Management Consulting Group PLC

12 March 2007

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Financial results for the year ended 31 December 2006

Management Consulting Group PLC ("MCG" or "the Group"), the international management consultancy group, today announces its results for the year ended 31 December 2006.

Key points

- Revenue 13% up on last year to £146.9 million (2005: £129.6 million)
- Underlying[†] operating profit 28% up to £16.2 million (2005: £12.7 million)
- Underlying EBITDA margin up 16% to 12.3% (2005: 10.6%)
- Operating profit £13.4 million (2005: £13.6 million)
- Underlying EPS up 22% to 6.1p (2005: 5.0p); Basic EPS 4.1p (2005: 5.3p)
- Dividend increased by 25% to 1.0p per share (2005: 0.8p)
- Ineum integration progressing well and out-performing expectations
- Current trading and order intake in line with expectations

[†]Throughout this statement the term underlying is used to describe profits before non-recurring items and amortisation of acquired intangible assets

Rolf Stomberg, Chairman:

"In the light of the Group's performance and its prospects, I am delighted that the board is recommending that shareholders approve a 25% increase in the dividend to 1.0p per share."

Kevin Parry, Chief Executive:

"In 2006 we continued the execution of our strategy of delivering growth by creating a significant multi-disciplinary consultancy group with particular specialisms in different geographies. In the year we made good margin progress and added Ineum Consulting and Salzer Consulting to the Group's portfolio of consultancies. Both acquired consultancies are trading well and their integration into the Group is on schedule."

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An analyst briefing will be held at the offices of Management Consulting Group PLC on the 6th floor of Fleet Place House, 2 Fleet Place, Holborn Viaduct, London, EC4M 7RF on Monday 12 March 2007 at 9.30 am.

Notes to Editors

Management Consulting Group PLC (MMC.L) is an umbrella organisation for a diverse range of consulting and professional services offerings.

It operates through four divisions: Ineum Consulting, Parson Consulting, Proudfoot Consulting and Salzer Consulting. Ineum Consulting provides consulting services with industry expertise. Parson Consulting specialises in financial management consulting. Proudfoot Consulting specialises in operational improvement consulting and Salzer Consulting specialises in starting, managing and restructuring business in Asian markets. The businesses operate worldwide. For further information, visit www.mcgplc.com.

Forward-looking statements

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

Overview

The Group made significant progress in implementing its strategic plan to deliver growth through broadening its consulting offering in existing and new geographies. The acquisition of Ineum provided a third, substantial consultancy to the Group's portfolio diversifying the service offerings and deepening the Group's European footprint. The Group also invested in Salzer Consulting, a specialist human resources consultancy operating in the fast expanding market place of Asia, with a particular focus on China.

Operationally, all businesses are making progress towards realising their potential albeit that each is at different stages of individual development.

The current year has started with good momentum and the order book has improved solidly from its satisfactory position at the year end.

The performance of the four consultancies is set out below:

	Year ended 31 Dec 2006	Year ended 31 Dec 2005
	£'000	£'000
Revenue		
Ineum Consulting	**23,709**	-
Parson Consulting	**34,301**	43,216
Proudfoot Consulting	**88,658**	86,385
Salzer Consulting	**222**	-
Total revenue	**146,890**	129,601
Operating profit		
Ineum Consulting	**2,780**	-
Parson Consulting	**(2,108)**	2,245
Proudfoot Consulting	**15,575**	10,417
Salzer Consulting	**(91)**	-
Underlying† operating profit	**16,156**	12,662
Non-recurring items:		
Ineum integration	**(2,100)**	-
Proudfoot surplus provision	**335**	897
Operating profit before amortisation	**14,391**	13,559
Amortisation of acquired intangibles	**(943)**	-
Profit from operations	**13,448**	13,559

†Throughout this statement the term underlying is used to describe profits before non-recurring items and amortisation of acquired intangible assets

Total revenue for the year was up 13% to £146.9 million. Ineum Consulting (which was a member of the Group for four months) accounted for 16% of revenue, Parson Consulting accounted for 23% of revenue, Proudfoot Consulting accounted for 60% of revenue and Salzer Consulting (which was a member of the Group for three months) accounted for 1% of revenue.

The acquisition of Ineum Consulting resulted in a material shift in the geographic distribution of revenue. The Americas accounted for 44% (2005: 61%) and Europe accounted for 48% (2005: 31%) of Group revenue.

