

MCG Company No 1 Ltd

Annual report and unaudited financial statements

Year ended 31 December 2022

Registered number 04897584



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Company Information

Directors:

- N Stagg
- N Brien (appointed 23 January 2023)
- P Hackett (resigned 20 June 2022)

Company Registration Number - 04897584

Registered Address:

St Paul's House
4th Floor
10 Warwick Lane
London
EC4M 7BP

Country of Incorporation – United Kingdom

Directors' report

The directors present their annual report and financial statements for the year ended 31 December 2022. This Directors' report has been prepared in accordance with the provisions applicable to companies entitled to the small companies' exemption under section 415a of the Companies Act 2006.

General information

MCG Company No 1 Limited is a private company limited by shares registered in England under the Companies Act 2006.

Principal activities

The principal activity of the Company during the year was that of a head office holding company. No change in activities is anticipated. The accounts have been prepared in US Dollars as the directors believe this to be the functional currency of the Company as its major cash flows are in US Dollars.

Business review

The Company made a loss for the year of US\$ 54,000 (2021: loss US\$465,000).

Dividends

The Directors do not intend to declare a dividend for 2022 (2021: nil).

Directors

The directors who held office throughout the year and up to the date of this report, except as noted, were as follows:

N Stagg

Neil O'Brien (appointed 23 January 2023)

P Hackett (resigned 20 June 2022)

Going concern

The Company's business activities, together with the factors likely to affect its future development, performance and position are set out in the Directors' report.

In assessing sensitivities, the Board took into account the previous slower than expected pace of change at Proudfoot and the disappointing results in past periods. The Board has considered risks related to revenue and looked at assumptions both consistent with the recent past and the long-term changes in revenue. Forward looking forecasts reflect the refocus on strategy working in three industries over four services in five countries creating a simple model where the business can streamline costs and create efficiencies. These forecasts also include the possible cash outflows relating to potential legal cases.

The fundraise of further equity in Q3 2022 was completed successfully and the business ended the year with cash balances of £5.1m the highest level of cash since 2019. The major shareholders support the new strategy led by the Group's new CEO Neil O'Brien who joined the Group from Accenture in October 2022 and remain supportive.

The Group continues to manage the liabilities related to the disposals made in 2015 and 2016. Exposure to the Wavestone liabilities is now minimal, with only one litigation case outstanding. Significant progress has been made on the restricted cash held by way of a letter of credit in respect of the Kurt Salmon UK Pension scheme and management have successfully obtained a release of £0.5m to the Groups available cash reserves in March 2023. The balance held under guarantee stands at £0.5m and management will review this balance periodically with the Trustees of the pension scheme with the aim of reducing the restricted cash further.

Directors' report *(continued)*

The Directors have prepared a number of scenarios and management has produced a working capital model taking into account the change of strategy. This model reflects an increase in revenues for 2023 and factors in continued growth in revenues in 2024 which will see the Group returning to profit during 2023 with a substantially reduced cost base.

To assess the Group's ability to operate as a going concern, the Directors have also prepared a reasonable worse case working capital model, which reduces anticipated 2023 revenues by 45%. The 45% reduction continues for the going concern assessment period to 30th June 2024. Management have not reflected any mitigation in the model apart from the corresponding reduction in cost of sales.

Management has certain mitigating actions available, investment in technology and sales support will be scaled back and cost of sales will naturally reduce, as travel expenses and contractor costs are directly linked to revenue generation. Variable pay is now aligned to profitability, consequently outflows relating to variable pay will only take effect when certain levels of profit are achieved. Combined with the reductions in base operating costs over the past two years, this shows that the business, even under the worst case scenario, can maintain liquidity for the period of assessment of going concern under such tough trading conditions.

The Board has concluded that its forecasts, even on a worst case basis, indicate that the Group has adequate resources to be able to operate for the foreseeable future, given the forecast average liquidity reserves of £1.9m and a minimum balance over the assessment period of £0.9m. For this reason, the going concern basis has been adopted in preparing these financial statements.

Audit Exemption

For the year ended 31 December 2022, the company was entitled to exemption from audit under section 479A of the Companies Act 2006 relating to subsidiary companies.

Financial risk management

The Company does not use derivatives to manage its financial risks. Due to the nature of the Company's business and the assets and liabilities contained within the Company's balance sheet the only financial risk the directors consider relevant to this Company is credit risk. This risk is mitigated by the Company's credit control policies.

