pace is required to pay the portion of the real estate taxes that pertains to its share of the building and a portion of the maintenance and upkeep associated with the building.

(ii) *Lease Agreement between G & C Property Partners, L.P. and KSA dated 26 July 1993, as amended to date (the "Peachtree Lease")*

Under the terms of the Peachtree Lease, KSA leases approximately 57,828 square feet of office space on the sixth, seventh and eight floors of The Peachtree building located at 1355 Peachtree Street, N.E., Atlanta, 30309. KSA has the option to expand the premises leased into the spaces known as Suites 610, 640, 700, 750, and 780. KSA has a continuing right of first offer and first refusal for all spaces less than 5,000 square feet which become available on the sixth and seventh floors. The Peachtree Lease is in effect until termination on 31 December 2011 and KSA has the right to renew the lease for two additional five year terms. Currently, the base annual rents due under the Peachtree Lease total US\$1,633,641. This amount increases by US\$37,588 annually. In addition to the base rent, KSA is required to pay the portion of the real estate taxes that pertains to its share of the building and a portion of the maintenance and upkeep associated with the building.

(iii) *Credit Agreement between KSA and Wachovia Bank, National Association ("Wachovia") dated as of 30 June 2000, as amended to date (the "Wachovia Credit Agreement")*

Under the terms of the Wachovia Credit Agreement, Wachovia has agreed to provide a revolving credit facility and a letter of credit commitment to KSA. The line of credit available to KSA pursuant to the agreement is US\$25 million in the aggregate, including a US\$3 million commitment to issue letters of credit. KSA may draw on the credit facility from time to time in the amount of US\$500,000 or multiples of US\$100,000 in excess thereof. All loans, plus accrued interest, are due on the termination date of 30 June 2008.

KSA is permitted to use funds borrowed under the Wachovia Credit Agreement (i) to finance the repurchase of capital stock from employees of KSA and (ii) for working capital, capital expenditures, letters of credit, acquisitions and general corporate requirements.

KSA is required to pay a commission for each letter of credit that is outstanding in a per annum amount equal to the face amount multiplied by three-fourths of one percent (0.75 per cent.). KSA is also required to pay all processing and other fees charged generally by Wachovia.

Loans made under the Wachovia Credit Agreement bear interest at the LIBOR market rate plus 1.75 per cent. In the event of default, all past due amounts bear interest at 2 per cent. in excess of the rate then applicable. KSA is required to pay an unused commitment fee of 0.25 per cent. on the available commitment.

Pursuant to a security agreement related to the credit agreement, KSA has granted to Wachovia a security interest in its accounts, monies, properties, proceeds, books and records, and all products and proceeds of the foregoing.

Certain of KSA's subsidiaries, including Kurt Salmon Associates Capital Advisors, Inc., KSA Information Technologies, Inc. and Capacity Development Group, Inc. have unconditionally guaranteed KSA's obligations under the Wachovia Credit Agreement.

There are no other contracts (not being contracts entered into in the ordinary course of business) entered into by any member of the KSA Group under which any member of the KSA Group has any obligation or entitlement which is material to the KSA Group as at the date of this document.

11. Property, plant and equipment

The Group's principal establishments are as follows:

<u>Property</u>	<u>Use</u>	<u>Tenure</u>	<u>Commencement Date</u>	<u>Expiry Date</u>	<u>Annual Rent</u>
<u>Fleet Place House</u> 2 Fleet Place Holborn Viaduct London EC4M 7RF United Kingdom	Office	Lease	6 September 2004	28 September 2015	£391,230
<u>11621 Kew Gardens Avenue</u> Suite 200 Palm Beach Gardens, Florida 33410 USA	Office	Lease	1 October 2001	30 September 2011	US\$232,727
<u>333 West Wacker Drive</u> Suite 1010 Chicago, Illinois 60606 USA	Office	Lease	1 May 2005	30 April 2014	US\$184,714
<u>260 Franklin St</u> Boston, Massachusetts USA	Office	Lease	1 July 2006	28 February 2011	US\$126,140
<u>1355 Peachtree Street NE</u> Suite 700 Atlanta Georgia 30306 USA	Office	Lease	1 March 2007	1 March 2018	US\$162,637*
<u>5th Floor Heron Tower</u> 70 East 55th Street New York City, New York USA	Office	Lease	25 May 2000	31 December 2010	US\$373,410
<u>2301 Rosecrans Avenue</u> Suite 2110 El Segundo California USA	Office	Lease	1 June 2005	31 May 2011	US\$149,625
<u>14 rue Cambacérès</u> 75008 Paris France	Office	Lease	10 February 2005	5 February 2015	€106,000
<u>157 Avenue Charles de Gaulle</u> 92521 Neuilly-sur-Seine Cedex France	Office	Lease	5 December 2005	5 December 2014	€392,704
<u>159 Avenue Charles de Gaulle</u> 92521 Neuilly-sur-Seine Cedex France	Office	Lease	5 December 2005	5 December 2014	€1,383,580

* Annual rent for second year of lease; first year is rent-free.

Other than the interests set out above the Company has no material tangible fixed assets.

To the best of the Company's knowledge as at 19 September 2007 (being the last practicable date prior to publication of this document), the Company is unaware of any environmental issues that may affect the Company's utilisation of its tangible fixed assets.

12. Employees

The average number of people employed by the Company over the last three financial years was as follows:

	Number of Employees		
	Year ended 31 December 2004	Year ended 31 December 2005	Year ended 31 December 2006
Sales and Marketing	183	201	248
Consultants	454	459	555
Support Staff	120	136	167
Total	757	796	970

13. Related party transactions

Save as disclosed in the financial information incorporated by reference as detailed in the "Information Incorporated by Reference" section of this document, there are no related party transactions entered into by MCG during the financial years ended 31 December 2004, 2005 and 2006 and during the period between 1 January 2007 and 19 September 2007 (the last practicable date prior to the publication of this document).

14. No significant change

- 14.1 There has been no significant change in the financial or trading position of the Group since 30 June 2007, the date to which the unaudited interim results of the Group were prepared.
- 14.2 There has been no significant change in the financial or trading position of the KSA Group since 31 December 2006, the date to which the KSA Group's latest audited accounts were prepared.