The gross profit margin continues to be tightly managed and remains at 50% of revenue. Selling costs remain at 27% of revenue.

Overall, underlying administrative expenses are unchanged from the previous year, but this masks an increase of £2.5 million due to administrative expenses inherent in the acquired companies which were offset by cost savings over the course of the year in the remainder of the Group.

Following the acquisition of Ineum Consulting, we embarked on a rapid plan to integrate that consultancy into the Group. Non-recurring costs of £2.1 million were incurred in respect of rebranding, financial management alignment, office moves, knowledge management, launch meetings, works council procedures and professional fees. Partially offsetting those costs, was a non-recurring credit of £0.3 million (2005: £0.9 million) associated with a surplus provision arising from the disposal of Proudfoot's Japanese business in 2000. No further profits or losses will arise from that transaction. Additionally, £0.9 million of amortisation has been charged in the profit and loss account arising from the acquisition of Ineum's customer relationships and orders which are accounted for as intangible assets.

The underlying profit from operations rose 28% to £16.2 million (2005: £12.7 million).

The underlying EBITDA margin was 12.3% compared with 10.6% last year. Our target EBITDA margin remains at 15%.

After charging the non-recurring costs of a net £1.8 million (2005: £0.9 million credit) and amortisation of intangible assets arising on the acquisition of Ineum of £0.9 million (2005: £-), the operating profit was little changed at £13.4 million (2005: £13.6 million).

The Ineum acquisition was partly financed out of cash resources and new debt resulting in financing costs of £1.3 million (2005: £0.1 million) which was partly offset by investment income of £1.2 million (2005: £0.5 million) arising primarily in the first eight months of the year. Group pre-tax profits were £13.3 million (2005: £13.9 million).

The effective tax charge on profit before tax, as adjusted for the credit associated with the Japan indemnity provision and the amortisation charge related to the Ineum acquisition, is 33% (2005: 32%) and includes: 8% points (2005: 12% points) of non-cash tax items required to be included in the charge by accounting standards; and 3% points (2005: 9% points credit) related to prior years. The current year "cash tax" charge is therefore 22% (2005: 29%).

Basic earnings per share were 4.1 pence (2005: 5.3 pence). After adjusting for post tax, non-recurring items, the amortisation of intangibles and non "cash tax" items, the adjusted earnings per share were 6.1 pence (2005: 5.0 pence). It is estimated that the Ineum acquisition increased underlying earnings per share by over 15% in the period.

Ineum Consulting

Ineum Consulting has performed ahead of our expectations. Revenue increased by 23% over the same period of last year. The integration plan that commenced on closing is being executed in line with the planned timetable and the consultancy is adding a new dimension to the Group's services in the French speaking markets of Europe. Its operating margin before the one-off costs was 11.7% compared with 10.5% achieved in its last financial year ended 31 May 2006. The increased margin is primarily associated with the seasonality of the business.

Parson Consulting

As previously reported, Parson Consulting's revenue was held back by its US operation which was slow to transition its offerings from Sarbanes-Oxley related engagements. In April 2006, we strengthened the management of Parson North America, so separating that unit's management from that of the consultancy's management as a whole. In addition, the management structure was simplified and restructured and there was intense reinforcement of core sales disciplines. Good progress was made outside the US. The operating loss for the year was £2.1 million of which £1.9 million was incurred in the first half.

Proudfoot Consulting

Proudfoot Consulting grew its revenues by 3% over last year. Excellent progress was made by Proudfoot Consulting in improving its operating margin to 18% (2005: 12%), primarily due to the elimination of European losses through better management of resources. The consultancy continued to invest in the development of its business in China and re-entered the Brazilian market after an absence of some seven years.

Salzer Consulting

Salzer Consulting's impact on the Group results was immaterial for the period of ownership. 2007 will be a year where we largely reinvest its profits back into the business to ensure that it is able to take advantage of the market opportunities in China.

Balance sheet

Net assets increased by £54.3 million to £112.2 million. The largest component of the increase was the consideration for Ineum being partly settled in the form of new MCG shares.

