Management Consulting Group PLC

2002

annual report and accounts

Management Consulting Group PLC

contents

corporate profile

Management Consulting Group PLC

Group consultancies

The Group comprises two consulting businesses:

- Proudfoot Consulting (which also uses the brands Czipin & Proudfoot Consulting and IMR Consulting)
- Parson Consulting

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

Heritage

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

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

Management's objective

To deliver substantial shareholder value.

Strategy

The Group will:

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

Participation

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

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

consultancy profile

Our uniqueness

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

Our focus

Our consulting offering combines three core disciplines:

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

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

How we work with clients

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

Satisfaction

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

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

Representative clients

Clients span all industries and all geographies. Representative clients include Airbus, Avaya, BP, Cadbury Schweppes, Citibank, Henkel, Kerry Foods, Lucent, MetLife, Newmont Gold, PSA Peugeot-Citröen, Porsche, RAG, Rio Tinto, Siemens, TPG, Uniq and Volkswagen.

people - productivity - profitability

Our people	Our analysts are highly trained in identifying clients' issues and quantifying the impact of those issues. Our consultants are typically former managers with practical experience who have become consultants in their 30s. We have people with backgrounds in most industries.
What we are not	Strategy consultants, IT installers, HR policy consultants, outsourcers. We know what we can do well and limit our practice to our expertise.
How we charge	Initial discussions are free and without obligation. Business reviews that analyse improvement potential are charged on a time basis. The installation is charged on a fixed-fee basis ensuring that the annualised benefit to the client is a multiple of our fees.
Our challenges to clients	If you can say that you are content with your level of profitability and productivity, you do not want us. If you believe that you can improve, you should be talking to us. With our fee structure, what have you got to lose?
Engagement snapshots	■ Improved sales performance by 33% for an industrial machines manufacturer. ■ Worked with a major vehicle manufacturer, rolled out best practice to all teams and delivered a 7% rise in weekly output, equivalent to 100,000 extra cars per year. ■ Delivered a 15% increase in productivity, as well as £25m in savings, by making changes to the supply chain. ■ Delivered 30% productivity improvement and embedded cultural change in a major retail bank's back office. ■ Reduced the development time for prototypes by 50% from 36 to 18 months, enabling a component supplier to ensure competitive advantage. ■ Saved 20% of capital expenditure by successful project management on a major oil industry construction project.
Regional head offices	Africa +27 11 706 8080 Americas +1 212 755 2550 Asia Pacific +61 2 9957 5027 Europe +44 20 7832 3600

www.proudfootconsulting.com

consultancy profile

no-conflict financial management

Our uniqueness

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

Our focus

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

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

How we work with clients

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

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

We agree preferred supplier status in respect of the services auditors are prohibited or discouraged from supplying under the Sarbanes-Oxley Act and other similar regulations and guidance.

Satisfaction

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

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

Representative clients

We have worked with over 1,000 clients, including more than one-third of the Fortune 500 companies. Among them are: Aon, Bank One, BP, Bristol-Myers Squibb, Cingular Wireless, Ford Motor Company, General Motors, HSBC, Kemper, Schlage, Shell Chemicals, and UBS.

Our people

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

What we are not

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

How we charge

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

parson consulting™

Our challenges to clients

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

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

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

Engagement snapshots

- Implemented a new general ledger system and redesigned the month-end processes to improve accuracy and efficiency of reporting.
- Reduced month-end close cycle by 40% for a $1 billion computer equipment sales and leasing company.
- Increased labour efficiency by 50% and cut resources by 75% for planning and budgeting operations of a major financial services company through process improvements and Hyperion Pillar implementation.
- After conducting a project assessment, managed Oracle 11i implementation project and achieved $48 million in savings for a speciality software company.
- Redesigned and implemented the underwriting processes for a large insurance company and rolled out the new processes to the field.
- As a no-conflict supplier provided independent support to an automotive manufacturer to ensure compliance with section 404 of the Sarbanes-Oxley Act.
- Project managed the transition of payroll outsourcing for over 50,000 employees.

Regional head offices

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

www.parsonconsulting.com

management statement

Overview

2002 marked the completion of the turnaround of MCG with the return of the Group to operating profitability. The acquisition of Parson Consulting initiated the next phase of MCG's development: the formation of a group with a number of different specialised consultancies. The operating profit was £4.5 million (2001: loss of £1.9 million after excluding the £2.0 million exceptional pension credit). Before goodwill amortisation, the operating profit increased by £7.9 million to £7.6 million (2001: loss of £0.3 million after excluding the exceptional pension credit). The operating profit was achieved against the backdrop of the weakest market place for consulting for a decade and the substantial depreciation of the US dollar against Sterling in the second half of 2002. The Group has delivered results in line with market expectations despite these two adverse external factors.

Group consultancies

The Group now comprises two consultancies: Proudfoot Consulting and Parson Consulting.

Proudfoot Consulting specialises in substantial operational improvement, ensuring that clients obtain a significant increase in profitability as a direct result of the change installed by our consultants. This is achieved through delivering higher sales, lower costs and overheads and reduced capital expenditure. Proudfoot's appeal is to performance focused senior management who recognise success is about the operational achievement of strategies and goals.

Parson Consulting specialises in financial management consultancy. It improves the accuracy, speed and efficiency of finance and operational support functions. By not undertaking auditing, Parson Consulting is free of the traditional conflicts experienced by external and internal auditors who frequently audit the work which they either advised on or carried out. Parson Consulting's appeal is to financial managers who are highly focused on contemporary standards of corporate governance and who recognise the benefits that can be obtained from quality finance and 'back office' functions.

Proudfoot Consulting

Proudfoot is the dominant consultancy in the Group, accounting for approximately 80% of the total Group turnover (on a full year basis).

Turnover grew by 29% in 2002. North America reported growth of 40% in Sterling terms despite the depreciation of the US dollar by 10% relative to Sterling during the year. Asia Pacific grew by 187% and solid growth of 15% was achieved in Europe. The small African unit reported lower turnover in 2002 but has made a strong start to 2003.

The gross margin remained little changed from prior periods at 50% because the Group continues to manage the number of its consultants in line with the amount of work being delivered.

The operating profit of the Proudfoot business was £8.3 million (2001: loss of £1.9 million after excluding exceptional pension credit). After adding back goodwill amortisation and depreciation, EBITDA was £11.7 million (2001: £0.9 million, excluding exceptional pension credit). This gives an EBITDA margin of 13% on turnover compared with our goal of a sustainable 15%.

Parson Consulting

The acquisition of Parson Consulting, then a solely US business, was completed at the end of May 2002. Our aim is to build a substantial consultancy that occupies a space in between the large accounting firms (the so-called "final 4") and the large systems houses.

In 2002, we rebranded and clarified the offering and started to make management changes that would allow us to deliver a turnaround in that business using many of the same methodologies that we have used in

management statement
(continued)

Proudfoot over the last three years. In addition, shortly after acquiring Parson Consulting, we took a strategic decision that it should offer its services on a basis that is free from potential conflicts of interest. Accordingly, we ceased to offer internal audit services which reduced revenues for 2002. We believe that this strategic decision is of sound commercial merit and reflects the developing state of US corporate governance laws and practices following the Sarbanes-Oxley Act. This legislation will, during 2003, substantially restrict the services that auditing firms can provide to their clients.

Parson Consulting contributed £14.1 million to turnover resulting in a loss of £2.7 million before goodwill amortisation. The result was adversely affected by a combination of four factors: the weakness of the US dollar, ceasing to offer internal auditing, investment in strengthening the sales process and trading under-performance. The trading under-performance is being addressed by management changes together with an in-depth review of the business model using the expertise of Proudfoot Consulting. As indicated in our January trading update, we continue to anticipate that Parson will return to monthly profitability in the second half of 2003, some three months later than we had anticipated at the time of the acquisition.

Earnings

Net finance income is little changed on the prior year at £0.4 million (2001: £0.5 million). The tax charge is also little changed at £0.6 million (2001: £0.5 million). The effective tax charge of 13% reflects the use of tax losses brought forward from prior years.

The improved overall trading performance and the low tax charge result in basic earnings per share of 2.71 pence (2001: 0.05 pence). The fully diluted earnings per share is 2.43 pence (2001: 0.04 pence) and the headline earnings per share, which adds back goodwill amortisation to the basic earnings per share, is 4.68 pence (2001: 1.41 pence).

Balance sheet

The acquisition of Parson Consulting was financed entirely out of the proceeds of an equity issue of £38.8 million, net of expenses. This accounts for the significant increase in the net assets from £20.1 million at the end of 2001 to £57.0 million at the end of 2002.

Year end cash was £21.9 million (2001:£18.9 million). Debtors remain very tightly managed and accounted for 11 days' sales at the year end (2001: 23 days). This reflects the policy of both Proudfoot and Parson of billing clients weekly.

The Group fully implemented FRS17 last year and so we show the entire deficit of the closed US defined benefit pension and post retirement plans on our balance sheet. Like most companies, we report a worsening of the deficit which increased by some £5 million during the year. The overall deficit of £17.3 million has to be made good over the remaining working lives of our deferred pensioners by a combination of market movements and cash contributions.

Dividend

After an absence from the dividend list of four years, the Board is delighted to recommend a final dividend of 0.5 pence per share which will be payable on 21 May 2003 to shareholders on the register on 22 April 2003.

The directors consider that the Group continues to have considerable growth potential and that cash resources can provide to shareholders, over the medium term, better returns by investment in consultancies than by paying substantial dividends. In particular, in current market conditions, we consider that it is prudent to hold surplus cash to allow flexibility for market opportunities as they arise. It is the Board's intention that dividend cover will remain high and that, accordingly, the dividend will rise with earnings per share. To minimise administration costs, it is the intention to pay only one dividend a year.

The Board

In recognition of the practices recommended by the Higgs review and those normally operated in the United States, we have decided that the Board should comprise a majority of non-executive directors. Executive representation will be limited to the Chief Executive and the Finance Director. Accordingly both Mr Cara and Mr George will step down from their positions as executive directors at the next AGM. In addition, Mr Mackenzie will retire from the Board having been a non-executive director for nine years.

The Board would like to thank Mr Cara and Mr George for the parts that they played in the turnaround of our business. Mr Cara will continue to pursue North American executive responsibilities within the Group. Mr George has, in full consultation with the Board, decided to pursue other opportunities. In addition, the Board would like to thank Mr Mackenzie for his services and particularly his contribution in stabilising the Group in the late 1990s.

We are currently recruiting two additional independent non-executive directors.

Prospects

The climate for consulting is more challenging than we have seen since 1991. In particular, all of the major European economies face challenges at the same time and market expectations of private sector consulting growth are flat to negative. In the US, the picture is more mixed with the financial sector suffering more than other sectors.

In addition, the continued weakness of the US dollar against Sterling reduces the Group's turnover as reported in Sterling. At the current exchange rate of 1.60 the US dollar has depreciated relative to Sterling by some 6% compared with the average rate for 2002 of 1.50. We remain of the view, however, that it is inappropriate to hedge the impact of changes in the exchange rate as the impact is solely the effect of translation and we have no need to convert US dollars into Sterling.

