Management Consulting Group PLC

2003

interim report

contents

chairman's statement

The results for the six months ended 30 June 2003 reflect the difficult market conditions for consulting during the last nine months coupled with losses incurred at Parson Consulting as the turnaround of that business continues.

The results for the year are summarised as follows:

	unaudited six months ended 30 June 2003	*unaudited six months ended 30 June 2002*	*audited year ended 31 Dec 2002*
	£'000	*£'000*	*£'000*
Revenue			
Proudfoot	**33,770**	*53,275*	*93,229*
Parson	**9,528**	*2,380*	*14,067*
	43,298	*55,655*	*107,296*
Operating (loss) / profit			
Proudfoot	**2,260**	*5,351*	*10,311*
Parson	**(3,234)**	*(199)*	*(2,701)*
	(974)	*5,152*	*7,610*

Group results

Overall turnover for the six months ended 30 June 2003 was £43.3 million (six months ended 30 June 2002: £55.7 million; six months ended 31 December 2002: £51.6 million). This was slightly ahead of the indications given in July. Turnover has been impacted by the level of the order book at the start of the period and by a slow-down in client decision-making in response to economic and political uncertainties during the period. 61% of the Group's turnover was attributable to North America; the adverse impact on revenue of the weak US dollar relative to Sterling is estimated at £3 million compared with the first half of last year.

The Group's gross margin was 49% (2002: 51%) which reflects tight control of the cost of delivery and the currently lower margins being made in Parson Consulting.

Selling expenses represented 33% of turnover for the six months. The decisions were taken not to make short term cuts in this important resource in Proudfoot Consulting and to invest in additional sales resource in Parson Consulting to expedite its turnaround.

Administration expenses, excluding goodwill, were £7.5 million, a reduction of £0.7 million compared to the 2002 second half run-rate.

Our remuneration schemes for directors and employees, including the management incentive plan, are structured so that the rewards are linked to both the short-term and long-term performance of the business. Accordingly, the half year results have benefited from a lower overall charge for performance-related remuneration schemes.

The operating loss before goodwill amortisation was £1.0 million (2002: profit of £5.2 million). After goodwill amortisation the operating loss was £3.0 million (2002: profit of £4.1 million). The results reflect the continuing losses in Parson Consulting and a decrease in the profitability of Proudfoot Consulting due to the decline in its turnover. EBITDA was a loss of £0.3 million (2002: profit of £5.6 million).

There is negligible net interest income due to low interest rates and the charge attributable to the discount on the long-term liabilities associated with the closed defined benefit pension scheme.

The tax charge is £0.7 million (2002: £0.4 million) representing mainly tax payable in countries where we do not have brought forward losses.

Proudfoot Consulting

At £33.8 million, turnover for the six months was 37% down on the corresponding period of 2002 (30 June 2002: £53.3 million) and 15% down on the preceding half year (six months ended 31 December 2002: £39.9 million). The decrease in turnover compared with the first half of 2002 occurred in both North America and Europe but was offset, in part, by better trading in Asia Pacific and Africa.

As previously indicated, turnover in the first half of 2003 was impacted by the order book at the start of the period being significantly lower than at the same point in the previous year, and by the economic and political uncertainties that existed for much of the first half of the year.

The year started promisingly with the work won in the first quarter exceeding the work delivered by some 63%. However, in the second quarter (and coinciding with the war in Iraq) the speed at which work was won slowed dramatically. This slowdown resulted in the work won for the half year as a whole being only some 27% greater than the turnover delivered.

The order book at 30 June 2003 was 40% ahead of the year end position. This growth was lower than our earlier expectations, but was achieved despite cautious decision-making by clients in light of the continuing economic and political uncertainties.

