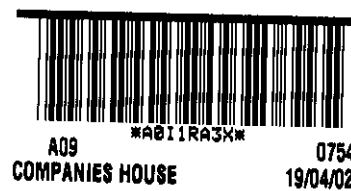


KPMG Holdings Plc

Directors' report and financial statements

30 September 2001

Registered number 03512757



Directors' report and financial statements

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Report of the Directors

The directors present their report and the audited financial statements of KPMG Holdings Plc for the year ended 30 September 2001.

Status and principal activities

The company acts as a holding and co-ordinating company for a number of companies associated with the KPMG UK partnership. The principal investments of the company and its subsidiaries at 30 September 2001 are set out in note 12 to these financial statements.

KPMG Audit Plc is registered to carry on audit work by the Institute of Chartered Accountants in England and Wales and carries out statutory audits and certain related work for listed companies and entities in the regulated financial services industry. KPMG United Kingdom Plc (formerly KPMG Plc) provides a range of specialist advisory services.

KPMG UK Limited was formed for staff employment purposes, its sole activity being the provision of services to the KPMG UK partnership, KPMG Audit Plc and KPMG United Kingdom Plc through the employment of the staff occupied in their businesses.

KPMG is an international association of accounting firms comprising locally owned national practices, substantially all of which trade under the name of KPMG, or a derivative thereof, and all of which follow common standards and procedures subject only to variation for national circumstances.

Business review

The loss on ordinary activities before taxation of the group was £6,649,000 and is detailed in the consolidated profit and loss account on page 5.

The two principal trading companies of the group in the United Kingdom are KPMG Audit Plc and KPMG United Kingdom Plc. KPMG Audit Plc continued to enjoy steady growth in the year, with gross fees rising by almost 7% to £229.2m, largely as a result of significant work for its regulated clients. KPMG United Kingdom Plc again experienced strong growth, gross fees increasing from £9.4m to £33.3m.

In addition to these established UK operations, the company continued to hold interests in companies acquired last year, mainly comprising long term strategic investments related to the client service activities of KPMG UK. The group loss for the year was principally attributable to the losses incurred by these companies, as a result of challenging worldwide economic conditions. The group continues to monitor the performance of these undertakings closely. As a result of these losses, the Board is considering a number of options to recapitalise the company and the group.

Directors and directors' interests

The directors who held office during the year were as follows:

G Acher (resigned 11 December 2001)
MDV Rake
PA Reid

The company is wholly owned by the KPMG UK partnership. MDV Rake and PA Reid hold shares in the company on behalf of the KPMG UK partnership. The directors, by virtue of their position as partners in KPMG UK, have an indirect interest in all the shares of the company and the group.

The company secretary is NK Challis.

Report of the Directors (continued)

Dividends

The directors recommend that no ordinary dividend be paid in respect of the current financial year (2000: £15.50 per share / £775,000).

Policy on the payment of creditors

The company does not have suppliers. Services to the group are provided principally by the KPMG UK partnership. Arrangements are in place to settle these accounts one month in arrears. Services provided by other suppliers are not material and no amounts were outstanding at the year end. The group does not follow a specific standard or code for their payment; its policy is to agree terms of business with the suppliers and to settle their accounts in accordance with such agreed terms.

Employees

Every effort is made to ensure that there is no discrimination, direct or indirect, against disabled persons in any human resources policies or actions, including recruitment. Employees who became disabled will, wherever possible, be retained in employment with the same opportunities for training and career development.

Considerable emphasis is placed on open and effective communication between the Board, audit and product directors (who are separately partners in the KPMG UK partnership) and the employees of KPMG UK Limited. This communication operates principally through regular meetings, newsletters and electronic mail bulletins.

Political and charitable contributions

The Group made no political or charitable contributions during the year.

Euro

The Euro was launched on 1 January 1999 and has had a negligible impact on the financial systems of KPMG Holdings Plc. Management will continue to monitor the effects of the currency on daily transactions in case the position changes.

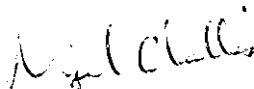
New Accounting Standards

These financial statements have applied Financial Reporting Standard 18, Accounting Policies and the relevant provisions of Financial Reporting Standard 17, Retirement Benefits.

Auditors

The auditors, Grant Thornton, are willing to continue in office and, in accordance with section 384 of the Companies Act 1985, a resolution for their re-appointment will be proposed at the forthcoming annual general meeting.