As indicated in our January trading update we are more cautious than six months ago in our outlook, even though the Proudfoot business has proven its ability to perform well in tough economic conditions. This caution, which applies especially to the first half of 2003, is based on the level of the order book at 31 December 2002 and the continued strength of Sterling relative to the dollar.

Nevertheless, we are pleased to report that the work won by Proudfoot Consulting in the year to date is very substantially ahead of the work delivered and is also ahead of the work won in the corresponding period of last year. This is primarily due to greater business outside the financial sector in the United States. In addition, early sales activity levels in Europe are considerably ahead of the corresponding period last year although it will be the second half before the full effects of these feed through into revenue.

As reported previously, we stabilised the Parson Consulting business in the latter part of 2002 and are now able to report that a number of forward indicators are also encouraging, notably the work being won is now in line with the work being delivered, the price of work being sold continues to increase and the number of larger opportunities is higher than at any time during our ownership. We have

management statement

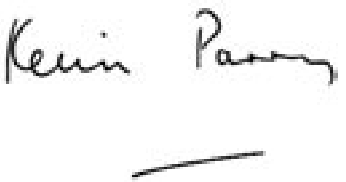
(continued)

now undertaken eight engagements as a result of the Sarbanes-Oxley legislative changes and there are approximately six times as many opportunities in the pipeline. In addition, a number of key management positions have been strengthened by the recruitment of experienced leaders from other financial management consulting businesses. We remain confident of our ability to return Parson Consulting to a monthly break-even position during the second half of the year.

Overall, mindful of the current political and economic uncertainties, we are confident that Management Consulting Group will overcome the slow start to 2003 and will for the fourth consecutive year report annual growth.

Dr Rolf Stomberg

Chairman



Kevin Parry

Chief Executive

operating and financial review

The business, its objectives and strategy

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

Key achievements during the year included:

- returning the Group to underlying profitability;
- growing the revenues of Proudfoot Consulting by 29% despite adverse market conditions in the consulting market and adverse exchange rate movements; and
- acquiring Parson Consulting as the first step in developing the Group as an umbrella organisation for a diverse range of consulting and professional service offerings.

Operating review

Performance in the year

The overall revenues of the Group grew from £72.1 million to £107.3 million, an increase of £35.2 million. Parson Consulting, acquired on 28 May 2002, contributed revenue of £14.1 million and Proudfoot Consulting revenues grew by £21.1 million.

The operating profit for the year was £4.5 million compared to a loss for the previous year of £1.9 million after excluding the prior year exceptional credit relating to the closure of the US defined benefit pension plan.

Five year summary

	2002	2001	2000	1999	1998
Turnover	£m	£m	£m	£m	£m
Continuing operations	107.3	72.1	31.7	25.3	31.5
Discontinued operations	–	–	6.2	12.0	10.0
	107.3	**72.1**	**37.9**	**37.3**	**41.5**
Operating profit/(loss) from continuing operations before exceptional items and goodwill amortisation	7.6	(0.3)	(9.5)	(3.6)	2.8
Headline earnings/(loss) per share* (pence)	4.7	1.4	(7.3)	(4.1)	4.6

* adjusted for effect of capital issue in May 2003

EBITDA for the year was £9.2 million (2001: £0.9 million after excluding exceptional pension credit). This comprises the operating profit of £4.5 million (2001: loss of £1.9 million excluding exceptional credit) plus depreciation of £1.6 million (2001: £1.2 million) and amortisation of goodwill amounting to £3.1 million (2001: £1.6 million).

The profit before taxation, comprising the operating profit together with net finance income, was £4.9 million (2001: loss £1.4 million after excluding exceptional pension credit). Net finance income of £0.4 million (2001: £0.5 million) comprises interest income on surplus funds of £1.0 million (2001: £0.6 million), less interest payable of £0.3 million (2001: nil) and the interest charge related to the closed US retirement benefit schemes of £0.3 million (2001: £0.2 million).

The Group's tax charge for 2002 was £0.6 million which comprises 13% of the profit before taxation. The tax charge takes account of tax losses carried forward in the US, UK and elsewhere.

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

Returns to shareholders

The basic earnings per share amounted to 2.71 pence compared to 0.05 pence in the prior year. After adding back goodwill, headline earnings per share increased by 232% to 4.68 pence. Fully diluted earnings per share, which takes account of the potential dilution from share options, the long term incentive plan and commitments to issue shares in connection with acquisitions, amounted to 2.43 pence compared to 0.04 pence in the prior year.

Having regard to the return to underlying profitability a final dividend of 0.5 pence per share

operating and financial review

(continued)

(2001: nil) is proposed. This dividend is covered 4.6 times by earnings. It is expected that dividend cover will remain high and that, accordingly future dividends will increase in line with earnings per share.

Resources and risks of the business and investment in the future

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

Client relationships are strengthened by regularly reviewing the performance of every engagement, in conjunction with the client, whilst the engagement is underway. This enables timely action to be taken to ensure that the client is highly satisfied with the results of each assignment. It is the objective that every client becomes a reference for potential future clients; post-engagement reviews of client satisfaction are carried out on all significant engagements. There is no significant dependence upon any individual client.

The remuneration policies of the Group are designed to retain key individuals by rewarding performance and deferring the payment of a proportion of incentives conditional upon continued employment. The performance of every employee is reviewed regularly and actions are agreed to deal with any identified performance issues. The training needs of each employee are also reviewed and tailored training programmes have been developed for each of the core functions within the Proudfoot Consulting business and are in the course of being developed for the Parson Consulting business. The recruitment needs of the businesses are reviewed weekly in light of the projected requirements of the business as indicated by the forward order book and order prospects. Standardised employment contracts are in place that take account of local laws and practices.

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

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

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

Investment for the future has continued in IT and marketing. During 2002 further enhancements have been made to the core operational and administrative IT systems. Marketing expenditure has continued to focus on building the awareness of the Proudfoot Consulting and Parson Consulting brands.

Financial review

Capital structure and treasury policies

Shareholders' funds increased by £36.9 million during the year taking account of the changes in share capital and the total gains and losses recognised during the year. The equity base was increased by £38.8 million (net of expenses) in May 2002 through an issue of new shares for cash. The cash raised was used to finance the acquisition of Parson Consulting. The total gains and losses include an actuarial loss of £7.6 million (2001: £6.1 million) relating to the closed US retirement benefit schemes.

The Group's retirement benefits liability relates to the closed US defined benefit pension scheme and to the closed US post-retirement medical benefits plan. As in the prior year, FRS 17 has been complied with fully.

The Group actively manages the potential liabilities arising from the pension scheme, regularly reviewing performance and making changes where appropriate. This resulted in a change of investment managers in 2002. In addition, qualified actuaries are consulted and they carry out regular reviews of the position.

Treasury activities are managed on a day-to-day basis by a treasurer who reports regularly to the executive directors and is subject to periodic independent reviews and audits. There are established treasury policies that are reviewed regularly to ensure that they remain relevant to our business.

The objective of the Group's treasury policies is to provide liquidity for the Group at minimum risk and minimum cost and to hedge known financial exposures. The main treasury risks faced by the Group are liquidity and exchange rate risk.

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

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

Cash flows

The net cash inflow from operating activities was £4.9 million compared with an inflow of £1.0 million in 2001.

Clients are generally billed on a weekly basis. Amounts outstanding from clients are reported to management on a weekly basis and appropriate action is taken to obtain payment of any amounts not paid within the contractual terms. Trade debtors at 31 December 2002 represented approximately 11 days' sales (2001: 23 days).

The cash balance at the year end was £21.9 million compared to £18.9 million at the prior year end. The cash will be used to fund working capital requirements and deferred cash consideration in connection with acquisitions. In addition, assuming current stock market conditions continue we anticipate contributing up to £3.0 million of cash into the closed pension fund in 2003. Deferred cash consideration payable on previous acquisitions comprises approximately £5.7 million, of which £3.7 million may at the Company's discretion be settled in shares.

Current liquidity

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

Going concern

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

Stephen Purse

Stephen Purse
Finance Director

board of directors

Chairman * # **

R W H Stomberg
Dr Rolf Stomberg, aged 63, joined the Board in September 1998. He is a non-executive director of a number of leading international companies including Scania AB, TPG Group, Reed Elsevier PLC, Cordiant Communications Group plc, Smith and Nephew plc and Stinnes AG. 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 Remuneration Committee and the Nominations Committee.

Chief Executive **

K A H Parry
Kevin Parry, aged 41, was appointed Chief Executive on 1 January 2000. A graduate in management studies from Cambridge University, he qualified as a Chartered Accountant with KPMG in 1986. He was appointed a London partner in that firm in 1994 and, on appointment as a managing partner in 1998, joined the UK firm's management team and was responsible for the Information, Communications & Entertainment practice. He left KPMG to join the Group on 31 December 1999. He is a non-executive director and chairman of the audit committee of Schroders plc.

Finance Director

S J Purse
Stephen Purse, aged 50, began working with the Group in April 2000 and was appointed as Finance Director in November 2001. A graduate in applied physics from University College London, he qualified as a chartered accountant with KPMG in 1977 and was a partner from 1987 to 1998. He was finance director of Westminster Health Care Holdings, a company listed on the London Stock Exchange, between 1998 and 2000.

Executive Director

R G Cara
Robert Cara, aged 50, was appointed Chief Operating Officer in August 1998 and has more than 20 years' experience with the Group. He was formerly Finance Director, Regional Vice-President – Finance for the Asia Pacific region and Acting General Manager for the Pacific region. He is retiring from the Board following the forthcoming Annual General Meeting.

Executive Director

P George
Paul George, aged 42, was appointed a director on 1 January 2000. He is a graduate in accountancy and financial analysis and he qualified as a Chartered Accountant in 1985. Prior to joining the Group, he was a partner at KPMG. He is retiring from the Board following the forthcoming Annual General Meeting.

Non-executive Director

J P Bolduc
J P Bolduc, aged 63, joined the Board in September 1996. Currently Chairman and CEO of JPB Enterprises, Inc., he was formerly President and CEO of WR Grace & Co. He has served three US Presidents (Nixon, Ford and Reagan) in capacities ranging from Assistant Secretary of Agriculture to COO of the President's Private Sector Survey on Cost Control (the Grace Commission). Mr Bolduc also serves on the Boards of a number of private and publicly traded corporations in the USA.

Non-executive Director

D G Jones * #
Gareth Jones, aged 54 joined the Board in August 2002. He qualified as a Chartered Accountant in 1971. He is currently a non-executive director of TBI plc, Kensington Group plc and Orbis Capital. In addition, he acts as an advisor to various private equity funds, is a member of the Economic and Social Research Council, the Accountancy Review Board and a council member of the PDSA (Britain's leading veterinary charity). Mr Jones will become Chairman of the Audit and Risk Committee following the retirement of Mr Mackenzie.

Non-executive Director

G R Mackenzie * # **
Graham Mackenzie, aged 58, joined the Board in May 1994. He is Chairman of Energy Technique plc and a director of Celsa UK (Holdings) Limited. He was formerly Chief Executive of ASW Holdings PLC, Director-General of the Engineering Employers' Federation and a director of TI Group plc. He is the Group's senior independent director and is retiring from the Board following the forthcoming Annual General Meeting.

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

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

directors' report

The directors present their annual report, incorporating their reports on corporate governance and remuneration, together with the audited financial statements for the year ended 31 December 2002. These will be laid before the shareholders at the Annual General Meeting on 15 April 2003.