Future Developments:

No change is expected in the foreseeable future and the directors intend for the company activity to remain unchanged.

Approved by the Board and signed on its behalf by:


N Stagg
Director

St Paul's House
4th Floor, 10 Warwick Lane
London
EC4M 7BP

19th September 2023

Directors' responsibilities statement

The director is responsible for preparing the director's report, the strategic report, and the financial statements in accordance with applicable law and regulations.

Company law requires the director to prepare financial statements for each financial year. Under that law the director has elected to prepare the group and company financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law). Under company law the director must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the group and company and of the profit or loss of the group for that period.

In preparing these financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- state whether applicable UK Accounting Standards have been followed;
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

The director is responsible for keeping adequate accounting records that are sufficient to show and explain the company's transactions and disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Profit and loss account
For the year ending 31 December 2022

	<i>Notes</i>	2022 US\$'000	2021 US\$'000
Operating Profit/(loss)	3	42	(38)
Intercompany provision expense	4	(258)	(512)
Net finance income	5	161	85
Loss on ordinary activities before taxation		(54)	(465)
Tax on ordinary activities	6	—	—
Loss for the financial year		(54)	(465)

The loss on ordinary activities before taxation derives entirely from continuing activities.

There were no recognised gains or losses in other comprehensive income in either year other than those shown in the profit and loss account therefore no statement of other comprehensive income is presented.

The notes on pages 8 - 15 form an integral part of the financial statements.

Balance sheet

At 31 December 2022

	Notes	2022 US\$'000	2021 US\$'000
Fixed assets			
Investments	7	1,185	-
Current assets			
Debtors	8	309	315
Cash			
Total current assets		<u>1,494</u>	<u>315</u>
Creditors: Amounts falling due within one year	9	(3,013)	(1,780)
Net current liabilities		<u>(1,519)</u>	<u>(1,465)</u>
Total net current assets less current liabilities		<u>(1,519)</u>	<u>(1,465)</u>
Capital and reserves			
Called up share capital	10	9,872	9,872
Profit and loss account		(11,391)	(11,337)
Shareholders' funds		<u>(1,519)</u>	<u>(1,465)</u>

Notes to the financial statements on pages 8-15 form an integral part of the financial statements.


For the financial year ended 31 December 2022 the company was entitled to exemption from audit under section 479A of the Companies Act 2006 relating to subsidiary companies.

Directors responsibilities:

The members have not required the company to obtain an audit of its financial statement for the year in question in accordance with section 476.

The directors acknowledge their responsibilities for complying with the requirements of the Companies Act 2006 with respect to accounting records and the preparation of financial statements.

The financial statements were approved by the board of directors and authorised for issue on 19 September 2023 and are signed on its behalf by:


N Stagg
 Director

Company Registration No. 04897584

Statement of changes in equity

For the year ended 31 December 2022

	Called-up Capital US\$'000 Note 10	Profit and loss US\$'000	Total Equity US\$'000
Balance at 1 January 2021	9,872	(10,872)	(1,000)
Comprehensive loss for the year		(465)	(465)
Balance at 31 December 2021	<u>9,872</u>	<u>(11,337)</u>	<u>(1,465)</u>
Comprehensive loss for the year		(54)	(54)
Balance at 31 December 2022	<u><u>9,872</u></u>	<u><u>(11,391)</u></u>	<u><u>(1,519)</u></u>

Notes to the financial statements

1 Accounting policies

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

Statement of compliance

MCG Company No 1 Ltd is a limited liability company incorporated in England. The registered office is St Paul's House, 4th Floor, 10 Warwick Lane, London, EC4M 7BP. The financial statements have been prepared in accordance with FRS 102, the Financial Reporting Standard applicable in the United Kingdom and the Republic of Ireland.

Basis of preparation

The Company is a qualifying entity with regard to FRS 102 as the ultimate parent company Management Consulting Group PLC produces publicly available consolidated financial statements in accordance with IFRS. Copies of the accounts of Management Consulting Group PLC may be obtained at the following address: Management Consulting Group PLC, St Paul's House, 4th Floor, 10 Warwick Lane, London, EC4M 7BP.

The financial statements have been prepared under the historical cost convention and in accordance with Financial Reporting Standard 102 (FRS 102) issued by the Financial Reporting Council.

Functional currency

The functional currency of MCG Company No 1 Limited is considered to be US Dollars as its major cash flows are in US Dollars.