15. Working capital on the Company and the Enlarged Group

- 15.1 In the opinion of the Company, taking account of the Group's existing banking facilities, the Group has sufficient working capital for its present requirements, that is for at least the next twelve months from the date of this document.
- 15.2 In the opinion of the Company, the Enlarged Group has sufficient working capital available for its present requirements, that is for at least the next twelve months from the date of this document.

16. The Management Consulting Group PLC 1998 Executive Share Option Scheme and Employee Share Ownership Trusts

16.1 The Management Consulting Group PLC 1998 Executive Share Option Scheme

The Company operates the Management Consulting Group PLC 1998 Executive Share Option Scheme (in which employees and directors participate). As at the date of this document, the following funded and unfunded options are outstanding under that scheme:

Grant Date	Ordinary Shares under option	Exercise price per Ordinary Share (p)	First exercisable	Last exercisable	Consideration for total grant
September 1999	257,506	25.00	September 2002	September 2009	£64,377
March 2000	1,777,090	29.85	March 2003	March 2010	£530,461
March 2005	3,340,531	59.75	March 2008	March 2015	£1,995,967
March 2006	4,456,840	57.75	March 2009	March 2016	£2,573,825
March 2007	5,381,953	48.75	March 2010	March 2017	£2,623,702
April 2007	1,727,500	48.75	April 2010	April 2017	£842,156
April 2007	276,382	49.75	April 2010	April 2017	£137,500

Funded options over 2,792,200 Ordinary Shares have been issued for a total consideration of £1,564,595 under the 1998 Scheme. In addition, 317,790 Ordinary Shares awarded in respect of the annual bonus for the year ended 31 December 2004 vest on 31 December 2007 to senior executives if they individually remain employed by the Group as at that date. Mr Parry is interested in 214,912 of those shares.

The following paragraphs describe the operation of the Management Consulting Group PLC 1998 Executive Share Option Scheme.

(i) Operation of the 1998 Scheme

The 1998 Scheme is operated by the Board (except where decisions are required to be made by the Remuneration Committee) and enables participants in the 1998 Scheme to acquire Ordinary Shares in the Company. Options may be granted under the 1998 Scheme until 18 June 2011.

The Remuneration Committee may exercise its discretion to select employees to be granted an option under the 1998 Scheme normally within six weeks following the announcement of the Company's results in any year up to the thirteenth anniversary of 1998 Scheme's adoption. All options granted are subject to performance conditions as described below.

(ii) Eligibility

Employees and executive Directors of the Group who are required to devote substantially all their working time to the business of the Group are eligible to participate in the 1998 Scheme.

(iii) Grant of options

All eligible employees selected are granted an option over a maximum number of Ordinary Shares. The exact number to be acquired is determined by the performance conditions.

The exercise price per Ordinary Share under the option is not less than the market value per Ordinary Share, determined by the closing price from the Daily Official List of the Stock Exchange on the day prior to the date of grant.

Where an employee renounces an option that has been granted to him within 30 days of grant the option shall, for all purposes, be taken never to have been granted. Options are not transferable without the Board's specific prior consent.

(iv) Limits under the 1998 Scheme

(a) Plan Limit

The number of Ordinary Shares which may be issued pursuant to the 1998 Scheme may not exceed 12.8 per cent. of the issued ordinary share capital of MCG from time to time. Once the performance condition attaching to an option has been applied and the maximum number of Ordinary Shares (the Exercise Number) that a participant may acquire is determined (as explained below), the option is treated as being an option over the Exercise Number for the purposes of the limit. Certain options that have been issued in connection with previous transactions have been excluded from this limit with the agreement of Shareholders.

(b) Individual limit

No employee may be granted an option under the 1998 Scheme that would result in his holding options over Ordinary Shares of an aggregate value (on the dates the respective options were granted) exceeding eight times his remuneration. Options granted within the previous ten years under the 1998 Scheme and under schemes previously operated by the Company are counted towards this limit.

(v) Performance conditions and number of Ordinary Shares vesting

The 1998 Scheme grants market value options which are exercisable in two equal amounts after three years and five years respectively. For grants made after 1 January 2003, options are subject to a performance condition that compares the Total Shareholder Return (TSR) over the three year period following grant (with no ability to re-test performance in subsequent years) with the TSR of the constituents of the FTSE Mid 250 (for grants made in 2003 to 2005) or FTSE All Share Index (for grants made in 2006 and thereafter) as follows:

<u>TSR ranking compared to Index</u>	<u>Percentage of option that vests</u>
Below median	0%
At median	50%
Between median and upper quartile	50-100%(pro-rated)
Upper quartile	100%

The Remuneration Committee believes that these performance measures are appropriate as options will only vest in full following the generation of returns to Shareholders significantly ahead

of market. The TSR calculations will be undertaken by a third party to ensure independent verification of the extent to which the performance condition is met.

Under the rules of the 1998 Scheme, options over shares with an aggregate exercise consideration of up to eight times remuneration may be granted to an individual over a ten year period. However, it is the Remuneration Committee's current intention that option grants for directors will be limited to 50 per cent. of salary each year.

The Remuneration Committee reserves the right to set different performance targets for options under the 1998 Scheme.

(vi) Exercise of options

Once the performance condition has been applied and the exact number of Ordinary Shares that a participant may acquire is determined, a participant may exercise his option over one half of the vested number of Ordinary Shares. The remaining half may only be acquired after the fifth anniversary of the date of grant.

Option exercises may be satisfied by issuing (or transferring) only that number of Ordinary Shares that have a net value, at the time of the exercise of the options, equal to the net gain resulting from the exercise (that is, the amount by which the market value of the Ordinary Shares over which the optionholder is exercising his or her options exceeds the total exercise price payable for those Ordinary Shares). This feature allows the issue or transfer of a smaller number of Ordinary Shares than the number over which the options are being exercised, thereby reducing the dilutive effect of the 1998 Scheme.

Options cannot be exercised after the tenth anniversary of the date the option was granted.

