KPMG United Kingdom Plc

Directors' report and financial statements

30 September 2004

Registered number 03513178

Contents

Directors' report

The directors present their annual report and the audited financial statements of the company for the year ended 30 September 2004.

Status and principal activities

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

KPMG LLP, the ultimate parent undertaking of KPMG United Kingdom Plc, is the UK member of KPMG International. KPMG International is a Swiss cooperative that serves as a coordinating entity, carrying out no client services, and of which all KPMG firms are members. All member firms are committed to following common standards in their provision of services for clients and to maintaining the highest levels of independence and integrity.

Business review

The company generated gross fees of £228,000 in the year, as previous contracts were completed. The directors anticipate that the much reduced level of activity is likely to continue in future years.

Dividends

The directors recommend that no ordinary dividend be paid in respect of the current financial year (2003: £nil).

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 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.

Directors' report *(continued)*

Employees

The employees of the company comprise the directors, within the meaning of the Companies Act 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, in respect of time spent by its employees on assignments for KPMG United Kingdom Plc, and from KPMG LLP for the services provided to the company by members of KPMG LLP who were not separately product directors of the company.

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

Considerable emphasis is placed on effective and open communication between the company's directors and product directors and the employees of KPMG UK Limited. This communication operates principally through regular meetings, newsletters and electronic mail bulletins.

Political and charitable contributions

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

Policy on the payment of creditors

Services to the company are provided principally by KPMG LLP and its subsidiaries. Arrangements are in place for these to be settled generally one month in arrears. Services provided by other suppliers are immaterial. The company does not follow a specific standard or code for their payment; its policy is to agree terms of business with suppliers and to settle their accounts in accordance with such agreed terms.

Auditors

On 1 July 2004, the Grant Thornton partnership transferred its business to a limited liability partnership, Grant Thornton UK LLP. Under section 26(5) of the Companies Act 1989, the directors consented to extend the audit appointment to Grant Thornton UK LLP from 1 July 2004.

Grant Thornton UK LLP offer themselves for reappointment as auditors in accordance with section 385 of the Companies Act 1985.

By order of the Board

Nigel Challis
Company Secretary
3 December 2004

8 Salisbury Square
London
EC4Y 8BB

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 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 2004, which comprise the profit and loss account, the balance sheet and notes 1 to 15. 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 2004 and of its loss 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

3 December 2004
Gatwick

Profit and loss account

for the year ended 30 September 2004

	Note	**2004**	2003
		£000	£000
Turnover		**228**	570
Other external charges: direct expenses		**(130)**	(311)
		98	259
Staff costs	*2-3*	**(45)**	(132)
Other operating charges		**(60)**	(104)
Operating loss/profit		**(7)**	23
Bank interest receivable		**2**	3
Loss/profit on ordinary activities before taxation	*4*	**(5)**	26
Tax on loss/profit on ordinary activities	*5*	**3**	(5)
Loss/profit for the financial year transferred to reserves	*10*	**(2)**	21

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 activities are derived from continuing operations.

Balance sheet
at 30 September 2004

	Note	**2004** **£000**	2003 £000
Current assets			
Stocks: net work in progress	*6*	**-**	13
Debtors	*7*	**3,559**	3,863
Cash at bank and in hand		**248**	25
		3,807	3,901
Creditors: amounts falling due within one year	*8*	**(2,406)**	(2,498)
Net current assets		**1,401**	1,403
Net assets		**1,401**	1,403
Capital and reserves			
Called up share capital	*9*	**1,250**	1,250
Profit and loss account	*10*	**151**	153
Equity shareholders' funds	*11*	**1,401**	1,403

The financial statements on pages 5 to 12 were approved by the Board of Directors on 3 December 2004 and were signed on its behalf by:

Mike Rake
Chairman

Mike Blake
Finance 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 company'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.

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.

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. Interim billings on account are otherwise not included.

Staff costs

Staff costs include the salary and social security costs of directors and product directors, together with 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 finance 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.

