

Grant Thornton UK LLP

Annual report 2005

Building a great financial advisory firm

Grant Thornton 



The extraordinary sculptures featured in this report are all the work of a single artist, Danny Lane. His work is characterised by highly individualistic and unconventional thinking. Having worked in London since the early 1980s, Lane's large sculptures in glass and steel can be found in public, private and corporate spaces. His smaller furniture and sculptures are in homes and collections of art throughout the world.

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Cover:

Ryan Piper, Senior Analyst, Financial Markets Group, with "Stairway".

The glass stairway was first exhibited at Borgholm Castle, Sweden. The engineering principle is based on a double-cantilevered post-tensioned glass stair. The resulting visual dynamic is a prismatic glass waterfall.

Thinking beyond convention

At Grant Thornton, we take our client-focused solutions to the highest level of quality by applying innovative thinking and never being afraid to challenge the status quo. Our robust independence and commitment to delivering an individual perspective are at the core of the way we do business. Our continued success is a credit to our people and the enduring values for which the firm stands.

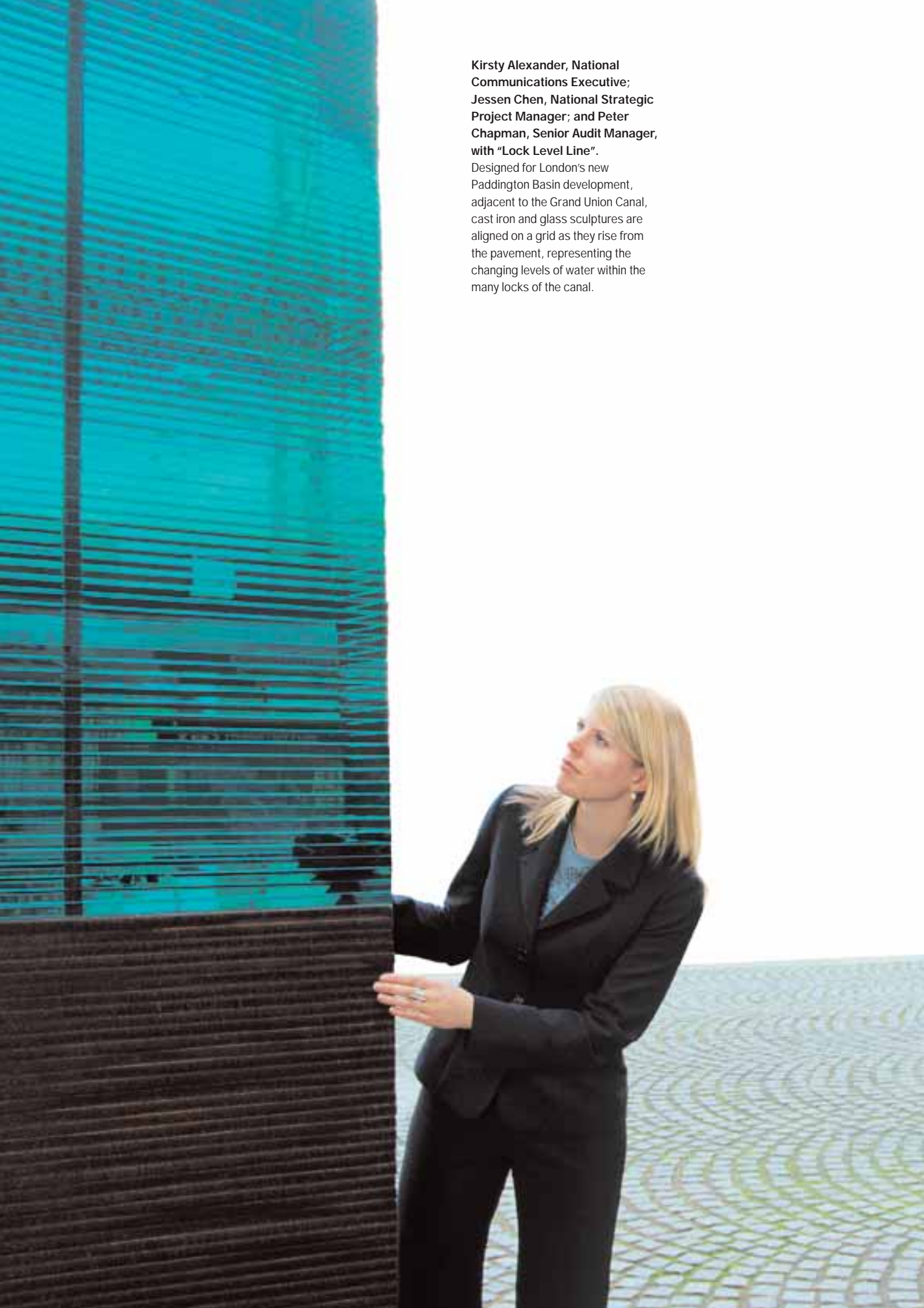


Michael Cleary, National Managing Partner



Kirsty Alexander, National Communications Executive; Jessen Chen, National Strategic Project Manager; and Peter Chapman, Senior Audit Manager, with "Lock Level Line".

Designed for London's new Paddington Basin development, adjacent to the Grand Union Canal, cast iron and glass sculptures are aligned on a grid as they rise from the pavement, representing the changing levels of water within the many locks of the canal.



Always driving forward

Grant Thornton has introduced innovative new services that respond to its clients' evolving aspirations. Trends and cycles come and go but we always remain perceptive, reacting swiftly to our clients' needs with fresh thinking that delivers workable solutions.



Demanding times

You have to keep driving forward to thrive and prosper. Not an easy prospect in today's demanding business climate but precisely the kind of challenge our people relish. In an uncertain business environment it's even more important that we understand exactly what our clients need, so that we are able to see them through tough times and help them build a strong, sustainable platform for growth.

Professional focus

The financial services industry continues to be the focus of close attention and increasing regulation, creating a climate of constant change. We have expressed our strong commitment to the process of change and actively contribute to the debate on how it should take place.

We remain committed to the principles of liability reform and other measures to safeguard the much-valued reputation of our profession. Through our positive actions we aim to work with our peers to enhance this reputation in a way that is fair to both ourselves and to our clients.

“The world of business doesn't stand still and neither do we. Our products and services address the challenges, risks and uncertainties that our clients and business partners face on a daily basis. We believe change is a challenge, an opportunity, rather than a threat.”

Scott Barnes,
National Management Board

Change creates opportunity

Change is providing exciting new opportunities for us. We are able to capitalise on our enviable reputation as a provider of class-leading financial services. The separation of audit and non-audit service provision to businesses will further fuel our success, particularly through our enviable range of specialist services. We are working increasingly with larger clients who are looking for alternative service providers.

Client focus

To move forward successfully we have to offer the right solutions that meet our clients' needs. By understanding the economy and their businesses we can anticipate change, plan ahead, and help them to drive forward at the right moments. They benefit from our independence and flexibility.

Grant Thornton provides a full range of mainstream business services, including Tax, Growth and Strategic Services, Assurance, and Private Client Services. In addition, we provide a range of specialist financial services, which includes:

- Project Finance, where teams have advised on over 300 projects with combined capital values exceeding £30 billion
- Forensic and Investigation Services, where our focus is unravelling the complexities to present clear, accessible advice in contentious disputes, investigations and insurance claims
- Corporate Finance, where we assist management and shareholders with advice and solutions on issues relating to growth, development and financial needs
- Recovery & Reorganisation, whose specialists help companies and financial stakeholders to analyse underperformance and develop value recovery strategies that are workable
- Risk Management Services with a dedicated team focused on a risk-based approach to the assessment of systems and controls
- International Tax where specialist teams assist clients to achieve tax efficient international structures and with complex issues such as transfer pricing.

Stephen McDiarmid, Assistant Manager, Internal Audit; Julie Hocking, Audit Senior; and Kate Moore, Tax Trainee, with "Assembly Field".

A highly functional architectural glass installation, designed to deflect the high winds at Richard Rogers' stunning National Assembly for Wales building, on the waterfront of Cardiff Bay.



Building the best team

Being unconventional is business as usual for our people. A rich variety of skills, non-conformist thinking and a strong desire to deliver real results characterise our teams. From environmental waste experts to financial modellers – diverse disciplines, same commitment.



“The best teams are built around fairness, mutual respect and quality. We work hard to recruit and retain, motivate and reward the highest calibre people. Offering them fulfilling career choices is a crucial part of making this a great place to work.”

Steve Edmonds,
National Management Board

People first

People are the firm’s most valuable asset. In a knowledge-driven business we recognise that this is a plain fact, rather than a corporate platitude. We realise that to be an employer of choice we must work hard to attract and retain the highest calibre people – and motivate and reward them accordingly.

Competition for high achievers is intensifying, and not just in the financial services sector. Grant Thornton’s approach is to seek constantly to improve the working benefits for our staff – from our international secondment programme to child care vouchers, from flexible working to our “home office” technology.

We want to be a great place to work, a firm of which we are all very proud. We are committed to enhancing the personal and professional development environment across the firm. We comply with all relevant employment legislation and adopt best practice principles in all areas of employee relationships.

Our inclusive culture means that everyone receives the opportunity to develop their skills and knowledge and meet their personal goals.

Partner qualities

All new partners to the firm have a proven commitment to applying our ethical and risk management policies. Coupled with their expertise and technical knowledge, they are chosen for their ability to develop trusted relationships with clients, and to bring a human perspective to what they do. The national managing partner appoints people only after a rigorous assessment by an experienced panel.

Training commitment

We develop our training programmes to fit flexibly around the work and life commitments of our people. This includes both professional and other training. We take a coordinated approach to training and career development, ensuring people are supported at every stage of their careers.

Partners and qualified staff keep up to date with regular internal and external professional guidance. Annual training plans are assessed as part of an individual's continuing professional development programme.

The firm invests in its own residential

national training centre, which delivers our core training programmes. Our client services support departments are responsible for providing technical updates and training for all professional staff, to enable them to provide our clients with the advice to keep up with events in a fast-changing world.

Rewarding talent

We recognise that to achieve our goals of attracting and retaining high calibre people we must reward talent. We also recognise people who contribute value to the firm over time and through a diverse range of attributes.

Salaried partners receive performance-based bonus awards in addition to their fixed salaries. These are based on them achieving pre-agreed individual and business performance targets.

Members are rewarded partly by reference to team and individual performances – taking account of criteria including client service, technical excellence and the upholding of professional and ethical standards – as well as financial performance.

The firm's sustained growth in profitability allows it to meet its reward objectives.

Our commitment to excellence

Quality is critical to everything we do and we constantly strive to do better. As well as the emphasis that we place on quality control we continually encourage our partners and staff to think "client first" as part of our effort to ensure that clients receive the service that they seek – timely, relevant and objective advice.

10 Taking a real world view

The firm has shown steady growth across the board in both its UK-based and international work. Overall, turnover is now over £250 million with further growth projected in the current year.





Samantha Mercer, Corporate Finance Coordinator; Laura Stuart-Berry, Insolvency Senior; and Ben Gander, Private Client Service Manager with “Child of the Family”.

In this sculpture, Lane manipulates 40mm thick steel plates. A three dimensional figure is pulled from a flat steel plate by a dancing female figure, standing four metres high. Nearby, the outstretched arm of a man catches the child – William Blake’s emblem of the soul.

Despite an ever more challenging marketplace, the growth trend in turnover continued in 2005. This grew 7.2% from £238.6 million to £255.8 million, and followed growth of 8.1% in 2004. Pre-tax profits rose 12.3% to £54.9 million in the year to 30 June 2005.