By order of the Board



Nigel K Challis
Company Secretary

8 Salisbury Square
London
EC4Y 8BB

25 March 2002

Statement of directors' responsibilities

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

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements;
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the group will continue in business.

The directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the company and the group and to enable them to ensure that the financial statements comply with the Companies Act 1985. They have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the group and to prevent and detect fraud and other irregularities.

Report of the independent auditors to the members of KPMG Holdings Plc

We have audited the financial statements on pages 5 to 25 which have been prepared under the accounting policies set out on pages 9 to 11.

Respective responsibilities of directors and auditors

As described on page 3, the company's directors are responsible for the preparation of financial statements in accordance with applicable United Kingdom law and accounting standards. Our responsibilities, as independent auditors, are established in the United Kingdom by the Auditing Practices Board and by our profession's ethical guidance.

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act 1985. We also report to you if, in our opinion, the Report of the Directors is not consistent with the financial statements, if the company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if the information specified by law regarding directors' remuneration and transactions with the company is not disclosed. We read other information contained in the Report of the Directors and consider whether it is consistent with the audited financial statements. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. Our responsibilities do not extend to any other information.

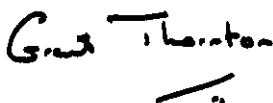
Basis of opinion

We conducted our audit in accordance with United Kingdom Auditing Standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the group's circumstances, consistently applied and adequately disclosed.

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

Opinion

In our opinion the financial statements give a true and fair view of the state of affairs of the company and the group as at 30 September 2001 and of the loss of the group for the year then ended and have been properly prepared in accordance with the Companies Act 1985.



Grant Thornton
Registered auditors
Chartered accountants

25 March 2002
London

Consolidated profit and loss account
for the year ended 30 September 2001

	<i>Note</i>	2001 £000	2000 £000
Turnover	2	712,344	614,488
Change in gross work in progress		(786)	3,317
External charges : direct expenses		(59,391)	(36,043)
		<hr/> 652,167	<hr/> 581,762
Staff costs and related charges	3	(564,440)	(495,077)
Depreciation and other amounts written off tangible and intangible assets	7	(158)	(11)
Other operating charges		(92,336)	(87,056)
		<hr/>	<hr/>
Operating loss		(4,767)	(382)
Share of operating losses less profits in associates	6	(2,796)	(213)
		<hr/>	<hr/>
Total operating loss		(7,563)	(595)
Interest receivable	5	567	664
Amounts written off investments	12	(297)	-
Profit arising from group reorganisation of subsidiary undertaking		644	-
		<hr/>	<hr/>
(Loss) / profit on ordinary activities before taxation	2, 7	(6,649)	69
Tax on (loss) / profit on ordinary activities	8	(181)	(380)
		<hr/>	<hr/>
Loss on ordinary activities after taxation		(6,830)	(311)
Minority interests	19	1,140	55
		<hr/>	<hr/>
Loss for the financial year	17	(5,690)	(256)
Proposed dividend	9	-	(775)
		<hr/>	<hr/>
Loss transferred to reserves	18	(5,690)	(1,031)

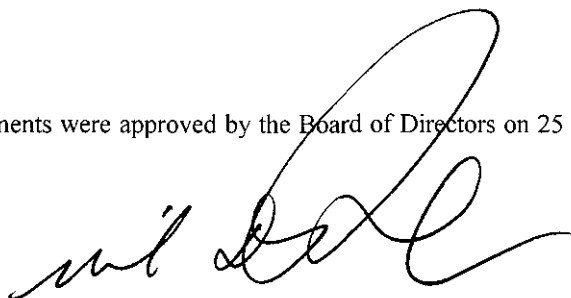
All activities derive from continuing operations. The basis of presentation of the group's results is set out in note 1.

Consolidated balance sheet
 at 30 September 2001

	Notes	£000	2001 £000	£000	2000 £000
Fixed assets					
Intangible assets	10		225		1,025
Tangible assets	11		128		-
Investments	12		8,452		8,477
			<hr/>		<hr/>
			8,805		9,502
Current assets					
Stocks: net work in progress	13	11,826		12,265	
Debtors	14	38,045		81,078	
Cash at bank and in hand		19,419		22,020	
		<hr/>		<hr/>	
		69,290		115,363	
Creditors: amounts falling due within one year	15	(71,692)		(112,425)	
		<hr/>		<hr/>	
Net current (liabilities) / assets			(2,402)		2,938
			<hr/>		<hr/>
Net assets			6,403		12,440
			<hr/>		<hr/>
Capital and reserves					
Called up equity share capital	16		50		50
Merger reserve	17		12,450		12,450
Profit and loss account	17		(6,545)		(697)
			<hr/>		<hr/>
Equity shareholders' funds	18		5,955		11,803
			<hr/>		<hr/>
Minority interests	19		448		637
			<hr/>		<hr/>
			6,403		12,440
			<hr/>		<hr/>