Activity

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

Business review

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

Group results

The Group's profit after taxation for the year ended 31 December 2002 amounted to £4.3 million (2001: £0.1 million).

Dividend

The directors recommend the payment of a final dividend of 0.5 pence per share to be paid on 21 May 2003 to ordinary shareholders on the register on 22 April 2003 (2001: nil pence).

Directors

The names and brief biographical details of the directors who held office at 31 December 2002 are shown on the preceding two pages. In addition, Mr W.I M. Turner was a director until he retired on 16 April 2002. Mr Jones was appointed as a director on 12 August 2002. The other directors serving at 31 December 2002 held office throughout the year.

In accordance with the Company's Articles of Association, Mr Bolduc and Mr George will retire from the Board by rotation at the forthcoming Annual General Meeting. Mr Jones will also retire because he was appointed after the last Annual General Meeting. Mr Bolduc and Mr Jones, being eligible, offer themselves for re-election. Mr Bolduc and Mr Jones are non-executive directors and do not have service contracts with the Company. Mr George does not offer himself for re-election.

Mr Mackenzie and Mr Cara will retire from the Board after the forthcoming Annual General Meeting.

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

Charitable and political contributions

No charitable or political contributions were made in 2002 or 2001.

Creditor payment policy

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

Employees

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

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

Substantial share interests

As at 28 February 2003 (the latest practicable date prior to the issue of this report), the Company had been notified, in accordance with sections 198 to 208 of the Companies Act 1985, of the following interests in the ordinary share capital of the company:

	no of ordinary shares	% of issued share capital
Prudential PLC	21,122,847	11.35
Fidelity International Limited	18,324,236	9.85
UBS Global Asset Management Life Limited	9,120,302	4.90
Legal & General Investment Management Limited	5,616,883	3.02

Environmental policy

Maintaining and improving the quality of the environment in which we live is an important concern for the Group, its staff, clients, suppliers and the communities in which we operate.

By the nature of our business, we have a low impact on the environment. We are, however, adopting high standards of environmental practices and aim to minimise our impact on the environment wherever this is practical. In particular:

- we comply with, and endeavour to exceed, all laws and regulations relating to the environment; and
- we are working towards a sustainable future where possible and we encourage and foster awareness of and positive responses to environmental issues amongst our people, our clients and our suppliers.

In particular, we try to minimise travel by use of video conferencing. We also try to decrease the use of paper by use of email and energy by installing automatic lights-off systems. Recycling includes paper, drink containers and laser printer cartridges.

directors' report

(continued)

Auditors

Deloitte & Touche have expressed their willingness to continue in office as auditors of the Company. In accordance with Section 385 of the Companies Act 1985, resolutions to re-appoint Deloitte & Touche as auditors of the Company and to authorise the directors to determine their remuneration are to be proposed at the forthcoming Annual General Meeting.

Annual General Meeting

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

Item 1 proposes the adoption of the annual report and accounts for the year ended 31 December 2002.

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

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

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

Item 6 relates to the proposed re-appointment of Deloitte & Touche as auditors to the Company.

Item 7 proposes that the directors be authorised to determine the auditors' remuneration.

Item 8(a) is an ordinary resolution to renew, for a period of five years, the directors' authority to allot shares under Section 80 of the Companies Act 1985, up to a maximum of £25,000,000, which represents the nominal value of 100,000,000 ordinary shares. This amount exceeds one third of the Company's issued share capital as a result of commitments, subject to certain conditions, to issue shares in connection with options over new shares (10,953,711 shares), the Management Incentive Plan (15,000,000 shares) and acquisitions (up to approximately 12,000,000 shares). The actual number of shares to be issued in connection with the acquisitions depends, inter alia, upon the Company's share price at the time of issue and satisfaction of a number of other conditions. It could be substantially less than 12,000,000 shares, which is based upon the nominal value of 25 pence per share and full satisfaction of all other conditions.

Item 8(b) is a special resolution to renew, for a period of five years, the expiring authority held by the directors to allot certain equity securities for cash as if Section 89(1) of the Companies Act 1985 (which gives shareholders certain pre-emption rights on the issue of shares or convertible securities) did not apply to any such allotment. The resolution, if approved, permits issues by way of rights issues or similar arrangements up to a maximum nominal value of £28,470,440.75 and also issues of shares for cash limited to shares having an aggregate nominal value of £2,326,477.75, representing 9,305,911 ordinary shares, which is approximately 5% of the Company's issued share capital as at 31 December 2002.

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

Item 8(c) is a special resolution to provide the directors with the flexibility to be able to make market purchases of the Company's own shares for cancellation. The authority, if granted, would be in respect of up to 18,611,823 ordinary shares (approximately 10% of the Company's issued share capital as at 31 December 2002) and would run until 15 July 2004 or, if earlier, the conclusion of the 2004 Annual General Meeting. The price at which purchases could be made would not exceed 105% of the average of the middle market quotations for an ordinary share derived from the London Stock Exchange Daily

Official List for the five business days before each purchase and would not be lower than an ordinary share's nominal value. There is no present intention to purchase shares. The directors would only exercise the authority if an improvement in earnings per share were expected to result and if they consider that the purchase would be in the best interests of shareholders generally.

As at the date of this document, there were commitments to, subject to certain conditions, issue up to approximately 37,953,711 new ordinary shares as described in connection with item 8(a) above, representing, in aggregate, 20% of the Company's issued share capital. If the authority sought under item 8(c) were to be exercised in full, commitments to, subject to certain conditions, issue shares would represent 23% of the Company's remaining outstanding share capital.

By order of the Board

F Steven Hitchcock
Company Secretary

17 March 2003

corporate governance

The maintenance of effective corporate governance is a key priority for the Board.

In June 2000, the London Stock Exchange incorporated the Principles of Good Governance and Code of Best Practice into the Listing Rules as the Combined Code. The Board of directors has complied throughout the year with the Combined Code.

In January 2003 the report entitled 'Review of the role and effectiveness of non-executive directors' (the Higgs report) and the report entitled 'Audit committees – Combined Code guidance' (the Smith report) were published. The Board is giving due regard to these reports.

Board of directors

The Board of directors is currently comprised of four executive and four non-executive directors (including the Chairman). The roles of Chairman and Chief Executive are separated and clearly defined in writing. The non-executive directors' experience and expertise bring individual judgement to Board decisions. The Group's policy is that the majority of Board votes should be held by non-executive directors and accordingly, in the event of a tied vote, the Chairman has a casting vote. The non-executive directors are independent and free from any business or other relationship which could materially affect the exercise of their judgement, except for Mr Bolduc who, by reason of the quantum of commissions potentially payable to him for introducing work, is not considered to be independent. Fee and commission arrangements are detailed in the Directors' Remuneration Report following this report.

The Board meets regularly. Seven meetings were held during 2002 to review strategic, operational and financial matters reserved for its attention and certain other matters, including the approval of the annual and interim financial statements, significant transactions, major capital expenditures and the annual operating plan. All members of the Board are supplied, in advance of meetings, with appropriate information covering matters which are to be considered. The roles of the Board and the management are clearly defined.

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

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

* *Appointed on 12 August 2002.*

** *Retired on 16 April 2002.*

Mr Mackenzie, Mr Cara and Mr George will be retiring from the Board following the forthcoming Annual General Meeting. The Board will then comprise the non-executive Chairman, two other non-executive directors (one of whom is regarded as independent) and two executive directors. It is the intention to appoint two further independent non-executive directors in order that at least half the Board, excluding the Chairman, should comprise independent non-executive directors. Following their appointments the Board will select a replacement for Mr Mackenzie as the senior independent director. The role of the senior independent director is clearly defined.

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

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

The Board annually evaluates the performance of individual directors and the Board as a whole.

Election and re-election of directors

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

Audit and Risk Committee

The Audit and Risk Committee's membership is made up from the non-executive directors. The present membership of the Committee is:

- Mr Graham Mackenzie *(Chairman since 1995, retiring 2003)*
- Dr Rolf Stomberg *(member since 1998)*
- Mr Gareth Jones *(member since 2002, chairman elect of Audit and Risk Committee)*

Matters considered by the Committee, which has formal terms of reference, reviewed and updated with effect from 14 March 2003, include a review of the interim and full year results, risk management and internal control issues, legal and taxation matters. The Committee can meet when it chooses for private discussions with the external auditors, who attend the relevant parts of the meetings; there are at least two such discussions each year. Mr Jones will become the chairman of the Committee following the retirement of Mr Mackenzie. He is a qualified Chartered Accountant and is a member of the Accountancy Review Board. The proposed appointment of two further independent non-executive directors will enable the Committee to comprise at least three independent non-executive directors and for the Chairman of the Board not to be an Audit and Risk Committee member.

Remuneration Committee

The present membership of the Committee is:

- Dr Rolf Stomberg *(Chairman since 1998)*
- Mr Graham Mackenzie *(member since 1995, retiring 2003)*
- Mr Gareth Jones *(member since 2002)*

corporate governance
(continued)

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

Advice from both internal sources and independent external advisers is also obtained when required.

The proposed appointment of two further independent non-executive directors will enable the Remuneration Committee to comprise at least three independent non-executive directors and for the Chairman of the Board not to be a Remuneration Committee member.

Nominations Committee

The Nominations Committee is made up of three directors, two of whom are non-executive. The present membership of the Committee is:

- Dr Rolf Stomberg *(Chairman since 2000)*
- Mr Kevin Parry *(member since 2000)*
- Mr Graham Mackenzie *(member since 1998, retiring 2003)*

The Committee's purpose is to consider future appointments to the Board and succession policy for key management positions. With effect from 14 March 2003 the Nominations Committee has adopted formal terms of reference. Mr Jones will become a member of the Nominations Committee following the retirement of Mr Mackenzie. The proposed appointment of two further independent non-executive directors will enable the Nominations Committee to comprise a majority of independent non-executive directors.

Financial matters

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

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

Relations with investors and the AGM

The Annual General Meeting gives all shareholders the opportunity to communicate directly with the Board. During the year, the directors are available to respond to enquiries from investors on the Group's operations. Effective two way communication with fund managers, institutional investors and analysts is actively pursued and this encompasses issues such as performance, policy and strategy. During the year, executive directors hold discussions with all the major shareholders. Announcements are made to the London Stock Exchange and the business media concerning trading and business developments to provide wider dissemination of information. Registered shareholders are sent personal copies of both the annual report and accounts and the interim report. The Group's website **www.mcgplc.com** also contains information relevant to investors.

The notice convening the Annual General Meeting to be held on 15 April 2003 is contained on the final two pages of this annual reports and accounts.