We have adapted well to the introduction of new rules and regulations governing the profession. New markets are opening up that are generating exciting new opportunities for the firm.

We are confident that growth will continue due to our unique business model and the passion of our people to achieve performance excellence.

An important factor in the firm's

sustained growth is the diversity of its client base. This reflects our ability to think beyond the convention, to embrace change and fresh opportunities.

International reach

Grant Thornton has wide experience in providing a full range of services to international clients, both domestic businesses with global reach and the UK operations of multinational organisations.

The majority of our assignments are undertaken by UK partners and staff. However, as the UK member of Grant Thornton International, one of the world's leading international organisations of independently owned and managed

“Clients rely on us for expertise founded in real experience and supported by a worldwide organisation that can help them solve their business problems, wherever they arise.”

Malcolm Ward, National Management Board



accounting and consulting firms, we can also offer our clients access to professional advice delivered by other Grant Thornton International firms from around 520 offices in over 110 countries worldwide.

Although Grant Thornton International is not a worldwide partnership, the firms share a commitment to providing the same high quality service to their clients wherever they do business.

An individual perspective

At Grant Thornton, we focus on the human perspective, forging long-term, sustainable relationships with our clients. They, like us, are independent, innovative thinkers, international in outlook, and always ready to think beyond convention.

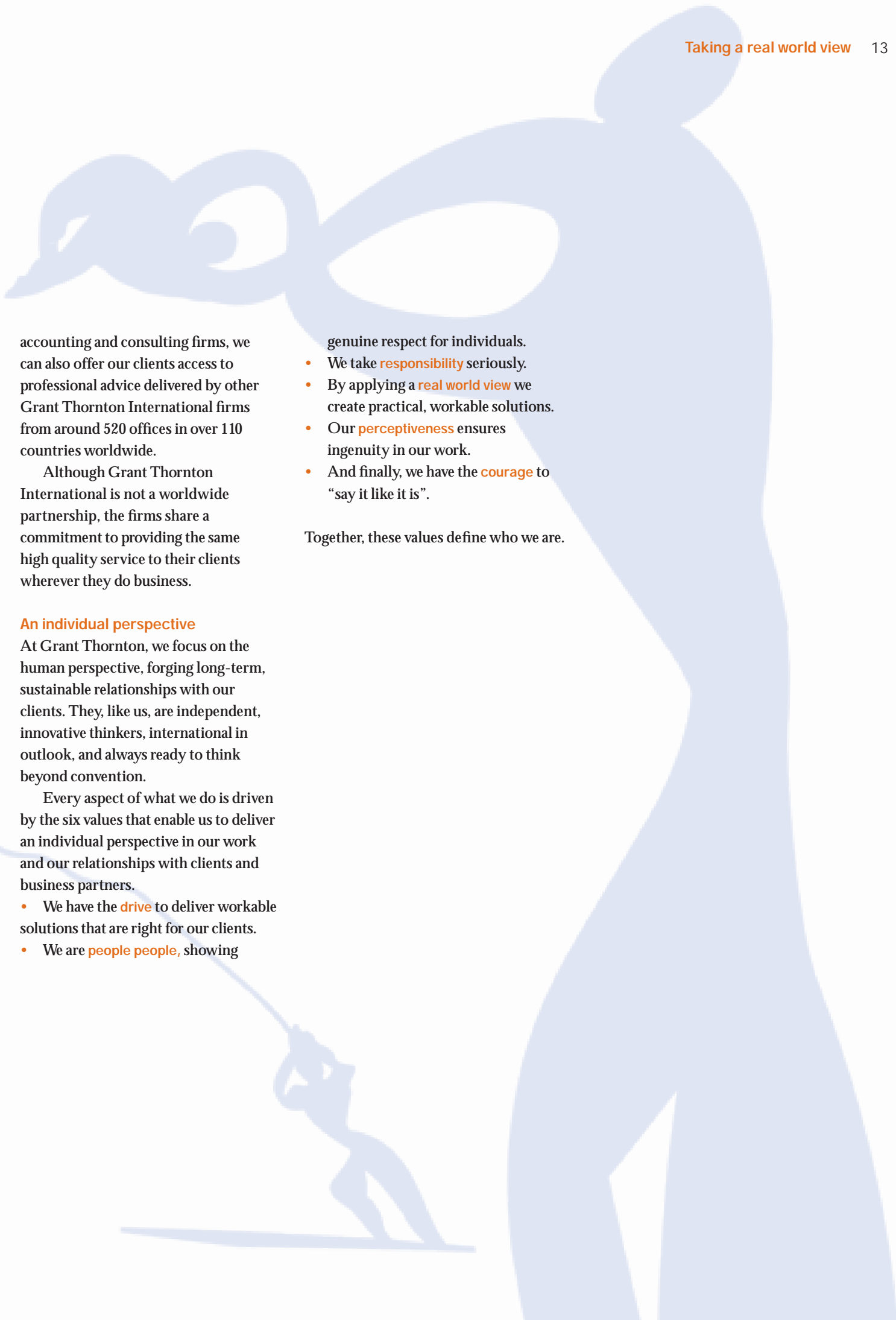
Every aspect of what we do is driven by the six values that enable us to deliver an individual perspective in our work and our relationships with clients and business partners.

- We have the **drive** to deliver workable solutions that are right for our clients.
- We are **people people**, showing

genuine respect for individuals.

- We take **responsibility** seriously.
- By applying a **real world view** we create practical, workable solutions.
- Our **perceptiveness** ensures ingenuity in our work.
- And finally, we have the **courage** to “say it like it is”.

Together, these values define who we are.



Grant Thornton is actively involved in helping to shape and safeguard the highest standards in the accountancy profession. As a firm, we have well-established processes in place to ensure our ethics and standards stand up to scrutiny.



Nicki Banghar, Marketing Executive, with "Etruscan Chair".

An icon of chair design and part of the permanent collection at the Vitra Chair Museum in Basel, it plays with our innate, unconscious fear of glass. Anecdotaly, Lane obtained rubber high heel shoe tips from the now famous Jimmy Choo, to make the metal leg points less damaging.



“Inspiring confidence that our policies either meet or exceed all relevant ethical and independence guidance and codes is an essential part of the way we deliver excellent client service. We are passionate about improving standards.”

Steve Maslin, Head of Assurance

Our people have always been innovative thinkers, developing the ideas that inspire others.

Our thought leadership programme "Grant Thornton thinking" is a major driver behind much of what we do. It demonstrates how we balance practical, workable solutions that are anchored in the real world, with an original approach capable of driving the firm and its clients forward. Behind this leading-edge thinking is an unbending commitment to the ethics, principles and standards that underpin our profession.

Ethics

Professionalism, ethics and independence take precedence over all other aspects of our work. This is reflected in our people development and reward structures and monitored carefully to ensure we meet the stringently high standards that we set ourselves.

For every new assignment, we conduct a thorough client take on process that covers anti-money laundering, ethical issues and other professional risk assessment measures. All of our assignments are managed in accordance with well-established internal guidelines.

Standards

The firm has a dedicated ethics partner who provides confidential advice and guidance to other partners and members of staff regarding professional ethics. He also chairs Grant Thornton's professional issues panel, which assesses the impact on the firm of changes in professional standards and regulations.

Our policies meet or exceed the requirements set by the Institute of Chartered Accountants in England and Wales, the Auditing Practices Board

and the International Federation of Accountants. Induction training for all new people includes an introduction to the firm's ethical and independence policies. Further training is undertaken when rules and policies change.

All our people are required to consult our database of prohibited investments, which includes details of all publicly traded audit clients, before making personal investments.

Safeguards

The firm has in place a range of safeguards governing audit appointments and the independence of partners and staff. Before an audit starts, every member of the audit engagement team confirms their independence. We also complete a series of professional checks and assessments on audit clients to ensure our ongoing independence.

We take a number of steps to maintain auditor independence for specific clients. Partners in the firm are required to make an annual statement of independence. We do not make personal awards to partners for selling non-audit services to listed audit clients and our approach to

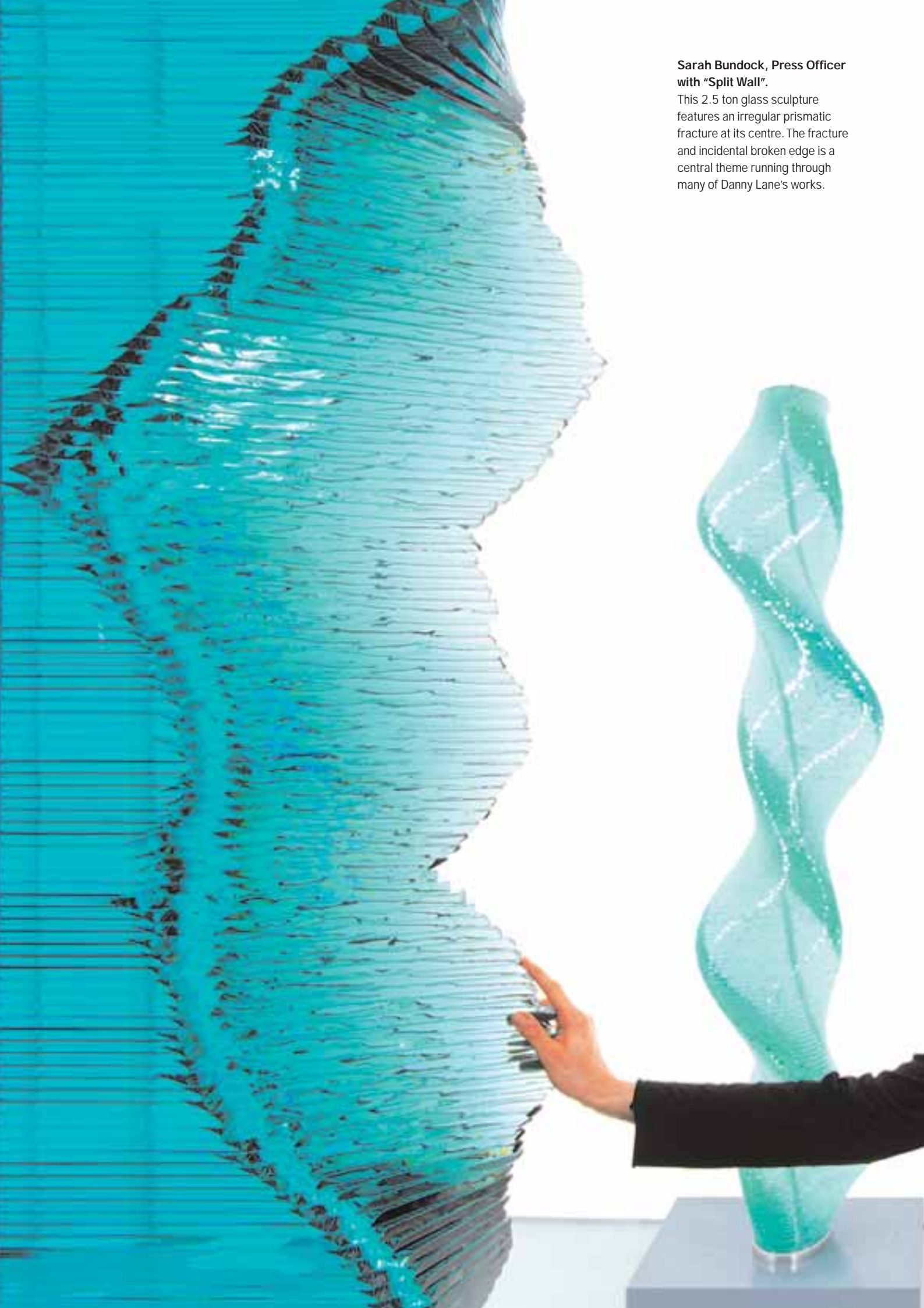
rewarding cross-selling of services is monitored carefully.