Proudfoot Consulting's engagements extend over a period of typically six to nine months. Consequently, the revenue of an individual quarter is more dependent on the order book at the commencement of that quarter than on work won during the quarter. Most of the work won during a quarter results in revenue in subsequent quarters. Accordingly, the impact of the slower order in-take during the second quarter on the turnover for the first half year was not significant. However, the impact on turnover for the second half is significant and led us, in July, to downgrade our full year outlook.

In response to the lower turnover, the delivery cost base was tightly managed and, in particular, the consulting staff numbers were adjusted to maintain utilisation levels and maintain profitability. The Proudfoot Consulting business made an operating profit before goodwill amortisation of £2.3 million (2002: £5.4 million).

Parson Consulting

The Parson Consulting business was purchased at the end of May 2002 and the corresponding period therefore only includes one month's turnover. The turnover for the six months ended 30 June 2003 was £9.5 million (one month ended 30 June 2002: £2.4 million; six months ended 31 December 2002: £11.7 million).

The Parson Consulting business made satisfactory progress in the six months ended 30 June 2003. Turnover, which had remained steady since the autumn of last year, started to climb week by week in the last couple of months of the half year. During the six months we have strengthened the management and sales teams, and installed sales processes and methodologies using the consulting skills of Proudfoot Consulting. The focus on Sarbanes-Oxley has resulted in a good expansion of our client base.

Good progress is being made at increasing both the volume and price of services provided. We believe that there is scope for further improvement in future periods.

The operating loss before goodwill amortisation for the six months ended 30 June 2003 was £3.2 million (one month ended 30 June 2002: £0.2 million). Importantly, the monthly loss has now decreased from £0.8 million per month at the beginning of 2003 to £0.4 million in June 2003.

Earnings per share

The fully diluted loss per share was 1.9 pence compared with earnings of 2.4 pence per share in the corresponding period. Headline loss per share before goodwill amortisation was 0.8 pence (2002: earnings of 3.6 pence).

Dividend

As indicated previously, it is our policy to pay only one dividend a year, after the declaration of the annual results. Accordingly, no interim dividend is being declared.

Balance sheet

The Group's cash balance declined from £21.9 million at 31 December 2002 to £9.6 million at 30 June 2003 due principally to the deferred consideration associated with previous acquisitions and working capital movements.

The deficit related to the closed defined benefit pension and medical plans has increased to £18.5 million from £17.3 million at 31 December 2002. This reflects more conservative actuarial assumptions and the weakness in world stock markets.

Employees and directors

The Board recognises the continued commitment to the Group of its employees and their contribution to the underlying progress made by both businesses against the backdrop of a difficult consulting market place. In particular, the directors wish to place on the record their appreciation of each individual's efforts that resulted in Management Consulting Group being independently assessed as the major consultancy with the fastest organic growth rate in the world for 2002.

Following the retirements from the Board after the Annual General Meeting in April, the Board is delighted to announce the appointment of Baroness Cohen of Pimlico as a non-executive director of the Company with effect from today. Janet Cohen is the chairman of BPP Holdings plc, a non-executive director of the London Stock Exchange PLC, a senior adviser to a number of organisations and active in Anglo-German business. She was originally a solicitor, then had a career as a civil servant in the Department of Trade and Industry, and subsequently as a corporate financier and adviser in the Charterhouse Group. She sits as a Labour peer in the House of Lords. Baroness Cohen will be a member of the Audit Committee, the Nominations Committee and the Remuneration Committee.

Outlook

Our current order book is 40% higher than it was at the start of the year. On the basis of this improved order book and current strong enquiry levels, and as stated in our July trading update, the Board believes that the turnover for the second half of 2003 is likely to exceed that achieved in the first half of the year. The Board expects this performance despite the fact that the second half of the year is traditionally weaker than the first due to seasonal trading patterns.

Whilst we are currently seeing a greater inflow of client business, and whilst economic uncertainty has eased somewhat since the Spring, the economic climate is still far from stable. Business confidence remains fragile and the continuing economic and political risk in some markets makes it difficult to predict the outlook for the year as a whole with certainty.