Group accounts

At the end of the year the Company was a wholly owned subsidiary of a company incorporated in a member state of the European Economic Community which prepares group financial statements. Accordingly, the preparation of group financial statements is not required under Section 400 of the Companies Act 2006 and these financial statements represent information about the Company as an individual undertaking.

Going concern

The Company's business activities, together with the factors likely to affect its future development, performance and position are set out in the Directors' report.

In assessing sensitivities, the Board took into account the previous slower than expected pace of change at Proudfoot and the disappointing results in past periods. The Board has considered risks related to revenue and looked at assumptions both consistent with the recent past and the long-term changes in revenue. Forward looking forecasts reflect the refocus on strategy working in three industries over four services in five countries creating a simple model where the business can streamline costs and create efficiencies. These forecasts also include the possible cash outflows relating to potential legal cases.

The fundraise of further equity in Q3 2022 was completed successfully and the business ended the year with cash balances of £5.1m the highest level of cash since 2019. The major shareholders support the new strategy led by the Group's new CEO Neil O'Brien who joined the Group from Accenture in October 2022 and remain supportive.

The Group continues to manage the liabilities related to the disposals made in 2015 and 2016. Exposure to the Wavestone liabilities is now minimal, with only one litigation case outstanding.

Notes to the financial statements (*continued*)

1 Accounting policies (*continued*)

Significant progress has been made on the restricted cash held by way of a letter of credit in respect of the Kurt Salmon UK Pension scheme and management have successfully obtained a release of £0.5m to the Groups available cash reserves in March 2023. The balance held under guarantee stands at £0.5m and management will review this balance periodically with the Trustees of the pension scheme with the aim of reducing the restricted cash further.

The Directors have prepared a number of scenarios and management has produced a working capital model taking into account the change of strategy. This model reflects an increase in revenues for 2023 and factors in continued growth in revenues in 2024 which will see the Group returning to profit during 2023 with a substantially reduced cost base.

To assess the Group's ability to operate as a going concern, the Directors have also prepared a reasonable worst case working capital model, which reduces anticipated 2023 revenues by 45%. The 45% reduction continues for the going concern assessment period to 30th June 2024. Management have not reflected any mitigation in the model apart from the corresponding reduction in cost of sales.

Management has certain mitigating actions available, investment in technology and sales support will be scaled back and cost of sales will naturally reduce, as travel expenses and contractor costs are directly linked to revenue generation. Variable pay is now aligned to profitability, consequently outflows relating to variable pay will only take effect when certain levels of profit are achieved. Combined with the reductions in base operating costs over the past two years, this shows that the business, even under the worst case scenario, can maintain liquidity for the period of assessment of going concern under such tough trading conditions.

The Board has concluded that its forecasts, even on a worst case basis, indicate that the Group has adequate resources to be able to operate for the foreseeable future, given the forecast average liquidity reserves of £1.9m and a minimum balance over the assessment period of £0.9m. For this reason, the going concern basis has been adopted in preparing these financial statements.

Cash flow statement

The Company is exempt from the requirement to prepare a cash flow statement because it is a wholly owned subsidiary undertaking of Management Consulting Group PLC and its cash flows are included within the consolidated cash flow statement of that company.

Financial Instruments

Financial instruments are recognised when the company becomes party to the contractual provisions of the instrument. All financial assets and liabilities are initially measured at their transaction price (including transaction costs). This includes the financial assets and liabilities classified as financing transactions under FRS 102 as the company has opted to apply the recognition and measurement provisions of IAS 39 from IFRS. This is a permissible accounting policy choice under FRS 102. Investments represent equity holdings in subsidiary companies. These are carried at cost less impaired amounts and are reviewed annually for impairment.

Foreign currencies

Transactions in foreign currencies are recorded using the rate of exchange ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated using the rate of exchange ruling at the balance sheet date and the gains or losses on translation are included in the profit and loss account.

Notes to the financial statements (continued)

1 Accounting policies (continued)

Fixed asset investments

Fixed asset investments, comprising shares in group undertakings, are stated at cost less provision for impairment.

Cash comprises cash held at bank. Cash is deposited in an interest bearing account and is readily available to fund its subsidiaries.

Taxation

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

Deferred tax is recognised in respect of all timing differences that have originated but not reversed at the balance sheet date where transactions or events that result in an obligation to pay more tax in the future or a right to pay less tax in the future have occurred at the balance sheet date. Timing differences are differences between the Company's taxable profits and its results as stated in the

financial statements that arise from the inclusion of gains and losses in tax assessments in periods difference from those in which they are recognised in the financial statements.