(vii) Cessation of employment

If a participant ceases to be employed by the Company or a subsidiary of the Company on or after the third anniversary of the date his option was granted because of injury, ill health, disability, death, redundancy, retirement, because the company which employs him or with which he holds office leaves the Group or because the business to which his office or employment relates is transferred outside the Group, or for any other circumstances at the discretion of the Remuneration Committee, the participant may exercise his option over the balance of Ordinary Shares which would ultimately have been receivable. If a participant ceases employment within three years of his option being granted, or for reasons other than stated above, the option lapses.

(viii) Takeover

In the event of a takeover of the Company, the Remuneration Committee will allow the participant to acquire for a limited period the number of Ordinary Shares which would have been ultimately receivable based on the Company's performance to that time. At the end of such period options will lapse. Alternatively the Remuneration Committee may permit the Scheme to continue in relation to the acquiring company's shares.

Where exercisable, any subsisting option may be exercised for a period from the date that the participant is notified of the anticipated change of control to the expiry of the period ending six months from the time when the person has obtained control of MCG.

(ix) Variation of share capital

On a variation of the Company's share capital including a capitalisation or rights issue, the exercise price and the number of Ordinary Shares comprised in an option may be adjusted by the Remuneration Committee in such manner as an independent accountant confirms to be fair and reasonable.

(x) French sub-plan

A French sub-plan has been adopted that allows options over Ordinary Shares to be granted to French resident employees on modified terms, and which may allow both the employees and MCG to obtain a more beneficial tax treatment in respect of the options granted to French resident employees.

The plan and individual limits contained in the main rules of the 1998 Scheme apply to options granted under the French sub-plan. The rules of the French sub-plan prevent the exercise of vested options at a time when the aggregate holdings of the Ineum Partners following exercise would be equal to or exceed 30 per cent. of the then issued ordinary share capital of the Company.

The exercise price per Ordinary Share of an option granted pursuant to the French sub-plan will not be less than the higher of the market value per Ordinary Share, determined by reference to the middle market quotation of an Ordinary Share on the business day prior to the grant in accordance with the main rules of the 1998 Scheme, and the exercise price required pursuant to French legislation to obtain tax favourable treatment (being 80 per cent. of the average quotation prices of an Ordinary Share on the 20 trading days immediately preceding the date of grant).

(xi) Administration

The Board may amend the rules provided that no amendment may be made which would materially prejudice a participant's rights under options granted to him prior to the date of such amendment without the participant's consent. In addition, no amendment to the advantage of participants may be made to the provisions relating to eligibility, the 1998 Scheme limits, the maximum entitlement of a participant and the basis for determining a participant's entitlement without the consent of the Shareholders in general meeting (except for minor amendments to benefit the administration of the 1998 Scheme, to take account of a change in legislation or to obtain or maintain favourable tax, exchange control or regulatory treatment for participants or for a company which participates in the 1998 Scheme).

The Board may also amend the rules of the 1998 Scheme without the prior approval of the shareholders of the Company in such manner as the Board considers necessary or desirable to take into account the effect of age discrimination legislation.

The Board has also the power to amend the rules of the 1998 Scheme without the prior approval of the shareholders of the Company applicable to employees who are resident or may be subject to taxation in respect of their options outside the United Kingdom to take account of or mitigate or reduce the burden of or comply with overseas taxation, securities or exchange control laws. This power of amendment is subject to the proviso that the terms of such amended options are not overall more favourable than the terms of options granted to other employees.

(xii) Pensions

The benefits received under the 1998 Scheme are not pensionable.

(xiii) Termination

No further options will be granted under the 1998 Scheme after the thirteenth anniversary of its adoption and the Remuneration Committee may terminate it at any time but the rights of existing participants will not thereby be affected.

16.2 **Employee Share Ownership Trust**

In connection with its employees' share schemes, on 4 November 1999 the Company entered into a deed of trust ("the Trust Deed") with Proudfoot Trustees Limited which constituted the Proudfoot Employee Share Ownership Trust. The Proudfoot Employee Share Ownership Trust is an onshore trust. The beneficiaries under the Trust Deed are all employees and directors and former employees and directors of the Company or its subsidiaries and all wives, husbands, widows, widowers or children or dependent step-children under the age of 18 of such employees and directors and former employees and directors.

Group companies may provide funds to the trustee by way of gift and/or loan which will be used by the trustee in the acquisition of Ordinary Shares and in the meeting of trustees' expenses. The trustee will hold the trust property for the benefit of beneficiaries and may allocate trust property to such of the beneficiaries as they select from time to time. The trustee may purchase and/or subscribe for Ordinary Shares for the benefit of beneficiaries. The trustee may also make awards, after due consultation with the Company, under the 1998 Scheme.

The Board obtained authority from shareholders in August 2006 to establish a new employee share ownership trust to be established offshore. The class of beneficiaries of any such new trust would be the same as the class of beneficiaries under the existing Proudfoot Employee Share Ownership Trust.

17. Taxation

The following paragraphs are intended as a general guide to current UK tax legislation and H.M. Revenue & Customs (“HMRC”) practice (both of which are subject to change at any time, possibly with retrospective effect) in respect of the taxation of capital gains, the taxation of dividends paid by the Company, inheritance tax, stamp duty and stamp duty reserve tax. They relate only to persons who are beneficial owners of the Ordinary Shares. These paragraphs may not relate to certain classes of Shareholders (such as employees or directors of the Company or its affiliates, trustees, investors in close companies, insurance companies, charities, collective investment schemes, pension providers or persons who hold Ordinary Shares otherwise than as an investment). These paragraphs do not describe the circumstances in which Shareholders may benefit from an exemption or relief from taxation. All Shareholders are recommended to obtain their own taxation advice. In particular, non-UK resident Shareholders are advised to consider the potential impact of any relevant double tax agreements.

17.1 Taxation of capital gains

UK residents

A disposal of Ordinary Shares by an individual Shareholder who is resident or ordinarily resident in the UK may give rise to a chargeable gain or an allowable loss for the purposes of capital gains tax. An individual Shareholder who ceases to be resident or ordinarily resident in the UK for a period of less than five tax years and who disposes of the Ordinary Shares during that period of temporary non-residence may be liable to capital gains tax on subsequently becoming resident or ordinarily resident in the UK. In certain circumstances, taper relief may be available to reduce the amount of a chargeable gain realised on a disposal of Ordinary Shares which will be subject to capital gains tax.