Contributing to the debate

The firm participates actively in the way the profession develops. We encourage partners to contribute to professional bodies.

**Sarah Bundock, Press Officer
with "Split Wall".**

This 2.5 ton glass sculpture
features an irregular prismatic
fracture at its centre. The fracture
and incidental broken edge is a
central theme running through
many of Danny Lane's works.



Taking responsibility

As a responsible business, we are committed to bringing corporate responsibility into the heart of our operations and reflecting it in all the firm's activities. This means respecting our environment, offering our people a great place to work, supporting our community and behaving with integrity towards our clients, intermediaries and suppliers.



Our corporate responsibility

Corporate responsibility permeates all aspects of our work. We seek to understand the impact of our business activities on all our stakeholders and manage these activities so that wherever possible they contribute positively. Our biggest impact is most notably in the areas of delivery of client services and our relationships with people. Grant Thornton has built a reputation in the business community in these two areas.

An important part of our responsibility is to identify opportunities where we can improve our activities. We shall benchmark our performance against our peers and other businesses, using Business in the Community's Corporate Responsibility Index.

People and workplace

Our people are crucial to our success and our aim is to be an organisation which is considered to be a great place to work. We are committed to developing a culture where all our people are given the opportunity to develop their skills and knowledge, enjoy fulfilling careers and meet their personal goals.

We adopt best practice in all aspects of our employment relationship, and ensure that our HR strategies promote diversity and equality of opportunity.

We offer comprehensive training and development opportunities, operate flexible employment policies, and strictly adhere to workplace health and safety guidelines.

Fairness and respect

In addition to our own people, we aim to treat clients, intermediaries and suppliers with fairness and respect. We only take on engagements where we believe we have the necessary skills and expertise to perform to the highest standards of service and care.

We have recently embarked on a comprehensive client service programme to ensure all staff understand the importance of delivering exceptional service. In addition, the firm's procurement processes require our suppliers to demonstrate good environmental, social and ethical management practices which will be taken into consideration wherever possible in making our selections.

“Corporate responsibility is not corporate philanthropy. It’s about being a better business by behaving with integrity towards, and making a positive impact on, our people, clients and suppliers, the environment and our community.”

Margaret Bowler, Head of
Corporate Responsibility

Community involvement

Grant Thornton has a long tradition of supporting local communities as a responsible corporate citizen. As a firm and individually, we use our time and skills to make a difference to a variety of charitable and community organisations.

We support named charities on a national and local level and organise many fundraising events. Matched funding (to agreed limits) helps to boost the efforts of our staff. During the year, staff and partners helped to raise over £33,000 to support charities dealing with the aftermath of major natural disasters.

We plan to establish a Grant Thornton Foundation that will support our selected charities as well as special appeals.

Environmental concern

Many of our activities provide us with an opportunity to improve the environment in which we work. We have various initiatives underway to promote greater awareness and educate our people on the impact their activities may have on the environment and how it can be reduced. These include reducing the environmental impact of our business travel, cutting our

consumption of paper and energy, and increasing our re-use and recycling of waste.

Working together to respect the environment in our day-to-day work will help us to meet our corporate goals.

Legal structure**Our legal structure**

Grant Thornton UK LLP is a single, national limited liability partnership (LLP).

Within our organisation, the term “Partner” indicates a member or a senior employee of Grant Thornton UK LLP who is not in partnership for the purposes of the Partnership Act 1890. Members are those partners with ownership rights in Grant Thornton UK LLP.

The firm is owned by its 169 members (as at 31 December 2005) and they, together with 69 salaried partners (as at 31 December 2005), operate from 32 locations in the UK.

All of our professional activities are conducted through the LLP. Certain support and infrastructure activities are carried out through wholly owned subsidiaries and LLPs.

Grant Thornton International

The name "Grant Thornton" signifies one of the world's leading organisations of independently owned and managed accounting and consulting firms which provide assurance, tax and specialist business advice. Services are delivered nationally by the member and correspondent firms of Grant Thornton International, a network of independent firms throughout the world. Grant Thornton International is a non-practising, non-trading international umbrella organisation and does not deliver services in its own name.

Each member and correspondent firm in Grant Thornton International is a separate independent national firm. These firms are not members of one international partnership or otherwise legal partners with each other, nor is any one firm responsible for the services or activities of any other. Each firm governs itself and handles its administrative matters on a local basis. Although many of the firms now carry the Grant Thornton name, either exclusively or in their national practice names, there is no common ownership among the firms or by Grant Thornton International. There are no international profit-sharing arrangements.

The firms share a common professional vision, are especially focused on mid market businesses and their entrepreneurial owners and share a commitment to providing high quality service to their clients.

An international board of governors, drawn from member firms around the world, appoints the umbrella organisation's chief executive worldwide, currently David McDonnell. Member firms share methodologies where appropriate. Local regulatory issues and quality assurance remain the responsibility of the local firms, who are appropriately recognised and responsible under domestic legislative, regulatory and other applicable requirements.

All member firms are required to apply ethics and

independence policies that are consistent with the globally respected International Federation of Accountants code of ethics. Grant Thornton International is one of six original founding members and current chair of the Forum of Firms. The forum promotes consistently high standards of audit and financial reporting worldwide in the interests of users of the profession's services. Set up around five years ago, it has 23 members in total, comprising all the major accounting firms with international networks. Grant Thornton International recently reported combined revenues of member firms amounting to US\$2.5 billion.

Regulation

The firm's regulated activities are regularly reviewed and reported on by a variety of UK regulators. These include: the Institute of Chartered Accountants in England and Wales; the Institute of Chartered Accountants of Scotland; the Insolvency Practitioners Association, the Financial Reporting Council and the Financial Services Authority.

Management

The firm's constitution sets out the rights and obligations of members and the governance framework together with the key responsibilities for the management of the LLP.

Management of the firm is primarily the responsibility of the national managing partner, Michael Cleary. The national managing partner is responsible for:

- ensuring the firm operates within the LLP's statement of principles
- formulating the firm's strategy and policies
- the management of the firm (consistent with the interests of clients and staff, the firm's values and ethical standards) with a view to profit
- the appointment, appraisal and removal of members and salaried partners.

The national managing partner is appointed by the members for not more than two terms of five years. Michael Cleary has appointed four experienced partners with defined management responsibilities to work with him on the national management board. The national management board is supported by two independent non-executive advisers. These advisers are not partners in the firm but bring a wealth of experience gained in other professional organisations.

Governance and risk management

We continuously monitor developments in corporate governance and benchmark our performance against them. In addition, we adopt best practice in a way that is relevant to our activities, the risk environment that we face and the needs of

our clients and people.

The LLP's modern constitution allows strong and effective management, underpinned by robust, independent oversight on behalf of the members by the partnership committee.

The main role of the partnership committee is to monitor the national managing partner's stewardship of the firm's business. Most significantly, it is responsible for the LLP's statement of principles and the oversight, appointment, removal and remuneration of the national managing partner. Our statement of principles is approved by the members and is the firm's highest level statement of objectives, values and philosophy and is binding on the national managing partner.

In addition to the national managing partner, the partnership committee comprises 12 members elected by the members of the LLP, together with one additional ex-officio member. Elected partnership committee members are appointed for a period of three years and may serve for two further consecutive terms if they are re-elected.

The partnership committee oversees the firm's relationship with the external auditors, the firm's own business risk management group and its internal assurance unit. These departments carry out regular reviews of:

- the processes put in place by the national management board to identify the key risks faced by the firm and the ongoing effectiveness of the control systems surrounding those risks
- the quality and reliability of the financial information provided to the partnership committee and the partners.

Quality assurance

Training

All partners and qualified staff are required to keep up to date with professional guidance, both internal and external. Each year, partners and qualified staff are required to prepare a training plan and submit continuing professional development returns, which the firm monitors. Mandatory core training for the coming year is also identified by each service line.

The firm has invested in its own residential national training centre, where core training is provided by dedicated staff, supplemented by external specialists. The firm's client services support departments advise on specific technical issues and provide a programme of reviews for the accounts of all public interest clients. These departments are also responsible for providing technical updates and training to our professional staff, ensuring that new professional and regulatory standards are implemented promptly and that the service lines' technical materials and software are maintained.

Quality assurance reviews

Service lines are required to organise retrospective quality assurance reviews. These cover various areas of activity and

industry sectors. Review teams are selected from outside the office under review. Where weaknesses are highlighted, appropriate action is taken, lessons learned and remedial actions monitored by line management. For regulated activities, the review results are disclosed to the external regulatory body's own review team.

Financial position

Resources

The firm's employee compliment averaged 2,924 during the year including 155 members.

Over the course of the last four years we have grown turnover per professional by 27% and turnover per partner by 30%.

Our success has been achieved through progressive improvement in turnover whilst broadly maintaining partner and staff numbers at levels similar to those in 2001/2002.

Capital, treasury, liquidity

The firm regularly reviews its funding needs and position through a system of frequent capital reviews and ongoing working capital monitoring. The firm's operational business units are encouraged to effect appropriate working capital control through internal treasury control mechanisms. External treasury is centrally managed using conventional techniques to minimise overall borrowing costs and maximise returns from invested surplus funds, relative to risk and availability.

During the course of the year the firm restructured members' capital requirements so as to provide a more equitable distribution of capital relative to investment risk in the LLP environment. From 1 April 2005, subject to certain transitional arrangements, all members have been required to contribute capital equally. As part of the restructuring the firm raised the average capital balance per member which combined with the impact of fresh capital from the additional overall member numbers, increased members' capital from £20.6 million at the start of the year to £25.5 million by 30 June 2005.

Certain members also provide a limited amount of short to medium term funding through fixed term loans with durations of either one or two years. The firm's prudent drawings policy, the process for profit allocation which takes place after the year end and the timing of tax payments on behalf of partners all also serve to provide short term funding to the firm.

The firm also has third party loan and overdraft facilities with a number of banks and similar institutions which, together with the regular reviews of capital needs, protects its exposure to liquidity risk. Interest rate risk is reduced by capping exposure to interest rate increase in respect of certain loans.

The firm had no net debt at either year end, although its activity and working capital cycles combined with the timing of tax payments leads to usage of external facilities from time to time during the course of the year.

Key performance indicators

Our key performance indicators include measurement of:

- the relationship of client charge out rates to the average hourly employment cost of client facing personnel (multiplier)
- total client chargeable hours as a proportion of total hours available (utilisation)
- the recoverable value of expenses at cost and time at scale incurred (recovery)
- gross margin and marginal contribution for each business unit
- fees per partner and staff member, details of which have been referred to above
- operating profits as a percentage of turnover
- average profits per partner.

The first of these measures reflects pricing policy and the relative mix of work with contingent and higher risk activities commanding higher rates. The firm's overall multiplier increased during the year.

Both utilisation and recovery rates in 2005 were lower than those achieved in 2004.

Utilisation rates are continually under pressure from regulatory and training demands. The firm's strategy remains to improve efficiency through improving usage of work-flow methodology and harnessing evolving information technology.

Recovery rates experience is significantly influenced by price elasticity and much of the professional services market place showed only limited scope for pricing increases.

Operating profit as a percentage of turnover increased from 21.5% to 22.3%. The increase in multiplier led to some margin rate improvement, notwithstanding the decline in utilisation and recovery. Operating costs also rose at a slower rate than turnover growth which assisted in improving our operating profit ratio.

Average profit per member increased by 2.9% during the year to £354,000.

Balance sheet analysis

Net assets in the group balance sheet increased by £9.7 million to £52.2 million.