These financial statements were approved by the Board of Directors on 25 March 2002 and were signed on its behalf by :

Mike DV Rake
 Chairman



P Alan Reid
 Director



Consolidated statement of total recognised gains and losses
for the year ended 30 September 2001

	2001 £000	2000 £000
Loss transferred to reserves		
Group	(2,894)	(818)
Share of losses less profits in associates	(2,796)	(213)
	<hr/> (5,690)	<hr/> (1,031)
Other recognised gains and losses during the year		
Exchange differences on retranslation of investments	(158)	-
	<hr/> (5,848)	<hr/> (1,031)
Total recognised gains and losses relating to the financial year		

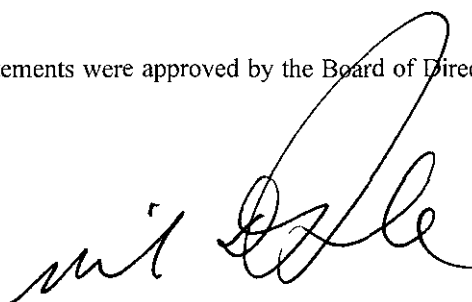
Company balance sheet

at 30 September 2001

	Notes	2001 £000	2000 £000
Fixed assets			
Investments	12	7,258	3,774
Current assets			
Debtors	14	908	906
Cash at bank and in hand		5	5
		<u>913</u>	<u>911</u>
Creditors: amounts falling due within one year	15	<u>(9,265)</u>	<u>(4,499)</u>
Net current liabilities		(8,352)	(3,588)
Net (liabilities) / assets		(1,094)	186
Capital and reserves			
Called up equity share capital	16	50	50
Profit and loss account	17	(1,144)	136
Equity shareholders' funds	18	(1,094)	186

These financial statements were approved by the Board of Directors on 25 March 2002 and were signed on its behalf by :

Mike DV Rake
 Chairman



P Alan Reid
 Director



Notes

(forming part of 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 group's financial statements.

Basis of preparation

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

Basis of consolidation

The consolidated financial statements include the financial statements of the company and its subsidiary undertakings made up to 30 September 2001, unless otherwise stated. In accordance with Financial Reporting Standard 6, Mergers and Acquisitions, a group reorganisation on 21 July 1998 was reflected in the consolidated financial statements under the principles of merger accounting. Subsidiaries acquired other than as part of this group reorganisation are accounted for in the consolidated financial statements using the acquisition method of accounting. Under this method, the results of subsidiary undertakings acquired or disposed of in the year are included in the consolidated profit and loss account from the date of acquisition or up to the date of disposal.

An associate is an undertaking in which the group has a long term interest, usually represented by ownership of between 20% and 50% of the equity voting rights, and over which it exercises significant influence. The group's share of the profits less losses of associates is disclosed in the consolidated profit and loss account and its interest in their net assets, together with goodwill arising on their acquisition, is included in investments in the consolidated balance sheet.

Under section 230(4) of the Companies Act 1985 the company is exempt from the requirement to present its own profit and loss account. The loss of the company for the year is shown in note 17.

Cash flows and financial instruments

The company is a wholly owned subsidiary undertaking of the KPMG UK partnership. This partnership draws up consolidated financial statements which are publicly available and include the results of the company and its group undertakings. A separate cash flow statement and financial instrument disclosures have not been presented in these financial statements, as permitted by Financial Reporting Standard 1, Cash Flow Statements, and Financial Reporting Standard 13, Derivatives and Other Financial Instruments.

Turnover

Turnover represents the amounts (excluding value added tax) derived from the provision of completed work for clients during the period and amounts charged to the KPMG UK partnership for the provision of staff. Interim billings on account of other work not yet complete are not included.

Notes (continued)

1 Accounting policies (continued)

Staff costs and related charges

Staff costs and related charges include the salary and social security costs of the employees of KPMG UK Limited and of the Board, audit and product directors of KPMG Audit Plc and KPMG United Kingdom Plc, together with charges made for the time of partners in the KPMG UK partnership who are not Board, audit or product directors of KPMG Audit Plc or KPMG United Kingdom Plc.

