KPMG United Kingdom Plc

Directors' report and financial statements

Registered number 03513178

30 September 2005

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Directors' report

The directors present their annual report and the audited financial statements of the company for the year ended 30 September 2005.

Principal activities

The activity of KPMG United Kingdom Plc is the provision of specialist advisory services.

Business review

Company activity continues to reduce, as previous contracts are completed; turnover for the year was £30,000 (*2004: £228,000*). The directors anticipate that the level of activity will now continue to be modest.

Proposed dividend

The directors recommend that a final ordinary dividend of £150,000 be paid for the year (*2004: £nil*).

Policy on the payment of creditors

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

Directors and directors' interests

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

MDV Rake

MD Blake

NJ Lerner

The company is a wholly owned subsidiary of KPMG Holdings Plc, a company owned by KPMG LLP. The directors in office at the end of the financial year therefore had no direct interest in the shares of the company or any other members of the KPMG Holdings group but, by virtue of their position as members of KPMG LLP, had an indirect interest in the entire share capital of the company and the group.

The company secretary is NK Challis.

Employees

The employees of the company comprise the directors, within the meaning of the Companies Acts 1985 (as listed above), the company secretary and product directors (being those individuals authorised to sign reports to clients on behalf of the company). The directors and most of the product directors are separately members of KPMG LLP. They receive remuneration from KPMG United Kingdom Plc for executive services performed for the company. Charges are received from KPMG UK Limited, a company set up by KPMG LLP for staff employment purposes, in respect of time spent by its employees on assignments for KPMG United Kingdom Plc. Charges are also received from KPMG LLP in respect of services provided to the company by members of KPMG LLP who were not separately product directors of the company.

Political and charitable contributions

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

Directors' report *(continued)*

Auditors

In accordance with Section 384 of the Companies Act 1985, a resolution for the re-appointment of Grant Thornton UK LLP as auditors of the company is to be proposed at the forthcoming Annual General Meeting.

By order of the Board

Nigel Challis
Company Secretary

8 Salisbury Square
London
EC4Y 8BB

13 March 2006

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 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 company 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 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 company and to prevent and detect fraud and other irregularities.

Report of the independent auditors to the members of KPMG United Kingdom Plc

We have audited the financial statements of KPMG United Kingdom Plc for the year ended 30 September 2005, which comprise the profit and loss account, the balance sheet and notes 1 to 13. These financial statements have been prepared under the accounting policies set out therein.

This report is made solely to the company's members, as a body, in accordance with Section 235 of the Companies Act 1985. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in the auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of the directors and auditors

The directors' responsibilities for preparing the directors' report and the financial statements in accordance with applicable United Kingdom law and accounting standards are set out in the statement of directors' responsibilities.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and United Kingdom auditing standards.

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. We also report to you if, in our opinion, the directors' report 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 information specified by law regarding directors' remuneration and transactions with the company is not disclosed.

We read other information contained in the directors' report, and consider whether it is consistent with the audited financial statements. This other information comprises only the directors' report. 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 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 company'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 the company's affairs as at 30 September 2005 and of its result for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

Grant Thornton UK LLP

Grant Thornton UK LLP
Registered auditors
Chartered accountants

13 March 2006
Gatwick

Profit and loss account

for the year ended 30 September 2005

	Note	**2005**	2004
		£000	£000
Turnover		**30**	228
Other external charges : direct expenses		-	(130)
Net fees		**30**	98
Staff costs	*2*	**(24)**	(45)
Other operating charges		**(5)**	(60)
Operating profit/(loss)		**1**	(7)
Net interest receivable and similar charges	*3*	7	2
Profit/(loss) on ordinary activities before taxation	*4*	**8**	(5)
Tax on profit/(loss) on ordinary activities	*5*	**(2)**	3
Profit/(loss) for the financial year		**6**	(2)
Dividends on equity shares: final dividend proposed		**(150)**	-
Accumulated loss for the year		**(144)**	(2)
Retained profit brought forward		**151**	153
Retained profit carried forward		7	151

The company had no recognised gains or losses other than those reflected in the profit and loss account and accordingly no statement of total recognised gains or losses has been prepared. All amounts are derived from continuing operations.