A disposal of Ordinary Shares by a corporate Shareholder which is resident in the UK may give rise to a chargeable gain or an allowable loss for the purposes of corporation tax. A capital gain or loss arising to a corporate Shareholder on a disposal of Ordinary Shares will not be a chargeable gain or an allowable loss for the purposes of corporation tax if the requirements of the substantial shareholding exemption are satisfied in relation to that disposal.

Non-UK residents

An individual Shareholder that is not resident or ordinarily resident in the UK will not be liable for UK tax on capital gains realised on the disposal of his or her Ordinary Shares unless that Shareholder carries on a trade, profession or vocation in the UK through a branch or agency in the UK and the Ordinary Shares were acquired, used in or for the purposes of the branch or agency or used in or for the purposes of the trade, profession or vocation carried on by the Shareholder through the branch or agency. In these circumstances, a disposal of Ordinary Shares by the Shareholder at a time when he or she is carrying on a trade in the UK through a branch or agency in the UK may give rise to a chargeable gain or an allowable loss for the purposes of capital gains tax.

A corporate Shareholder which is not resident in the UK will not be liable for UK tax on capital gains realised on the disposal of its Ordinary Shares unless it carries on a trade in the UK through a permanent establishment in the UK and the Ordinary Shares were acquired, used in or for the purposes of the establishment or used in or for the purposes of the trade carried on by the Shareholder through the permanent establishment. In these circumstances, a disposal of Ordinary Shares by the Shareholder may give rise to a chargeable gain or an allowable loss for the purposes of corporation tax.

17.2 Taxation of dividends

The Company is not required to deduct or withhold tax at source from dividend payments it makes to either UK resident Shareholders or non-UK resident Shareholders.

UK residents

An individual Shareholder who is resident in the UK may be subject to income tax on dividends paid by the Company. An individual Shareholder who is resident in the UK will generally be entitled to a tax credit in respect of any dividend paid by the Company equal to one ninth of the amount or value of the dividend. The tax credit will be available to be set against the Shareholder's liability (if any) to income tax on the dividend or other income.

A corporate Shareholder that is resident in the UK will not normally be liable to corporation tax on dividends paid by the Company.

Non-UK residents

An individual Shareholder who is not resident in the UK will not be subject to income tax on dividends paid by the Company unless the dividends form part of the profits of a trade, profession or vocation wholly carried on by that Shareholder in the UK or, in the case of a trade, profession or vocation carried on partly in the UK and partly elsewhere, from the part of the trade, profession or vocation carried on in the UK. In these circumstances, the dividend may be subject to income tax.

A corporate Shareholder that is not resident in the UK will not be subject to corporation tax on dividends paid by the Company unless the Shareholder carries on a trade in the UK through a permanent establishment in the UK and the dividends form part of the profits of a trade carried on through or from the permanent establishment or the Ordinary Shares are used by, or held by or for, the permanent establishment.

Shareholders who are not resident in the UK will not generally be entitled to a tax credit in respect of a dividend paid by the Company and, in cases where a Shareholder is entitled to a tax credit, will not generally be entitled to claim payment of any part of the tax credit.

17.3 Inheritance tax

Inheritance tax may be payable in respect of the Ordinary Shares on the death of an individual Shareholder or on any gift of the Ordinary Shares during an individual Shareholder's lifetime which qualifies as a chargeable lifetime transfer of value.

17.4 Stamp duty and stamp duty reserve tax

No stamp duty or stamp duty reserve tax ("SDRT") will be payable on the issue of the Ordinary Shares by the Company, whether the Ordinary Shares are issued in certified form or in uncertified form through CREST.

A transfer on sale of Ordinary Shares outside of CREST will generally give rise to a liability to pay stamp duty at the rate of 0.5 per cent. of the amount or value of consideration for the Ordinary Shares (rounded up to the nearest £5.00). The transferee of the Ordinary Shares will normally be required to pay such stamp duty.

An agreement to transfer Ordinary Shares will normally give rise to a charge to SDRT at the rate of 0.5 per cent. of the amount or value of the consideration for the Ordinary Shares. However, where an instrument of transfer in respect of the Ordinary Shares is executed pursuant to the agreement and duly stamped and a claim is made to HMRC within six years of the date of the agreement (or, if the agreement was conditional, the date on which the agreement became unconditional), the liability to SDRT will be cancelled and any SDRT which has been paid will be repaid. The transferee of the Ordinary Shares will normally be liable to pay SDRT.

A transfer of Ordinary Shares within CREST will be liable to SDRT at the rate of 0.5 per cent. of the amount or value of the consideration for the Ordinary Shares rather than stamp duty. Special rules apply to agreements made by market intermediaries and to certain sale and repurchase and stock borrowing arrangements.

18. Corporate Governance

The Board is committed to the principles of good corporate governance and fully complies with the provisions of the Financial Reporting Council's Combined Code on Corporate Governance (the "Combined Code").

18.1 **Audit and Risk Committee**

The Audit and Risk Committee currently consists of Mr Alan Barber, Chairman, Baroness Cohen of Pimlico and Mr Stephen Ferriss. The Committee meets at least three times a year and is authorised to:

- (i) investigate any activity within its terms of reference;
- (ii) seek any information it requires from any Company employees (all employees are directed to cooperate with any request made by the Audit and Risk Committee); and
- (iii) obtain outside legal or independent professional advice.

The key responsibilities of the Audit and Risk Committee are to:

- (i) appoint, engage and monitor external auditors to ensure the effectiveness of the external audit process and independence of the external auditors;
- (ii) pre-approve any material permitted non-audit engagements. Regular reports are presented of fees paid to the external auditors in order to ensure that the relationship between non-audit fees and audit fees was not inappropriate;
- (iii) review the benefits and costs of any internal audit function and ensure it is adequately resourced and has appropriate standing within the Company;
- (iv) review the Company's procedures for handling allegations from whistleblowers;
- (v) review management's and any internal auditors' reports on the effectiveness of systems for internal financial control, financial reporting and risk management;
- (vi) review the register of Group risks prepared by management;
- (vii) review insurance arrangements in respect of identified risks;
- (viii) review the actions of management in relation to interim and annual financial statements;
- (ix) review the interim and full year financial statements and satisfy itself that it is appropriate for the Board to approve the financial statements; and
- (x) review any material communication between management and the auditors, including representation letters.