Investments

In the company's financial statements, fixed asset investments are carried at cost less any provision for impairment.

Goodwill

Purchased goodwill represents the excess of the fair value of the consideration given on acquisition over the fair value of the separable net assets acquired. Positive goodwill is capitalised and amortised in equal annual instalments over its estimated useful life of eight years. Any impairment charge is included within operating profits.

Tangible fixed assets and depreciation

Depreciation is provided to write off the cost less the estimated residual value of tangible fixed assets by equal instalments over their estimated useful economic lives as follows:

Computer and communications equipment 2½ to 6 years

Other property and equipment which the group uses in the course of its business are owned by the KPMG UK partnership. The partnership renders charges to the group in respect of the use of such assets.

Work in progress

Gross work in progress is stated at the lower of cost and net realisable value. For this purpose cost of work in progress is defined as the payroll cost of directors and employees (including audit and product directors) and charges by the KPMG UK partnership for the time of partners who are not audit or product directors, plus direct expenses and applicable overheads.

Payments received on account of work in progress are shown as a deduction from gross work in progress; payments received on account in excess of the carrying value of the relevant work in progress are included in creditors.

Taxation

The charge for taxation is based on the result for the year and takes into account taxation deferred because of timing differences between the treatment of certain items for taxation and accounting purposes. Provision is made for deferred tax only to the extent that it is probable that an actual liability will crystallise.

Notes (continued)

1 Accounting policies (continued)

Foreign currencies

Transactions in foreign currencies are recorded using the rate of exchange ruling at the date of the transaction or, if hedged forward, at the rate of exchange under the related forward currency contract. 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.

The assets and liabilities of overseas group undertakings are translated at the closing rates of exchange. Profit and loss accounts of such undertakings are consolidated at the average rates of exchange during the year. Gains and losses arising on these translations are taken to reserves net of exchange differences arising on any related foreign currency borrowings.

Insurance arrangements

Substantial insurance cover in respect of professional negligence claims is carried. Cover is principally written through a number of mutual insurance companies. Provision is made against the eventuality of settlement of claims separately from any related insurance recoveries.

Pensions

KPMG UK operates the KPMG Staff Pension Fund, a contracted-in, defined contributions scheme, which all permanent employees are eligible to join.

The group ceased contributions to the KPMG Group Personal Pension Plan (GPPP) in December 2000 and contributing members have since been transferred into the KPMG Staff Pension Fund. GPPP policies have been converted from a group contract to individual contracts in the Norwich Union Personal Pension Scheme. Members can continue to use their policy for contracting out of the State Earnings Related Pension Scheme. The amount charged against profits in respect of these schemes represents the contributions payable by the group for the accounting period.

In addition, KPMG UK operates the KMG Thomson McLintock Pension Scheme, a defined benefits scheme, closed to new entrants, which provides benefits based on final pensionable pay. Amounts are charged to the profit and loss account so as to spread the cost of pensions over employees' working lives with the group.

Notes (continued)

2 Segmental information

Substantially all of the group's turnover is in the United Kingdom and is derived from two classes of business. Segmental information is as follows:

	Assurance and advisory services £000	Provision of staff £000	2001 Total £000	Assurance and advisory services £000	Provision of staff £000	2000 Total £000
Turnover:						
Total turnover	270,854	519,924	790,778	224,982	466,991	691,973
Inter-segment turnover	-	(78,434)	(78,434)	-	(77,485)	(77,485)
Turnover to third parties	270,854	441,490	712,344	224,982	389,506	614,488
(Loss) / profit on ordinary activities before taxation:						
Segment (loss) / profit before taxation	(3,942)	89	(3,853)	278	4	282
Group share of (loss) / profit before taxation of associated undertakings	(2,796)	-	(2,796)	(213)	-	(213)
Group (loss) / profit on ordinary activities before taxation			(6,649)			69
Net assets / (liabilities):						
Segment net (liabilities) / assets	(1,606)	66	(1,540)	10,375	3	10,378
Group share of net assets of associated undertakings	7,943	-	7,943	2,062	-	2,062
Total net assets			6,403			12,440

All assets and liabilities are allocated to operating segments. Figures for the previous year have been restated on this basis.