Within the total, net current assets rose by £10.5 million reflecting a higher net cash position and increased working capital. Working capital growth reflects a combination of activity growth and a shift in the nature of certain work with longer billing and collection cycles.

At the year end, cash and bank balances in hand, including short term bank deposits, exceeded bank and hire purchase borrowings and finance lease obligations by £4.7 million. This represented an improvement of £1.7 million over the net cash position reported last year.

Total members' interests rose by £12.7 million to £59.1 million boosted by capital from the increase in the number of members and capital restructuring in the spring of 2005 as well as the rise in profits.

Pension scheme obligations

Within the past two years, the firm has revised the terms of its defined benefit scheme, with the support and co-operation of the trustees and members, in order to deliver a package of measures designed to improve the sustainability of the scheme. The changes were in response to the growing concern about the sustainability of such schemes and followed the last formal actuarial valuation, which was conducted as at 30 June 2002. The changes were made in an environment that required future funding and scheme deficits to be regulated using the government's Minimum Funding Requirement rules.

The accounts include disclosures under the provisions of FRS 17, which require the calculation of scheme liabilities by reference to a discount rate that does not reflect the scheme's actual investment policy. Like many other organisations with a similar year-end, our scheme deficit under FRS 17 has deteriorated owing to a material reduction in the discount rate applied to future liabilities between 30 June 2004 and 30 June 2005, as prescribed by FRS 17. The deficit at 30 June 2005, calculated on the FRS 17 basis, amounts to £57.4 million, following a reduction in the discount rate between the two dates of 0.7 percentage points. By way of illustration of the sensitivity of the discount rate in the calculations, an increase of 0.1 percentage point would reduce the calculated liabilities and resulting deficit by approximately £4.0 million.

The new pension regime under the Pensions Act 2004 will substitute an FRS 17-based approach to deficit calculation within the scheme funding regulations. In addition, a risk-based levy is being introduced in 2006, designed to fund a lifeboat for failed pension schemes. The levy, which is substantial, is calculated again by reference to FRS 17-based liabilities, thereby generating a further burden on schemes in deficit.

The members present their report together with financial statements for the period ended 30 June 2005.

Principal activity

Grant Thornton UK LLP (the 'partnership') is principally engaged in the provision of accounting, business assurance, insolvency and restructuring, transaction advisory and tax services in the UK.

Formation

Grant Thornton UK LLP was incorporated on 24 April 2004 and was dormant until 1 July 2004. On 1 July 2004, the business and assets of Grant Thornton, a partnership with unlimited liability under English law, were transferred to Grant Thornton UK LLP and the equity partners in the partnership became the members of the LLP on that date.

The financial statements are the first statutory accounts of the LLP and, although they cover the period 24 April 2004 to 30 June 2005, reflect the trading for the year ended 30 June 2005. The financial statements have been prepared adopting the principles of merger accounting in respect of the initial transfer of the business to the business of the LLP and therefore include, for comparative purposes, the results of the business transferred from Grant Thornton for the year prior to its transfer.

Designated members

The designated members during the period since incorporation are as follows:

appointed 24 April 2004: M J Cleary, National Managing Partner, G W Sykes.

appointed 30 June 2004: J D Mew, Management Board Member, J Bowler, E J G Healey, P Hems, J W Lewis, R C Rowe, N Ruddock, K Thorne, D M Whitehead

resigned 30 June 2005: K Thorne

appointed 1 July 2004: T A Back, R N Proctor, A H Smith,

appointed 1 July 2005: N Morrison

Members' drawings and the subscription and repayment of members' capital

The partnership operates a drawings policy which has regard to a cautious estimate of budgeted profits and restricts drawings to prudent levels until the results for the year and individual members' allocations have been determined. In addition, the Membership Agreement provides a framework for further restriction of drawings under circumstances where the cash requirements of the business need to take priority over the cash needs of the members.

Members' capital requirements are determined from time to time by the National Managing Partner having regard to the short, medium and long term needs of the firm. Transitional

provisions exist for the first three years of membership at which point all members are required to contribute equally. Other than in rare and exceptional cases, members' capital is only repaid following retirement.

Statement of members' responsibilities in respect of the financial statements

The Limited Liability Partnerships (LLP) Regulations 2001 made under the Limited Liability Partnerships Act 2000 require the members to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the group and of the profit or loss of the group for that period. In preparing those financial statements, the members 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.

Under the Limited Liability Partnership Regulations 2001, the members are responsible for ensuring proper accounting records are kept which disclose with reasonable accuracy the financial position of the group and which enable them to ensure that the accounts will comply with those regulations. The members have a general responsibility to safeguard the assets of the group and for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Auditors

PKF were appointed auditors on 24 August 2004. On 23 May 2005, PKF transferred their business to PKF (UK) LLP, a limited liability partnership. Under section 26(5) of the Companies Act 1989, the partnership consented to extend the audit appointment to PKF (UK) LLP from 23 May 2005. Accordingly, the audit report has been signed in the name of PKF (UK) LLP. PKF (UK) LLP will be proposed for reappointment.

On behalf of the members

G W Sykes

24 November 2005

Principal accounting policies

For the year ended 30 June 2005

Basis of preparation

Grant Thornton UK LLP was registered on 24 April 2004. On 1 July 2004, the business previously carried on by Grant Thornton in the UK, a general partnership with unlimited liability under English law, was transferred to Grant Thornton UK LLP.

The transfer of the business previously carried on by the unlimited liability partnership has been accounted for in accordance with the principles of merger accounting since the members of Grant Thornton UK LLP were, at the point of transfer, the same as the former equity partners of the unlimited liability partnership and their rights, relative to each other, were unchanged. Therefore the members had a continuing interest in the business, both before and after its transfer to the limited liability partnership. Consequently the financial statements have been prepared as if Grant Thornton UK LLP had been in existence both for the current and previous year. The individual entity balance sheet of Grant Thornton UK LLP has been presented with proforma comparative amounts.

Under the principles of merger accounting, the assets and liabilities of the former unlimited liability partnership have been brought in at their book values under the accounting policies of Grant Thornton UK LLP. In addition, the income and expenditure and cash flows of the former unlimited liability partnership have been included for the entire previous financial year.

The financial statements have been prepared in accordance with applicable United Kingdom accounting standards including the Statement of Recommended Practice (SORP), Accounting by Limited Liability Partnerships, and under the historical cost convention except that they have been modified to include the revaluation of certain fixed assets.

The principal accounting policies of the group are set out below. Last year's financial statements were presented on a proforma basis to comply with the above SORP, notwithstanding that the business did not convert to the LLP until 1 July 2004. The policies have remained unchanged from the previous year apart from that for turnover, which has been modified following the issue of UITF 40, Revenue recognition and service contracts, and the treatment of motor expenses on members' cars and interest paid to members. The effect of these changes is set out in note 1. Where it has been considered appropriate, certain balance sheet amounts have been re-classified compared to last year and reference to this has been made in the relevant notes.

Basis of consolidation

The group financial statements consolidate those of the partnership and those subsidiary undertakings in which it has

a beneficial interest, further details of which are set out in note 10.

Goodwill

Goodwill, representing the excess of the fair value of the consideration given on acquisition of a business over the fair values of the identifiable net assets acquired, is capitalised and is amortised on a straight line basis over its estimated useful economic life, normally not more than five years.

Turnover

Group turnover is the total amount estimated to be receivable by the partnership for services rendered and disbursements charged to clients during the year, excluding VAT.

Turnover is recognised when a right to consideration has been obtained through performance under each contract and reflects the contract activity during the year having regard to the stage of completion of each contract and the relative uncertainty of predicting ultimate profitability on long term assignments. Revenue in respect of conditional or contingent fee engagements, which is over and above any agreed minimum fee, is recognised when the contingent event occurs.

Client disbursements incurred are deducted from turnover in arriving at net fees in the profit and loss account.

Long-term contracts

The attributable profit on long term contracts is recognised once their outcome can be assessed with reasonable certainty. The profit recognised has regard to the stage of completion of the project.

Long-term contract balances are included as amounts recoverable on contracts within debtors, after provision has been made for any foreseeable losses and the deduction of applicable payments on account.

Full provision is made for losses on contracts in the year in which the loss is first foreseen. Costs in respect of conditional or contingent fee engagements are fully provided for as incurred to the extent they exceed any agreed minimum fee and unless crystallisation of the contingent event could have reasonably been foreseen at the year end, in which case the carrying value is the lower of cost and net realisable value.

Tangible fixed assets and depreciation

Tangible fixed assets are stated at cost net of depreciation and any provision for impairment.

Depreciation is calculated to write down the cost less estimated residual value of all tangible fixed assets, other than freehold properties, by equal annual installments over their estimated useful economic lives. The periods generally applicable are:

Long and short leasehold properties	Period of the lease
Furniture and equipment	8 years
Office equipment	3-5 years
Motor cars	4 years

No depreciation is provided on freehold properties either because the properties are investment properties or because the estimated residual value of the properties are such that any depreciation charge would be immaterial.

Leased assets

Assets held under finance leases and hire purchase contracts are capitalised in the balance sheet and depreciated over their estimated useful economic lives. The interest element of leasing payments represents a constant proportion of the capital balance outstanding and is charged to the profit and loss account over the period of the lease. All other leases are regarded as operating leases and the payments made under them are charged to the profit and loss account on a straight line basis over the lease term.

Partners' and members' remuneration

Remuneration that is paid to salaried partners (who are not members) under an employment contract is expensed to the profit and loss account.

Members' fixed shares of profits and interest earned on members' balances, neither of which are charged through the profit or loss account, are treated as an allocation of profit prior to the balance sheet date. Depreciation and profits or losses on disposal of cars used by members, together with members' other motor expenses are charged through the profit and loss account. For profit sharing purposes, such members' motor expenses are added back and then charged to each member prior to the balance sheet date on the basis of specific costs incurred.

The remainder of profit shares, which have not been allocated until after the balance sheet date, are treated in these financial statements as unallocated at the balance sheet date.

Taxation

The taxation payable on the partnership profits is the personal liability of the members during the year, although payment of such liabilities is administered by the partnership on behalf of the members. Consequently, neither partnership taxation nor related deferred taxation are accounted for in the financial statements. Sums set aside in respect of members' tax obligations are included in the balance sheet within loans and other debts due to members or set against amounts due from members as appropriate.

Taxation amounts included in these financial statements relate to corporate subsidiaries.

Investment properties

Investment properties are revalued annually and are included in the balance sheet at their open market values. The surplus or deficit on revaluation of such properties is transferred to the revaluation reserve. Depreciation is not provided in respect of freehold investment properties.

This policy represents a departure from the Companies Act 1985, which requires depreciation to be provided on all fixed assets. The members consider that this policy is necessary in order that the financial statements may give a true and fair view, because current values and changes in current values are of prime importance rather than the calculation of systematic annual depreciation. Depreciation is only one of many factors reflected in the valuation. The financial effect of the departure from the Companies Act is shown in note 9 to the financial statements.

Investments

Investments are included at cost less amounts written off, save for those held by Fulwood Insurances Limited, the group's captive insurance company, which are included using mid market prices at the balance sheet date.

Any movements in the value of Fulwood's investment portfolio are reflected through the profit and loss account, except for the origination or reversal of unrealised surpluses at the balance sheet date which are transferred to or from the revaluation reserve.

Foreign currencies

Transactions in foreign currencies are translated at the exchange rate ruling at the date of the transaction. Monetary assets and liabilities in foreign currencies are translated at the rates of exchange ruling at the balance sheet date. All exchange differences are dealt with through the profit and loss account.