Internal controls

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

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

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

- The Group's management operates a risk management process which identifies the key risks facing the business and reports to the Board on how those risks are being managed. This is based on a risk register produced by executive management which identifies the key risks, the probability of those risks occurring, their impact if they do occur and the actions being taken to manage those risks to the desired level. This risk register is discussed at Board meetings on a regular basis and regular monitoring reports are presented to the Board;
- Large capital projects and acquisitions require Board approval;
- There is an embedded culture of openness of communication between management and the Board on matters relating to risk and control;
- The Board has established a strong control framework within which the Group operates. This contains the following key elements:
  - *organisational structure with clearly defined lines of responsibility, delegation of authority and reporting requirements;*
  - *defined expenditure authorisation levels;*
  - *onsite, video and teleconferencing reviews of operations, covering all aspects of each business are conducted by Group executive management on a regular basis throughout the year;*
  - *the financial reporting and information systems which comprise: a comprehensive annual budget which is approved by the Board; weekly reports of key operating information; cash flow and capital expenditure reporting; monthly results and forward performance indicators which are measured against the annual budget and the prior year's results. Significant variances are reviewed by the Board and executive management and action is taken as appropriate. The forecast for the year is revised where necessary.*
  - *Group tax and treasury is coordinated centrally. There is weekly cash and treasury reporting to Group management and periodic reporting to the Board on the Group's tax and treasury position.*
- The Group does not have a full time internal audit function. However, the Board periodically reviews the need for such a function and has done so during the year. The current conclusion of the Board is that this is not cost effective given the existing scale, diversity and complexity of the Group's activities. Operational audits are, however, performed by group staff or outsourced on an as-needed basis to external professional firms.

directors' remuneration report

Introduction

This report has been prepared in accordance with the Directors' Remuneration Report Regulations 2002 which introduced new statutory requirements for the disclosure of directors' remuneration in respect of periods ending on or after 31 December 2002. The report also meets the relevant requirements of the Listing Rules of the Financial Services Authority and describes how the board has applied the Principles of Good Governance set out in the Regulations relating to directors' remuneration. As required by the Regulations, a resolution to approve the report will be proposed at the Annual General Meeting of the company at which the annual report and accounts will be approved.

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

Unaudited information

The Remuneration Committee

The present membership of the Committee, all of whom meet the pre-Higgs definition of independent non-executive directors, is:

- Dr Rolf Stomberg (Chairman);
- Graham Mackenzie; and
- Gareth Jones (who joined the Committee on 12 August 2002).

William Turner was a member of the Committee until his retirement on 16 April 2002.

The Committee reviews and determines, on behalf of the Board, the salary and benefits packages of the executive directors of the Board, the Group's remuneration policy and its pension arrangements.

In determining the directors' remuneration for the year, the Committee consulted Mr Parry (Chief Executive) about its proposals. Advice from both internal and independent external advisers is obtained when required. During 2002, material advice on directors' remuneration was provided to the Committee by New Bridge Street Consultants, who were appointed by the Committee and who also provided related technical advice on the operation of the Company's incentive schemes.

Remuneration policy

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

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

Basic salaries

The Committee's policy is to set the basic salaries of each executive director at levels which reflect their roles, experience and the practices in the employment market. The Committee has determined that there should be no increase in basic salaries for 2003.

Annual bonus scheme

In relation to 2002 each executive director was entitled to a bonus of up to 100% of his salary determined on the basis of the achievement of detailed performance criteria pre-agreed with the Remuneration Committee. It was the view of the Remuneration Committee that an executive director needed to exceed the delivery of the objectives for a bonus in excess of 50% to be awarded.

The Remuneration Committee determined that in respect of 2002, Mr Parry should receive a bonus of 56% of his salary; Mr Purse should receive a bonus of 50% of his salary; Mr Cara should receive a bonus of 43% of his salary; and Mr George should receive a bonus of 21% of his salary.

The annual bonus scheme in which executive directors are eligible to participate in 2003 comprises two elements. Under the first element, executive directors may receive an amount equal to up to 125% of basic salary, subject to the achievement of stretching individual performance criteria set in advance by the Committee. Any sums payable in relation to this first element will be payable in cash no later than three months after the end of the 2003 financial year.

Under the second element, an amount equal to up to 75% of basic salary may be earned, subject to the achievement of a sliding scale of earnings before tax targets. Two-thirds of this second element will be payable in cash three years after the end of the 2003 financial year. The remaining third will be used to acquire shares in the Company which will also be transferred to the executive director three years after the end of the 2003 financial year. However, both these deferred cash and share elements of the annual bonus will normally be forfeited if the executive director ceases employment during this three year period.

Share incentives

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

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

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

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

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

directors'
remuneration report
(continued)

The Committee believes that the above performance targets are appropriate as options will only vest in full following the generation of returns to shareholders significantly ahead of the market.

Mr Parry, Mr George and Mr Cara are the only participants in the Management Incentive Plan which requires each participant to invest £100,000 in the Company annually over a three year period amounting to £900,000 in aggregate. Each investment must be retained until the announcement of the results for each of the three years ending 31 December 2002, 2003 and 2004 respectively.

Awards under the Management Incentive Plan vest by reference to the growth in the share price above 12.33 pence which was the share price prior to the announcement of Mr Parry's and Mr George's recruitment adjusted to take account of the issue of new shares in May 2002. Each participant has three awards which vest on a straight line basis once the minimum performance has been achieved:

Period	Min growth in price pa	Max growth in price pa	Minimum no of shares	Maximum in price pa
2000-3	50.0%	100%	1,287,525	2,575,050
2000-4	37.5%	75%	643,763	1,287,525
2000-5	32.5%	65%	643,763	1,287,525

Pension arrangements

The Group contributes 17.5% of basic salary to defined contribution pension schemes of each executive director's choice. No other payments to directors are pensionable.

Other benefits

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

Service contracts

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

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

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

Director	**Date of contract**
K A H Parry	29 November 1999
P George	29 November 1999
R G Cara	31 December 1999
S J Purse	15 November 2001

External appointments

The Company recognises that executive directors may be invited to become non-executive directors of other companies and that such appointments can broaden their knowledge and experience, to the benefit of the Group. Executive directors may hold no more than two non-executive directorships and related fees may be retained by the director. There are no such fees to report in respect of 2002 (2001: £nil).

Non-executive directors-summary of entitlements

Each non-executive director receives a fee of £20,000 per annum plus £3,000 per annum for participation in each of the Remuneration and Audit and Risk Committees, except that such additional amounts are not payable to the Chairman. The Chairman receives additional fees of £60,000 per annum. Mr Bolduc additionally may earn commissions based on 2.5% of work introduced and he also earns the higher of a 1% commission on work introduced by certain members of the North American advisory board and a retainer of US$50,000. Further, a contribution to office costs of US$4,000 was made in 2002 to a company controlled by Mr Bolduc; this arrangement terminated on 31 March 2002. It has been Mr Bolduc's practice to request that any commission earned in excess of the retainer be paid to a charity.

In light of the level of commissions potentially payable to Mr Bolduc, he is not considered to be an independent non-executive director. The independent non-executive directors consider that these arrangements are appropriate for the business.

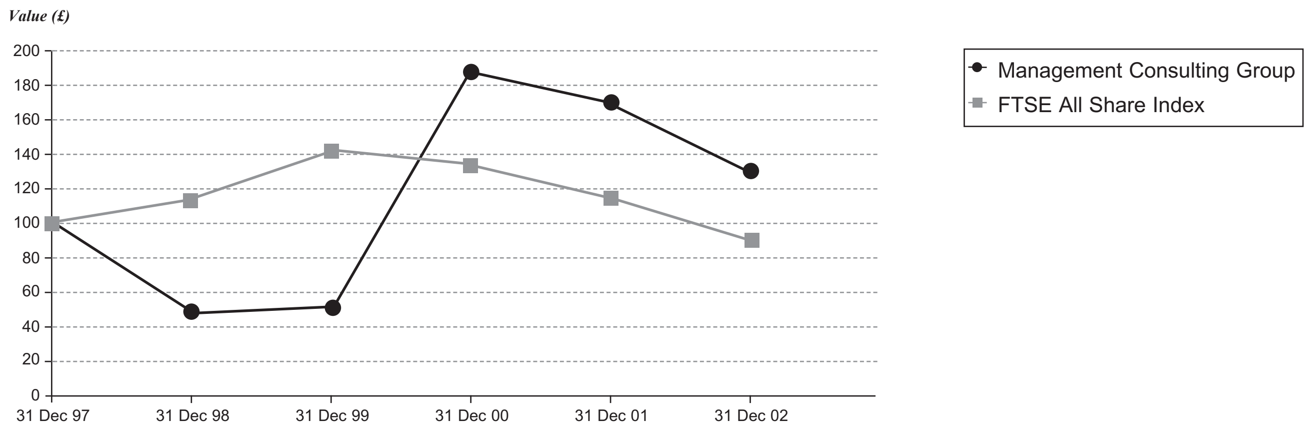
The non-executive directors are not entitled to bonuses, benefits, pension contributions or to participate in any share scheme.

None of the non-executive directors has a service contract and all are appointed for three year fixed terms.

Performance Graph

The new regulations require a company's remuneration report to contain a graph illustrating its performance compared to an appropriate "broad equity market index" over the past five years. As Management Consulting Group PLC is currently a constituent of the FTSE All-Share index that index is considered the most appropriate form of "broad equity market index" against which the Group's performance should be graphed. Performance, as required by the legislation, is measured by Total Shareholder Return (share price growth plus dividends paid).

Total shareholder return



This graph looks at the value, by the end of 2002, of £100 invested in Management Consulting Group on 31 December 1997 compared with the value of £100 invested in the FTSE All Share Index. The other points plotted are the values at financial year ends.

Source: Datastream

directors' remuneration report

(continued)

Audited information

Directors' remuneration

The emoluments of the directors who served in the year ended 31 December 2002 were:

	Salaries and fees as directors	Bonus and other*	Benefits	Pension contributions	**Total emoluments 2002**	*Salaries, fees and bonuses*	*Pension contributions*	*Total emoluments 2001*
	£	£	£	£	**£**	*£*	*£*	*£*
Executive								
K A H Parry	450,000	250,000	26,462	78,750	**805,212**	*660,405*	*73,500*	*733,905*
S J Purse	200,000	100,000	25,808	35,000	**360,808**	*28,300*	*4,375*	*32,675*
R G Cara	232,697	100,000	27,106	40,722	**400,525**	*311,756*	*37,665*	*349,421*
P George	360,000	75,000	28,061	63,000	**526,061**	*453,545*	*63,000*	*516,545*
Non-executive								
R W H Stomberg	80,000	–	–	–	**80,000**	*80,000*	–	*80,000*
W I M Turner **	10,000	–	–	–	**10,000**	*40,000*	–	*40,000*
J P Bolduc *	20,000	35,902	–	–	**55,902**	*106,375*	–	*106,375*
D G Jones ***	9,750	–	–	–	**9,750**	–	–	–
G R Mackenzie	26,000	–	–	–	**26,000**	*26,000*	–	*26,000*
	1,388,447	560,902	107,437	217,472	**2,274,258**	*1,706,381*	*178,540*	*1,884,921*

* *The amounts for executive directors are bonuses. The amount for Mr Bolduc includes commission, the retainer and the contribution to office costs.*

** *Ceased to be a director during 2002.*

*** *Appointed a director during 2002.*

Mr Cara was a participant in the US defined benefit pension scheme which was closed to future benefit accruals with effect from 31 December 2001. Like all the other executive directors, Mr Cara's pension contributions are now made into defined contribution schemes. His pension benefits under the defined benefit scheme are based on his years of service with the Group, his age and the average of his highest five consecutive years of earnings with the Group. As at 31 December 2002, his accrued pension was $99,006 (2001:$99,006). Under the terms of the scheme, it is not possible for Mr Cara to transfer the value of his accrued pension out of the scheme. The accrued pension represents the pension which would be paid annually from the US Pension Fund on retirement at age 65 based on service to 31 December 2002. Under the terms of the scheme Mr Cara may take early retirement from the age of 55. His annual pension would then be at a reduced level. There are neither guaranteed nor discretionary increases to pension benefits after retirement.