18.2 **Remuneration Committee**

The present membership of the Committee is Mr Andrew Simon, Chairman, Mr Alan Barber, Baroness Cohen of Pimlico and Dr Rolf Stomberg.

New Bridge Street Consultants LLP has been appointed to advise the Committee on the operation of its incentive schemes and the remuneration of executive and non-executive directors and employees.

The Committee meets at least three times a year, and its meetings may be attended by other Board members at the invitation of the Committee. The Committee is required to attend the Annual General Meeting at which the Chairman of the Committee answers shareholders' questions on remuneration.

18.3 **Nominations Committee**

The Nominations Committee currently comprises Dr Rolf Stomberg, Chairman, Mr Alan Barber, Baroness Cohen of Pimlico, Mr Kevin Parry and Mr Andrew Simon. A majority of the Nominations Committee is independent, in accordance with the recommendations of the Combined Code.

The Nominations Committee's purpose is to consider future appointments to the Board and the succession policy for key management positions. It meets at least annually and is required to make a statement in the annual report about its activities.

18.4 **Shareholder communications**

Annual General Meetings give shareholders the opportunity to communicate directly with the Board. During the year, the directors and Chairman are available to respond to enquiries from

investors. Effective communication with fund managers, institutional investors and analysts is actively pursued, encompassing issues such as performance, policy and strategy.

Announcements are made to the London Stock Exchange and the business media concerning trading and business developments to encourage wider dissemination of information. Registered shareholders receive copies of the annual report and accounts and the interim report.

18.5 Internal Control

The Company has established procedures to implement the guidance issued in The Turnbull Committee Report of 1999.

The Board has overall responsibility for internal control, while the role of management is to implement Board policies. The system of internal control is designed to manage rather than eliminate the risk of failure to achieve business objectives. Internal controls cannot provide absolute assurance against material misstatement or loss.

The process for identifying and managing internal control risks incorporates the following:

- (i) a risk register is produced by executive management, identifying key risks, the probability of those risks occurring, their impact if they do occur and the actions being taken to manage those risks to the desired level. The risk register is discussed at Board meetings on a regular basis and regular monitoring reports are presented to the Board;
- (ii) large acquisitions and capital projects require Board approval;
- (iii) an embedded culture of openness and communication between management and the Board on matters relating to risk and control;
- (iv) strong control framework, containing the following key elements:
 - organisational structure with clearly defined lines of responsibility, delegation of authority and reporting requirements
 - defined expenditure authorisation levels
 - on-site, video and teleconferencing reviews of operations, conducted by executive management throughout the year
 - financial reporting and information systems, comprising: a comprehensive annual budget which is approved by the Board; weekly reports of key operating information; cash flow and capital expenditure reporting; monthly results and forward performance indicators which are measured against the annual budget and the prior year's results. Significant variances are reviewed by the Board and the executive management and action is taken as appropriate. The forecast for the year is revised when necessary
 - centralised coordination of group tax and treasury. There is weekly cash and treasury reporting to management and periodic reporting to the Board
 - internal audits are either performed by staff or outsourced on an as-needed basis to external professional firms

18.6 Independence of external auditors

The Audit and Risk Committee considers the independence of external auditors to ensure that independence has been maintained. It is a Group policy that the auditors shall not provide services that may result in them auditing the result of their own work or that are prohibited under the US Sarbanes-Oxley Act. Regular reports are presented of fees paid to the external auditors in order to ensure that the relationship between non-audit fees and audit fees is not inappropriate.

19. Intellectual property rights

There are no patents or other intellectual property rights, licences, processes or particular contracts that are of fundamental importance to the Group's business or profitability. However, it is the Group's policy to protect its intellectual property by relying upon a combination of legislation, trade secret protection, confidentiality agreements and other contractual arrangements with its affiliates, clients, strategic partners and others in order to maintain the distinctiveness of the Company's brands that are vital to its long term success, goodwill and reputation.

20. General

- 20.1 Save in respect of the Acquisition, there are no investments being made by the Company or to be made in the future in respect of which firm commitments have been made.
- 20.2 There is no agreement, arrangement or understanding whereby the beneficial ownership of any of the New Ordinary Shares will be transferred to any other person.
- 20.3 Save as disclosed in paragraph 16 of this Part 13, there are no arrangements under which future dividends are waived or agreed to be waived.
- 20.4 The expenses of, and incidental to, the Acquisition, including registration and listing fees, printing, advertising and distribution costs, legal and accounting fees and expenses, are estimated to amount to approximately £5 million (inclusive of VAT) and are payable by the Company.
- 20.5 The financial information relating to the Company contained in this document does not constitute statutory accounts within the meaning of section 240 of the Act. The auditors of the Company for the financial years ended 31 December 2004, 31 December 2005 and 31 December 2006 were Deloitte & Touche LLP, chartered accountants and registered auditors, of Hill House, 1 Little New Street, London EC4A 3TR. Deloitte & Touche LLP has made reports under section 235 of the Act on the statutory accounts of the Company for each such period. Each report was unqualified and did not contain a statement under section 237(2) or (3) of the Act. Deloitte & Touche LLP is a member of the Institute of Chartered Accountants in England and Wales. Deloitte & Touche LLP has given and has not withdrawn its written consent to the inclusion in this document of its reports relating to the pro forma information and to its name in the form and context in which they appear.
- 20.6 The New Ordinary Shares will be created and allotted under the laws of England and Wales pursuant to the Resolutions to be proposed at the Extraordinary General Meeting and the currency of the New Ordinary Shares will be pounds Sterling.
- 20.7 The Ordinary Shares are only listed on the Official List of the UK Listing Authority.
- 20.8 The New Ordinary Shares will be issued in registered form and will be admitted to trading on the London Stock Exchange's market for listed securities under ISIN number GB0001979029.
- 20.9 The New Ordinary Shares of the Company will, and the Ordinary Shares are, also subject to the compulsory acquisition procedures set out in Part 28 of the Companies Act 2006. Under that part, where an offeror makes a takeover offer and receives valid acceptances in respect of, or acquires, more than 90 per cent. of the shares to which the offer relates, that offeror is entitled to acquire compulsorily those shares not assented to the offer.
- 20.10 Save as disclosed in paragraph 4 of this Part 13, the Company does not hold a proportion of capital in any undertakings outside of the Group.
- 20.11 Rothschild of New Court, St. Swithin's Lane, London EC4P 4DU, which is authorised and regulated in the United Kingdom by the Financial Services Authority, has given and has not withdrawn its written consent to the issue of this document with the inclusion herein of its name and references thereto in the form and context in which they are included.
- 20.12 The Company's registrar is Capita Registrars, The Registry, 34 Beckenham Road, Beckenham, Kent BR3 4TU.
- 20.13 KPMG LLP of 1 Puddle Dock, London EC4V 3PD has given and has not withdrawn its written consent to the inclusion in this document of its accountants reports in the form and context in which they appear, and has authorised the contents of those reports for the purposes of item 5.5.3 R(2)(f) of the Prospectus Rules.
- 20.14 Each of the professional advisers involved in the Acquisition and the KSA Vendors may be said to have an indirect economic material interest, which is dependent on the success of the Acquisition, by virtue of their interest in fees payable by the parties to those transactions and the consideration payable under the Agreement and Plan of Merger, respectively.