Retirement benefits

Defined Contribution Pension Scheme

The pension costs charged against operating profits are the employer's contributions payable to the scheme in respect of the accounting period.

Defined Benefit Pension Scheme

The pension costs charged against profits are based on actuarial methods and assumptions designed to spread the anticipated pension costs over the service lives of the employees in the scheme, so as to ensure that the regular pension cost represents a substantially level percentage of the current and expected future pensionable payroll. Variations from regular cost are spread over the average remaining service lives of current employees in the scheme.

Scheme assets are measured at fair value, and scheme

liabilities are measured on an actuarial basis using the projected unit method and are discounted at appropriate high quality corporate bond rates.

Retirement benefits of former members and partners of the predecessor firm

LLP members for the time being have a contractual obligation to provide certain former and current members and certain partners of the predecessor firm with annuities following their retirement.

While, contractually, the obligation for all annuities remains with the members for the time being, the nature of the arrangements is such that, in accordance with the requirements of the SORP, the financial statements only include obligations for retirement annuities payable in the future to retired members. The obligation has been discounted to its net present value.

Changes in estimates and assumptions in respect of the obligations, together with the unwinding of the discount, are dealt with through the profit and loss account. New obligations in the year are dealt with through reserves and reflected through the statement of total recognised gains and losses.

Divisible profits

The SORP recognises that the basis of calculating profits for allocation may differ from the profits reflected through financial statements prepared in compliance with recommended practice, given the established need to seek to focus profit allocation on ensuring equity between different generations and populations of members.

Consolidation of the results of subsidiary undertakings, the provision for annuities to former members and the treatment of long leasehold interests are all items which generate differences between profits calculated for the purpose of allocation and those reported within the financial statements. Where such differences arise, they have been taken into account within other reserves in the balance sheet.

Liquid resources

Liquid resources represent current asset investments that are disposable without disruption to the business, and are either readily convertible into cash at or close to its carrying value, or are traded in an active market. This includes short term deposits that may be withdrawn at more than 24 hours' notice.

Consolidated profit and loss account

For the year ended 30 June 2005

	Note	2005 £'000	Restated 2004 £'000
Turnover	2	255,816	238,560
Other external charges: client disbursements		(12,307)	(12,307)
Net fees		243,509	226,253
Cost of sales	3	(104,739)	(98,574)
Gross profit		138,770	127,679
Other operating costs	3	(81,823)	(76,368)
Operating profit		56,947	51,311
Profit on sale of fixed assets		71	37
Loss on sale of subsidiary	20	(32)	–
Net interest and other similar charges	4	(1,988)	(2,379)
Profit on ordinary activities before tax		54,998	48,969
Tax on profit on ordinary activities of subsidiaries	6	(55)	(27)
Profit on ordinary activities after tax on subsidiaries		54,943	48,942
Minority interest		(7)	(10)
Profit for the financial year before members' remuneration and profit shares and available for division among members		54,936	48,932

Profits have arisen from continuing activities. No members received salaried remuneration.

The accompanying accounting policies and notes form an integral part of these financial statements.

30 **Consolidated balance sheet**

As at 30 June 2005

	Note	2005 £'000	2005 £'000	2004 £'000	Restated 2004 £'000
Fixed assets					
Intangible assets – goodwill	8		22		120
Tangible assets	9		24,365		23,167
Investments	10		7,340		6,781
			31,727		30,068
Current assets					
Debtors	11	103,757		90,554	
Cash at bank and in hand	12	26,702		25,161	
			130,459		115,715
Creditors: amounts falling due within one year	13		(45,404)		(41,190)
Net current assets			85,055		74,525
Total assets less current liabilities					
			116,782		104,593
Creditors: amounts falling due after more than one year	14		(19,962)		(20,255)
Provisions for liabilities and charges	16		(34,547)		(34,461)
			62,273		49,877
Minority interests			-		(75)
Loans and other debts due to members	17		(10,087)		(7,346)
Net Assets			52,186		42,456
Members' other interests					
Members' capital	17		25,500		20,610
Revaluation reserve	17		500		500
Other reserves	17		26,186		21,346
			52,186		42,456
Total members' interests					
Loans and other debts due to members	17		10,087		7,346
Members' other interests	17		52,186		42,456
Amounts due from members	17		(3,211)		(3,501)
			59,062		46,301

The financial statements were approved by the Partnership Committee on 24 November 2005 and signed on behalf of the partnership by:

Michael Cleary National Managing Partner

Gerard Sykes Chairman of the Partnership Committee

The accompanying accounting policies and notes form an integral part of these financial statements.

Balance sheet

As at 30 June 2005

	Note	2005 £'000	2005 £'000	2004 £'000	Proforma Restated 2004 £'000
Fixed assets					
Intangible assets – goodwill	8		22		120
Tangible assets	9		23,799		22,578
Investments	10		1,085		1,089
			24,906		23,787
Current assets					
Debtors	11	102,425		90,453	
Cash at bank and in hand	12	25,657		24,352	
			128,082		114,805
Creditors: amounts falling due within one year	13		(44,100)		(40,961)
Net current assets			83,982		73,844
Total assets less current liabilities					
			108,888		97,631
Creditors: amounts falling due after more than one year	14		(19,962)		(20,255)
Provisions for liabilities and charges	16		(33,009)		(31,576)
			55,917		45,800
Loans and other debts due to members	17		(10,087)		(7,346)
Net assets			45,830		38,454
Members' other interests					
Members' capital	17		25,500		20,610
Other reserves	17		20,330		17,844
			45,830		38,454
Total members' interests					
Loans and other debts due to members	17		10,087		7,346
Members' other interests	17		45,830		38,454
Amounts due from members	17		(3,211)		(3,501)
			52,706		42,299

The financial statements were approved by the Partnership Committee on 24 November 2005 and signed on behalf of the partnership by:

Michael Cleary National Managing Partner

Gerard Sykes Chairman of the Partnership Committee

The accompanying accounting policies and notes form an integral part of these financial statements

Consolidated cash flow statement

For the year ended 30 June 2005

	Note	2005 £'000	Restated 2004 £'000
Net cash inflow from operating activities	18	50,784	51,808
Returns on investments and servicing of finance			
Interest received		1,277	986
Interest paid		(533)	(740)
Finance lease interest paid		(1,432)	(1,425)
Net cash outflow from returns on investments and servicing of finance		(688)	(1,179)
Taxation		(29)	1
Capital expenditure and financial investment			
Purchase of intangible fixed assets		-	(37)
Purchase of tangible fixed assets		(3,376)	(2,303)
Sale of tangible fixed assets		584	1,829
Purchase of investments		(26,838)	(12,249)
Sale of investments		26,366	12,833
Net cash (outflow) /inflow from capital expenditure and financial investment		(3,264)	73
Acquisitions and disposals			
Disposal of subsidiary company		5	-
Net cash inflow from acquisitions and disposals		5	-
Transactions with members and former members			
Payments to or on behalf of members		(46,252)	(37,912)
Capital contributions by members		6,336	2,848
Annuity payments to former members		(2,086)	(1,949)
Repayments to former members		(2,440)	(3,245)
Net cash outflow from transactions with members and former members		(44,442)	(40,258)
Management of liquid resources			
Net (purchase)/sale of short term deposits		(2,800)	1,300
Net cash (outflow)/inflow from management of liquid resources		(2,800)	1,300
Financing			
Net receipts/(payments) from borrowing		198	(328)
Capital element of finance lease rentals		(1,188)	(1,327)
Net cash outflow from financing		(990)	(1,655)
(Decrease)/increase in cash	19	(1,424)	10,090

The accompanying accounting policies and notes form an integral part of these financial statements.

Other primary statements

For the year ended 30 June 2005

Consolidated statement of total recognised gains and losses

	Note	2005 £'000	Restated 2004 £'000
Profit for the financial year		54,936	48,932
Unrealised surplus on revaluation of investment property	9	-	70
Provision for former member annuities	16	(1,219)	(712)
Total recognised gains and losses for the year		53,717	48,290
Prior year adjustment	1	2,722	-
Total recognised gains and losses since last financial statements		56,439	48,290

The accompanying accounting policies and notes form an integral part of these financial statements.

Notes to the financial statements

For the year ended 30 June 2005

1. Changes in accounting policy

Comparative figures have been restated to reflect a change in accounting policy in connection with revenue recognition following the publication of UITF 40, Revenue recognition and service contracts. The allocation of the impact of this change in policy to the current and prior periods has involved a degree of estimation which reflects the difficulty in identifying, after the event, the exact circumstances and considerations that subsisted at the end of each of the previous two accounting periods.

Last year's figures have also been restated to reflect a change in treatment of members' motor expenses. In previous years' accounts, a credit equivalent to the value of such items had been introduced into the profit and loss account and charged to each member on the basis of

each member's specific car cost. It is now considered more appropriate that this adjustment be treated as a profit allocation adjustment.

In last year's profit and loss account, profits on ordinary activities were stated after charging interest paid to members of £2,659,000. This interest was then added back to arrive at the profit for the financial year to recognise that such interest is an allocation of profit rather than a charge to profits. This year's profit and loss account, and the comparative figures therein, excludes any interest paid to members as this is considered to be a more appropriate reflection of the nature of such interest.

As a result of the above changes, comparative figures for the year ended 30 June 2004 have been adjusted as follows:

	Profit for the year £'000	Net assets £'000
As previously reported	49,540	39,734
Prior year adjustment for UITF 40:		
2004	298	298
Periods prior to 2004	–	2,424
Prior year adjustment re treatment of members' motor expenses:		
2004	(906)	–
Periods prior to 2004	–	–
As restated	48,932	42,456

Current year profits have been increased by £267,000 following the change in policy for revenue recognition and decreased by £1,129,000

following the change in policy for treatment of members' motor expenses.

2. Segmental analysis and profit for the financial year

Turnover is attributable to the following classes of continuing business:

	2005 £'000	Restated 2004 £'000
Accountancy and growth and development	13,917	12,547
Assurance	63,311	58,483
Corporate finance	38,715	30,830
Financial planning and discretionary fund management	9,876	8,058
Forensic investigation services	13,031	13,869
Other including company secretarial services	2,383	1,844
Recovery and reorganisation	52,389	47,498
Taxation	62,194	65,431
	255,816	238,560

The destination of turnover was primarily to UK clients although 1.6% (2004: 1.1%) were sales to North America, 1.2% (2004: 1.3%) to Europe and 0.3% (2004: 0.3%) to the Rest of the World.

2. Segmental analysis and profit for the financial year (continued)

Analysis of operating profit and net assets are as follows:

	Operating profit		Net assets	
	2005	Restated 2004	2005	Restated 2004
	£'000	£'000	£'000	£'000
Accountancy and growth and development	5,839	4,787	3,716	3,394
Assurance	26,562	22,314	16,662	15,611
Corporate finance	16,009	13,177	8,593	7,680
Financial planning and discretionary fund management	3,828	2,779	2,666	2,153
Forensic investigation services	5,827	7,332	3,906	3,113
Other including company secretarial services	919	721	1,451	728
Recovery and reorganisation	23,204	18,908	24,506	19,132
Taxation	26,093	25,187	15,561	16,754
	108,281	95,205	77,061	68,565
Unallocated items	(51,334)	(43,894)	(24,875)	(26,109)
	56,947	51,311	52,186	42,456

The firm's internal reporting structure does not measure results to operating profit or net assets strictly in accordance with the industry standard segmented turnover classifications. Accordingly, the allocation between the different classes of business has involved a degree of approximation based on reasonable and consistent assumptions.

Unallocated items affecting operating profit represent the costs of central support and infrastructure that are not directly controllable by

the functions.