Interests in shares

The beneficial interests of the directors in office at 31 December 2002 in the ordinary share capital of the Company were as follows:

	14 March 2003	*31 December 2002*	*31 December 2001*
Executive			
K A H Parry	**454,827**	454,827	*454,827*
S J Purse	**165,620**	165,620	*147,218*
R G Cara	**506,858**	506,858	*370,804*
P George	**429,827**	429,827	*429,827*
Non-executive			
R W H Stomberg	**600,000**	600,000	*600,000*
J P Bolduc	**800,000**	800,000	*800,000*
D G Jones	**50,000**	50,000	–*
G R Mackenzie	**150,000**	150,000	*116,666*

* *At date of appointment*

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

Director	At 1 Jan 2002*	Exercised during year	At 31 Dec 2002	Exercise price (in pence)	Date from which exercisable	Expiration date
K A H Parry	2,027,079	–	2,027,079	29.85	23 Mar 2003	23 Mar 2010
S J Purse	41,201	–	41,201	68.20	19 Mar 2004	17 Mar 2011
	1,030,025	–	1,030,025	51.21	15 Nov 2004	14 Nov 2011
R G Cara**	25,751	–	25,751	70.87	11 May 1997	11 May 2004
	461,346	(300,000)	161,346	29.13	29 Mar 1999	29 Mar 2006
	103,002	(100,000)	3,002	25.00	2 Jan 2000	2 Jan 2007
P George	1,824,371	–	1,824,371	29.85	23 Mar 2003	23 Mar 2010

* *Adjusted to reflect the capital issue in 2002 as described below.*

** *10,667 options with an exercise price of 90 pence in which R G Cara had an interest lapsed on 8 December 2002.*

No other director held share options at 31 December 2002.

All the above options were adjusted to take account of the issue of new shares in May 2002 as follows: the number of shares to which such options relate was increased by 3.002%, with the exercise price of such options divided by 1.03002. In relation to options with an exercise price of 25p, the number of shares to which such options relate was increased by 3.002%, but the exercise price was unchanged.

directors' remuneration report

(continued)

Mr Cara's options are under the Closed Schemes which do not have performance conditions. All other directors' options are under the 1998 Scheme and may not be exercised unless the Group's three year average annualised percentage growth in fully diluted earnings per share (excluding goodwill amortisation, certain exceptional items and share scheme charges) at least equals the average annualised growth in the Retail Price Index plus 5 percentage points; and the average annualised share price growth over that period at least equals the average annualised growth in the FTSE Small Cap Index (excluding investment companies). If those two hurdles are passed, options vest as follows:

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

The market price of a share in the Company on 4 September 2002 when Mr Cara exercised 400,000 options was 73.5 pence leading to a gain of £181,600. Mr Cara sold 263,946 shares to fund the exercise of the options and the income tax on the related gain and he retained 136,054 shares. No other share options were exercised by executive directors in 2002.

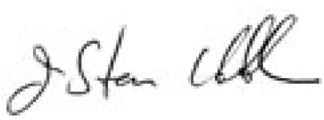
The market price of a share in the Company at 31 December 2002 was 51.25 pence and the range during 2002 was 49.25 pence to 78.25 pence.

The interests of the directors in shares pursuant to their participation in the Management Investment Plan are set out below as adjusted to take account of the issue of new shares in May 2002:

Director	Interests as at 1 January and 31 December 2002	Vesting dates of outstanding awards
K A H Parry	5,150,100	2003 - 2005
R G Cara	5,150,100	2003 - 2005
P George	5,150,100	2003 - 2005

Approval

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



F Steven Hitchcock

Company Secretary

17 March 2003

independent
auditors’ report

To the members of Management Consulting Group PLC

We have audited the financial statements of Management Consulting Group PLC for the year ended 31 December 2002 which comprise the consolidated profit and loss account, the balance sheets, the consolidated cash flow statement, the statement of total recognised gains and losses and the related notes 1 to 30. These financial statements have been prepared under the accounting policies set out therein. We have also audited the information in the part of the Directors’ Remuneration Report that is described as having been audited.

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

Respective responsibilities of directors and auditors

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

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

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

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

Basis of audit opinion

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

independent auditors' report

(continued)

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

Opinion

In our opinion:

- the financial statements give a true and fair view of the state of affairs of the Company and the Group as at 31 December 2002 and of the profit of the Group for the year then ended; and
- the financial statements and part of the Directors' Remuneration Report described as having been audited have been properly prepared in accordance with the Companies Act 1985.

Deloitte & Touche
Chartered Accountants and Registered Auditors
London
17 March 2003

Neither an audit nor a review provides assurance on the maintenance and integrity of the website, including controls used to achieve this, and in particular whether any changes may have occurred to the financial information since first published. These matters are the responsibility of the directors but no control procedures can provide absolute assurance in this area.

Legislation in the United Kingdom governing the preparation and dissemination of financial information differs from legislation in other jurisdictions.

directors' responsibility statement

In respect of the preparation of the financial statements

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

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

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

group profit and loss account

year ended 31 December	note	2002 £'000	*2001 £'000*
Turnover			
Continuing operations		**93,229**	*72,122*
Acquisitions		**14,067**	*–*
Total turnover	3, 4	**107,296**	*72,122*
Cost of sales		**(53,710)**	*(35,917)*
Gross profit		**53,586**	*36,205*
Selling costs		**(29,189)**	*(20,942)*
Administrative expenses			
Excluding goodwill amortisation and exceptional credit		**(16,787)**	*(15,521)*
Goodwill amortisation		**(3,107)**	*(1,629)*
Exceptional credit related to pension scheme	29	**–**	*2,036*
Total administrative expenses		**(19,894)**	*(15,114)*
Operating profit:			
Before goodwill amortisation		**7,610**	*1,778*
After goodwill amortisation			
Continuing operations		**8,347**	*149*
Acquisitions		**(3,844)**	*–*
Total operating profit and profit on ordinary activities before finance income	3, 4	**4,503**	*149*
Finance income (net)	8	**395**	*457*
Profit on ordinary activities before taxation	3, 5	**4,898**	*606*
Tax on profit on ordinary activities	9	**(636)**	*(548)*
Profit on ordinary activities after taxation		**4,262**	*58*
Equity dividends proposed	10	**(930)**	*–*
Retained profit for the financial year		**3,332**	*58*
Earnings per share	11		
Basic		*2.71p*	*0.05p*
Diluted		*2.43p*	*0.04p*
Headline		*4.68p*	*1.41p*

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

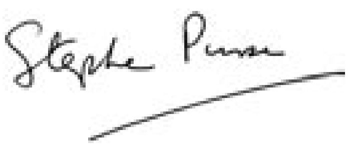
group statement of total recognised gains and losses

year ended 31 December	note	**2002**	*2001*
		£'000	*£'000*
Profit for the financial year		**4,262**	*58*
Actuarial loss relating to retirement benefit schemes	29	**(7,605)**	*(6,111)*
Currency translation differences on foreign currency net investments		**(453)**	*(1,711)*
Total recognised gains and losses relating to the year		**(3,796)**	*(7,764)*

group balance sheet

as at 31 December	note	£'000	2002 £'000	*£'000*	*2001* *£'000*
Fixed assets					
Intangible assets	12		**73,600**		*35,761*
Tangible assets	13		**2,471**		*2,595*
Investments	14		**970**		*970*
Total fixed assets			**77,041**		*39,326*
Current assets					
Debtors	15	**8,256**		*10,228*	
Cash at bank and in hand and deposits	24	**21,928**		*18,927*	
		30,184		*29,155*	
Creditors: amounts falling due within one year	16	**(25,265)**		*(28,749)*	
Net current assets			**4,919**		*406*
Total assets less current liabilities			**81,960**		*39,732*
Creditors: amounts falling due after more than one year	17		**(4,971)**		*(4,412)*
Provisions for liabilities and charges	18		**(2,704)**		*(3,056)*
Net assets excluding retirement benefits liability			**74,285**		*32,264*
Retirement benefits liability	29		**(17,290)**		*(12,212)*
Net assets including retirement benefits liability			**56,995**		*20,052*
Capital and reserves					
Called up share capital	19		**46,530**		*30,488*
Share premium account	20		**37,978**		*14,173*
Shares to be issued	20		**9,427**		*9,238*
Other reserves	20		**(423)**		*(1,603)*
Profit and loss account	21		**(36,517)**		*(32,244)*
Shareholders' funds – equity	22		**56,995**		*20,052*

These financial statements were approved by the Board of Directors on 17 March 2003 and signed on its behalf by:



Stephen Purse
Director

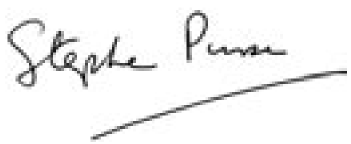
group cash flow statement

year ended 31 December	note	£'000	2002 £'000	£'000	2001 £'000
Net cash inflow from operating activities	23		**4,884**		*1,016*
Returns on investments and servicing of finance					
Interest received		**958**		*667*	
Interest paid		**(86)**		*–*	
Net cash inflow from returns on investments and servicing of finance			**872**		*667*
Taxation			**(2,093)**		*(875)*
Capital expenditure and financial investment					
Purchase of tangible fixed assets		**(1,116)**		*(1,525)*	
Disposal of investments		**–**		*715*	
Net cash outflow from capital expenditure and financial investment			**(1,116)**		*(810)*
Acquisitions and disposals					
Payments to acquire subsidiary undertakings	26	**(37,633)**		*(2,811)*	
(Debt) / cash acquired with subsidiary	26	**(691)**		*846*	
Net cash outflow from acquisitions and disposals			**(38,324)**		*(1,965)*
Cash outflow before use of liquid resources and financing			**(35,777)**		*(1,967)*
Management of liquid resources					
Cash withdrawn from liquid resources		**2,475**		*–*	
Net cash inflow from management of liquid resources			**2,475**		*–*
Financing					
Net proceeds from issue of ordinary shares		**39,022**		*1,117*	
Net cash inflow from financing			**39,022**		*1,117*
Increase / (decrease) in cash in the year	24, 25		**5,720**		*(850)*

company balance sheet

as at 31 December	note	£'000	2002 £'000	*£'000*	*2001 £'000*
Fixed assets					
Tangible assets	13		**136**		*163*
Investments	14		**74,448**		*36,202*
Total fixed assets			**74,584**		*36,365*
Current assets					
Debtors	15	**75,230**		*82,831*	
Cash at bank and in hand		**7,077**		*250*	
		82,307		*83,081*	
Creditors: amounts falling due within one year	16	**(9,596)**		*(6,295)*	
Net current assets			**72,711**		*76,786*
Total assets less current liabilities			**147,295**		*113,151*
Creditors: amounts falling due after more than one year	17		**(906)**		*(1,735)*
Net assets			**146,389**		*111,416*
Capital and reserves					
Called up share capital	19		**46,530**		*30,488*
Share premium account	20		**37,978**		*14,173*
Shares to be issued	20		**9,427**		*9,238*
Capital redemption reserve	20		**1,186**		*1,186*
Profit and loss account	21		**51,268**		*56,331*
Shareholders' funds - equity	22		**146,389**		*111,416*

These financial statements were approved by the Board of Directors on 17 March 2003 and signed on its behalf by:



Stephen Purse
Director

notes to the
financial statements

(Forming an integral part of the financial statements)

1. Principal accounting policies

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

(a) Basis of accounting

The financial statements have been prepared under the historical cost accounting rules and in accordance with applicable accounting standards.

