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management statement

As we indicated in our trading update on 11 July 2005, trading in the first half of 2005 was similar to that of the second half of 2004. The results are summarised as follows:

	Unaudited six months ended 30 June 2005	<i>Unaudited six months ended 31 Dec 2004 (restated for IFRS)</i>	<i>Unaudited six months ended 30 June 2004 (restated for IFRS)</i>	<i>Audited year ended 31 Dec 2004 (restated for IFRS)</i>
	£m	<i>£m</i>	<i>£m</i>	<i>£m</i>
Revenue				
Proudfoot	36.0	34.6	46.8	81.4
Parson	21.2	21.7	16.1	37.8
	57.2	56.3	62.9	119.2
Operating profit				
Proudfoot	3.6	3.1	7.0	10.1
Parson	1.0	1.6	0.7	2.3
	4.6	4.7	7.7	12.4

All figures are stated in accordance with International Financial Reporting Standards

Group results

Overall revenue for the six months ended 30 June 2005 was £57.2 million (six months ended 30 June 2004: £62.9 million; six months ended 31 December 2004: £56.3 million).

In 2004, the Proudfoot business benefited from two large client engagements that resulted in a revenue bias to the first half of the year. In 2005, we have also won some large client engagements including repeat work from two of the large engagements undertaken in 2004; these large projects will underpin our revenue in the second half.

In the period, 61% of Group revenue was attributable to North America (six months ended 30 June 2004: 67%). North American revenue declined by 18% compared with the corresponding period of 2004. In contrast Europe's share of revenue was 34% (six months ended 30 June 2004: 25%) with revenue 24% up compared with the corresponding period of 2004.

The Group's gross margin continued to be well managed and was 49% (2004: 49%). The margin has been held despite the investment of time into some large proposals for consulting engagements, offset by continued progress on pricing of work in Parson Consulting.

Selling costs were £1.6 million higher than in the corresponding period of 2004 primarily as a result of the expansion of our businesses to new geographic locations.

Administrative expenses were £1.7 million less than in the corresponding period due to lower bonuses as a result of lower operating profits and a credit of £0.9 million arising from a time expired indemnity given in 2000 in connection with the sale of Proudfoot's operation in Japan.

The total operating profit was £4.6 million compared with £7.7 million in the corresponding period of 2004 and £4.7 million in the second half of 2004.

The income tax charge on pre-tax profits, before the release of the indemnity provision, is 34% (2004 full year: 32%).

management statement

(continued)

Proudfoot Consulting

Proudfoot Consulting's revenue was £36.0 million (2004: £46.8 million). The decline in revenue is primarily attributable to North America which benefited in the first half of 2004 from some larger than normal client engagements. In contrast, Europe's revenue increased by some 6% over the corresponding period of 2004 primarily due to engagements in the United Kingdom.

There were no significant changes in the scope of the Proudfoot business around the world with the exception of South East Asia where we continued to invest in our capabilities in Hong Kong, China and Taiwan.

The decline in profitability compared with the first half of last year reflects the operational gearing in the business and our investment in expanding the Asian operations.

The order book at the half year was over 75% ahead of the start of the year with a number of orders extending into 2006.

Parson Consulting

Parson Consulting's revenue was £21.2 million (2004: £16.1 million). The growth in revenue is attributable to a widening of the services provided to clients and the continued growth in the UK business which benefited from the application of Sarbanes-Oxley to non-US domestic SEC registrants.

The profit increased to £1.0 million (2004: £0.7 million) due to operational gearing, offset by our investment in start up operations in Sydney and Paris.

In the second half of the year both of the new offices have started billing clients. Early signs are that the offices are gaining good traction in their market places. For the more established businesses, we anticipate increasing demand for non-governance related services with a continuing solid stream of work associated with governance related projects.

The order book at the half year was at a consistent level to the beginning of the current year.

Earnings per share

The basic earnings per share for the six months ended 30 June 2005 were 1.9 pence compared with 2.9 pence in the corresponding period.

Dividend

In accordance with our established policy, we pay dividends once per year, after the declaration of the annual results. Accordingly, no interim dividend is being declared.