However, provided that client decision-making cycles do not lengthen further at Proudfoot Consulting, and provided that the turnaround at Parson Consulting continues to progress as it has done in recent months, the Board is confident that the performance of the Group will improve in the second half.

R W H Stomberg
Non-executive Chairman

11 August 2003

independent review report

by Deloitte & Touche LLP to Management Consulting Group PLC

Introduction

We have been instructed by the company to review the financial information for the six months ended 30 June 2003 which comprises the group profit and loss account, the group statement of total recognised gains and losses, the group balance sheet, the group cash flow statement and related notes 1 to 15. We have read the other information contained in the interim report and considered whether it contains any apparent misstatements or material inconsistencies with the financial information.

This report is made solely to the company in accordance with Bulletin 1999/4 issued by the Auditing Practices Board. Our work has been undertaken so that we might state to the company those matters we are required to state to them in an independent review report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company, for our review work, for this report, or for the conclusions we have formed.

Directors' responsibilities

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

Review work performed

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

Review conclusion

On the basis of our review we are not aware of any material modifications that should be made to the financial information as presented for the six months ended 30 June 2003.

Deloitte & Touche LLP
Chartered Accountants
11 August 2003 London

A review does not provide assurance on the maintenance and integrity of the website, including controls used to achieve this, and in particular on whether any changes may have occurred to the financial statements 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.

group profit and loss account

six months ended 30 June 2003	note	**unaudited six months ended 30 June 2003 £'000**	*unaudited six months ended 30 June 2002 £'000*	*audited year ended 31 Dec 2002 £'000*
Turnover	2	**43,298**	*55,655*	*107,296*
Cost of sales		**(22,256)**	*(27,450)*	*(53,710)*
Gross profit		**21,042**	*28,205*	*53,586*
Selling costs		**(14,473)**	*(14,551)*	*(29,189)*
Administrative expenses				
Excluding goodwill amortisation		**(7,543)**	*(8,502)*	*(16,787)*
Goodwill amortisation		**(2,021)**	*(1,100)*	*(3,107)*
Total administrative expenses		**(9,564)**	*(9,602)*	*(19,894)*
Operating (loss) / profit:				
Before goodwill amortisation		**(974)**	*5,152*	*7,610*
After goodwill amortisation		**(2,995)**	*4,052*	*4,503*
Total operating (loss) / profit and (loss) / profit on ordinary activities before finance income	2	**(2,995)**	*4,052*	*4,503*
Finance income (net)		**176**	*40*	*395*
(Loss) / profit on ordinary activities before taxation	2	**(2,819)**	*4,092*	*4,898*
Tax on (loss) / profit on ordinary activities	3	**(706)**	*(438)*	*(636)*
(Loss) / profit on ordinary activities after taxation		**(3,525)**	*3,654*	*4,262*
Equity dividends proposed		**–**	*–*	*(930)*
Retained (loss) / profit for the financial period		**(3,525)**	*3,654*	*3,332*
Earnings / (loss) per share - pence	5			
Basic		**(1.93)**	*2.75*	*2.71*
Diluted		**(1.93)**	*2.44*	*2.43*
Headline		**(0.82)**	*3.58*	*4.68*

group statement of total recognised gains and losses

six months ended 30 June 2003	note	**unaudited six months ended 30 June 2003 £'000**	*unaudited six months ended 30 June 2002 £'000*	*audited year ended 31 Dec 2002 £'000*
(Loss) / profit for the period		**(3,525)**	*3,654*	*4,262*
Actuarial loss relating to retirement benefit schemes	14	**(1,824)**	*(4,230)*	*(7,605)*
Currency translation differences on foreign currency net investments		**944**	*1,751*	*(453)*
Total recognised gains and losses recognised since the last Annual Report		**(4,405)**	*1,175*	*(3,796)*