Balance sheet
at 30 September 2005

	Note	2005 £000	2004 £000
Current assets			
Debtors	6	1,158	3,559
Cash at bank and in hand		254	248
		1,412	3,807
Creditors: amounts falling due within one year	7	(155)	(2,406)
Net current assets		1,257	1,401
Net assets		1,257	1,401
Capital and reserves			
Called up share capital	8	1,250	1,250
Profit and loss account		7	151
Equity shareholders' funds	9	1,257	1,401

The financial statements on pages 4 to 11 were approved by the Board of directors on 13 March 2006 and were signed on its behalf by:

MDV Rake
Director

MD Blake
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 KPMG United Kingdom Plc's financial statements. UITF Abstract 40 has been adopted, as noted below.

Basis of preparation

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

Under Financial Reporting Standard 1 the company is exempt from the requirement to prepare a cash flow statement on the grounds that a parent undertaking includes the company in its own published consolidated financial statements.

New accounting standards

During the year, the Accounting Standards Board issued guidance in respect of revenue recognition; UITF Abstract 40 'Revenue recognition and service contracts' (UITF 40) is effective for accounting periods ending on or after 22 June 2005.

UITF 40 confirmed that revenue on service contracts should reflect the accrual of the right to consideration as contract activity progresses by reference to the value of work performed.

The company has adopted UITF 40. However, due to the lack of brought forward work in progress balances and the reduced level of activity during the year, this has had no impact on either brought forward reserves or current year turnover and profits.

Turnover

Turnover represents amounts chargeable to clients for professional services provided during the year, inclusive of direct expenses incurred on client assignments but excluding value added tax. Turnover is recognised when a right to consideration has been obtained through performance under each contract. Consideration accrues as contract activity progresses by reference to the value of the work performed. Turnover is not recognised where the right to receive payment is contingent on events outside the control of the company. Interim billings on account are otherwise not included.

Unbilled revenue is included in debtors as 'Amounts recoverable on contracts'. Amounts billed on account in excess of the amounts recognised as revenue are included in creditors.

Taxation

The charge for taxation is based on the profit for the year and takes into account:

- amounts payable between group companies for the surrender of losses under group relief;
- amounts arising from the impact of UK transfer pricing legislation and the related compensating payments from fellow group entities;
- taxation deferred because of timing differences between the treatment of certain items for taxation and accounting purposes.

Deferred tax is recognised, without discounting, in respect of all timing differences between the treatment of certain items for taxation and accounting purposes which have arisen but not reversed by the balance sheet date, except as otherwise required by FRS 19.

Notes *(continued)*

1 Accounting policies *(continued)*

Staff costs

Staff costs include the salary and social security cost of directors and product directors, together with the charges for the use of staff employed by KPMG UK Limited, a company set up by KPMG LLP for staff employment purposes, and for the time of members of KPMG LLP who are not product directors of the company.

Fixed assets and depreciation

The company does not own or lease any tangible fixed assets. The property and equipment which it uses in the course of its business are provided by KPMG LLP. KPMG LLP renders charges to the company in respect of the use of such assets.

Insurance arrangements

Insurance cover in respect of professional negligence claims is principally written through a number of mutual insurance companies, but also through the commercial market.

The uninsured cost to the company of claims is accrued once it becomes probable that a claim will be settled. Separate disclosure is not made of insured costs and related recoveries on the grounds that such disclosure is expected to be seriously prejudicial to the position of the company.

2 Staff numbers and costs

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

	2005 Number	2004 Number
Statutory directors	**3**	3
Product directors	**28**	30
Company secretary	**1**	1
	32	34

The aggregate payroll costs (including directors' emoluments) of these persons were as follows:

	2005 £000	2004 £000
Wages and salaries	**-**	3
Social security costs	**-**	-
	-	3

No pension contributions are payable by the company.

In addition, as explained in note 1, KPMG United Kingdom Plc is charged for the use of staff employed by KPMG UK Limited and for the time of members of KPMG LLP who are not product directors of the company. The total amount charged to the company in respect of the year was £24,000 (*2004: £42,000*).

No director received any emoluments in respect of their services to the company.