Balance sheet

The Group's cash balance was £10.9 million compared with £14.5 million at 31 December 2004. The decline in cash reflects the payment of 2004's dividend, bonuses in respect of 2004, the funding of the closed US defined benefit pension plan and the seasonal increase in working capital.

The deficit relating to the closed defined benefit pension and medical plans increased from £11.4 million at 31 December 2004 to £14.6 million. This was a result of a lower discount rate applied to the liabilities, US market returns being below the long-term benchmark investment return and the stronger US dollar (as the underlying currency of the liability is US dollars), offset by funding of £0.9 million in the period.

The decrease in long-term provisions of £0.9 million arose in respect of the lapse of the indemnity in connection with the sale of Proudfoot's operation in Japan.

International Financial Reporting Standards

For the first time, our results are reported in accordance with International Financial Reporting Standards (IFRS), the main impact of this being that goodwill is no longer amortised and a charge has been recognised for share options of £0.3 million during the period. An explanation of the share options expense is given in note 10.

The comparative information for June 2004 has been restated for IFRS, resulting in an increase in both profit from operations and profit before tax of £2.1 million (see note 11). The increase arises from adding back goodwill amortisation of £1.9 million and reversing a deferred bonus expense of £0.4 million, offset by a charge for share options of £0.2 million.

The restatements of the 2004 full year results and balance sheet under IFRS are published in the 2004 Annual Report and Accounts, which is available on the company's website, www.mcgplc.com.

Strategy

Our strategy is focused on building a Group comprising a series of consultancies with particular specialisms in different aspects of consulting. This approach will diversify the dependency of the Group from our two existing consultancies.

We remain of the view that both the Proudfoot Consulting and Parson Consulting businesses have excellent medium term prospects. Going forward, we will continue to expand the geographical overlap of the two businesses to maximise the benefit that comes from our existing infrastructure. We also intend to deepen the resource and our commitment to our existing businesses and continue to develop our service offerings.

Our organic growth strategy has resulted in the Group being named by Kennedy Information Services as the second fastest growing consultancy in 2004. We climbed from the 66th to 55th largest consulting firm in the world in its recently published

management statement

(continued)

league table.

Outlook

The Group order book is considerably higher than at both the same time last year and the beginning of this year. That backlog of work, the current prospect stream and the additional revenue attributable to the expansion of our business arising from investment in prior periods positions us well for the future.

We anticipate making good progress in the second half of the year.



Dr Rolf Stomberg

Non-executive Chairman



Kevin Parry

Chief Executive

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 2005 which comprises the consolidated income statement, the consolidated statement of recognised income and expense, the consolidated balance sheet, the consolidated cash flow statement and related notes 1 to 11. 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 policies 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.

International Financial Reporting Standards

As disclosed in note 2(a), the next annual financial statements of the Group will be prepared in accordance with International Financial Reporting Standards ("IFRS") as adopted for use in the EU. Accordingly, the interim report has been prepared in accordance with the recognition and measurement criteria of IFRS and the disclosure requirements of the Listing Rules. The accounting policies are consistent with those that the directors intend to use in the annual financial statements. There is, however, a possibility that the directors may determine that some changes to these policies are necessary when preparing the full annual financial statements for the first time in accordance with IFRS as adopted for use in the EU.

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 International Standards on Auditing (UK and Ireland) and therefore provides a lower level of assurance than an audit. Accordingly, we do not express an audit opinion on the financial information.

independent review report

(continued)

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 2005.

Deloitte & Touche LLP

Chartered Accountants

London

8 August 2005

An audit 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 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.

consolidated income statement

Six months ended 30 June 2005		Six months ended 30 June 2005	<i>Six months ended 30 June 2004</i> <i>(restated for IFRS)</i>	<i>Year ended 31 Dec 2004</i> <i>(restated for IFRS)</i>
	note	£'000	£'000	£'000
Continuing operations				
Revenue	3	57,218	62,939	119,248
Cost of sales		(29,307)	(31,828)	(60,414)
Gross profit		27,911	31,111	58,834
Selling costs		(16,746)	(15,171)	(30,448)
Administrative expenses		(6,600)	(8,275)	(15,950)
Profit from operations	3	4,565	7,665	12,436
Finance income / (costs)		173	68	(34)
Profit before tax		4,738	7,733	12,402
Income tax expense	5	(1,285)	(2,320)	(3,945)
Profit for the period from continuing operations		3,453	5,413	8,457
Earnings per share				
From continuing operations				
Basic	6	1.87	2.93	4.57
Diluted	6	1.83	2.92	4.53