Deferred tax is measured using the tax rates and laws that have been enacted or substantively enacted by the balance sheet date that are expected to apply to the reversal of the timing difference.

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

Critical accounting judgements and key sources of estimation uncertainty

The key assumptions concerning future and other key sources of estimation uncertainty at balance sheet date, that have a significant risk of causing a material adjustment in the carrying amounts of assets and liabilities within the financial year are disclosed below.

Going concern

As noted under the going concern statement on page 8 of the notes to the accounts, there are several areas of uncertainty in relation to assumptions made in regards to the impact of COVID-19 on the cash flow projections of the Proudfoot business, in particular the assumptions around when revenue will pick up and the uncertainty of any prolonged impact of COVID-19.

Financial assets

Intercompany balances are subject to an annual review and a provision is recognised where it is unlikely that a subsidiary will be able to repay the debt. This judgement is based on historic ability to repay the Company, adjusted for current and forward-looking information, after taking into account revenue forecasts and subsidiaries own working capital needs.

Notes to the financial statements *(continued)*

2. Staff numbers and costs

The company did not have any employees during either the current or the preceding year. The directors did not receive any emoluments from the Company in either year.

3 Operating loss

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

	2022 US\$'000	2021 US\$'000
Foreign exchange gains on foreign currency borrowings	324	80
Foreign exchange losses on foreign currency borrowings	<u>(278)</u>	<u>(118)</u>
	<u>46</u>	<u>(38)</u>

4. Intercompany provision expense

	2022 US\$'000	2021 US\$'000
Intercompany provision expense	<u>258</u>	<u>512</u>

The intercompany provision expense of \$258,000 can be broken down as follows:

	US\$'000
Provisions against intercompany receivables	
Alexander Proudfoot South Africa (Pty)	248
Management Consulting Overseas Ltd	(5)
Proudfoot Netherlands BV	115
Management Consulting Group Holdings LLC	<u>(14)</u>
	344
Provisions against intercompany loan receivables	
Alexander Proudfoot South Africa (Pty)	<u>(86)</u>
	<u>258</u>

Notes to the financial statements (*continued*)

5 Net finance income

	2022 US\$'000	2021 US\$'000
Interest income from group loans	161	86
	<u>161</u>	<u>86</u>

6. Tax on ordinary activities

	2022 US\$'000	2021 US\$'000
Tax income on profit on ordinary activities.	—	—

Factors affecting the tax charge for the year

UK corporation tax is calculated at 19% (2021: 19.00%) of the estimated assessable profit/(loss) for the year.

The tax charge for the year is less than the charge expected by applying the applicable rate for the reasons set out in the following reconciliation:

	2022 US\$'000	2021 US\$'000
Profit on ordinary activities before tax	(54)	(465)
Expected tax charge at 19% (2021: 19.00%)	(10)	(88)
Factors affecting the tax charge:		
Non – allowable expense	49	97
Group Relief	(39)	(9)
Current year tax charge	<u>—</u>	<u>—</u>

The Company has unrelieved tax losses carried forward of US\$nil (2021: nil). No deferred tax asset has been recognised in respect of these losses as there is insufficient evidence that the asset will be reversed in the near term.

In the 2021 budget it was announced that the UK corporation tax rate is due to increase to 25% from 1 April 2023, however, this was not substantively enacted by the balance sheet date and therefore does not affect the rate used in the deferred tax recognition in these accounts.

	2022 US\$'000	2021 US\$'000
At 1 January 2022	1,230	1,230
Impairment in investment	(1,230)	(1,230)
At 31 December 2022	<u>—</u>	<u>—</u>

Notes to the financial statements (continued)

6. Tax on ordinary activities (continued)

Factors affecting the tax charge for the year (continued)

The shareholdings outlined below were of the subsidiary undertakings' ordinary shares and were held directly by the holding company. During 2022, the investments held in MCG Overseas Limited and Alexander Proudfoot France SAS were fully impaired.