group balance sheet

at 30 June 2003	note	**unaudited 30 June 2003 £'000**	*unaudited 30 June 2002 £'000*	*audited 31 Dec 2002 £'000*
Fixed assets				
Intangible assets	6	**73,434**	*74,188*	*73,600*
Tangible assets		**1,886**	*3,089*	*2,471*
Investments		**970**	*970*	*970*
		76,290	*78,247*	*77,041*
Current assets				
Debtors	7	**9,762**	*11,832*	*8,256*
Cash at bank and in hand and deposits		**9,553**	*26,667*	*21,928*
		19,315	*38,499*	*30,184*
Creditors: amounts falling due within one year	8	**(22,781)**	*(31,200)*	*(25,265)*
Net current (liabilities) / assets		**(3,466)**	*7,299*	*4,919*
Total assets less current liabilities		**72,824**	*85,546*	*81,960*
Creditors: amounts falling due after more than one year	9	**(3,929)**	*(5,444)*	*(4,971)*
Provisions for liabilities and charges		**(2,678)**	*(3,120)*	*(2,704)*
Net assets excluding retirement benefits liability		**66,217**	*76,982*	*74,285*
Retirement benefits liability	14	**(18,491)**	*(14,685)*	*(17,290)*
Net assets including retirement benefits liability		**47,726**	*62,297*	*56,995*
Capital and reserves				
Called up share capital		**47,198**	*46,383*	*46,530*
Share premium account		**38,009**	*39,598*	*37,978*
Shares to be issued		**3,282**	*8,988*	*9,427*
Other reserves		**1,103**	*279*	*(423)*
Profit and loss account		**(41,866)**	*(32,951)*	*(36,517)*
Shareholders' funds - equity	10	**47,726**	*62,297*	*56,995*

group cash flow statement

six months ended 30 June 2003	note	**unaudited six months ended 30 June 2003 £'000**	*unaudited six months ended 30 June 2002 £'000*	*audited year ended 31 Dec 2002 £'000*
Net cash (outflow) / inflow from operating activities	11	**(5,935)**	*8,636*	*4,884*
Returns on investments and servicing of finance				
Interest received		**153**	*202*	*958*
Interest paid		**–**	*–*	*(86)*
Net cash inflow from returns on investments and servicing of finance		**153**	*202*	*872*
Taxation		**(544)**	*(2,227)*	*(2,093)*
Capital expenditure and financial investment				
Purchase of tangible fixed assets		**(50)**	*(139)*	*(1,116)*
Net cash outflow from capital expenditure and financial investment		**(50)**	*(139)*	*(1,116)*
Acquisitions and disposals				
Payments to acquire subsidiary undertakings		**(4,984)**	*(37,991)*	*(37,633)*
Debt acquired with subsidiary undertakings		**–**	*(141)*	*(691)*
Net cash outflow from acquisitions and disposals		**(4,984)**	*(38,132)*	*(38,324)*
Equity dividends paid		**(911)**	*–*	*–*
Cash outflow before use of liquid resources and financing		**(12,271)**	*(31,660)*	*(35,777)*
Management of liquid resources				
Cash withdrawn from liquid resources		**–**	*271*	*2,475*
Net cash inflow from management of liquid resources		**–**	*271*	*2,475*
Financing				
Net proceeds from issue of ordinary shares		**–**	*38,847*	*39,022*
Net cash inflow from financing		**–**	*38,847*	*39,022*
(Decrease) / increase in cash in the period	12, 13	**(12,271)**	*7,458*	*5,720*

notes

1. Basis of presentation

The interim financial statements have been prepared in accordance with the accounting policies set out in the annual report for the year ended 31 December 2002.