consolidated statement of recognised income and expense

Six months ended 30 June 2005		Six months ended 30 June 2005	<i>Six months ended 30 June 2004 (restated for IFRS)</i>	<i>Year ended 31 Dec 2004 (restated for IFRS)</i>
	note	£'000	<i>£'000</i>	<i>£'000</i>
Exchange differences on translation of foreign operations		(478)	<i>(2,496)</i>	<i>(1,745)</i>
Actuarial losses on defined benefit pension and medical schemes	9	(3,152)	<i>(422)</i>	<i>(1,696)</i>
Tax on items taken directly to equity		300	<i>–</i>	<i>–</i>
Net loss recognised directly in equity		(3,330)	<i>(2,918)</i>	<i>(3,441)</i>
Profit for the period		3,453	<i>5,413</i>	<i>8,457</i>
Total recognised income and expense for the period		123	<i>2,495</i>	<i>5,016</i>

consolidated balance sheet

as at 30 June 2005		30 June 2005	30 June 2004 (restated for IFRS)	31 Dec 2004 (restated for IFRS)
	note	£'000	£'000	£'000
Non-current assets				
Goodwill		66,358	66,783	66,109
Other intangible assets		522	357	392
Property, plant and equipment		1,468	1,551	1,397
Total non-current assets		68,348	68,691	67,898
Current assets				
Trade and other receivables		15,037	14,684	12,735
Cash and cash equivalents		10,858	12,384	14,510
Total current assets		25,895	27,068	27,245
Total assets		94,243	95,759	95,143
Current liabilities				
Trade and other payables		(22,503)	(24,430)	(24,222)
Tax liabilities		(4,256)	(5,785)	(4,722)
Total current liabilities		(26,759)	(30,215)	(28,944)
Net current liabilities		(864)	(3,147)	(1,699)
Non-current liabilities				
Retirement benefit obligation	9	(14,574)	(12,507)	(11,383)
Tax liabilities		(4,094)	(3,380)	(4,080)
Long-term provisions		(880)	(1,836)	(1,774)
Other non-current payables		(648)	(853)	(686)
Total non-current liabilities		(20,196)	(18,576)	(17,923)
Total liabilities		(46,955)	(48,791)	(46,867)
Net assets		47,288	46,968	48,276
Equity				
Share capital	7	47,373	47,256	47,256
Share premium account		38,146	38,026	38,026
Shares to be issued		46	1,636	185
Share compensation reserve		948	378	616
Own shares held by employee share trust		(1,270)	(970)	(970)
Translation reserve		(2,223)	(2,496)	(1,745)
Other reserves		12,747	12,747	12,747
Retained earnings		(48,479)	(49,609)	(47,839)
Total equity		47,288	46,968	48,276

consolidated cash flow statement

Six months ended 30 June 2005		Six months ended 30 June 2005	<i>Six months ended 30 June 2004</i> <i>(restated for IFRS)</i>	<i>Year ended 31 Dec 2004</i> <i>(restated for IFRS)</i>
	note	£'000	<i>£'000</i>	<i>£'000</i>
Net cash from operating activities	8	(2,142)	5,456	8,242
Investing activities				
Interest received		149	109	206
Acquisitions of subsidiaries		–	(1,074)	(1,074)
Purchase of property, plant and equipment		(385)	(601)	(943)
Purchase of intangible assets		(334)	(241)	(378)
Proceeds on disposal of property, plant and equipment		16	–	–
Purchase of own shares		(181)	–	–
Net cash used in investing activities		(735)	(1,807)	(2,189)
Financing activities				
Dividends paid	4	(1,241)	(925)	(925)
Proceeds from issue of shares		35	48	48
Net cash used in financing activities		(1,206)	(877)	(877)
Net (decrease) / increase in cash and cash equivalents		(4,083)	2,772	5,176
Cash and cash equivalents at beginning of period		14,510	9,738	9,738
Effect of foreign exchange rate changes		431	(126)	(404)
Cash and cash equivalents at end of period		10,858	12,384	14,510

notes

1. General information

The information for the year ended 31 December 2004 does not constitute statutory accounts as defined in Section 240 of the Companies Act 1985. A copy of the statutory accounts for that year has been delivered to the Registrar of Companies. The auditors' report on those accounts was unqualified pursuant to Section 235 of the Companies Act 1985 and did not contain a statement under sub-section (2) or Section 237 of that Act.