Notes *(continued)*

3 Net interest receivable and similar charges

	2005 £000	2004 £000
Bank interest receivable	4	2
Other income	3	-
	7	2

4 Profit/(loss) on ordinary activities before taxation

	2005 £000	2004 £000
Profit/(loss) on ordinary activities before taxation is stated after charging:		
Auditors' remuneration for audit work	5	5

5 Tax on profit/(loss) on ordinary activities

Analysis of charge in period:

	2005 £000	2004 £000
Current year		
UK corporation tax on profits of the period at 30% *(2004: 30%)*	32	-
Compensating payments receivable	(30)	-
	2	-
Adjustments in respect of prior periods		
Overprovision in respect of prior periods	-	(3)
Tax on profit/(loss) on ordinary activities	2	(3)

Notes *(continued)*

5 Tax on profit/(loss) on ordinary activities *(continued)*

	2005 £000	2004 £000
Current tax reconciliation		
Profit/(loss) on ordinary activities before tax	**8**	(5)
Profit/(loss) on ordinary activities multiplied by standard rate of corporation tax in the UK of 30% (*2004: 30%*)	**2**	(1)
Loss for the year not surrendered as group relief	**-**	1
Overprovision in prior periods		(3)
UK Corporation tax charge at 30% arising on transfer pricing adjustments	**30**	-
Compensation payments receivable relating to transfer pricing adjustments	**(30)**	-
Total current tax charge, as above	**2**	(3)

The 2005 charge largely results from the impact of a change in UK transfer pricing legislation. However, a payment to compensate KPMG United Kingdom Plc for this increase will be made by the members of KPMG LLP, the company's ultimate controlling party.

Payment for group relief surrendered is generally made at 30% (*2004: 30%*). No deferred tax arose in either year.

6 Debtors

	2005 £000	2004 £000
Amounts owed by group undertakings	**1,158**	3,559

All debtors fall due within one year.

7 Creditors: amounts falling due within one year

	2005 £000	2004 £000
Amounts owed to group undertakings	**-**	2,402
Amounts owed to KPMG overseas practices	**-**	1
Corporation tax payable	**2**	-
Accruals and deferred income	**3**	3
Dividend proposed	**150**	-
	155	2,406

Notes *(continued)*

8 Called up share capital

	2005 £000	2004 £000
Authorised		
Equity: 5,000,000 Ordinary shares of £1 each	**5,000**	5,000
Allotted, called up and fully paid		
Equity: 5,000,000 Ordinary shares of £1 each, 25p called up and paid	**1,250**	1,250

9 Reconciliation of movement in equity shareholders' funds

	2005 £000	2004 £000
Profit/(loss) for the year	**6**	(2)
Dividends	**(150)**	-
	(144)	(2)
Opening shareholders' funds	**1,401**	1,403
Closing shareholders' funds	**1,257**	1,401

10 Directors' interests in contracts

The company is charged by KPMG LLP for the use of facilities and other services provided to it. The aggregate amount of these charges in the year ending 30 September 2005 was £nil (*2004: £50,000*). In addition, the company is charged by KPMG UK Limited for the use of staff, and by KPMG LLP for the time of members who are not product directors, as set out in note 2 above.

As detailed in note 5, the members of KPMG LLP will also contribute £30,000 to KPMG United Kingdom Plc in order to compensate the company for the increased corporation tax charge.

The directors of the company are all separately members of KPMG LLP and, therefore, have an interest in these transactions.

11 Contingent liabilities and commitments

The company may, in the normal course of conducting its business, receive claims for alleged negligence. The company contests such claims vigorously and maintains appropriate professional indemnity cover. The company has no operating lease or capital commitments.

12 Related party disclosures

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, the KPMG LLP group.

Notes *(continued)*

13 Ultimate and immediate parent undertakings

The company's immediate controlling party is KPMG Holdings Plc, a company incorporated in England and Wales.

KPMG Holdings Plc is wholly owned by KPMG LLP, a limited liability partnership registered in England and Wales, which is the company's ultimate controlling party.

The largest group in which the results of the company are consolidated is that of KPMG LLP. The accounts of KPMG LLP are available to the public and may be obtained from the principal place of business, 8 Salisbury Square, London, EC4Y 8BB. No other group accounts include the results of the company.