Notes (continued)

3 Staff numbers and costs

The average number of persons employed by the group during the year, analysed by category, was as follows:

	2001 Number	2000 Number
Directors and company secretary	4	4
Audit and product directors	347	346
Other employees	10,937	10,478
	<hr/> 11,288	<hr/> 10,828

The aggregate payroll costs of these persons were as follows:

	2001 £000	2000 £000
Salaries	487,546	432,358
Social security costs	49,800	46,753
Other pension costs (note 20)	16,181	12,056
	<hr/> 553,527	<hr/> 491,167

In addition, as explained in note 1, the group is charged for the time of partners in the KPMG UK partnership who are not audit directors of KPMG Audit Plc or product directors of KPMG United Kingdom Plc. The total amount charged to the group in respect of the year was £10,913,000 (2000: £3,910,000).

4 Remuneration of directors

	2001 £000	2000 £000
Directors' emoluments in respect of qualifying services	650	650

The emoluments of the highest paid director were £300,000 (2000: £300,000). No pension contributions are payable in respect of the directors.

5 Interest receivable

	2001 £000	2000 £000
Bank interest receivable	567	664

Notes (continued)

6 Share of operating losses less profits in associates

	2001 £000	2000 £000
Share of operating losses less profits before amortisation of goodwill and exceptional charge	(1,875)	(75)
Amortisation of goodwill	(134)	(138)
Exceptional charge: impairment of goodwill (note 12)	(787)	-
	<u>(2,796)</u>	<u>(213)</u>

7 (Loss) / profit on ordinary activities before taxation

	2001 £000	2000 £000
The (loss) / profit on ordinary activities before taxation is stated after charging:		
Depreciation and other amounts written off tangible and intangible assets	158	11
Amortisation of goodwill:		
- associated undertakings (note 12)	134	138
Auditors' remuneration for audit work:		
- company	6	-
- group	82	52

8 Taxation

	2001 £000	2000 £000
UK corporation tax at 30% (2000 : 30%)	226	380
Over-provision in prior period	(45)	-
	<u>181</u>	<u>380</u>

The group has unprovided deferred tax assets relating to losses in subsidiary undertakings of £1,715,000 and other timing differences of £380,000. These amounts, which have been calculated at rates ranging between 30% and 35%, are not expected to crystallise in the foreseeable future.

9 Dividends

	2001 £000	2000 £000
Final dividend proposed of £nil (2000: £15.50) per share	-	775

Notes (continued)

10 Intangible assets

Group	Goodwill
	2001
	£000
<i>Cost</i>	
At the beginning of the year	1,036
Adjustments arising in the year:	
- to acquisition cost of investment	(245)
- to fair value of net assets at acquisition	(443)
Release arising from group reorganisation of subsidiary undertaking	(87)
	<hr/>
At the end of the year	261
	<hr/>
<i>Amortisation</i>	
At the beginning of the year	(11)
Charge to the profit and loss account	(36)
Release arising from group reorganisation of subsidiary undertaking	11
	<hr/>
At the end of the year	(36)
	<hr/>
<i>Net book value</i>	
At 30 September 2001	225
	<hr/>
At 30 September 2000	1,025
	<hr/>

The cost of the investment in KPMG Corporate Finance LLC consisted of the injection of share capital into the company in September 2000 together with estimates of the associated costs of acquisition. Goodwill arose at 30 September 2000 from a comparison of these estimated costs of investment with the best estimates then available of the group's share of the fair value of net assets acquired. During the year ended 30 September 2001, all amounts were finalised with certain differences arising compared to the initial estimates.

Accordingly, the fair value of net assets on acquisition has been restated and an adjustment made to the total cash invested.

Following a group reorganisation at the end of the year ended 30 September 2001, the group's interest in KPMG Corporate Finance LLC fell from 80.5% to 60.4%. KPMG Corporate Finance LLC raised fresh capital from both the group and a third party. The profit arising from the part disposal of the group's interest was calculated by comparing the group's share of the net assets of the subsidiary immediately prior to and after the reorganisation, including related goodwill on acquisition not previously written off, in accordance with provisions of Financial Reporting Standard 2, Subsidiary Undertakings.