Net assets attributed to the functions comprise trade debts, amounts recoverable on contracts, excess payments on account, provisions for foreseeable losses and certain claims provisions. All other assets and liabilities are controlled centrally and are not allocated across functions.

The profit for the financial year is stated after:

	2005	2004
	£'000	£'000
Auditors' remuneration:		
Audit services	144	22
Non-audit services	–	48
Depreciation and amortisation:		
Goodwill	98	456
Tangible fixed assets, owned	2,362	2,032
Tangible fixed assets, held under finance leases and hire purchase contracts	1,023	1,089
Provisions for diminution in value:		
Write down of fixed asset investments	3	176
Write back of provisions no longer required	(124)	–
Other operating lease rentals:		
Equipment	3,698	3,745
Land and buildings	6,108	5,608

3. Cost of sales and other operating costs

	2005 £'000	Restated 2004 £'000
Professional staff employment costs	104,387	98,149
Other cost of sales	352	425
	104,739	98,574
Other operating costs:		
Support staff employment costs	26,536	24,511
Property	12,117	11,610
IT and other equipment costs	4,831	4,941
Administration	29,097	23,898
Other financial costs including insurance	4,492	5,904
Other	4,750	5,504
	81,823	76,368

4. Net interest and other similar charges

	2005 £'000	2004 £'000
Interest payable on bank loans and overdrafts	399	600
Finance charges in respect of finance leases	1,432	1,425
Other interest payable and similar charges	134	140
Unwinding of discount in provisions	1,300	1,200
Other interest receivable and similar income	(1,277)	(986)
Net interest and similar charges to third parties	1,988	2,379

5. Partners and staff

Employment costs during the year (excluding members but including salaried partners) were as follows:

	2005 £'000	2004 £'000
Wages and salaries	106,070	100,624
Social security costs	9,966	9,303
Other pension costs	5,908	5,720
	121,944	115,647

5. Partners and staff (continued)

The average number of full time equivalent members, salaried partners and employees during the year was 2,924 (2004: 2,880), all of whom were engaged in the group's principal activity:

	2005 Number	2004 Number
Members	155	142
Salaried partners	79	90
Professional staff	1,958	1,930
Support staff	732	718
	2,924	2,880

The average profit per member, calculated in accordance with the requirements of the SORP by dividing the profit for the financial year before members' remuneration and profit shares by the average number of members, amounted to £354,426 (2004: £344,592 as restated).

Profits are shared among members in accordance with agreed profit sharing arrangements. Including sums allocated as interest and following the change in treatment of members' motor expenses more

fully described in note 1 to the accounts, the average profit allocation in respect of the year's results, calculated by dividing divisible profits for the financial year by the average number of members, amounted to £363,725 (2004: £337,542 as restated). On the same basis, the profit attributable to the member with the largest entitlement was £960,537 (2004: £899,279 as restated).

The table below provides a reconciliation between the average profit per member and the average profit allocation per member.

	2005 £'000	2004 £'000
Average profit per member	354	345
Prior year adjustment relating to UITF 40	18	(2)
Retirement annuity and other costs	8	(6)
Retained (profits)/ losses for the year in subsidiary entities	(16)	1
Average profit allocation per member	364	338

6. Tax on profit on ordinary activities

The tax charge arises within the subsidiary undertakings of the group and represents:

	2005 £'000	2004 £'000
United Kingdom corporation tax at 30% (2004: 30%)	58	25
Adjustments relating to prior years	(1)	–
Total current tax	57	25
Origination and reversal of timing differences	(2)	2
Total deferred tax	(2)	2
Tax on profit on ordinary activities	55	27

Fulwood Insurances Limited has been granted exemption from tax under the Income Tax (Exempt Bodies) (Guernsey) Ordinance 1989 to 1997. The tax assessed for the year is lower for 2005 and higher for 2004

than the standard rate of corporation tax in the UK. The differences are explained as follows:

	2005 £'000	2004 £'000
Profit on ordinary activities before tax of subsidiary undertakings	2,459	(118)
Tax on profit on ordinary activities at 30% (2004: 30%)	738	(35)
Effect of:		
Expenses not deductible for tax purposes	–	3
Depreciation for the year in excess of capital allowances	2	–
(Profits)/losses exempt from tax	(698)	68
Adjustments to tax charge in respect of prior periods	(1)	–
Utilisation of tax losses	–	(11)
Tax losses carried forward	16	–
Total current tax	57	25

7. Profit for the financial period

Grant Thornton UK LLP has taken advantage of Section 230 of the Companies Act 1985 and has not included its own profit and loss

account in these financial statements. Its own profit for the year was £52,582,000 (proforma 2004: £49,088,000 as restated, see note 1).

8. Intangible fixed assets – goodwill**The group and the partnership**

	Purchased goodwill £'000
Cost	
At 1 July 2004 and at 30 June 2005	493
Amortisation	
At 1 July 2004	373
Provided in the year	98
At 30 June 2005	471
Net book amount at 30 June 2005	22
Net book amount at 30 June 2004	120

9. Tangible fixed assets**The group**

	Investment property	Freehold and long leasehold property	Short leasehold property	Furniture and equipment	Office equipment	Motorcars	Total
	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Cost or valuation:							
At 1 July 2004	100	18,545	5,759	10,291	10,223	3,935	48,853
Additions	–	–	616	1,197	1,563	1,695	5,071
Reclassifications	–	(5)	–	111	(106)	–	–
Disposal on sale of subsidiary	–	–	–	–	(31)	–	(31)
Other disposals	–	–	–	(67)	(7)	(1,062)	(1,136)
At 30 June 2005	100	18,540	6,375	11,532	11,642	4,568	52,757
Depreciation:							
At 1 July 2004	–	5,002	3,454	6,335	9,121	1,774	25,686
Provided in the year	–	178	534	1,019	634	1,020	3,385
Reclassifications	–	(5)	–	100	(95)	–	–
Eliminated on sale of subsidiary	–	–	–	–	(22)	–	(22)
Eliminated on disposals	–	–	–	(70)	(7)	(580)	(657)
At 30 June 2005	–	5,175	3,988	7,384	9,631	2,214	28,392
Net book amount at 30 June 2005	100	13,365	2,387	4,148	2,011	2,354	24,365
Net book amount at 30 June 2004	100	13,543	2,305	3,956	1,102	2,161	23,167

9. Tangible fixed assets (continued)

Freehold and long leasehold property at net book value at the balance sheet date in the above table is comprised of freehold property of £756,000 (2004: £756,000) and long leasehold property of £12,609,000 (2004: £12,787,000).

The partnership	Freehold and long leasehold property £'000	Short leasehold property £'000	Furniture and equipment £'000	Office equipment £'000	Motorcars £'000	Total £'000
Cost						
At 1 July 2004	18,090	5,759	10,291	10,138	3,935	48,213
Additions	–	616	1,197	1,563	1,695	5,071
Reclassifications	–	–	106	(106)	–	–
Disposals	–	–	(67)	(7)	(1,062)	(1,136)
At 30 June 2005	18,090	6,375	11,527	11,588	4,568	52,148
Depreciation						
At 1 July 2004	4,997	3,454	6,335	9,075	1,774	25,635
Provided in the year	178	534	1,019	620	1,020	3,371
Reclassifications	–	–	95	(95)	–	–
Eliminated on disposals	–	–	(70)	(7)	(580)	(657)
At 30 June 2005	5,175	3,988	7,379	9,593	2,214	28,349
Net book amount at 30 June 2005	12,915	2,387	4,148	1,995	2,354	23,799
Net book amount at 30 June 2004	13,093	2,305	3,956	1,063	2,161	22,578

Freehold and long leasehold property at net book value at the balance sheet date in the above table is comprised of freehold property of £306,000 (2004: £306,000) and long leasehold property of £12,609,000 (2004: £12,787,000).

9. Tangible fixed assets (continued)

The previous tables include assets held under finance leases and similar hire purchase contracts as follows:

The group and the partnership	Freehold and long leasehold property £'000	Short leasehold property £'000	Furniture and equipment £'000	Office equipment £'000	Motorcars £'000	Total
Net book amount at 30 June 2005	9,052	204	449	99	1,097	10,901
Net book amount at 30 June 2004	9,180	296	624	321	1,073	11,494
Depreciation provided in the year	128	86	207	126	543	1,090

The investment property held in G A Bruce Limited was revalued during 2004 by Mike Neville estate agents at £100,000. The basis of the valuation used was open market value. The surplus has been transferred to revaluation reserve.

been transferred to revaluation reserve. Advantage has been taken of the transitional arrangements of Financial Reporting Standard 15 and the valuation of £450,000 has been retained as the book amount on implementation of the standard.

Freehold property held in Camm Services Limited was revalued in February 1989 by a firm of chartered surveyors at £450,000. The basis of the valuation used was open market value. The surplus arising has

been included on the historical cost basis at the following amounts:

The group	Investment property G A Bruce Limited £'000	Freehold property Camm Services Limited £'000
Cost	12	5
Accumulated depreciation	–	(3)
Net book amount at 30 June 2005	12	2
Net book amount at 30 June 2004	12	2

10. Fixed asset investments

The group	Listed investments £'000	Other investments £'000	Total £'000
Cost			
At 1 July 2004	6,746	365	7,111
Additions	26,628	210	26,838
Disposals	(26,105)	(295)	(26,400)
At 30 June 2005	7,269	280	7,549
Provisions			
At 1 July 2004	260	70	330
Provided in the year	3	–	3
Written back in year	(124)	–	(124)
At 30 June 2005	139	70	209
Net book amount at 30 June 2005	7,130	210	7,340
Net book amount at 30 June 2004	6,486	295	6,781
		2005	2004
		£'000	£'000
Listed investments at market value		7,130	6,486

10. Fixed asset investments (continued)

The partnership	Investment in group undertakings £'000	Loans £'000	Listed investments £'000	Other investments £'000	Total £'000
Cost					
At 1 July 2004	843	142	293	70	1,348
Additions	–	38	8	–	46
Disposals	(40)	–	(20)	–	(60)
At 30 June 2005	803	180	281	70	1,334
Provisions					
At 1 July 2004	–	–	189	70	259
Provided in the year	–	–	3	–	3
Written back in year	–	–	(13)	–	(13)
At 30 June 2005	–	–	179	70	249
Net book amount at 30 June 2005	803	180	102	–	1,085
Net book amount at 30 June 2004	843	142	104	–	1,089
				2005	2004
				£'000	£'000
Listed investments at market value				102	104

At 30 June 2005 the group held an economic interest of 20% or more of the allotted share capital of the following companies:

Subsidiary undertaking	Country of incorporation	Class of share capital held	Proportion held by the partnership and the group	Nature of business
The Grant Thornton Centre for Families in Business Limited	England	Ordinary	100%	Provision of learning and educational services
G A Bruce Limited	England	Ordinary	100%	Property investment
Camm Services Limited	England	Ordinary	100%	Property investment
Grant Thornton Asset Management Limited	England	Ordinary	100%	Discretionary fund management
Fulwood Insurances Limited	Guernsey	Ordinary	100%	Insurance services

10. Fixed asset investments (continued)

At 30 June 2005, the group also held 100% of the ordinary share capital of, or interest in, the following companies and LLPs incorporated in England, which are either dormant or act as holding companies:

Barfreston Limited	GTI Limited
Cape & Dagleish Limited	GTPN1 Limited
Grant Thornton Limited	GTPN2 Limited
Grant Thornton Corporate Finance Limited	Grant Thornton Securities Nominees Limited
Grant Thornton Management Consultants Limited	Grant Thornton Nominees *
Grant Thornton Personal Financial Planning Limited	Grant Thornton Property Nominees *
GTN1 Limited	Grant Thornton Contracts LLP
GTN2 Limited	Grant Thornton Services LLP

* Unlimited nominee companies in which the partnership has a 100% interest.