7. Investments held as fixed assets

Name of subsidiary	Address	Country of Incorporation	Holding (%)	Shareholding (\$'000)
MCG Overseas Limited	St. Paul's House, 4th Floor, 10 Warwick Lane, London, EC4M 7BP	United Kingdom	14.05	—
MCG Overseas Holdings B.V.	Van der Valk Boumanlaan 13 I, 3446 GE Woerden, The Netherlands	Netherlands	81	—
Alexander Proudfoot France SAS	195 Avenue Charles de Gaulle, 92200 Neuilly-sur-Seine, France	France	100	—
Alexander Proudfoot Europe S.A.	523 Avenue Louise, Brussels 1050, Belgium	Belgium	100	—
Alexander Proudfoot S.A.	Capitan Haya 60, 2nd Floor, 28020 Madrid, Spain	Spain	100	—
Alexander Proudfoot South Africa	4th Floor Aloe Grove, Houghton Estate Office Park, 2 Osborn Road, Houghton, 2198, South Africa	South Africa	100	—
Alexander Proudfoot GmbH	C/o Regus Business Centre, An der Welle 4, 60322 Frankfurt am Main, Germany	Germany	100	—
Alexander Proudfoot Inc	161 Bay Street, 27th Floor, Canada Trust Tower, BCE Place, Toronto, Ontario M5J 2S1, Canada	Canada	100	—
Proudfoot Malaysia SDN BHD	(c/o: Systems & Associates SDN BHD), Plaza 138, Suite 18.03, 18th Floor, 138 Jalan Ampang, 50450 Kuala Lumpur, Malaysia	Malaysia	100	—
Proudfoot (de Mexico) SC	Rio Guadiana No. 11, Col. Cuauhtémoc, 06500 México, D.F.	Mexico	100	—
Proudfoot Singapore	(Abogado Pte Ltd), 8 Marina Boulevard #05-02, Marina Bay Financial Centre Tower, Singapore 018981	Singapore	100	-

Notes to the financial statements *(continued)*

8. Debtors

	2022 US\$'000	2021 US\$'000
Amounts owed by group undertakings	50,203	55,667
Provisions against intercompany undertakings	(48,708)	(55,352)
Total	<u>1,494</u>	<u>315</u>

The company has a loan balance with Alexander Proudfoot South Africa (Pty) Ltd, a 100% owned subsidiary of the company. The entity pays interest based on the loan agreement using the three-monthly USD LIBOR rate plus a margin per the loan agreements at the time of the loan is taken out.

No loan was repaid in 2022 by Alexander Proudfoot South Africa (Pty) Ltd. The interest charged for the loan was \$161k for the year.

9. Creditors

	2022 US\$'000	2021 US\$'000
<u>Amounts owed by group undertakings:</u>		
Management Consulting Group PLC	436	421
Management Consulting Group Holdings LLC	828	733
Alexander Proudfoot South Africa	28	-
Alexander Proudfoot SASU	7	-
Alexander Proudfoot (Europe) Ltd	141	-
Alexander Proudfoot Company	985	-
Alexander Proudfoot Services GmbH	588	626
	<u>3,013</u>	<u>1,780</u>

The amounts set out above, represent amounts owed to group undertakings. These were interest free during the current year. Amounts due are repayable in part or full at any time.

Notes to the financial statements (continued)

10. Called up share capital

	2022	2021
	US\$'000	US\$'000
<i>Allotted, issued and fully paid</i>		
110,226,396 ordinary shares of £0.05 each (2021: £0.05)		
Translated into functional currency at date of issue (FX rate £1:		
\$1.79)	<u>\$9,872</u>	<u>\$9,872</u>
	<u>\$9,872</u>	<u>\$9,872</u>

MCG Company No 1 Ltd has one class of ordinary shares which carry no right to fixed income.

The Company's other reserves are as follows:

The profit and loss reserve represent cumulative profits or losses.

11 Related party transactions

As described in note 12 the Company is part of a group headed by Management Consulting Group PLC. The Company has taken advantage of the exemptions contained in Section 1A of FRS 102, and has therefore not disclosed transactions or balances with entities which are fully owned subsidiaries of the ultimate parent company, Management Consulting Group PLC. There were no other related party transactions requiring disclosure in the current or prior year. The consolidated financial statements of Management Consulting Group PLC, within which the results of this company are included, can be obtained from the address given in note 12.

12 Immediate and ultimate parent company

The only group in which the financial statements are consolidated is that headed by Management Consulting Group PLC. Copies of the financial statements of Management Consulting Group PLC may be obtained at the following address: Management Consulting Group PLC, St Paul's House, 4th Floor, 10 Warwick Lane, London, EC4M 7BP.