21. Documents available for inspection

Copies of the following documents may be inspected at the offices of Baker & McKenzie LLP at 100 New Bridge Street, London EC4V 6JA during usual business hours on any weekday (excluding Saturdays, Sundays and public holidays) prior to the date of Admission:

- 21.1 the memorandum and articles of association of the Company;
- 21.2 the audited and consolidated accounts of the Company and its subsidiary undertakings for the three years ended 31 December 2004, 2005, 2006 including the auditors' reports thereon;
- 21.3 the rules of the Management Consulting Group PLC 1998 Executive Share Option Scheme referred to in paragraph 16 of this Part 13;
- 21.4 the audited and consolidated accounts of KSA and its subsidiary undertakings for the years ended 31 December 2004, 2005 and 2006;
- 21.5 the Directors' service contracts referred to in paragraph 8 of Part 13 of this document;
- 21.6 the written consents referred to in paragraph 20 of this Part 13;
- 21.7 KPMG's report on KSA set out in Part 7 of this document;
- 21.8 the pro forma financial information of the Enlarged Group together with the report of Deloitte & Touche LLP thereon, set out in Parts 11 and 12 of this document;
- 21.9 this document;
- 21.10 the KSA acquisition documentation as described in Part 6 of this document; and
- 21.11 the Proxy Form.

22. Forward-looking statements

This document includes statements that are, or may be deemed to be, "forward-looking statements". These forward-looking statements can be identified by the use of forward-looking terminology, including the terms "believes", "estimates", "plans", "anticipates", "targets", "aims", "continues", "expects", "intends", "may", "will", "would" or "should", or in each case, their negative or other variations or comparable terminology. These forward-looking statements include all matters that are not historical facts. They appear in a number of places throughout this document and include statements regarding the Company's, or the Group's, intentions, beliefs or current expectations concerning, among other things, the Company's, or the Group's, results of operations, financial condition, liquidity, prospects, growth, strategies and the industries in which the Company or the Group operates. By their nature, forward-looking statements involve risk and uncertainty because they relate to future events and circumstances. A number of factors could cause actual results and developments to differ materially from those expressed or implied by the forward-looking statements including, without limitation: conditions in the markets, market position of the Company or the Group, earnings, financial position, cash flows, return on capital and operating margins, anticipated investments and capital expenditures, changing business or other market conditions and general economic conditions. These and other factors could adversely affect the outcome and financial effects of the plans and events described in this document. Forward-looking statements contained in this document based on past trends or activities should not be taken as a representation that such trends or activities will continue in the future. Save as required by law or regulation, neither MCG nor Rothschild undertakes any obligation to update or revise any forward looking statements, whether as a result of new information, future events or otherwise. Undue reliance should not be placed on forward-looking statements, which speak only as of the date of this document.

Dated 21 September 2007

DEFINITIONS

The following definitions apply throughout this document, unless the context otherwise requires:

“Act” or “Companies Act”	the Companies Act 1985 (as amended)
“Acquisition”	the proposed acquisition, by way of merger, of the entire issued share capital of KSA
“Admission”	the admission of the New Ordinary Shares to the Official List and to trading on the London Stock Exchange’s main market for listed securities becoming effective in accordance with the Listing Rules and the London Stock Exchange Admission and Disclosure Standards respectively
“Agreement and Plan of Merger”	the conditional agreement and plan of merger dated 18 September 2007 between KSA Subco Corporation, KSA Acquisition Corporation, the Stockholder Representative, KSA and MCG, further details of which are set out in Part 6 of this document
“Board” or “Directors”	the board of directors of the Company whose names appear in paragraph 1.2 of Part 13 of this document
“certificated” or “in certificated form”	an Ordinary Share which is not in uncertificated form
“Closing Price”	the closing middle market quotation of an Existing Ordinary Share as derived from the Daily Official List
“Company” or “MCG”	Management Consulting Group PLC
“Completion”	completion of the Acquisition
“CREST”	the relevant system (as defined in the CREST Regulations) in respect of which Euroclear UK & Ireland Limited is the Operator (as defined in the CREST Regulations)
“CREST Proxy Instruction”	an order for a proxy appointment or instructions made using CREST
“CREST Regulations”	the Uncertificated Securities Regulations 2001 (SI 2001/3755)
“Daily Official List”	the Daily Official List published by the London Stock Exchange
“Disclosure and Transparency Rules”	the disclosure rules and transparency rules made by the FSA under Part VI of the FSMA
“EBITDA”	earnings before interest, taxes, depreciation and amortisation
“EGM Notice”	the notice set out at the end of this document convening the EGM
“Enlarged Group”	the Group as enlarged by the Acquisition
“Enlarged Share Capital”	the issued ordinary share capital of the Company, as enlarged by the allotment and issue of the New Ordinary Shares
“Existing Ordinary Shares”	the 275,256,858 Ordinary Shares in issue as at the date of this document