11. Debtors

	The group		The partnership	
	Restated	Restated	Restated	Restated
	2005	2004	2005	2004
	£'000	£'000	£'000	£'000
Trade debtors	58,933	53,760	58,898	53,675
Amounts owed by group undertaking	–	–	116	99
Amounts recoverable on contracts	30,417	25,786	30,417	25,786
Other debtors	1,036	1,281	1,025	1,234
Amounts due from members	3,211	3,501	3,211	3,501
Deferred tax asset	1	–	–	–
Prepayments and accrued income	10,159	6,226	8,758	6,158
	103,757	90,554	102,425	90,453

All the above are due within 12 months.

The comparative amount for amounts recoverable on contracts has

been restated and increased by £13,808,000 arising from the reclassification of work-in-progress and certain creditor balances and profit adjustments following the publication of UITF 40.

12. Cash at bank and in hand

	The group		The partnership	
	2005	2004	2005	2004
	£'000	£'000	£'000	£'000
Cash and immediately available bank balances	7,902	9,161	6,857	8,352
Short term deposits at bank	18,800	16,000	18,800	16,000
	26,702	25,161	25,657	24,352

13. Creditors: amounts falling due within one year

	The group		The partnership	
	2005	Restated 2004	2005	Restated 2004
	£'000	£'000	£'000	£'000
Bank overdrafts	570	405	570	405
Bank loans	1,084	1,025	1,084	1,025
Excess payments received on account	9,338	9,432	9,336	9,432
Trade creditors	3,089	2,877	3,077	2,860
Amounts owed to group undertakings	–	–	12	28
Corporation tax	55	27	–	–
Social security and other taxes	7,383	6,723	7,350	6,690
Other creditors	1,455	1,210	1,429	1,191
Accruals and deferred income	18,505	16,897	17,317	16,736
Provisions for foreseeable losses	2,285	1,079	2,285	1,079
Amounts due to former members	1,026	725	1,026	725
Amounts due under finance leases and hire purchase contracts	614	790	614	790
	45,404	41,190	44,100	40,961

Within the above table, amounts due under finance leases and hire purchase contracts are secured on the assets to which they relate. Bank loans and overdrafts are unsecured.

The comparative figures within creditors falling due within one year have been restated and reduced in total by £1,539,000 in respect of the following items. There has been an increase of £4,798,000 in those amounts relating to long term contract balances arising from

reclassifications and profit adjustments following the publication of UITF 40. Claims provisions amounting to £2,292,000 and property provisions totalling £1,327,000, previously included within other creditors and accruals, have now been included in provisions for liabilities and charges. £2,718,000 previously shown as annuities payable to former members has also been transferred to provisions for liabilities and charges.

Other creditors have now been disclosed separately from accruals.

14. Creditors: amounts falling due after more than one year

	The group		The partnership	
	2005	2004	2005	2004
	£'000	£'000	£'000	£'000
Bank loans	7,868	7,729	7,868	7,729
Amounts due under finance leases and hire purchase contracts	12,094	12,526	12,094	12,526
	19,962	20,255	19,962	20,255

Within the above table, amounts due under finance leases and hire purchase contracts are secured on the assets to which they relate as are bank loans totalling £6,300,000 (2004: £6,300,000).

15. Borrowings

Borrowings are repayable as follows:

	The group		The partnership	
	2005 £'000	2004 £'000	2005 £'000	2004 £'000
Within one year				
Bank and other borrowings	1,084	1,025	1,084	1,025
Finance leases	614	790	614	790
After one and within two years				
Bank and other borrowings	693	529	693	529
Finance leases	377	631	377	631
After two and within five years				
Bank and other borrowings	7,175	7,200	7,175	7,200
Finance leases	245	410	245	410
After five years				
Bank and other borrowings	–	–	–	–
Finance leases	11,472	11,485	11,472	11,485
	21,660	22,070	21,660	22,070

Bank loans totalling £6,300,000 are secured by a charge over certain leasehold property and loans totalling £361,000 are secured on endowment policies taken out in the names of individual members. Loans totalling £2,291,000 are repayable in a mixture of monthly and

quarterly installments between 1 July 2005 and 30 June 2010, amounts totalling £361,000 are repayable in a single installment in March 2006 and amounts totalling £6,300,000 are repayable in a single installment in July 2007.

16. Provisions for liabilities and charges

The group	Deferred taxation	Claims provisions	Property provisions	Former members' annuities	Other provisions	Total
	£'000	£'000	£'000	£'000	£'000	£'000
At 1 July 2004	1	5,176	1,327	27,900	57	34,461
Amortisation of discount	–	–	–	1,300	–	1,300
Settlement of obligations during year	–	(796)	–	(2,672)	–	(3,468)
Change in assumptions and experience gains/losses	–	–	–	1,700	–	1,700
Released to profit and loss account	–	(1,950)	(99)	–	(57)	(2,106)
Transferred to debtors	(1)	–	–	–	–	(1)
Provided during year in profit and loss account	–	1,442	–	–	–	1,442
Provided during year in STRGL	–	–	–	1,219	–	1,219
At 30 June 2005	–	3,872	1,228	29,447	–	34,547

The partnership	Claims provisions	Property provisions	Former members' annuities	Other provisions	Total
	£'000	£'000	£'000	£'000	£'000
At 1 July 2004	2,292	1,327	27,900	57	31,576
Amortisation of discount	–	–	1,300	–	1,300
Settlement of obligation during year	(796)	–	(2,672)	–	(3,468)
Change in assumptions and experience gains/losses	–	–	1,700	–	1,700
Released to profit and loss account	(594)	(99)	–	(57)	(750)
Provided during year in profit and loss account	1,432	–	–	–	1,432
Provided during year in STRGL	–	–	1,219	–	1,219
At 30 June 2005	2,334	1,228	29,447	–	33,009

The balances brought forward for claims provisions, property provisions and former members' annuities have been restated, as more fully described at the foot of note 13.

The provision for claims is in respect of the estimated amounts for commercial settlements and professional indemnity claims.

Property provisions are in respect of dilapidations and surplus properties.

16. Provisions for liabilities and charges (continued)

The former members' annuity provision has been actuarially calculated using a discount rate based on Government bonds and estimates of the expected payment period covered by the annuities.

The provision for former members' annuities is expected to be utilised as follows:

	2005 £'000	2004 £'000
In less than one year	2,705	2,709
Between two and five years	9,592	9,132
Between six and ten years	9,109	8,504
Between eleven and twenty-five years	7,933	7,449
In more than twenty-five years	108	106
	29,447	27,900

Other provisions represent the remaining balance from the proceeds of a claim settlement with former advisers in respect of future losses arising from excess annuity payments on joint and survivor annuities payable to members who retired between 1976 and 1982. The

settlement has previously been amortised in equal installments of £50,000 per annum and the final release has been made in the year ending 30 June 2005.

17. Members' interests

The group	Members' capital	Revaluation reserves	Other reserves	Total	Loans and other debts due to/(from) members	Total
	£'000	£'000	£'000	£'000	£'000	£'000
At 1 July 2004 – as previously stated	20,610	500	18,624	39,734	3,845	43,579
Prior year adjustment (note 1)	–	–	2,722	2,722	–	2,722
Members interests as restated	20,610	500	21,346	42,456	3,845	46,301
Profit for the financial year	–	–	54,936	54,936	–	54,936
Members' interests after profit for year	20,610	500	76,282	97,392	3,845	101,237
Allocated profits	–	–	(49,463)	(49,463)	49,463	–
Introduced by members	6,336	–	–	6,336	885	7,221
Drawings (including tax payments and motor expenses)	–	–	–	–	(46,022)	(46,022)
Repayment of capital	(1,446)	–	–	(1,446)	(56)	(1,502)
Repayment of other balances	–	–	–	–	(1,239)	(1,239)
Retirement benefits due to former members	–	–	(1,219)	(1,219)	–	(1,219)
Tax adjustments on payment of retirement benefits to former members	–	–	586	586	–	586
At 30 June 2005	25,500	500	26,186	52,186	6,876	59,062

17. Members' interests (continued)

The partnership	Members' capital	Other reserves	Total	Loans and other debts due to/(from) members	Total
	£'000	£'000	£'000	£'000	£'000
At 1 July 2004 – as previously stated	20,610	15,122	35,732	3,845	39,577
Prior year adjustment (note 1)	–	2,722	2,722	–	2,722
Members interests as restated	20,610	17,844	38,454	3,845	42,299
Profit for the financial year	–	52,582	52,582	–	52,582
Partners' interests after profit for year	20,610	70,426	91,036	3,845	94,881
Allocated profits	–	(49,463)	(49,463)	49,463	–
Introduced by members	6,336	–	6,336	885	7,221
Drawings (including tax payments and motor expenses)	–	–	–	(46,022)	(46,022)
Repayment of capital	(1,446)	–	(1,446)	(56)	(1,502)
Repayment of other balances	–	–	–	(1,239)	(1,239)
Retirement benefits due to former members	–	(1,219)	(1,219)	–	(1,219)
Tax adjustments on payment of retirement benefits to former members	–	586	586	–	586
At 30 June 2005	25,500	20,330	45,830	6,876	52,706

Allocated profits for the group and the partnership comprise:

	£'000
Profits for the year ended 30 June 2004, allocated in the year ended 30 June 2005	45,277
Fixed shares for the year ended 30 June 2005	1,599
Interest on members' balances for the year ended 30 June 2005	3,716
Members' motor expenses for the year ended 30 June 2005	(1,129)
	49,463

The loans and other debts due to/(from) members can be analysed follows:

	The group		The partnership	
	2005	2004	2005	2004
	£'000	£'000	£'000	£'000
Amounts due from members included in debtors	(3,211)	(3,501)	(3,211)	(3,501)
Loans and other debts due to members	10,087	7,346	10,087	7,346
	6,876	3,845	6,876	3,845

Within loans and other debts due to members, £9,437,000 is payable within 12 months (2004: £7,346,000), £275,000 is repayable on 14 January 2007 (2004: nil) and £375,000 is repayable on 14 January 2008 (2004: nil).

Loans and other debts due to members rank pari passu with unsecured creditors. The legal opinion given in an appendix to the SORP, Accounting by Limited Liability Partnerships, is that members' other interests rank after unsecured creditors.

18. Net cash inflow from operating activities

	2005	Restated 2004
	£'000	£'000
Operating profit	56,947	51,311
Depreciation and amortisation	3,483	3,577
Increase in debtors	(13,627)	(4,698)
Increase in creditors	3,862	340
Decrease in provisions against investments	(121)	–
Adjustments in provisions for liabilities and charges	240	1,278
Net cash inflow from operating activities	50,784	51,808

Reconciliation of net cash flow to movement in net debt

	2005	2004
	£'000	£'000
(Decrease)/increase in cash in the year	(1,424)	10,090
Cash (outflow)/inflow from financing	(198)	328
Cash outflow from finance leases	1,188	1,327
Cash outflow/(inflow) from movement in liquid resources	2,800	(1,300)
Change in net debt resulting from cash flows	2,366	10,445
Non-cash items	(580)	(674)
Movement in net debt in the year	1,786	9,771
Net funds/(debt) at 1 July 2004	2,686	(7,085)
Net funds at 30 June 2005	4,472	2,686

19. Analysis of changes in net debt

	At 1 July 2004	Cash flow	Non-cash items	At 30 June 2005
	£'000	£'000	£'000	£'000
Cash in hand and at bank	9,161	(1,259)	–	7,902
Overdraft	(405)	(165)	–	(570)
	8,756	(1,424)	–	7,332
Liquid resources	16,000	2,800	–	18,800
Debt	(8,754)	(198)	–	(8,952)
Finance leases	(13,316)	1,188	(580)	(12,708)
	2,686	2,366	(580)	4,472

Non-cash items represent the capital component of new finance leases and hire purchase contracts.