(b) Basis of consolidation

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

(c) Goodwill

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

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

(d) Turnover

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

(e) Depreciation

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

(f) Foreign exchange

Company

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

Group

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

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

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

(g) Investments

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

(h) Taxation

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

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

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

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

A net deferred tax asset is regarded as recoverable and therefore recognised only when, on the basis of all available evidence, it can be regarded as more likely than not that there will be suitable taxable profits from which the future reversal of the underlying timing differences can be deducted.

(i) Retirement benefits

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

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

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

1. Principal accounting policies (continued)

(j) Operating leases

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

(k) Share schemes

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

2. Profit and loss account

In accordance with Section 230 of the Companies Act 1985, the Company has not presented its own profit and loss account. The consolidated profit for the financial year includes a loss of £4,133,000 (2001: loss of £1,688,000) dealt with in the financial statements of the Company.

3. Segmental information

(a) Turnover

The analysis of turnover by geographical origin is as follows:

Continuing operations	2002 £'000	2001 £'000
North America	**66,186**	*37,243*
Europe	**34,634**	*30,040*
Africa	**2,188**	*3,347*
Asia Pacific	**4,288**	*1,492*
	107,296	*72,122*

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

(b) Profit on ordinary activities before taxation

The analysis of the profit by geographical region is as follows:

Continuing operations	2002 £'000	2001 £'000
North America	**8,645**	*4,806*
Europe	**(3,479)**	*(3,490)*
Africa	**(947)**	*(55)*
Asia Pacific	**284**	*(1,112)*
Total operating profit	**4,503**	*149*
Finance income (net)	**395**	*457*
Profit on ordinary activities before taxation	**4,898**	*606*

Management consultancy is the Group's sole business segment.

(c) Net assets / (liabilities)

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

	2002 £'000	2001 £'000
North America	**10,903**	*(18,522)*
Europe	**27,429**	*22,680*
Africa	**(360)**	*(366)*
Asia Pacific	**(600)**	*(123)*
	37,372	*3,669*
Net funds	**21,928**	*18,927*
Unallocated net liabilities	**(2,305)**	*(2,544)*
Total net assets	**56,995**	*20,052*

4. Acquisitions

The figures for continuing operations in 2002 include the following amounts related to acquisitions: turnover £14.1 million; cost of sales £8.9 million; selling costs £4.1 million; administrative expenses £4.9 million (including goodwill amortisation of £1.1 million) and operating loss £3.8 million.

5. Profit on ordinary activities before taxation

Profit on ordinary activities before taxation is stated after charging the following:

	2002 £'000	2001 £'000
Depreciation and other amounts written off tangible fixed assets	**1,639**	*1,171*
Goodwill amortisation	**3,107**	*1,629*
Auditors' remuneration:		
Group audit fees	**240**	*215*
Company audit fees	**25**	*25*
Other services – UK	**281**	*53**
– Overseas	**21**	*14*
Rentals payable under operating leases:		
Hire of plant and machinery	**112**	*84*
Other - principally properties	**1,661**	*969*

* *In addition, during the year ended 31 December 2001, and prior to their appointment as auditors, Deloitte & Touche were paid £276,000 for services related to acquisitions.*

6. Directors

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

7. Staff numbers and costs

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

	2002	2001
Sales and Marketing	**157**	*119*
Consultants	**449**	*270*
Support staff	**138**	*101*
	744	*490*

The aggregate payroll costs of these persons were as follows:

	2002	2001
	£'000	*£'000*
Wages and salaries	**53,529**	*34,938*
Social security costs	**6,227**	*4,050*
Other pension costs – 2001 includes exceptional credit of £2,036,000 (note 29(a))	**849**	*(821)*
	60,605	*38,167*

8. Finance income (net)

	2002	2001
	£'000	*£'000*
Interest receivable and similar income	**980**	*634*
Interest payable and similar charges	**(249)**	–
Other finance charges (note 29(b))	**(336)**	*(177)*
	395	*457*

9. Tax on profit on ordinary activities

The tax charge comprises:

		2002		2001
	£'000	**£'000**	*£'000*	*£'000*
Current tax				
UK corporation tax at 30% (2001: 30%) based on profit for the year		**14**		*30*
Adjustment in respect of prior years	**58**		–	
Double tax relief	**(14)**		*(30)*	
		44		*(30)*
		58		–
Foreign tax for year	**140**		*548*	
Adjustment in respect of prior years	**342**		–	
		482		*548*
Total current tax		**540**		548
Deferred tax		**96**		–
Total tax on profit on ordinary activities		**636**		*548*

Factors affecting tax charge for the current period

The average applicable rate of tax on the Group's profit on ordinary activities (weighted in proportion to accounting profits) is currently approximately 38% (2001: 35%). The tax charge for the current year is less than the average rate for the reasons set out in the following reconciliation:

	2002 £'000	2001 £'000
Profit on ordinary activities before taxation	**4,898**	*606*
Tax on profit on ordinary activities at the average rate applicable across the Group of 38% (2001: 35%)	**1,861**	*212*
Factors affecting charge in the period:		
Utilisation of unprovided tax losses	**(8,948)**	*(4,014)*
Unrelieved losses in UK and foreign Group companies not provided for	**7,145**	*4,235*
Adjustments in respect of prior years	**400**	–
Other, including permanent differences, minimum taxes payable and unrelieved foreign withholding tax	**82**	*115*
Group current tax charge for year	**540**	*548*

Factors that may affect the future tax charge

A deferred tax asset has not been recognised in respect of unrelieved losses of up to £15 million as there is insufficient evidence that the asset will be able to be recovered in the near term.

On the same basis, no deferred tax asset is recognised in respect of surplus Advance Corporation Tax totalling £3.2 million, or a potential deferred tax asset totalling £6.6 million in respect of the retirement benefit liability.

10. Equity dividends proposed

	2002 £000	2001 £000
Equity shares		
Proposed final dividend of 0.5p (2001: nil)	**930**	–

The directors recommend the payment of a final dividend of 0.5 pence to be paid on 21 May 2003 to ordinary shareholders on the register on 22 April 2003.

11. Earnings per share

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

For diluted earnings per share, the weighted average number of Ordinary Shares in issue is adjusted to assume conversion of all potentially dilutive Ordinary Shares. The Group's dilutive instruments are share options granted to employees where the exercise price is less than the average market price during the year, shares potentially to be issued to executive directors under a long-term incentive plan and shares to be issued as deferred consideration in respect of acquisitions.

The average market price of Ordinary Shares for the year ended 31 December 2002 was 67.8 pence (31 December 2001: 62.0 pence).

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

The prior year earnings per share have been adjusted for the effect of the issue of new shares at a discount to the market price in connection with the acquisition in May 2002 of Parson Consulting.

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

	2002			*2001*		
	Earnings £'000	**Weighted average number of shares (million)**	**Earnings per share amount (pence)**	*Earnings £'000*	*Weighted average number of shares (million)*	*Earnings per share amount (pence)*
Basic earnings per share						
Profit attributable to shareholders	**4,262**	**157.3**	**2.71**	*58*	*119.4*	*0.05*
Effect of dilutive securities						
Options	–	**3.6**	**(0.06)**	–	*3.4*	–
Long-term incentive plan	–	**8.5**	**(0.13)**	–	*10.1*	*(0.01)*
Deferred consideration shares	–	**6.1**	**(0.09)**	–	*3.2*	–
Fully diluted earnings per share	**4,262**	**175.5**	**2.43**	*58*	*136.1*	*0.04*
Basic earnings per share	**4,262**	**157.3**	**2.71**	*58*	*119.4*	*0.05*
Goodwill amortisation	**3,107**	**–**	**1.97**	*1,629*	–	*1.36*
Headline earnings per share	**7,369**	**157.3**	**4.68**	*1,687*	*119.4*	*1.41*

12. Intangible fixed assets

Goodwill	The Group £'000
Cost	
At 1 January 2002	37,440
Additions	
Parson Consulting (note 26)	40,256
Adjustments to consideration	1,453
Exchange adjustments	(763)
At 31 December 2002	78,386
Accumulated amortisation	
At 1 January 2002	1,679
Charge for the year	3,107
At 31 December 2002	4,786
Net book value	
At 31 December 2002	73,600
At 31 December 2001	35,761

The directors consider each acquisition separately for the purpose of determining the amortisation period of any goodwill that arises. The goodwill shown above is being amortised on a straight line basis over 20 years. The adjustments to consideration are in respect of the deferred consideration for the IMR and Czipin acquisitions.

13. Tangible fixed assets

Fixtures, fittings and equipment	The Group £'000	The Company £'000
Cost		
At 1 January 2002	6,999	248
Additions on acquisition of subsidiary undertaking (note 26)	809	–
Additions	1,116	98
Disposals	(414)	–
Exchange adjustments	(582)	–
At 31 December 2002	**7,928**	**346**
Depreciation		
At 1 January 2002	4,404	85
Charge for the year	1,639	125
Disposals	(251)	–
Exchange adjustments	(335)	–
At 31 December 2002	**5,457**	**210**
Net book value		
At 31 December 2002	2,471	136
At 31 December 2001	2,595	163

14. Investments held as fixed assets

The Group	Other investments
	£000
At 1 January and 31 December 2002	970

Other investments represent 3,879,584 shares held in an employee trust and issued at their nominal value of £970,000. The market value at 31 December 2002 was £1,988,000 (2001: £2,667,000).

The Company	Investment in group companies		Other investments	
	Shares	Loans		Total
	£'000	£'000	£'000	£'000
At 1 January 2002	17,686	17,546	970	36,202
Parson Consulting (note 26)	–	38,246	–	38,246
At 31 December 2002	**17,686**	**55,792**	**970**	**74,448**

Shares are stated net of provisions of £2,832,000 (2001: £2,382,000) against impairment in value.
Loans are stated net of provisions of £82,000,000 (2001: £82,000,000) against impairment in value.
The cost of shares in Group companies includes the related costs of acquisitions.
Details of the Company's principal subsidiary undertakings are set out in note 30.