2. Segmental information

(a) Turnover

There is no material difference between turnover by geographical destination and turnover by geographical origin. The analysis of turnover by geographical destination is as follows:

	unaudited six months ended 30 June 2003	*unaudited six months ended 30 June 2002*	*audited year ended 31 Dec 2002*
	£'000	*£'000*	*£'000*
North America	**26,512**	*31,542*	*66,186*
Europe	**12,467**	*21,250*	*34,634*
Africa	**2,128**	*1,678*	*2,188*
Asia Pacific	**2,191**	*1,185*	*4,288*
	43,298	*55,655*	*107,296*

(b) Profit / (loss) before taxation

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

	unaudited six months ended 30 June 2003	*unaudited six months ended 30 June 2002*	*audited year ended 31 Dec 2002*
	£'000	*£'000*	*£'000*
North America	**(525)**	*4,448*	*8,645*
Europe	**(2,544)**	*(83)*	*(3,479)*
Africa	**(21)**	*(34)*	*(947)*
Asia Pacific	**95**	*(279)*	*284*
Total operating (loss) / profit	**(2,995)**	*4,052*	*4,503*
Finance income	**176**	*40*	*395*
Group (loss) / profit before taxation	**(2,819)**	*4,092*	*4,898*

3. Taxation

The Group is tax paying in certain jurisdictions, and several jurisdictions apply minimum levels of taxation. The tax charge for the six months ended 30 June 2003 reflects such taxes. In other jurisdictions there are unrelieved losses.

4. Earnings before interest, tax, depreciation and amortisation

	unaudited six months ended 30 June 2003	*unaudited six months ended 30 June 2002*	*audited year ended 31 Dec 2002*
	£'000	*£'000*	*£'000*
Operating (loss) / profit	**(2,995)**	*4,052*	*4,503*
Depreciation	**635**	*453*	*1,639*
Amortisation of goodwill	**2,021**	*1,100*	*3,107*
EBITDA	**(339)**	*5,605*	*9,249*

5. Earnings per share

The basic earnings per share is calculated by dividing the earnings attributable to ordinary shareholders by the weighted average number of Ordinary Shares in issue during the period 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 only dilutive instruments are share options granted to employees where the exercise price is less than the average market price during the period, shares potentially to be issued to executive directors under a long term incentive plan and shares to be issued as deferred consideration. Dilution is not recognised where continuing operations are loss making.

5. Earnings per share (cont)

The average share price for the six months ended 30 June 2003 was 44.4 pence (30 June 2002: 69.7 pence and 31 December 2002: 67.8 pence).

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

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

six months ended 30 June 2003 (unaudited)	earnings £'000	weighted average number of shares (million)	earnings per share amount (pence)
Basic EPS			
Loss attributable to shareholders	**(3,525)**	**182.5**	**(1.93)**
Effect of dilutive securities			
Options	–	–	–
Long term incentive plan	–	–	–
Deferred consideration shares	–	–	–
Fully diluted EPS	**(3,525)**	**182.5**	**(1.93)**
Basic EPS	**(3,525)**	**182.5**	**(1.93)**
Goodwill amortisation	**2,021**	–	**1.11**
Headline EPS	**(1,504)**	**182.5**	**(0.82)**

5. Earnings per share (cont)

six months ended 30 June 2002 (unaudited)	*earnings*	*weighted average number of shares*	*earnings per share amount*
	£'000	*(million)*	*(pence)*
Basic EPS			
Profit attributable to shareholders	*3,654*	*132.9*	*2.75*
Effect of dilutive securities			
Options	*–*	*3.6*	*(0.07)*
Long term incentive plan	*–*	*10.5*	*(0.19)*
Deferred consideration shares	*–*	*3.0*	*(0.05)*
Fully diluted EPS	*3,654*	*150.0*	*2.44*
Basic EPS	*3,654*	*132.9*	*2.75*
Goodwill amortisation	*1,100*	*–*	*0.83*
Headline EPS	*4,754*	*132.9*	*3.58*

year ended 31 December 2002 (audited)	*earnings*	*weighted average number of shares*	*earnings per share amount*
	£'000	*(million)*	*(pence)*
Basic EPS			
Profit attributable to shareholders	*4,262*	*157.3*	*2.71*
Effect of dilutive securities			
Options	*–*	*3.6*	*(0.06)*
Long term incentive plan	*–*	*8.5*	*(0.13)*
Deferred consideration shares	*–*	*6.1*	*(0.09)*
Fully diluted EPS	*4,262*	*175.5*	*2.43*
Basic EPS	*4,262*	*157.3*	*2.71*
Goodwill amortisation	*3,107*	*–*	*1.97*
Headline EPS	*7,369*	*157.3*	*4.68*