Notes *(continued)*

11 Tangible fixed assets

Group	Computer and communications equipment 2001 £000
<i>Cost</i>	
At the beginning of the year:	
As previously reported	-
Arising from acquisition of subsidiary undertaking (note 10)	175
	<hr/>
	175
Additions	75
	<hr/>
At the end of the year	250
	<hr/>
<i>Depreciation</i>	
At the beginning of the year	-
Charge for the year	(122)
	<hr/>
At the end of the year	(122)
	<hr/>
<i>Net book value</i>	
At 30 September 2001	128
	<hr/>
At 30 September 2000	-

Notes (continued)

12 Investments

Group	<u>Associated Undertakings</u>			<u>Other Investments</u>		<u>Total</u>
	<u>Goodwill</u>	<u>Group share of net assets/ (liabilities)</u>	<u>Loans</u>	<u>Shares</u>	<u>Loans</u>	
	£000	£000	£000	£000	£000	£000
Cost						
At the beginning of the year	1,939	39	297	5,924	491	8,690
Reclassification from other investments to associated undertakings (see below)	-	5,765	491	(5,765)	(491)	-
Additions	-	3,209	2,957	350	-	6,516
Disposals / repayments	-	(1,889)	(1,559)	-	-	(3,448)
At the end of the year	1,939	7,124	2,186	509	-	11,758
Share of post-acquisition reserves						
At the beginning of the year	-	(75)	-	-	-	(75)
Retained losses less profits	-	(1,875)	-	-	-	(1,875)
At the end of the year	-	(1,950)	-	-	-	(1,950)
Provisions						
At the beginning of the year	(138)	-	-	-	-	(138)
Amortisation of goodwill	(134)	-	-	-	-	(134)
Impairment (see below)	(787)	-	(297)	-	-	(1,084)
At the end of the year	(1,059)	-	(297)	-	-	(1,356)
Net book value						
At 30 September 2001	880	5,174	1,889	509	-	8,452
At 30 September 2000	1,801	(36)	297	5,924	491	8,477

Notes (continued)

12 Investments (continued)

During the year, the group established formalised monitoring and reporting arrangements for its investments in KPMG Consulting Spain SL and KPMG Consulting France BV. As a result of these actions, the directors consider they are now in a position to exercise significant influence over the operating and financial policies of these companies. Consequently these investments have been reclassified as associated undertakings in accordance with Financial Reporting Standard 9, Associates and Joint Ventures, and the share of their results has been included in the consolidated profit and loss account for the current year. The group's share of the net assets of KPMG Consulting Spain SL and KPMG Consulting France BV is equivalent to the respective costs of investment.

Certain associated undertakings which provide consulting services have not traded in line with initial expectations. The directors have reviewed the carrying amount of these investments, including outstanding loans, and have concluded that they are unlikely to be realisable by the group at their book values. The directors therefore consider that these investments have been fully impaired, resulting in a loss to the group of £1,084,000, including loans of £297,000 which may not be recoverable.

Company	<u>Subsidiary</u>	<u>Associated Undertakings</u>		<u>Total</u>
	<u>Undertakings</u>			
	Shares	Shares	Loans	
	£000	£000	£000	£000
Cost				
At the beginning of the year	1,500	1,977	297	3,774
Transfer from subsidiary undertaking	3,648	-	-	3,648
Additions	2,564	-	-	2,564
Disposals	(1,528)	-	-	(1,528)
At the end of the year	6,184	1,977	297	8,458
Provisions				
At the beginning of the year	-	-	-	-
Impairment	-	(903)	(297)	(1,200)
At the end of the year	-	(903)	(297)	(1,200)
Net book value				
At 30 September 2001	6,184	1,074	-	7,258
At 30 September 2000	1,500	1,977	297	3,774

Notes (continued)

12 Investments (continued)

At 30 September 2001, the principal companies in which the group had a significant interest were as follows:

Company	Principal activity	Percentage of ordinary shares
<i>Subsidiary undertakings</i>		
KPMG Audit Plc	Statutory audits and related services	100.0
KPMG United Kingdom Plc (formerly KPMG Plc)	Specialist advisory services	100.0
KPMG UK Limited	Employment company ¹	100.0
KPMG Overseas Holdings Limited	Intermediate holding company	100.0
KPMG Financial Manager Limited	Financial services provider	75.0
KPMG Corporate Finance LLC	Specialist advisory services ²	60.4
<i>Associated undertakings</i>		
Tax Computer Systems Limited	Tax software provider	50.0
Intellectual Capital Services Limited	Consulting services	25.0
KPMG Consulting Spain SL	Consulting services ²	28.6
KPMG Consulting France BV	Consulting services ²	16.5

¹ This company employs the staff engaged in the businesses of KPMG UK partnership, KPMG Audit Plc and KPMG United Kingdom Plc

² Held indirectly through intermediate holding companies

All of the above subsidiary and associated undertakings make up their accounts to 30 September, except Tax Computer Systems Limited, which makes up its accounts to 30 November each year, and Intellectual Capital Services Limited, which makes up its accounts to 31 December each year.