In accordance with International Financial Reporting Standards, intangible assets arising on the purchases of businesses have been separately identified and quantified from goodwill and amount to £9.0 million before an associated deferred tax liability of £3.0 million, as required by accounting standards. The intangible assets are amortised through the income statement whereas the goodwill is not. The aggregate goodwill and intangible assets before amortisation in respect of 2006 increased by £93.9 million primarily as a result of the Ineum acquisition.

Debtors have increased significantly from 18 days at the end of 2005 to 39 days at the end of 2006. Ineum Consulting does not currently operate the same credit policies as the rest of the Group and as a result the Group has absorbed £10.8 million of working capital since the date of acquisition. This is in addition to £4.1 million of net borrowings assumed at the time of the acquisition. Management is in the process of developing revised credit control procedures.

The Group's overall net debt as at 31 December 2006 was £28.8 million compared with net funds of £21.6 million at 31 December 2005. £41.0 million of the movement is accounted for by the cash element of the Ineum purchase consideration and £4.1 million by the refinancing of Ineum's working capital at the time of acquisition.

The liability of the post retirement obligations has decreased from £11.9 million at 31 December 2005 to £5.4 million at 31 December 2006. The decrease in the liability arises from payments into the closed US defined benefit scheme of £2.0 million (2005: £2.5 million), an increase in the discount rate from 5.5% to 5.8%, strong investment performance and the weakening of the US dollar by 14% in 2006.

Strategic progress

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

We now co-ordinate and develop major client relationships across the consultancies to increase the services provided by the Group's consultancies.

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

Management Consulting Group PLC is now one of the 30 largest consultancies in the world operating through its four lines of business and in six continents.

Dividend

In the light of the increase in the size, the underlying profitability of the business and the cash generation, the Board is recommending that the dividend in respect of the year is increased by 25% to 1.0 pence per share. Subject to shareholders' approval, the dividend will be payable on 9 May 2007 to shareholders on the register on 13 April 2007.

People

We were pleased, earlier in the year, to welcome Ineum's and Salzer's employees to the Group. The Board is delighted by the way that our people are working together.

Mark Currie, Finance Director, stood down from the Board on 13 October 2006. He will be replaced by Craig Smith who will join the Board on 26 April 2007. Craig Smith and Jacques Manardo (who joined the board as a non-executive director on 1 September 2006), being eligible offer themselves for re-election at the forthcoming Annual General Meeting.

Prospects

The order book has grown solidly since the beginning of the year with trading and work won in the first two months of 2007 being in line with directors' expectations. We expect Proudfoot Consulting to trade in line with the second half of 2006 and for the other consultancies to show good growth in first half revenue.

The directors are confident that the Group will show good progress in 2007.

Dr Rolf Stomberg
Chairman

Kevin Parry
Chief Executive

Group income statement

year ended 31 December	Note	**2006** £'000	2005 £'000
Continuing operations			
Revenue	3	**146,890**	129,601
Cost of sales		**(73,415)**	(64,847)
Gross profit		**73,475**	64,754
Selling costs		**(40,169)**	(34,931)
Administrative expenses – underlying		**(17,150)**	(17,161)
Profit from operations before non-recurring expenses and amortisation of acquired intangibles		**16,156**	12,662
Administrative (expenses)/income – non-recurring		**(1,765)**	897
Profit from operations before amortisation of acquired intangibles		**14,391**	13,559
Administrative expenses – amortisation of acquired intangibles		**(943)**	-
Total administrative expenses		**(19,858)**	(16,264)
Profit from operations	3	**13,448**	13,559
Investment income	6	**1,176**	453
Finance costs	6	**(1,276)**	(92)
Profit before tax		**13,348**	13,920
Tax expense	7	**(4,598)**	(4,128)
Profit for the year		**8,750**	9,792
Earnings per share – pence			
From continuing operations			
Basic	8	**4.1**	5.3
Diluted	8	**4.1**	5.2
Basic – excluding amortisation of acquired intangible assets	8	**4.6**	5.3
Basic – excluding amortisation , non-recurring and non-cash tax items	8	**6.1**	5.0