2. Summary of significant accounting policies

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

(a) Basis of preparation

These interim financial statements for the six months ended 30 June 2005 have been prepared in accordance with International Financial Reporting Standards (IFRS) for the first time, and are covered by IFRS 1, First-time Adoption of IFRS, as they are part of the period covered by the Group's first IFRS financial statements for the year ending 31 December 2005. These interim financial statements have been prepared in accordance with those IFRS standards and IFRIC interpretations issued and effective or issued and early adopted as at the time of preparing these statements (August 2005). The IFRS standards and IFRIC interpretations that will be applicable at 31 December 2005, including those that will be applicable on an optional basis, are not known with certainty at the time of preparing these interim financial statements.

The policies set out below have been consistently applied to all the periods presented, and the comparative figures in respect of 2004 have been restated to reflect IFRS adjustments. The disclosures required by IFRS 1 concerning the transition from UK GAAP to IFRS for the comparative prior period are given in note 11.

The interim financial statements have been prepared on the historical cost basis.

(b) Basis of consolidation

(i) Subsidiaries

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

All inter-company transactions, balances and unrealised gains on transactions between group companies are eliminated on consolidation. Subsidiaries' accounting policies have been changed where necessary to ensure consistency with the policies adopted by the Group.

2. Summary of significant accounting policies (continued)

(b) Basis of consolidation

(i) Subsidiaries (continued)

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

(ii) Joint ventures

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

(c) Goodwill

Goodwill arising on the acquisition of a subsidiary or a jointly controlled entity represents the excess of the cost of acquisition over the Group's interest in the net fair value of the identifiable assets and liabilities of the subsidiary or jointly controlled entity recognised at the date of acquisition. Goodwill is initially recognised as an intangible asset at cost. Goodwill is tested annually for impairment and carried at cost less any accumulated impairment losses.

Goodwill is allocated to cash-generating units for the purpose of impairment testing. Each of those cash-generating units represents the Group's investment in each geographic region of operation by each primary reporting segment.

(d) Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable and represents amounts receivable for services provided to third parties in the normal course of business, net of discounts, VAT and other sales related taxes. Revenue from services is recognised when services have been provided and the right to consideration has been earned.

(e) Depreciation of property, plant and equipment

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

(f) Amortisation of computer software

Acquired computer software licences are capitalised as intangible assets on the basis of the costs incurred to acquire and bring to use the specific software. These costs are amortised over their estimated useful lives, which do not exceed three years. Costs associated with developing or maintaining computer software programs are recognised as an expense as incurred.

(g) Impairment of tangible and intangible assets

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

(h) Foreign currencies

The individual financial statements of each Group entity are presented in the currency of the primary economic environment in which the entity operates (its functional currency). For the purpose of the consolidated financial statements, the results and financial position of each entity are expressed in pounds sterling, which is the Company's functional and presentation currency.

In preparing the financial statements, transactions in currencies other than pounds sterling are recorded at the rates of exchange prevailing on the dates of the transactions. At each balance sheet date, monetary items denominated in foreign currencies are retranslated at the rates prevailing on the balance sheet date. Non-monetary items carried at fair value that are denominated in foreign currencies are translated at the rates prevailing at the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign company are not retranslated.

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

For the purposes of presenting consolidated financial statements, the assets and liabilities of the Group's foreign operations (including comparatives) are expressed in pounds sterling using exchange rates prevailing on the balance sheet date. Income and expense items (including comparatives) are translated at the average exchange rate for the period unless exchange rates fluctuated significantly during that period, in which case the exchange rates at the dates of the transactions are used. Exchange differences arising, if any, are classified as equity and transferred to the Group's translation reserve. Such translation differences are recognised in the profit or loss in the period in which the foreign operation is disposed of.