All of these companies are incorporated in England and Wales, except for KPMG Corporate Finance LLC, which is incorporated in the United States of America, KPMG Consulting Spain SL, which is incorporated in Spain, and KPMG Consulting France BV, which is incorporated in The Netherlands.

13 Stocks : net work in progress

	Group	
	2001 £000	2000 £000
Gross work in progress	15,618	16,404
Payments received on account	(3,792)	(4,139)
	<hr/> 11,826	<hr/> 12,265

Notes (continued)

14 Debtors

	Group		Company	
	2001	2000	2001	2000
	£000	£000	£000	£000
Fee debtors	29,777	33,701	-	-
Amounts owed by the KPMG UK partnership	132	38,685	-	-
Amounts owed by overseas practices of KPMG	1,496	4,559	-	-
Amounts owed by subsidiary undertakings	-	-	131	-
Corporation tax receivable	50	-	-	-
Group relief receivable	-	-	77	-
Other debtors	6,529	4,133	700	906
Prepayments and accrued income	61	-	-	-
	38,045	81,078	908	906

All debtors are due within one year.

15 Creditors : amounts falling due within one year

	Group		Company	
	2001	2000	2001	2000
	£000	£000	£000	£000
Bank overdraft (unsecured)	481	328	-	-
Payments received on account	2,984	3,518	-	-
Amounts owed to the KPMG UK partnership	23,723	66,108	-	-
Amounts owed to overseas practices of KPMG	801	901	-	-
Amounts owed to subsidiary undertakings	-	-	9,259	3,724
Dividends payable	-	775	-	775
Corporation tax payable	47	210	-	-
Other taxation and social security	20,462	21,529	-	-
Other creditors	14,070	12,498	-	-
Accruals and deferred income	9,124	6,558	6	-
	71,692	112,425	9,265	4,499

Notes (continued)

16 Share capital

	Group and Company	
	2001	2000
	£000	£000
<i>Authorised</i>		
Equity : 50,000 ordinary shares of £1 each	50	50
<i>Allotted, called up and fully paid</i>		
Equity : 50,000 ordinary shares of £1 each	50	50

17 Reserves

	Group	Company
	Merger	Profit and
	reserve	loss account
	2001	2001
	£000	£000
Balance at the beginning of the year	12,450	(697)
Loss for the year	-	(5,690)
Other movements:		
Exchange differences on retranslation of investments	-	(158)
Balance at the end of the year	12,450	(6,545)

The company's loss for the financial year amounted to £1,280,000 (2000: profit £906,000).

Notes (continued)

18 Reconciliation of movement in equity shareholders' funds

	Group		Company	
	2001 £000	2000 £000	2001 £000	2000 £000
(Loss) / profit for the financial year	(5,690)	(256)	(1,280)	906
Proposed dividend (note 9)	-	(775)	-	(775)
(Loss) / profit transferred to reserves	(5,690)	(1,031)	(1,280)	131
Other movements:				
Exchange differences on retranslation of investments	(158)	-	-	-
Net (decrease) / increase in equity shareholders' funds	(5,848)	(1,031)	(1,280)	131
Opening equity shareholders' funds	11,803	12,834	186	55
Closing equity shareholders' funds	5,955	11,803	(1,094)	186

19 Minority interest

	2001 £000	2000 £000
Balance at the beginning of the year	637	-
Loss for the year	(1,140)	(55)
Other movements in respect of subsidiary undertakings arising from:		
- share of net assets on acquisition	-	692
- adjustment to the fair value of net assets on acquisition	107	-
- capital injections	364	-
- group reorganisation	480	-
Balance at the end of the year	448	637

Notes (continued)

20 Pensions

The charge for the year comprises:

	2001 £000	2000 £000
The KPMG Staff Pension Fund	15,478	9,235
The KPMG Group Personal Pension Plan	654	2,223
The KMG Thomson McLintock Pension Scheme	49	598
	<hr/> 16,181	<hr/> 12,056

The KPMG Staff Pension Fund and the KPMG Group Personal Pension Plan are defined contribution schemes and the charge for the year represents those contributions payable to the schemes in respect of the accounting period.

As explained in the accounting policies in note 1, the KMG Thomson McLintock Pension Scheme is a closed defined benefit scheme which provides benefits based on final pensionable pay. The amounts charged to the profit and loss account spread the cost of pensions over employees' working lives with KPMG. The contributions are determined by the scheme's independent actuary, Bacon & Woodrow, on the basis of triennial valuations using the attained age method.