Group statement of recognised income and expense

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

Group balance sheet

as at 31 December

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

Consolidated cash flow statement

year ended 31 December

	Note	**2006 £'000**	2005 £'000
Net cash from operating activities	9	**(1,954)**	8,826
Investing activities			
Net interest received		**1,013**	323
Acquisitions of subsidiaries, net of cash and overdrafts acquired		**(44,932)**	-
Purchases of property, plant and equipment		**(1,202)**	(669)
Purchases of intangible assets		**(1,363)**	(454)
Proceeds on disposal of property, plant and equipment		**-**	13
Net cash used in investing activities		**(46,484)**	(787)
Financing activities			
Dividends paid	4	**(1,486)**	(1,241)
Purchases of own shares		**-**	(181)
Proceeds from issue of shares		**282**	35
Proceeds from borrowings		**39,009**	
Refinancing of acquired borrowings by term debt		**(15,211)**	
Net cash used in financing activities		**22,594**	(1,387)
Net (decrease)/increase in cash and cash equivalents		**(25,844)**	6,652
Cash and cash equivalents at beginning of period		**21,555**	14,510
Effect of foreign exchange rate changes		**(225)**	393
Cash and cash equivalents net of current borrowings at end of period		**(4,514)**	21,555

Notes

1. Basis of preparation

The financial information included in this statement does not constitute statutory accounts as defined in Section 240 of the Companies Act 1985. The financial information has been extracted without material adjustment from the consolidated financial statements of Management Consulting Group PLC for the year ended 31 December 2006, which have been audited. The auditors have made a report under Section 235 of the Companies Act 1985 in respect of the statutory consolidated accounts for the years ended 31 December 2006 and 31 December 2005. Their reports were unqualified within the meaning of Section 262(1) of the Companies Act 1985 and did not contain a statement under Section 237(2) or (3) of that Act.

While the financial information included in this preliminary announcement has been computed in accordance with International Financial Reporting Standards (IFRS), this announcement does not itself contain sufficient information to comply with IFRSs.

Statutory accounts for the financial year ended 31 December 2005 have been delivered to the Registrar of Companies pursuant to Section 242 of the Act whereas those for 2006 will be delivered following the Annual General Meeting.

The Group's Annual Report and Accounts will be sent to shareholders on 23 March 2007 and will be available at the Company's registered office at Fleet Place House, 2 Fleet Place, London, EC4M 7RF, United Kingdom and on our website: www.mcgplc.com.

The Annual General Meeting will be held at The Law Society's Halls, Old Council Chamber, 113 Chancery Lane, London, WC2A 1PL on 26 April 2007 at 10 am.

2. Accounting policies

The financial information has been prepared in accordance with IFRSs. These 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 (as at 31 December 2006). The policies have been consistently applied to all the periods presented.

Full details of the Group's accounting polices can be found in the 2005 Annual Report in note 2 which is available on our website: www.mcgplc.com.

Notes (continued)

3. Segmental information

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

Primary reporting format – geographic segments

The Group operates in three geographic areas: the Americas, Europe and the Rest of the World.

The Group reports segment information on the basis of geographic area as follows:

(a) ***Income statement***

year ended 31 December 2006	Americas	Europe	Rest of World	Consolidated
	£'000	£'000	£'000	£'000
Revenue				
External sales	63,981	70,251	12,658	146,890
Profit/(loss) from operations before release of indemnity provision, acquisition integration costs, depreciation and amortisation of acquired intangibles	10,708	7,656	(361)	18,003
Amortisation of acquired intangibles	-	(943)	-	(943)
Depreciation and other amortisation	(860)	(926)	(61)	(1,847)
Profit/(loss) from operations before non-recurring items	9,848	5,787	(422)	15,213
Acquisition integration costs – non-recurring	-	(2,100)	-	(2,100)
Release of indemnity provision – non-recurring	-	-	335	335
Profit/(loss) from operations	9,848	3,687	(87)	13,448
Finance costs (net)				(100)
Profit before tax				13,348
Income tax expense				(4,598)
Profit for the year				8,750

Notes (continued)

3. Segmental information (continued)

(b) *Net assets*

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

(c) *Capital additions, depreciation and amortisation*

Year ended 31 December 2006	Americas	Europe	Rest of World	Consolidated
	£'000	£'000	£'000	£'000
Acquisitions	-	10,536	-	10,536
Capital additions by segment	393	709	64	1,166
Unallocated corporate additions				1,399
Total capital additions	393	11,245	64	13,101
Depreciation and amortisation	860	1,869	61	2,790

Notes (continued)