15. Debtors

	The Group		The Company	
	2002	*2001*	**2002**	*2001*
	£'000	*£'000*	**£'000**	*£'000*
Falling due within one year				
Trade debtors	**4,774**	*6,264*	**–**	*–*
Amounts owed by Group undertakings	**–**	*–*	**74,976**	*82,435*
Other debtors	**890**	*1,525*	**7**	*235*
Taxation recoverable	**1,422**	*1,190*	**46**	*–*
Prepayments	**1,170**	*1,249*	**201**	*161*
	8,256	*10,228*	**75,230**	*82,831*

16. Creditors: amounts falling due within one year

	The Group		The Company	
	2002	*2001*	**2002**	*2001*
	£'000	*£'000*	**£'000**	*£'000*
Trade creditors	**2,072**	*3,183*	**89**	*266*
Amounts owed to Group undertakings	**–**	*–*	**4,935**	*3,613*
Corporation tax	**3,393**	*4,786*	**–**	*–*
Other taxes and social security	**1,342**	*785*	**10**	*–*
Other creditors	**1,066**	*1,676*	**970**	*892*
Deferred income	**1,579**	*2,695*	**–**	*–*
Accruals	**14,883**	*15,624*	**2,662**	*1,524*
Proposed dividend	**930**	*–*	**930**	*–*
	25,265	*28,749*	**9,596**	*6,295*

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

	The Group		The Company	
	2002	*2001*	**2002**	*2001*
	£'000	*£'000*	**£'000**	*£'000*
Corporation tax	**2,359**	*2,677*	**–**	*–*
Other creditors	**953**	*1,735*	**906**	*1,735*
Accruals	**1,659**	*–*	**–**	*–*
	4,971	*4,412*	**906**	*1,735*

All of the above balances fall due within five years.

18. Provisions for liabilities and charges

The Group	Deferred taxation	Other provisions	Total
	£'000	**£'000**	**£'000**
Balance at 1 January 2002	792	2,264	3,056
Utilised	–	(448)	(448)
Profit and loss account charge	96	–	96
Balance at 31 December 2002	**888**	**1,816**	**2,704**

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

The amounts provided for deferred taxation are set out below:

	The Group		The Company	
	2002	*2001*	**2002**	*2001*
	£'000	*£'000*	**£'000**	*£'000*
Unrealised exchange differences	**888**	*752*	**–**	–
Accelerated capital allowances	**–**	*4*	**–**	–
Other timing differences	**–**	*36*	**–**	–
	888	*792*	**–**	–

19. Share capital

(a) Called up share capital

	2002	*2001*
	£'000	*£'000*
Authorised: 300 million (2001: 200 million) shares of 25p each	**75,000**	50,000
Allotted, called up and fully paid: 186,118,237 (2001: 121,947,295) shares of 25p each	**46,530**	30,488

Shares issued in the year were:

	Number	Nominal Value	Consideration
	000	£'000	£'000
New issue for cash	60,031	15,007	40,221
Acquisitions			
Czipin & Partners deferred consideration	2,667	667	2,001
Parson Consulting (note 26)	631	158	457
Employee share options exercised (note 19 (b))	842	210	232
	64,171	16,042	42,911

(b) Share options

At 31 December 2002, there were options outstanding to subscribe for new ordinary shares of 25 pence each as set out below. The number of shares under option and the exercise prices have been adjusted, where applicable to reflect the effect of the capital issue in May 2002. The number of options outstanding at the previous year end over new ordinary shares was 8,147,634.

Option grant date	Number of shares under option	Exercise price (pence)	Exercisable not earlier than
The Closed Schemes			
May 1994	193,130	70.87	May 1997
March 1996	347,802	29.13	March 1999
October 1996	461,513	25.00	October 1999
January 1997	3,002	25.00	January 2000
The 1998 Scheme			
September 1999	695,266	25.00	September 2002
March 2000	3,851,470	29.85	March 2003
March 2001	953,288	68.20	March 2004
November 2001	1,030,025	51.21	November 2004
March 2002	1,448,215	68.20	March 2005
June 2002	1,970,000	71.50	June 2005
Total	10,953,711		

During the year 4,073,225 options over new ordinary shares were granted at prices of 68.2 pence and 71.5 pence and 841,854 options were exercised as noted below.

Granted	Number	Nominal value £	Consideration £
May 1994	12,500	3,125	9,125
March 1996	370,000	92,500	111,000
October 1996	282,101	70,525	67,610
January 1997	100,000	25,000	25,000
September 1999	77,253	19,313	19,313
	841,854	210,463	232,048

During the year, options over 711,493 new shares lapsed. Share options under the Closed Schemes and the 1998 Scheme expire ten years after the date of grant.

The total subscription price, if all share options over new shares are exercised, is £5,251,647 (2001: £3,087,000).

The above amounts exclude options over 1,414,688 shares (2001: 625,740 shares) which are already in issue and are owned by an employee trust.

20. Reserves

The Group	Share premium account £'000	Shares to be issued £'000
At 1 January 2002	14,173	9,238
New issue for cash	25,214	–
Deferred consideration issued	–	(1,890)
Expenses of equity share issues	(1,431)	–
Purchase of subsidiary undertakings	–	2,079
Share option schemes	22	–
At 31 December 2002	**37,978**	**9,427**

	Merger reserve £'000	Statutory reserves of subsidiary undertakings £'000	Capital redemption reserve £'000	Currency translation reserve £'000	**Total other reserves £'000**
At 1 January 2002	3,468	5,878	1,186	(12,135)	(1,603)
Purchase of subsidiary undertakings	1,633	–	–	–	1,633
Currency translation differences	–	–	–	(453)	(453)
At 31 December 2002	**5,101**	**5,878**	**1,186**	**(12,588)**	**(423)**

The Company	Share premium account £'000	Shares to be issued £'000	Capital redemption reserve £'000
At 1 January 2002	14,173	9,238	1,186
New issue for cash	25,214	–	–
Deferred consideration issued	–	(667)	–
Expenses of equity share issues	(1,431)	–	–
Purchase of subsidiary undertaking	–	856	–
Share option schemes	22	–	–
At 31 December 2002	**37,978**	**9,427**	**1,186**

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

21. Profit and loss account

	The Group		The Company	
	2002	*2001*	**2002**	*2001*
	£'000	*£'000*	**£'000**	*£'000*
At 1 January	**(32,244)**	*(26,191)*	**56,331**	*58,019*
Retained profit / (loss) for the year	**3,332**	*58*	**(5,063)**	*(1,688)*
Actuarial loss relating to retirement benefits scheme (note 29 (c))	**(7,605)**	*(6,111)*	**–**	*–*
At 31 December	**(36,517)**	**(32,244)**	**51,268**	**56,331**

	The Group	
	2002	*2001*
	£'000	*£'000*
Profit and loss reserve excluding retirement benefits	**(19,227)**	*(20,032)*
Retirement benefits reserve (note 29)	**(17,290)**	*(12,212)*
Profit and loss reserve at 31 December	**(36,517)**	*(32,244)*

The total amount of goodwill written off to the profit and loss reserve which resulted from acquisitions made prior to the implementation of FRS 10, net of the goodwill attributable to subsidiary undertakings which have been disposed of or closed, is £121,245,000 (2001: £121,245,000).

22. Reconciliation of movements in equity shareholders' funds

	The Group		The Company	
	2002	*2001*	**2002**	*2001*
	£'000	*£'000*	**£'000**	*£'000*
Profit / (loss) for the financial year	**4,262**	*58*	**(4,133)**	*(1,688)*
Other recognised gains and losses during the year	**(8,058)**	*(7,822)*	**–**	*–*
	(3,796)	*(7,764)*	**(4,133)**	*(1,688)*
Equity dividends proposed	**(930)**	*–*	**(930)**	*–*
Issue of share capital				
Acquisitions	**2,458**	*4,136*	**825**	*2,931*
New issue for cash (net of expenses)	**38,790**	*–*	**38,790**	*–*
Share option schemes	**232**	*154*	**232**	*154*
Movement in reserve for shares to be issued	**189**	*4,873*	**189**	*5,037*
Net increase in shareholders' funds	**36,943**	*1,399*	**34,973**	*6,434*
Opening shareholders' funds	**20,052**	18,653	**111,416**	*104,982*
Closing shareholders' funds	**56,995**	*20,052*	**146,389**	*111,416*

23. Reconciliation of operating profit to net cash flow from operating activities

	2002 £'000	*2001 £'000*
Operating profit	**4,503**	*149*
Depreciation	**1,639**	*1,171*
Amortisation of goodwill	**3,107**	*1,629*
Share option schemes charge	**–**	*1,420*
Retirement benefit contributions in excess of service cost	**(1,210)**	*(176)*
Exceptional pension credit	**–**	*(2,036)*
Decrease/(increase) in debtors	**6,695**	*(2,932)*
(Decrease)/increase in creditors	**(9,402)**	*1,800*
Decrease in provisions	**(448)**	*(9)*
Net cash inflow from operating activities	**4,884**	*1,016*

Companies acquired in the year used £1.7 million of the Group's operating cash flow, utilised £0.1 million in finance income and £0.1 million for capital expenditure.

24. Analysis of net funds

				2002
	Net cash at 1 Jan **£'000**	Cash flow **£'000**	Exchange difference **£'000**	Net cash at 31 Dec **£'000**
Cash at bank	16,186	5,720	22	21,928
Liquid investments	2,741	(2,475)	(266)	–
	18,927	**3,245**	**(244)**	**21,928**

Liquid investments represent short term deposits of less than one year.

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

	2002 £'000	*2001 £'000*
Increase / (decrease) in cash in the year	**5,720**	*(850)*
Cash inflow from management of liquid resources	**(2,475)**	*–*
Change in net funds arising from cash flows	**3,245**	*(850)*
Exchange movement	**(244)**	*317*
Movement in net funds in the year	**3,001**	*(533)*
Net funds at 1 January	**18,927**	*19,460*
Net funds at 31 December	**21,928**	*18,927*

26. Purchase of subsidiary undertaking

On 28 May 2002, the Group acquired 100% of the ordinary share capital of Parson Consulting. The acquisition has been accounted for under the acquisition method of accounting. The resultant goodwill of £40.3 million has been capitalised and will be amortised over 20 years.

The consideration payable was:

(i) cash consideration, including acquisition costs, of £37.2 million; and

(ii) consideration in shares of the Company equivalent to £1.4 million of which one third was settled on closing and up to £0.9 million is issuable in equal amounts on the first and second anniversaries of closing.

For the period from 1 January 2002 to 28 May 2002, Parson Consulting recorded turnover of £12.7 million, operating loss of £2.0 million and loss before and after taxation of £2.0 million. In the year to 31 December 2001, Parson Consulting made a profit before taxation of £0.4 million.

The fair value to the Group is shown below:

	Book value £'000	Accounting policy alignment £'000	Fair value to Group £'000
Fixed assets	809	–	809
Debtors	4,317	–	4,317
Creditors (including bank overdraft of £691,000)	(3,346)	(3,491)	(6,837)
Net assets / (liabilities)	1,780	(3,491)	(1,711)
Goodwill			40,256
Total cost of acquisition			**38,545**

Satisfied by:	
Cash consideration, including acquisition costs	37,181
Shares issued as consideration	457
Shares to be issued as deferred consideration	907
	38,545

Taking account of merger relief of £299,000 the cost of the investment in the accounts of the Company amounts to £38,246,000.

The accounting policy alignments comprise the recognition of liabilities for onerous contracts in accordance with the policies of the Group.

In addition, £452,000 was paid during the year as additional consideration in relation to Czipin & Partners.