6. Intangible assets

Intangible assets consist of goodwill arising on acquisitions which is being amortised over a period of 20 years. The total amortisation charge for the period was £2.0 million (30 June 2002: £1.1 million) of which £0.9 million (30 June 2002: £0.2 million) relates to North America and £1.1 million (30 June 2002: £0.9 million) relates to Europe.

7. Debtors

	unaudited 30 June 2003	*unaudited 30 June 2002*	*audited 31 Dec 2002*
	£'000	*£'000*	*£'000*
Trade debtors	**5,710**	*8,231*	*4,774*
Other debtors	**827**	*933*	*890*
Taxation recoverable	**1,693**	*919*	*1,422*
Prepayments and accrued income	**1,532**	*1,749*	*1,170*
	9,762	*11,832*	*8,256*

8. Creditors: amounts falling due within one year

	unaudited 30 June 2003	*unaudited 30 June 2002*	*audited 31 Dec 2002*
	£'000	*£'000*	*£'000*
Banks loans and overdrafts	**–**	*711*	*–*
Trade creditors	**1,670**	*2,689*	*2,072*
Other creditors	**1,062**	*1,829*	*1,066*
Corporation tax	**4,023**	*2,369*	*3,393*
Other taxes and social security	**1,235**	*969*	*1,342*
Deferred income	**1,543**	*3,365*	*1,579*
Accruals	**13,248**	*19,268*	*14,883*
Proposed dividend	**–**	*–*	*930*
	22,781	*31,200*	*25,265*

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

	unaudited 30 June 2003	*unaudited 30 June 2002*	*audited 31 Dec 2002*
	£'000	*£'000*	*£'000*
Other creditors	**–**	*2,780*	*953*
Corporation tax	**2,535**	*2,664*	*2,359*
Accruals	**1,394**	*–*	*1,659*
	3,929	*5,444*	*4,971*

10. Reconciliation of movements in equity shareholders' funds

	unaudited six months ended 30 June 2003	*unaudited six months ended 30 June 2002*	*audited year ended 31 Dec 2002*
	£'000	*£'000*	*£'000*
(Loss) / profit for the period	**(3,525)**	*3,654*	*4,262*
Other recognised gains and losses during the period	**(880)**	*(2,479)*	*(8,058)*
New share capital issued	**1,281**	*41,320*	*41,480*
Equity dividends proposed	**–**	*–*	*(930)*
(Decrease) / increase in reserve for shares to be issued	**(6,145)**	*(250)*	*189*
Net (decrease) / increase in shareholders' funds	**(9,269)**	*42,245*	*36,943*
Opening shareholders' funds	**56,995**	*20,052*	*20,052*
Closing shareholders' funds	**47,726**	*62,297*	*56,995*

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

	unaudited six months ended 30 June 2003	*unaudited six months ended 30 June 2002*	*audited year ended 31 Dec 2002*
	£'000	*£'000*	*£'000*
Operating (loss) / profit	**(2,995)**	*4,052*	*4,503*
Depreciation	**635**	*453*	*1,639*
Amortisation	**2,021**	*1,100*	*3,107*
Management long term incentive plan (credit) / charge	**(1,504)**	*726*	*–*
Retirement benefit contributions in excess of service costs	**(515)**	*(1,095)*	*(1,210)*
(Increase) / decrease in debtors	**(1,735)**	*3,306*	*6,695*
(Decrease) / increase in creditors	**(1,727)**	*30*	*(9,402)*
(Decrease) / increase in provisions	**(115)**	*64*	*(448)*
Net cash (outflow) / inflow from operating activities	**(5,935)**	*8,636*	*4,884*