The most recent valuation of the scheme was carried out by the scheme actuary as at 31 March 1998. The valuation showed that the market value of the scheme's assets was £64,223,000 and that the actuarial value of those assets represented 100% of the benefits that had accrued to members, after allowing for expected future increases in earnings. The principal actuarial assumptions for the valuation of the past service liabilities were that the annual rate of return on investments would be:

- 1.0% higher than the annual rate of increase in pensionable salaries, and
- 3.0% higher than the annual increase in pensions in payment.

Longer term actuarial assumptions were used for assessing the cost of future service benefits. These were that the annual rate of return on investments would be:

- 2.0% higher than the annual rate of increase in pensionable salaries, and
- 4.5% higher than the annual guaranteed increase in pensions in payment.

The actuarial valuation as at 31 March 2001 is being prepared by the actuary and is expected to result in an increase in KPMG's contributions. There were no outstanding contributions to all KPMG's pension schemes at the end of the financial year.

Payments of £800,000 (2000: £700,000) were made by the pension schemes to the KPMG UK partnership to reimburse the costs of administering the pension funds office. Apart from this and the contributions referred to above, there were no other transactions between the group, KPMG UK and the schemes during the year.

Notes (continued)

20 Pensions (continued)

The assets of the KPMG Staff Pension Fund and the KMG Thomson McLintock Pension Scheme are held separately from those of the group and KPMG UK and administered by Royal Exchange Trust Company Limited, as independent trustee. The assets of the KPMG Group Personal Pension Plan are held by Norwich Union on behalf of the plan members.

Financial Reporting Standard 17

Whilst the group continues to account for pension costs in accordance with Statement of Standard Accounting Practice 24, Accounting for Pension Costs, under Financial Reporting Standard 17, Retirement Benefits, the following transitional disclosures are required.

The valuation of the KMG Thomson McLintock Pension Scheme at 31 March 1998 has been updated by the actuary on the basis of Financial Reporting Standard 17 as at 30 September 2001. The major assumptions used in this valuation were:

	2001
	%
Rate of increase in salaries	3.9
Rate of increase in pensions in payment	2.4
Discount rate	6.0
Inflation rate	2.4

The assumptions used by the actuary are the best estimates chosen from a range of possible actuarial assumptions which due to the timescale covered may not necessarily be borne out in practice.

The fair value of the assets of the KMG Thomson McLintock Pension Scheme, which are not intended to be realised in the short term and may be subject to significant change before they are realised, and the present value of the scheme's liabilities, which are derived from cash flow projections over long periods and thus inherently uncertain, were:

	Valuation 30 September 2001 £000
Equities	41,700
Bonds	10,700
Cash	6,400
	<hr/>
Total market value of assets	58,800
Present value of scheme liabilities	(70,500)
	<hr/>
Net pension liability before taxation	(11,700)
Less: Related deferred tax asset (at a rate of 30%)	3,510
	<hr/>
Net pension liability after taxation	(8,190)

Notes (continued)

20 Pensions (continued)

The projected unit method was used in order to determine the present value of the scheme's liabilities. As the scheme is closed to new entrants, under the projected unit method the annual service cost will increase as the members of the scheme approach retirement.

Under Financial Reporting Standard 17, the amount of the net pension liability and related taxation would be included within accumulated profits and losses.

21 Contingent liabilities

The group may, in the normal course of conducting its business, receive claims for alleged negligence. The group contests such claims vigorously and maintains substantial professional indemnity cover. Creditors include, where appropriate, the estimated cost of meeting any notified claims with amounts recoverable from insurers included in debtors.

22 Directors' interests in contracts

The group is charged by the KPMG UK partnership for the use of facilities and other services provided to it. The aggregate amount of these charges in the year ended 30 September 2001 was £82,771,000 (2000: £73,718,000). The directors of the company are all separately partners in the KPMG UK partnership and, therefore, have an interest in these transactions.

23 KPMG UK

The group is wholly owned by the KPMG UK partnership, which is its only controlling party and its ultimate parent undertaking. The only consolidation in which the results of the group are included is that of KPMG UK. The accounts of KPMG UK are available to the public and may be obtained from the principal place of business, 8 Salisbury Square, London, EC4Y 8BB. KPMG UK's accounts are also available on the firm's website (www.kpmg.co.uk). Accordingly the company has taken advantage of the exemption in FRS 8 not to disclose transactions with other entities that are part of, or an investee of, KPMG UK.