“Extraordinary General Meeting” or “EGM”	the extraordinary general meeting of the Company to be held at 11.00 a.m. on 11 October 2007, notice of which is set out at the end of this document
“Form of Proxy”	the form of proxy accompanying this document for use at the EGM
“FSMA”	the Financial Services and Markets Act 2000, as amended
“FSA”	Financial Services Authority
“Group” or “MCG Group”	the Company and its subsidiary undertakings
“IFRS”	International Financial Reporting Standards
“Ineum”	Ineum Conseil et Associés S.A.
“Ineum Partners”	the holders of shares in Ineum immediately prior to its acquisition by MCG other than (i) 3i Europartners III, (ii) 3i Coinvest III, (iii) Tecnet Participations EURL and (iv) Jacques Manardo
“KSA”	Kurt Salmon Associates, Inc.
“KSA Group”	KSA and its subsidiary undertakings
“KSA Optionholders”	those individuals who hold KSA Options
“KSA Options”	subsisting options under the Kurt Salmon Associates, Inc. 2002 Stock Option and Incentive Plan
“KSA Shares”	all of the outstanding share capital and voting rights of KSA
“KSA Vendors”	the holders of the shares in KSA immediately prior to Completion
“Listing Rules”	the listing rules issued by the UK Listing Authority under section 73A of the FSMA
“London Stock Exchange”	London Stock Exchange plc
“Management Consulting Group PLC 1998 Executive Share Option Scheme” or “1998 Scheme” or “Share Option Scheme”	the Company’s existing share option scheme described in paragraph 16 of Part 13 of this document
“New Ordinary Shares”	the up to 53,643,103 new Ordinary Shares to be issued pursuant to the Acquisition
“Official List”	the Official List of the UK Listing Authority pursuant to Part VI of the FSMA
“Option Consideration”	the consideration that the KSA Optionholders will receive on completion of the Acquisition in return for the cancellation of their KSA Options comprising, in respect of approximately 60 per cent. of the KSA Options, the payment of cash equal to the amount by which the market value of the KSA Shares under the options held by the KSA Optionholders exceeds their exercise price (with any amounts of income tax, National Insurance contributions or other taxes, social security or similar charges arising in any jurisdiction in connection with

	the payment of the Option Consideration being withheld from the cash element of the Option Consideration); in respect of the other approximately 40 per cent. of the KSA Options held by KSA Optionholders, the Option Consideration will be the grant of replacement options over Ordinary Shares as described in paragraph 4 of Part 6 of this document
“Ordinary Shares”	ordinary shares of 25 pence each in the capital of the Company
“Proposals”	the Acquisition, issue of New Ordinary Shares and the matters contemplated by Resolutions 2 and 3
“Prospectus Rules”	the Prospectus Rules made by the FSA under section 84 of the FSMA, as amended from time to time
“Proxy Form”	the form of proxy accompanying this document
“Registrars” or “Capita”	Capita Registrars — a trading division of Capita IRG Plc
“Resolutions”	the resolutions to be proposed at the EGM, as set out in the EGM Notice at the end of this document
“Rothschild”	N M Rothschild & Sons Limited
“Share Consideration Adjustment”	the adjustment, pursuant to the terms of the Agreement and Plan of Merger, of up to ten per cent. up or down of the number of New Ordinary Shares to be issued to reflect whether the mid-market price of an Ordinary Share on the trading day (converted at the average US Dollar/Sterling exchange rate on such trading day into US Dollars) immediately prior to Completion is greater or less than 48.84 pence, being the average of the closing mid-market price of an Ordinary Share for the 30 trading days immediately prior to 18 September 2007 (being the date on which the Agreement and Plan of Merger was executed), converted at the average US Dollar/Sterling exchange rate for such period into US Dollars
“Share Escrow Agreement”	the share escrow agreement to be entered into prior to or on Completion between the Stockholder Representative, KSA,, MCG and JPMorgan Chase Bank, National Association, further details of which are set out in Part 6
“Shareholders”	holders of Ordinary Shares
“Sterling” or “£”	the lawful currency for the time being of the United Kingdom
“Stockholders Agreement”	the stockholders agreement to be entered into prior to or on Completion between the KSA Vendors, MCG and KSA Subco Corporation, further details of which are set out in Part 6
“uncertificated” or “in uncertificated form”	recorded on the relevant register of Ordinary Shares as being held in uncertificated form in CREST and title to which, by virtue of the CREST Regulations, may be transferred by means of CREST
“UK Listing Authority”	the FSA, in its capacity as the competent authority for the purposes of Part VI of the FSMA

“United Kingdom” or “UK”

the United Kingdom of Great Britain and Northern Ireland

“United States” or “US”

the United States of America, its territories and possessions,
any state of the United States and the District of Columbia

“US\$” or “\$”

US Dollars, the lawful currency of the United States

Save where otherwise provided, the exchange rate used to convert amounts in this document denominated in United States Dollars into amounts denominated in UK pounds Sterling is as follows:

US\$1.995 to £1 (being the rate used for the purposes of the announcement made by the Company on 19 September 2007).

INFORMATION INCORPORATED BY REFERENCE

The table below sets out the sections of those documents which are incorporated by reference into, and form part of, this document, so as to comply with the Prospectus Rules. Only the parts of these documents identified in the list below and referred to in those parts of this document listed below are incorporated into, and form part of, this document.

To the extent that any part of any information referred to below itself contains information which is incorporated by reference, such information shall not form part of this document.