12. Analysis of net funds

	net funds at 1 Jan 2003	**cash flow**	**exchange movement**	**net funds at 30 June 2003**
	£'000	**£'000**	**£'000**	**£'000**
Cash at bank	**21,928**	**(12,271)**	**(104)**	**9,553**

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

	unaudited six months ended 30 June 2003 £'000	*unaudited six months ended 30 June 2002 £'000*	*audited year ended 31 Dec 2002 £'000*
(Decrease) / increase in cash	**(12,271)**	*8,175*	*5,720*
Increase in bank overdraft	**–**	*(717)*	*–*
Cash inflow from management of liquid resources	**–**	*(271)*	*(2,475)*
Change in net funds arising from cash flows	**(12,271)**	*7,187*	*3,245*
Exchange movement	**(104)**	*(158)*	*(244)*
Movement in net funds in the period	**(12,375)**	*7,029*	*3,001*
Net funds at beginning of period	**21,928**	*18,927*	*18,927*
Net funds at end of period	**9,553**	*25,956*	*21,928*

14. Retirement benefits

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

Entitlement to additional benefits under the US defined benefits pension scheme ceased on 31 December 2001.

The US post-retirement medical benefits plan relates to certain former employees who retired prior to 30 September 1995 and to a small number of current and former employees who were employed at that date. Accordingly, further benefit accruals under this plan are insignificant.

The retirement benefits liability at 30 June 2003 has been estimated by the actuaries on the basis described in the last annual report except that the expected rate of return on assets has been reduced by 1% to 8% and the discount rate applied to the liabilities has been reduced by 0.75% to 6%.

14. Retirement benefits (cont)

	unaudited six months ended 30 June 2003	*unaudited six months ended 30 June 2002*	*audited year ended 31 Dec 2002*
	£'000	*£'000*	*£'000*
Retirement benefits liability at start of period	**(17,290)**	*(12,212)*	*(12,212)*
Pension contributions	**428**	*1,032*	*1,087*
Payment of medical benefits	**88**	*118*	*176*
Service costs	**(1)**	*(55)*	*(53)*
Net finance expense	**(422)**	*(175)*	*(336)*
Actuarial loss	**(1,824)**	*(4,230)*	*(7,605)*
Foreign exchange translation	**530**	*837*	*1,653*
Retirement benefits liability at end of period	**(18,491)**	*(14,685)*	*(17,290)*

15. Statutory accounts

The above financial information does not constitute statutory accounts as defined in Section 240 of the Companies Act 1985. The statutory accounts for the financial year ended 31 December 2002, upon which the auditors issued an unqualified opinion pursuant to Section 235 of the Companies Act 1985 and which do not contain a statement under sub-section (2) or Section 237 of that Act, have been delivered to the Registrar of Companies.

Management Consulting Group PLC is registered in England and Wales (number 1000608) and its registered office is 21 New Fetter Lane London EC4A 1AW.

contacts for investors and clients

investor relations

The group welcomes contact with its shareholders.

Enquiries should be directed to:

Kevin Parry	*Chief Executive*	(kparry@mcgplc.com)
Stephen Purse	*Finance Director*	(spurse@mcgplc.com)
	London office	+44 20 7832 3700

operational contacts

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

administrative matters

Administrative matters should be directed to:

Steve Hitchcock	*Company Secretary*	(stevehitchcock@mcgplc.com)
	Palm Beach Gardens office:	+1 561 624 4377

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

21 New Fetter Lane
London EC4A 1AW
Tel: +44 20 7832 3700
Fax: +44 20 7832 3601

www.mcgplc.com