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

(i) Operating leases

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

2. Summary of significant accounting policies (continued)

(j) Taxation

Income tax expense represents the sum of the tax currently payable and deferred tax.

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

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

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

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

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

(k) Share-based payments

Share options are awarded annually to selected employees on a discretionary basis. The options are subject to three and five year service vesting conditions, and their fair value (which is measured using the stochastic pricing model at the date of grant) is recognised as an employee benefits expense over the vesting period, with a corresponding increase in an other equity reserve. The proceeds received net of any directly attributable transaction costs are credited to share capital (nominal value) and share premium when the options are exercised.

(l) Retirement benefits

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

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

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

(m) Provisions

Provisions for legal claims are recognised when the Group has a present legal or constructive obligation as a result of past events, and it is more likely than not that an outflow of resources will be required to settle that obligation, and the amount has been reliably estimated. Provisions are measured at the present value of the directors' best estimate of the expenditure required to settle the obligation at the balance sheet date and are discounted to present value where the effect is material.

(n) Dividend distribution

Dividend distribution to the Company's shareholders is recognised as a liability in the Group's financial statements in the period in which the dividends are approved by the Company's shareholders.

(o) Own shares held by employee trust

The Management Consulting Group PLC shares owned by the employee share trust are presented as a reduction of equity.

3. Segmental information

(a) Primary reporting format – business segments

For management purposes, the Group has two businesses – Parson Consulting and Proudfoot Consulting. These businesses are the basis on which the Group reports its primary segment information.

The principal activities of the business segments are as follows:

Parson Consulting – financial management consultancy
Proudfoot Consulting – operational management consultancy

Six months ended 30 June 2005	Financial management consultancy	Operational management consultancy	Group
	£'000	£'000	£'000
Revenue			
External sales	21,229	35,989	57,218
Operating profit	1,032	2,636	3,668
Release of indemnity provision	–	897	897
Profit from operations	1,032	3,533	4,565
Finance income			173
Profit before tax			4,738
Income tax expense			(1,285)
Profit after tax			3,453

Six months ended 30 June 2004	<i>Financial management consultancy</i> £'000	<i>Operational management consultancy</i> £'000	<i>Group</i> £'000
Revenue			
External sales	16,108	46,831	62,939
Profit from operations	654	7,011	7,665
Finance income			68
Profit before tax			7,733
Income tax expense			(2,320)
Profit after tax			5,413

(b) Secondary reporting format – geographical segments

The Group operates in three geographical areas – North America, Europe and the Rest of the World. The Group reports secondary segment information on the basis of geographical area.

Six months ended 30 June 2005	North America £'000	Europe £'000	Rest of World £'000	Group £'000
Revenue				
External sales	34,666	19,673	2,879	57,218

Six months ended 30 June 2004	<i>North America</i> £'000	<i>Europe</i> £'000	<i>Rest of World</i> £'000	<i>Group</i> £'000
Revenue				
External sales	42,282	15,853	4,804	62,939

4. Dividends

	2005	<i>2004</i> <i>(restated for</i> <i>IFRS)</i>
	£'000	£'000
Amounts recognised as distributions to equity holders in the period:		
Final dividend for the year ended 31 December 2004 of 0.67p (2003: 0.50p) per share	1,241	925

5. Taxation

	Six months ended 30 June 2005	<i>Six months ended 30 June 2004</i> <i>(restated for</i> <i>IFRS)</i>	<i>Year ended 31 Dec 2004</i> <i>(restated for</i> <i>IFRS)</i>
	£'000	£'000	£'000
Current tax			
UK	–	445	127
Foreign	1,164	1,564	3,828
Prior year	(12)	707	490
	1,152	2,716	4,445
Deferred tax	133	(396)	(500)
Total	1,285	2,320	3,945