20. Disposals

During the year, the partnership disposed of its interest in MSP Secretaries Limited. Group profits include £7,200 earned by MSP Secretaries Limited up to its date of disposal on 3 March 2005.

	2005
	£'000
Net assets disposed of:	
Tangible fixed assets	9
Debtors	135
Cash at bank and in hand	45
Creditors	(25)
Minority shareholder's interests	(82)
	82
Loss on disposal	(32)
	50
Satisfied by:	
Cash	50
	50

Analysis of the net cash inflow of cash in respect of disposals during the year:

	2005
	£'000
Cash at bank and in hand disposed of	(45)
Cash consideration	50
	5

21. Capital commitments

	The group		The partnership	
	2005	2004	2005	2004
	£'000	£'000	£'000	£'000
Contracted for but not provided in these financial statements	1,440	328	1,440	328

22. Contingent liabilities

There were no contingent liabilities at 30 June 2005 (2004: none).

23. Retirement benefits**Defined Contribution Pension Scheme**

The group operates a defined contribution pension scheme for the benefit of certain employees of Grant Thornton UK LLP and certain subsidiary entities. The assets of the scheme are administered in a fund independent from those of the group.

Employer contributions to the scheme by the partnership in the year ended 30 June 2005 amounted to £773,475 (2004: £639,000)

Defined Benefit Pension Scheme

The group operates a defined benefit pension scheme for the benefit of certain employees of Grant Thornton UK LLP and certain subsidiary entities. The assets of the scheme are administered by trustees in a fund independent from the assets of the group.

The actuarial valuation carried out as at 30 June 2002 indicated that, at that date, the value of the accumulated assets of the fund (£129.4m excluding AVCs) was 87% of the amount needed to cover the cost of the benefits earned to 30 June 2002 on the assumption that the fund continued. To make good the deficit over the members' expected

average future working lifetime, a funding rate of 4.9% was required. The long term rate of employer contributions to cover the accrual of future service benefits was 9.3%. In aggregate the rates amount to 14.2% and the firm has contributed to the scheme at a rate of 15% per annum since 1 July 2002. An actuarial valuation as at 30 June 2005 is in the process of being carried out but had not been finalised by the date of approval of these accounts.

Whilst the group continues to account for pension costs in accordance with Statement of Standard Accounting Practice 24 'Accounting for Pensions Costs', under Financial Reporting Standard 17 'Retirement Benefits' (FRS17) the following transitional disclosures are required in respect of the Grant Thornton Pensions Fund.

A full valuation of the membership data as at 30 June 2005 has been carried out by the actuary on a FRS17 basis at 30 June 2005 and information in this respect is set out below.

The major assumptions used for the purpose of the FRS17 valuation at 30 June 2005 were:

	2005	2004	2003
	%	%	%
Rate of general increase in salaries	4.60	4.80	4.50
Rate of revaluation of accrued and deferred pensions	2.60	2.80	2.50
Rate of increase in pensions in payment	2.60	2.80	2.50
Discount rate	5.10	5.80	5.25
Inflation assumptions	2.60	2.80	2.50

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.

23. Retirement benefits (continued)

The fair value of the scheme's assets, 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:

	Long Term Rate of return expected			Value		
	2005 %	2004 %	2003 %	2005 £'000	2004 £'000	2003 £'000
Equities	8.0	8.6	8.7	104,500	88,700	77,900
Bonds	4.7	5.1	4.5	38,700	18,000	16,500
Property	6.1	6.8	6.6	15,900	12,000	–
Cash	3.6	4.0	4.0	1,500	19,200	27,000
Total market value of assets				160,600	137,900	121,400
Present value of scheme liabilities				(218,000)	(189,500)	(185,900)
Net pension liability				(57,400)	(51,600)	(64,500)

An analysis of the movement in the deficit is set out below:

	2005 £'000	2004 £'000
Deficit in the scheme at the beginning of the year	(51,600)	(64,500)
Movement during the year:		
Current service cost	(2,000)	(4,200)
Contributions	5,100	5,000
Other finance costs	(600)	(1,000)
Actuarial (loss)/profit	(8,300)	13,100
Deficit in the scheme at the end of the year	(57,400)	(51,600)

Under FRS 17 the amount of the net pension liability would have a consequential effect on net assets and other reserves.

The projected unit method has been used 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 a percentage of pensionable pay as the members of the scheme approach retirement, assuming no change in actuarial assumptions.

The profit and loss account for the year ended 30 June 2005 includes a charge for contributions paid of £5,100,000. If FRS 17 had been fully in

force for this accounting period the charge would have been £2,600,000 comprised as set out below:

	2005 £'000	2005 £'000	2004 £'000	2004 £'000
Current service cost		2,000		4,200
Expected return on scheme assets	(10,300)		(8,700)	
Interest cost on scheme liabilities	10,900		9,700	
Net other financial costs		600		1,000
Total profit and loss account charge under FRS 17 if fully in force		2,600		5,200
Total profit and loss account charge in the accounts on the basis of contributions paid		5,100		5,000

(Reduction)/increase in profit and loss account charge which would have arisen if the full requirements of FRS 17 had been in force

(2,500) 200

Similarly, if FRS 17 had been fully in force for this accounting period, certain items would have fallen to be included within the statement of total recognised gains and losses as follows:

	2005	2004	2003	2002
Difference between expected and actual return on assets:				
Amounts (£'000)	10,500	4,400	(22,600)	28,000
As a percentage of the scheme assets at the balance sheet date	6.54%	3.19%	18.62%	21.64%
Experience gains & losses arising on the scheme liabilities:				
Amounts (£'000)	5,400	(1,700)	(1,700)	3,200
As a percentage of the present value of the scheme liabilities at the balance sheet date:	2.48%	0.90%	0.91%	1.76%
Effects of changes in the demographic and financial assumptions underlying the present value of the scheme liabilities:				
Amounts (£'000)	(24,200)	10,400	(9,500)	20,300
As a percentage of the present value of the scheme liabilities at the balance sheet date	11.10%	5.49%	5.11%	11.16%
Total actuarial profit/(loss):				
Amounts (£'000)	(8,300)	13,100	(33,800)	51,500
As a percentage of the present value of the scheme liabilities at the balance sheet date	3.81%	6.91%	18.18%	28.36%

24. Leasing commitments

Operating lease payments amounting to £8,020,000 (30 June 2004: £8,559,000) are due within one year.

The leases to which these amounts relate expire as follows:

	Land and buildings £'000	2005 Other £'000	Land and buildings £'000	2004 Other £'000
In one year or less	387	257	69	388
Between one and five years	1,457	2,186	2,070	2,583
In five years or more	3,733	–	3,449	–
	5,577	2,443	5,588	2,971

25. Post balance sheet events

Details of significant events which have occurred since the balance sheet date are as follows.

The entire share capital of Grant Thornton Asset Management Limited was disposed of on 31 October 2005. The consideration will partly be determined by reference to events post completion, but is expected to amount to approximately £2.5m.

26. Transactions with related parties

The group has taken advantage of the exemption under Financial Reporting Standard 8 not to disclose any transactions between itself and its subsidiary undertakings.

Loans from twelve (2004: eleven) members' spouses totalled £1,100,000 (2004: £865,000) at the balance sheet date. Interest payable on these loans is charged at commercial rates of 1.5% over base rate and amounted to £60,875 (2004: £67,910) for the year.

Report of the independent auditors to the members of Grant Thornton UK LLP

We have audited the financial statements of Grant Thornton UK LLP for the period ended 30 June 2005 which comprise the consolidated profit and loss account, the consolidated balance sheet, the balance sheet, the consolidated cash flow statement, the consolidated statement of total recognised gains and losses and the related notes. These financial statements have been prepared under the accounting policies set out therein.

This report is made solely to the members of the limited liability partnership, as a body, in accordance with Section 235 of the Companies Act 1985, as modified by the Limited Liability Partnerships Regulations 2001. Our audit work has been undertaken so that we might state to the members of the limited liability partnership those matters we are required to state to them in an 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 limited liability partnership and the members of the limited liability partnership as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of members and auditors

The members' responsibilities for preparing the financial statements in accordance with applicable law and United Kingdom Accounting Standards are set out in the Statement of Members' 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 1985, as modified by the Limited Liability Partnership Regulations 2001. We also report to you if, in our opinion, the partnership has not kept proper accounting records or if we have not received all the information and explanations we require for our audit.

Basis of audit 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 judgments made by the members in the preparation of the financial statements, and of whether the accounting policies are appropriate to the partnership'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 partnership's and the group's affairs as at 30 June 2005 and of the group's profit for the year then ended and have been properly prepared in accordance with the Companies Act 1985, as modified by the Limited Liability Partnership Regulations 2001.

PKF (UK) LLP

Registered Auditors
London
24 November 2005

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**Banbury
(Oxfordshire)**
T 01295 701 900
Janet Crookes

Belfast
T 028 9031 5500
Trevor Blayney

Birmingham
T 0121 212 4000
John Hardbattle

Brighton
T 0870 381 7000
Stephen Weatherseed

Bristol
T 0117 926 8901
Louise Evans

Bury St. Edmunds
T 01284 701271
Nigel Savory

Cambridge
T 01223 225600
Tim Blades

Cardiff
T 029 2023 5591
Louise Evans

Cheltenham
T 0845 026 1250
Louise Evans

Edinburgh
T 0131 229 9181
Andrew Godfrey

Farnham
T 01252 734345
Stephen Hall

Gatwick
T 0870 381 7000
Stephen Weatherseed

Glasgow
T 0141 223 0000
Andrew Godfrey

Ipswich
T 01473 221491
Nigel Savory

Kettering
T 01536 310000
Tim Blades

Leeds
T 0113 245 5514
Jonathan Riley

Leicester
T 0116 247 1234
Garry Meakin

Liverpool (Mersey)
T 0151 224 7200
John Shinnick

London
T 020 7383 5100
Sacha Romanovitch

London Thames Valley
T 0870 733 6700
Paul Etherington

Manchester
T 0161 834 5414
Graeme Whittaker

Milton Keynes
T 01908 660666
Simon Jones

Newcastle
T 0191 2612631
Jonathan Riley

Northampton
T 01604 623800
Tim Blades

Norwich
T 01603 620481
Nigel Savory

Nottingham
T 0115 948 3483
Garry Meakin

**Oxford
(Oxfordshire)**
T 01865 799899
Janet Crookes

Poole
T 01202 308000
Duncan Swift

Reading
T 0870 733 6700
Paul Etherington

Sheffield
T 0114 255 3371
Garry Meakin

Southampton City
T 023 8022 1231
Duncan Swift

**Southampton
Segensworth**
T 01489 864200
Duncan Swift

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Sculpture details:
Stairway
Private client, 2005
H600 x W190 x D418cm. Glass, steel
Lock level Line
West End Quay, Paddington Basin,
London 2003
H280m x L1300 x D33.5cm. Cast iron, glass
Assembly Field
National Assembly for Wales, Cardiff 2005
H32 x 1000-2400mm x W500 x D34
Glass, steel brackets
Child of the Family
Southampton, U.K. 1995
H400cm. Steel
Etruscan Chair
Limited Edition, London 1989
H90 x W40 x D50cm. Glass, steel
Split Wall
Private Client
H2743mm x L1525 x D225
Glass, steel, marble



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