3. Segmental information (continued)

(d) *Income statement*

Year ended 31 December 2005	**Americas**	**Europe**	**Rest of World**	**Consolidated**
	£'000	**£'000**	**£'000**	**£'000**
Revenue				
External sales	79,484	40,701	9,416	129,601
Profit/(loss) from operations before release of indemnity provision, acquisition integration costs, depreciation and amortisation of acquired intangibles	14,988	427	(1,688)	13,727
Amortisation of acquired intangibles	-	-	-	-
Depreciation and other amortisation	(885)	(121)	(59)	(1,065)
Profit/(loss) from operations before non-recurring items	14,103	306	(1,747)	12,662
Acquisition integration costs – non-recurring	-	-	-	-
Release of indemnity provision – non-recurring	-	-	897	897
Profit/(loss) from operations	14,103	306	(850)	13,559
Finance income (net)				361
Profit before tax				13,920
Income tax expense				(4,128)
Profit for the year				9,792

Notes (continued)

3. Segmental information (continued)

(e) *Net assets*

At 31 December 2005	**Americas**	**Europe**	**Rest of World**	**Consolidated**
	£'000	**£'000**	**£'000**	**£'000**
Balance sheet				
Assets				
Goodwill	30,856	37,840	-	68,696
Other segment assets	8,047	6,055	835	14,937
	38,903	43,895	835	83,633
Unallocated corporate assets				24,298
Consolidated total assets				107,931
Liabilities				
Segment liabilities	(14,576)	(10,855)	(2,587)	(28,018)
Unallocated corporate liabilities				(21,981)
Consolidated total liabilities				(49,999)
Net assets				**57,932**

(f) *Capital additions, depreciation and amortisation*

At 31 December 2005	**Americas**	**Europe**	**Rest of World**	**Consolidated**
	£'000	**£'000**	**£'000**	**£'000**
Capital additions	718	168	83	969
Unallocated corporate additions				154
Total capital additions				1,123
Depreciation and amortisation	886	121	59	1,066

Notes (continued)

4. Dividends

	2006 **£'000**	2005 £'000
Amounts recognised as distributions to equity holders in the year:		
Final dividend for the year ended 31 December 2005 of 0.8p (2004: 0.67p)	**1,486**	1,241

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

The directors recommend the payment of a final dividend in respect of 2006 of one pence per share to be paid on 9 May 2007 to ordinary shareholders on the register on 13 April 2007.

5. Staff numbers and costs

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

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

As at 31 December 2006, the Group employed 1,448 (2005: 793) people.

The aggregate payroll costs of these persons were as follows:

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

Wages and salaries include £804,000 (2005: £640,000) relating to share options recognised as an expense under IFRS 2.

Notes (continued)

6. Finance income/(costs)

	2006 **£'000**	2005 £'000
Interest receivable on bank deposits and similar income	**1,013**	453
Interest payable on bank overdrafts and loans and similar charges	**(1,276)**	(10)
Net finance income/(charge) on retirement benefit plans	**163**	(82)
	(100)	361

7. Tax

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

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

Notes (continued)

8. Earnings per share

From continuing operations

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

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

Number of shares	**Number (million)**	Number (million)
Weighted average number of ordinary shares for the purposes of basic earnings per share	**212.5**	185.2
Effect of dilutive potential ordinary shares:		
Share options	**1.3**	1.4
Long-term incentive plan	**0.2**	0.2
Weighted average number of ordinary shares for the purposes of diluted earnings per share	**214.0**	186.8

	Pence	Pence
Basic earnings per share	**4.1**	5.3
Diluted earnings per share	**4.1**	5.2
Basic – excluding amortisation of acquired intangibles	**4.6**	5.3
Basic – excluding amortisation of acquired intangibles, non-recurring, non-cash tax items and prior year tax	**6.1**	5.0

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

Notes (continued)

9. Notes to the cash flow statement

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

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.

Notes (continued)

10. Group statement of changes in equity

	2006	2005
	£'000	£'000
At 1 January	**57,932**	48,276
Dividends paid	**(1,486)**	(1,241)
Net profit for the year	**8,750**	9,792
Own shares purchased for deferred share awards	**-**	(181)
Issue of share capital		
Consideration for acquisitions	**46,927**	-
Exercise of share option schemes	**282**	35
Share compensation expense	**804**	640
Movement in reserve for management incentive plan	**-**	(56)
Other recognised income and expense	**(1,020)**	667
At 31 December	**112,189**	57,932