6. Earnings per share

From continuing operations

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

	Six months ended 30 June 2005	<i>Six months ended 30 June 2004 (restated for IFRS)</i>	<i>Year ended 31 Dec 2004 (restated for IFRS)</i>
	£'000	<i>£'000</i>	<i>£'000</i>
Earnings			
Earnings for the purposes of basic earnings per share being net profit attributable to equity holders of the parent	3,453	<i>5,413</i>	<i>8,457</i>
Number of shares	Number (million)	<i>Number (million)</i>	<i>Number (million)</i>
Weighted average number of ordinary shares for the purposes of basic earnings per share	185.1	<i>184.9</i>	<i>185.0</i>
Effect of dilutive potential ordinary shares:			
– Share options	3.5	<i>0.7</i>	<i>1.8</i>
– Long term incentive plan	0.2	<i>–</i>	<i>–</i>
Weighted average number of ordinary shares for the purposes of diluted earnings per share	188.8	<i>185.6</i>	<i>186.8</i>
	Pence	<i>Pence</i>	<i>Pence</i>
Basic earnings per share	1.87	<i>2.93</i>	<i>4.57</i>
Diluted earnings per share	1.83	<i>2.92</i>	<i>4.53</i>

The average share price for the six months ended 30 June 2005 was 50.2 pence (30 June 2004: 35.3 pence and 31 December 2004: 41.3 pence).

7. Share capital

During the interim period, the Company issued the following ordinary shares of 25 pence each:

	Number of shares	Nominal value £'000
At 1 January 2005	189,024,358	47,256
Issued for the management incentive plan share award	333,049	83
Employee share options exercised	136,005	34
At 30 June 2005	189,493,412	47,373

8. Notes to the cash flow statement

	Six months ended 30 June 2005	<i>Six months ended 30 June 2004 (restated for IFRS)</i>	<i>Year ended 31 Dec 2004 (restated for IFRS)</i>
	£'000	<i>£'000</i>	<i>£'000</i>
Profit from operations	4,565	7,665	12,436
Adjustments for:			
Depreciation of property, plant and equipment	288	391	818
Amortisation of intangible assets	234	165	346
Gain on disposal of plant and equipment	16	–	–
Management long-term incentive plan	–	(503)	(757)
Adjustment for pension funding	(920)	(1,024)	(2,911)
Adjustment for share compensation reserve	332	201	439
Decrease in provisions	(886)	(48)	(110)
Operating cash flows before movements in working capital	3,629	6,847	10,261
Increase in receivables	(1,940)	(5,364)	(4,053)
(Decrease) / Increase in payables	(2,036)	6,325	5,840
Cash generated by operations	(347)	7,808	12,048
Income taxes paid	(1,795)	(2,352)	(3,806)
Net cash from operating activities	(2,142)	5,456	8,242

Cash and cash equivalents (which are presented as a single class of assets on the face of the balance sheet) comprise cash at bank and other short-term highly liquid investments with a maturity of three months or less.

9. Retirement benefits

The retirement benefits liability relates to the closed US defined benefit pension scheme and to the closed 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 2005 has been estimated by the actuaries on the basis described in the last annual report except that the discount rate applied to the liabilities has been decreased by 0.5% to 5.25%. An actuarial loss of £3.2 million arose in the period (30 June 2004: loss of £0.4 million).

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

	Six months ended 30 June 2005	<i>Six months ended 30 June 2004</i>	<i>Year ended 31 Dec 2004</i>
	£'000	<i>£'000</i>	<i>£'000</i>
Opening defined benefit obligation	(35,771)	<i>(35,586)</i>	<i>(35,586)</i>
Service cost	–	<i>–</i>	<i>(1)</i>
Interest cost	(1,029)	<i>(1,025)</i>	<i>(2,037)</i>
Actuarial losses	(2,305)	<i>(94)</i>	<i>(2,263)</i>
Exchange differences	(2,649)	<i>652</i>	<i>2,583</i>
Benefits paid	747	<i>790</i>	<i>1,534</i>
Closing defined benefit obligation	(41,007)	<i>(35,263)</i>	<i>(35,770)</i>