Stock: 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 product directors, the costs of staff charged by KPMG UK Limited and charges by KPMG LLP for the time of members who are not 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 amounts payable between group companies for the surrender of losses under group relief as well as taxation deferred because of timing differences between the treatment of certain items for taxation and accounting purposes. Deferred tax assets are recognised to the extent that they are regarded as recoverable.

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.

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.

Where appropriate, provision is made against the eventuality of settlement of claims with any related insurance recoveries included in 'Debtors'.

2 Staff numbers and costs

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

	2004 Number	2003 Number
Statutory directors	**3**	3
Product directors	**30**	38
Company secretary	**1**	1
	34	42

The aggregate payroll costs of these persons were as follows:

	2004 £000	2003 £000
Salaries	**3**	50
Social security costs	**-**	2
	3	52

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 £42,000 *(2003: £80,400)*.

Notes *(continued)*

3 Remuneration of directors

	2004 **£000**	2003 £000
Directors' emoluments	-	50

The emoluments of the highest paid director were £nil *(2003: £25,000)*.

4 Loss/profit on ordinary activities before taxation

	2004 **£000**	2003 £000
Loss/profit on ordinary activities before taxation is stated after charging:		
Auditors' remuneration for audit work	**5**	5

5 Taxation

	2004 **£000**	2003 £000
Current year tax (credit)/charge		
Current tax on loss/profit of the year	-	8
	-	8
Overprovision in respect of prior periods	**(3)**	(3)
Tax (credit)/charge on (loss)/profit on ordinary activities	**(3)**	5

	2004 **£000**	2003 £000
Reconciliation of tax (credit)/charge		
(Loss)/profit on ordinary activities before taxation, multiplied by standard rate of UK corporation tax of 30% *(2003: 30%)*	**(1)**	8
Loss for the year not surrendered as group relief	**1**	-
Overprovision in prior period	**(3)**	(3)
Actual tax (credit)/charge for the year as above	**(3)**	5

No deferred tax arose in either year.

Notes *(continued)*

6 Stocks: net work in progress

	2004 £000	2003 £000
Gross work in progress	-	40
Payments received on account	-	(27)
	-	13

7 Debtors

	2004 £000	2003 £000
Trade debtors	-	133
Amounts owed by group undertakings	3,559	3,717
Amounts owed by KPMG overseas practices	-	9
Other debtors	-	4
	3,559	3,863

All debtors fall due within one year.

8 Creditors: amounts falling due within one year

	2004 £000	2003 £000
Payments received on account	-	55
Amounts owed to group undertakings	2,402	2,358
Amounts owed to KPMG overseas practices	1	-
Corporation tax payable	-	8
Other creditors	-	72
Accruals and deferred income	3	5
	2,406	2,498

9 Called up share capital

	2004 £000	2003 £000
Authorised		
Equity: 5,000,000 ordinary shares of £1 each	5,000	5,000
Allotted and called up		
Equity: 5,000,000 ordinary shares of £1 each, 25p called up and paid	1,250	1,250

Notes *(continued)*

10 Reserves

	Profit and loss account	
	2004	2003
	£000	£000
At the beginning of the year	**153**	132
Retained (loss)/profit for the financial year	**(2)**	21
At the end of the year	**151**	153

11 Reconciliation of movement in shareholders' funds

	2004	2003
	£000	£000
Retained (loss)/profit for the financial year	**(2)**	21
Opening shareholders' funds	**1,403**	1,382
Closing shareholders' funds	**1,401**	1,403

12 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 2004 was £50,000 *(2003: £98,000)*. 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. The directors of the company are all separately members of KPMG LLP and, therefore, have an interest in these transactions.

13 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. Creditors include, where appropriate, the estimated cost of meeting any notified claims with amounts recoverable from insurers included in debtors. The company has no operating lease or capital commitments.

14 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 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.

Notes *(continued)*

15 Related party transactions

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.