<u>Information incorporated by reference</u>	<u>Document reference</u>	<u>Location of Incorporation</u>
The directors' remuneration report on pages 36 to 43; the independent auditor's report on pages 44 and 45; the consolidated primary statements (which includes the consolidated income statement, the consolidated statement of recognised income and expense, the consolidated balance sheet and the consolidated cash flow statement) on pages 47 to 50; the parent company balance sheet on page 51; the group accounting policies on pages 53 to 60; and the notes to the financial statements on pages 61 to 87 of the annual report and audited accounts of MCG for the year ended 31 December 2006.	Annual report and audited accounts of MCG for the year ended 31 December 2006.	Part 10 (Operating and Financial Review of MCG) (pages 133 to 142 inclusive of this document).
The financial review on pages 16 to 17; the report of the audit and risk committee on page 35; and the independent auditor's report on pages 44 and 45 of the annual report and audited accounts of MCG for the year ended 31 December 2006.	Annual report and audited accounts of MCG for the year ended 31 December 2006.	Part 8 (Historical Financial Information relating to MCG) (pages 82 to 123 inclusive of this document).
The Corporate Social Responsibility report (pages 25 to 28 inclusive) and the Corporate Governance report (pages 30 to 34 inclusive) of the annual report and audited accounts of MCG for the year ended 31 December 2006.	Annual report and audited accounts of MCG for the year ended 31 December 2006.	Paragraph 18 (Corporate Governance) (pages 176 to 178 inclusive) of Part 13 (Additional Information) (pages 147 to 180 inclusive of this document).
The directors' remuneration report on pages 30 to 36; the independent auditor's report on pages 37 to 38; the consolidated primary statements (which includes the group profit and loss account, group statement of total recognised gains and losses, group balance sheet and group cash flow statement) on pages 40 to 43; the parent company balance sheet on page 44; the group accounting policies on pages 46 to 50; and the notes to the financial statements on pages 51 to 81 of the annual report and audited accounts of MCG for the year ended 31 December 2005.	Annual report and audited accounts of MCG for the year ended 31 December 2005.	Part 8 (Historical Financial Information relating to MCG) (pages 82 to 123 inclusive of this document) and Part 10 (Operating and Financial Review of MCG) (pages 133 to 142 inclusive of this document).

Information incorporated by reference	Document reference	Location of Incorporation
The directors' remuneration report on pages 28 to 35; the independent auditors' report on pages 36 and 37; the consolidated primary statements (which includes the group profit and loss account, group statement of total recognised gains and losses, group balance sheet and group cash flow statement) on pages 38 to 42; the parent company balance sheet on page 43; the group accounting policies on pages 44 to 46; and the notes to the financial statements on pages 46 to 70 of the annual report and audited accounts of MCG for the year ended 31 December 2004.	Annual report and audited accounts of MCG for the year ended 31 December 2004.	Part 8 (Historical Financial Information relating to MCG) (pages 82 to 123 inclusive of this document) and Part 10 (Operating and Financial Review of MCG) (pages 133 to 142 inclusive) of this document.

NOTICE OF EXTRAORDINARY GENERAL MEETING

MANAGEMENT CONSULTING GROUP PLC

(Incorporated in England and Wales with registered number 1000608)

NOTICE IS HEREBY GIVEN that an Extraordinary General Meeting of Management Consulting Group PLC (“**the Company**”) will be held at the offices of Baker & McKenzie LLP, 100 New Bridge Street, London EC4V 6JA at 11.00 a.m. on 11 October 2007 for the purpose of considering and, if thought fit, passing the following resolutions, which will all be proposed as ordinary resolutions of the Company:

RESOLUTIONS

1. THAT the acquisition by the Company of the entire issued share capital of Kurt Salmon Associates, Inc pursuant to the agreement and plan of merger between the Company, KSA Acquisition Corporation, KSA Subco Corporation, Kurt Salmon Associates, Inc and the Stockholder Representative (as defined in such agreement and plan of merger) dated 18 September 2007 (the “**Agreement**”), and the associated and ancillary arrangements contemplated by the Agreement and/or described in the circular to the shareholders of the Company to which the Notice convening this meeting is attached (the “**Circular**”), including the Option Consideration (as such term is defined in the Circular), as described in the Circular, be and are hereby approved and that the directors of the Company (or any duly authorised committee thereof) be and they are hereby authorised to do all such things and enter into such documents as may be necessary to give effect thereto including the making of non-material variations as the directors or any such committee shall think necessary or desirable.
2. THAT conditional upon the passing of the resolution numbered 1, the authorised share capital of the Company be and is hereby increased from £125,000,000 to £175,000,000 by the creation of 200,000,000 ordinary shares of 25 pence each forming a single class with the existing ordinary shares of 25 pence each in the capital of the Company.
3. THAT, subject to and conditional upon the Agreement referred to in resolution number 1 becoming unconditional (save for the obligation to satisfy the consideration due thereunder and Admission (as defined in the Circular)) the directors be and are hereby generally and unconditionally authorised for the purposes of section 80 of the Companies Act 1985 (“**Companies Act**”), and in addition to any previously existing authority conferred upon the directors under that section, to exercise all the powers of the Company to allot relevant securities (within the meaning of section 80 of the Companies Act) in connection with the Agreement up to a maximum nominal amount of £13,410,775.75, provided that this authority shall expire at the conclusion of the Annual General Meeting of the Company to be held in 2008 (unless and to the extent that such authority is revoked or extended prior to such date) but so that the Company may before the expiry of such period make an offer or agreement which would or might require relevant securities to be allotted in connection with the Agreement after the expiry of such period and the directors may allot relevant securities pursuant to such an offer or agreement as if the authority conferred hereby had not expired.

By order of the Board

Charles Ansley

Secretary

Dated: 21 September 2007

Notes:

- (i) An explanation of the business of the meeting is given in the Circular.
- (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 close of business on 9 October 2007 shall be entitled to attend or vote at the aforesaid Extraordinary 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 close of business on 9 October 2007 shall be disregarded in determining the rights of any person to attend or vote at the meeting.

(iv) To appoint a proxy:

either,

- the proxy form, which is enclosed for this purpose, together with any authority under which it is executed (or a notarially certified copy of such authority), must be duly completed and lodged with the Registrar at the offices of Capita Registrars, The Registry, 34 Beckenham Road, Beckenham, Kent, BR3 4TU not later than 11.00 a.m. on 9 October 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 services provider(s) take(s)) such action as shall be necessary to ensure that a message is transmitted by means of the CREST system by a particular time. In this connection, CREST members and, where applicable, their CREST sponsors or voting service providers are referred, in particular, to those sections of the CREST Manual concerning practical limitations of the CREST systems and timings. The Company may treat as invalid a CREST Proxy Instruction in the circumstances set out in Regulation 35 (5)(a) of the Uncertificated Securities Regulations 2001.
- (v) Copies of the directors' service contracts will be available for inspection at the registered office during usual business hours on any weekday (Saturdays, Sundays and Public Holidays excepted) up to and including the date of the meeting and at the place of meeting for 15 minutes prior to, and during, the meeting.

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