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

	Six months ended 30 June 2005	<i>Six months ended 30 June 2004</i>	<i>Year ended 31 Dec 2004</i>
	£'000	<i>£'000</i>	<i>£'000</i>
Opening fair value of plan assets	24,387	<i>22,373</i>	<i>22,373</i>
Expected return	990	<i>887</i>	<i>1,765</i>
Actuarial (losses) / gains	(847)	<i>(328)</i>	<i>568</i>
Contributions by employer	920	<i>1,024</i>	<i>2,912</i>
Exchange differences	1,730	<i>(410)</i>	<i>(1,697)</i>
Benefits paid	(747)	<i>(790)</i>	<i>(1,534)</i>
Closing fair value of plan assets	26,433	<i>22,756</i>	<i>24,387</i>
Net retirement benefit obligation	(14,574)	<i>(12,507)</i>	<i>(11,383)</i>

The fair value of plan assets at the balance sheet date is analysed as follows:

	30 June 2005	<i>30 June 2004</i>	<i>31 Dec 2004</i>
	£'000	<i>£'000</i>	<i>£'000</i>
Equities	18,310	<i>16,464</i>	<i>17,099</i>
Bonds	7,992	<i>6,280</i>	<i>6,903</i>
Cash	131	<i>12</i>	<i>385</i>
Total fair value of assets	26,433	<i>22,756</i>	<i>24,387</i>

The plan assets do not include any of the Group's own financial instruments, nor any other assets used by the Group.

10. Share-based payments

Share options are granted to directors and senior employees under the Proudfoot PLC Executive Share Option Scheme. The exercise price of the options is equal to the market price of the shares on the date of grant. Options granted under this Scheme are exercisable in two equal instalments after three years and five years respectively. The half of the options exercisable between three and ten years after grant have been assumed to have an expected vesting period of five years, and the remaining half of the options exercisable between five and ten years after grant have been assumed to have an expected life of seven years.

For grants made since 7 November 2002 (the start date from which IFRS takes share option awards into account), options were subject to a performance condition that compares the Total Shareholder Return ("TSR") over the three year period following grant with the TSR of the FTSE Mid 250.

The fair value of options granted was determined using the stochastic valuation model. An expense of £0.3 million has been recognised in the period in respect of the share options granted above (2004 full year: £0.4 million). The cumulative share compensation reserve at 30 June 2005 is £0.9 million, which includes the opening IFRS adjustment of £0.2 million.

11. Explanation of transition to IFRS

The reconciliations of equity at 1 January 2004 (the date of transition to IFRS) and at 31 December 2004 (date of the last UK GAAP financial statements) and the reconciliation of profit to 31 December 2004, as required by IFRS 1, have been published within the 2004 Annual Report and Accounts. These can be found on the company's website, www.mcgplc.com.

The reconciliations have been amended subsequently to recognise a deferred tax liability for the 2004 full year of £0.9 million relating to tax deductible goodwill.

The reconciliation of equity at 30 June 2004 and the reconciliation of profit for the six months ended 30 June 2004 have been included below to enable a comparison of the 2005 published interim figures with those published in the corresponding period of the previous financial year.

Reconciliation of equity at 30 June 2004

	UK GAAP	Effect of transition to IFRS	IFRS
	£'000	£'000	£'000
Non-current assets			
Goodwill	64,890	1,893	66,783
Other intangible assets	–	357	357
Property, plant and equipment	1,908	(357)	1,551
Total non-current assets	66,798	1,893	68,691
Current assets			
Trade and other receivables	14,564	120	14,684
Cash and cash equivalents	12,384	–	12,384
Total current assets	26,948	120	27,068
Total assets	93,746	2,013	95,759
Current liabilities			
Trade and other payables	(24,810)	380	(24,430)
Tax liabilities	(5,785)	–	(5,785)
Total current liabilities	(30,595)	380	(30,215)
Net current liabilities	(3,647)	500	(3,147)
Non-current liabilities			
Retirement benefits	(12,507)	–	(12,507)
Tax liabilities	(2,920)	(460)	(3,380)
Long-term provisions	(1,836)	–	(1,836)
Other non-current payables	(853)	–	(853)
Total non-current liabilities	(18,116)	(460)	(18,576)
Total liabilities	(48,711)	(80)	(48,791)
Net assets	45,035	1,933	46,968
Equity			
Share capital	47,256	–	47,256
Share premium account	38,026	–	38,026
Shares to be issued	1,636	–	1,636
Share compensation reserve	–	378	378
Own shares held by employee share trust	(970)	–	(970)
Translation reserve	(14,834)	12,338	(2,496)
Other reserves	12,747	–	12,747
Retained earnings	(38,826)	(10,783)	(46,609)
Total equity	45,035	1,933	46,968