27. Financial instruments

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

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

Financial assets			2002			*2001*
	Floating rate	**Fixed rate**	**Total**	*Floating rate*	*Fixed rate*	*Total*
Currency	**£’000**	**£’000**	**£’000**	*£’000*	*£’000*	*£’000*
Sterling	**10,608**	**–**	**10,608**	*5,468*	*–*	*5,468*
US Dollar	**8,235**	**–**	**8,235**	*5,408*	*–*	*5,408*
Euro	**1,245**	**–**	**1,245**	*6,537*	*–*	*6,537*
Other	**1,840**	**–**	**1,840**	*1,374*	*140*	*1,514*
	21,928	**–**	**21,928**	*18,787*	*140*	*18,927*

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

28. Commitments

Leases

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

The Group		2002		*2001*
	Land and buildings	**Other**	*Land and buildings*	*Other*
	£’000	**£’000**	*£’000*	*£’000*
Within one year	**680**	**52**	*227*	*2*
In the second to fifth years inclusive	**841**	**29**	*552*	*84*
After five years	**416**	**–**	*215*	*–*
	1,937	**81**	*994*	*86*

Acquisitions

Additional consideration may become payable to the vendors of an acquisition on 31 May 2008 if the value of any shares of the Company allotted to the vendors and still held by them on 31 May 2006 is less than the average price at which they were allotted. Any such additional consideration is payable in cash or shares of the Company, at the Company's option. Any such additional consideration is reduced by any notional profit (relative to the value on 31 May 2006) that could have been made had the shares been sold earlier than 31 May 2006 and also by any increase in the value of the shares between 31 May 2006 and 31 May 2008. The additional consideration will not exceed the value at which any shares still held on 31 May 2006 were originally allotted, which amount will not exceed €9.4 million (£6.2 million). It is not practicable to estimate the potential commitment, if any, under this arrangement in view, inter alia, of the time which has yet to elapse.

29. Retirement benefits

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

The funded US defined benefits pension scheme was closed to new entrants with effect from 1 February 2002 and further benefit accruals ceased for all members with effect from 31 December 2001. This decision resulted in an exceptional credit to the profit and less account in 2001 of £2,036,000. The US medical benefits plan applies only to certain former employees who retired prior to 30 June 1995 and to the post-retirement medical costs of a small number of current and former employees who were employed at that date.

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

	2002	*2001*	*2000*
	%	*%*	*%*
Rate of increase in salaries	**not applicable**	*5.00*	*5.00*
Discount rate	**6.75**	*7.25*	*7.50*
General inflation assumption	**3.00**	*3.00*	*3.00*
Medical costs inflation assumption*	**10.00**	*10.00*	*7.50*

* *Graded rates are applied as follows: 10% for 2003, 9% for 2004 then falling by 0.5% per year to a floor of 5.5% .*
(2001: 10% for 2002 falling by 0.5% per year to a floor of 5.5%).
(2000: 7.5% falling by 0.5% per year to a floor of 5.5%).

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

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

	2002	*2001*	*2000*
	£'000	*£'000*	*£'000*
US defined benefit pension scheme	**(13,508)**	*(7,305)*	*(3,127)*
US medical benefit plan	**(3,782)**	*(4,907)*	*(5,170)*
	(17,290)	*(12,212)*	*(8,297)*

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

	2002		*2001*		*2000*	
	%	**£'000**	*%*	*£'000*	*%*	*£'000*
Equities		**13,223**		*14,722*		*17,222*
Bonds		**6,930**		*12,124*		*12,056*
Cash		**416**		*–*		*–*
Total fair value of assets	**9.00**	**20,569**	*9.00*	*26,846*	*9.00*	*29,278*
Present value of scheme liabilities		**(34,077)**		*(34,151)*		*(32,405)*
Deficit in the scheme		**(13,508)**		*(7,305)*		*(3,127)*

The contributions required to the scheme are determined annually in order to meet the US statutory minimum funding requirements and the contributions made in 2002 and the prior year are set out in the table of movement in balance sheet amounts below. On the presumption of current stock market conditions, the contributions for 2003 are estimated at £3 million.

a) Analysis of the amount charged to operating profit

	2002	*2001*
	£'000	*£'000*
US defined benefit pension scheme		
Current service costs	**1**	*446*
Past service costs	**52**	*–*
Gain on curtailment	**–**	*(2,036)*
	53	*(1,590)*
US medical benefits plan		
Current service costs	**–**	*2*
Defined contribution schemes	**796**	*767*
Total operating charge / (credit)	**849**	*(821)*

b) Analysis of the amount included in net finance income

	2002	*2001*
	£'000	*£'000*
US defined benefit pension scheme		
Expected return on pension scheme assets	**2,297**	*2,698*
Interest on pension scheme liabilities	**(2,378)**	*(2,533)*
	(81)	*165*
US medical benefits plan		
Interest on plan liabilities	**(255)**	*(342)*
Net finance charges	**(336)**	*(177)*

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

	2002 £'000	2001 £'000
US defined benefit pension scheme		
Actual return less expected return on pension scheme assets	**(5,214)**	*(4,931)*
Experience gains and losses arising on the scheme liabilities	**(1,001)**	*(432)*
Changes in assumptions underlying the present value of the scheme liabilities	**(2,153)**	*(1,280)*
	(8,368)	*(6,643)*
US medical benefits plan		
Experience gains and losses arising on the plan liabilities	**477**	*649*
Changes in assumptions underlying the present value of the plan liabilities	**286**	*(117)*
	763	*532*
Actuarial loss recognised in STRGL	**(7,605)**	*(6,111)*

d) Movement in balance sheet amount

	2002 £'000	2001 £'000
US defined benefit pension scheme		
At 1 January	**(7,305)**	*(3,127)*
Current service costs	**(1)**	*(446)*
Past service costs	**(52)**	*–*
Contributions	**1,087**	*775*
Effect of curtailment	**–**	*2,036*
Net finance (charge) / income	**(81)**	*165*
Actuarial loss	**(8,368)**	*(6,643)*
Foreign exchange translation	**1,212**	*(65)*
At 31 December	**(13,508)**	*(7,305)*
US medical benefits plan		
At 1 January	**(4,907)**	*(5,170)*
Current service costs	**–**	*(2)*
Payment of benefits	**176**	*232*
Net finance charge	**(255)**	*(342)*
Actuarial gain	**763**	*532*
Foreign exchange translation	**441**	*(157)*
At 31 December	**(3,782)**	*(4,907)*
Total at 31 December	**(17,290)**	(12,212)

e) History of experience gains and losses

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

30. Principal subsidiary undertakings

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

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

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

contacts for investors and clients

The group welcomes contact with its shareholders

www.mcgplc.com

Investor relations

The Group welcomes contact with its shareholders.

Enquiries should be directed to:

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Operational contacts

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

Administrative matters

Administrative matters should be directed to:

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

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notice of Annual General Meeting

NOTICE IS HEREBY GIVEN that the Annual General Meeting of Management Consulting Group PLC will be held at the offices of Buchanan Communications Limited, 107 Cheapside, London EC2V 6DN, on Tuesday 15 April 2003, at 11.00 am for the undermentioned purposes:

1. To receive and adopt the report and accounts of the Company for the year ended 31 December 2002.
2. To approve the Directors Remuneration Report as set out in the report and accounts of the Company for the year ended 31 December 2002.
3. To declare the final dividend for the year ended 31 December 2002 of 0.5 pence per share.
4. To re-appoint Mr J P Bolduc who is retiring by rotation.
5. To re-appoint Mr D G Jones, who, having been appointed after the last Annual General Meeting is required to stand down and offer himself for reappointment.
6. To re-appoint Deloitte & Touche as auditors to the Company.
7. To authorise the directors to determine the auditors' remuneration.
8. To consider and, if thought fit, pass the following resolutions, which will be proposed, as to resolution 8(a) as an ordinary resolution, and, as to resolutions 8(b) and (c), as special resolutions:
   (a) THAT the directors be and are hereby generally and unconditionally authorised for the purposes of Section 80 of the Companies Act 1985 to exercise all powers of the Company to allot relevant securities (within the meaning of that Section) up to an aggregate nominal amount of £25,000,000 provided that this authority shall expire (unless previously renewed, varied or revoked by the Company in General Meeting) on the earlier of the fifth anniversary of the passing of this resolution and the Annual General Meeting of the Company to be held in 2008, save that the Company may before such expiry make any offer or agreement which would or might require relevant securities to be allotted after such expiry and the directors may allot relevant securities in pursuance of any such offer or agreement as if the authority hereby conferred had not expired and such authority shall be in substitution for all previous authorities pursuant to the said Section 80, which are hereby revoked, without prejudice to any allotment of relevant securities pursuant thereto.
   (b) THAT, subject to the passing of resolution 8(a) in the notice of meeting, the directors be and are hereby empowered pursuant to Section 95 of the Companies Act 1985 to allot equity securities (within the meaning of Section 94 of the said Act as from time to time amended) for cash pursuant to the authority conferred by such resolution as if subsection (1) of Section 89 of the said Act did not apply to such allotment provided that this power shall be limited:
      (i) to the allotment of equity securities where the securities have been offered (whether by way of rights issue, open offer or otherwise) to holders of shares on the register on a fixed record date in proportion to their then holdings of such shares (but subject to such exclusions or other arrangements as the directors may deem necessary or expedient in relation to fractional entitlements or legal or practical problems under the laws of, or the requirements of any recognised regulatory body or any stock exchange in, any territory);
      (ii) to the allotment (otherwise than pursuant to sub-paragraph (i) above) of equity securities up to an aggregate nominal value of £2,326,477.75;

   and shall expire (unless previously renewed, varied or revoked by the Company in General Meeting) on the earlier of the fifth anniversary of the passing of this resolution and the Annual General Meeting to be held in 2008, save that the Company may before such expiry make any offer or agreement which would or might require equity

notice of Annual General Meeting

(continued)

securities to be allotted after such expiry and the directors may allot equity securities in pursuance of any such offer or agreement as if the power conferred hereby had not expired and such authority shall be in substitution for all previous disapplications of Section 89(1) of the Companies Act 1985, which are hereby revoked, without prejudice to any allotment of securities pursuant thereto.

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

(i) the maximum number of ordinary shares hereby authorised to be purchased shall be 18,611,823;

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

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

(iv) the authority hereby conferred shall expire at the conclusion of the next Annual General Meeting of the Company or 15 July 2004, whichever is earlier, unless such authority is renewed prior to such time, save that the company may enter into contracts to purchase ordinary shares under the authority hereby conferred prior to the expiry of such authority, which contracts will or may be executed wholly or partly after the expiry of such authority, and may make purchases of ordinary shares pursuant to any such contracts.

By order of the Board

F Steven Hitchcock
Company Secretary 17 March 2003

Notes

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

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

(iii) To appoint a proxy, the proxy form, which is enclosed for this purpose, together with any authority under which it is executed (or a notarially certified copy of such authority), must be duly completed and lodged with the Registrar at the offices of Capita Registrars, The Registry, 34 Beckenham Road, Beckenham, Kent BR3 4TU not later than 11.00am on 13 April 2003. Pursuant to Regulation 41 of the Uncertificated Securities Regulations 2001, the Company specifies that only those shareholders registered in the register of members of the Company, as at 11.00am on 13 April 2003, shall be entitled to attend or vote at the aforesaid Annual General Meeting in respect of the number of shares registered in their name at that time. Changes to entries in the relevant register of securities after 11.00am on 13 April 2003 shall be disregarded in determining the rights of any person to attend or vote at the meeting.

(iv) 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.

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

Crucial Colour Ltd.

Management Consulting Group PLC annual report and accounts 2002

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