11. Explanation of transition to IFRS (continued)

Reconciliation of profit for the six months ended 30 June 2004

	UK GAAP	Effect of transition to IFRS	IFRS
	£'000	£'000	£'000
Revenue	62,939	–	62,939
Cost of sales	(31,771)	(57)	(31,828)
Gross profit	31,168	(57)	31,111
Selling costs	(15,121)	(50)	(15,171)
Goodwill amortisation	(1,893)	1,893	–
Administrative expenses excluding goodwill amortisation	(8,542)	267	(8,275)
Profit from operations	5,612	2,053	7,665
Finance income	68	–	68
Profit before tax	5,680	2,053	7,733
Income tax expense	(1,980)	(340)	(2,320)
Profit for the period from operations	3,700	1,713	5,413

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

IFRS 2 Share-based Payment

Under IFRS 2, the Group recognises a charge for the fair value of outstanding share options granted to employees after 7 November 2002. The charge has been calculated using the stochastic option pricing model and the resulting cost has been charged to the income statement over the relevant option vesting periods, adjusted to reflect actual and expected levels of vesting. There was no charge to the profit and loss account in the six months ended 30 June 2004 under UK GAAP in relation to share options granted to employees. The impact of IFRS 2 is a reduction in retained earnings as at 1 January 2004 of £0.2 million and a charge of £0.2 million for the six months ended 30 June 2004. A deferred tax asset of £0.1 million is recognised in relation to the share option scheme.

IAS 38 Intangible Assets

IAS 38 requires computer software costs, including development costs, to be classified as intangible assets. Capitalised software of £0.4 million is reclassified at 30 June 2004 as intangible assets, which continue to be amortised over three years or the life of the software contract if shorter. The opening balance sheet under IFRS included a similar reclassification of £0.4 million.

IFRS 3 Business Combinations

Under IFRS 3, goodwill is no longer amortised but held at carrying value in the balance sheet and tested annually for impairment (with a specific requirement to be tested at the date of transition) and when there are indications of impairment. The goodwill amortisation under UK GAAP of £1.9 million charged during the six months ended 30 June 2004 has been reversed under IFRS. All goodwill has been tested for impairment for the six months ended 30 June 2004 and at the transition date in accordance with IFRS and no adjustment was deemed necessary. A deferred tax liability of £0.5 million has been recorded in the six months ended 30 June 2004 relating to the temporary difference arising as the goodwill deductible for overseas tax purposes is no longer subject to amortisation under IFRS (IAS 12 Income Taxes).

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

IAS 10 Events after the Balance Sheet Date

IAS 10 requires that dividends are recognised in the period in which they are declared. This is different to UK GAAP where the proposed dividend is recognised in the profit and loss account. The final proposed dividend for 2003 of £0.9 million has been reversed out of the opening balance sheet and recorded at the amount paid in the six months ended 30 June 2004.

IAS 19 Other Long-term Benefits

Deferred employee bonuses awarded in respect of the year ended 31 December 2004 but not payable in cash and shares until 31 December 2007, are accounted for under IAS 19 as deferred long-term benefits, and will be expensed to the income statement over the subsequent three year deferral period under IFRS. Under UK GAAP £0.4 million of the full year expense was charged to the profit and loss account in the six months ended 30 June 2004. This results in a credit to the 30 June 2004 income statement of £0.4 million, included in "Other adjustments," and a corresponding reduction in liabilities at 30 June 2004.

IAS 21 The Effects of Changes in Foreign Exchange

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

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

contacts for investors and clients

www.mcgplc.com

Investor relations

The Group welcomes contact with its shareholders.

Enquiries should be directed to:

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Mark Currie	<i>Finance Director</i>	(mcurrie@mcgplc.com)
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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 Mark Currie (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.