

An individual perspective

Annual report 2006

Grant Thornton 



Building a firm for the future



Excellence in professional services depends on three simple ingredients: creating an environment to attract and develop great people, delivering excellent service to our clients and putting quality, professionalism and integrity at the heart of all we do. This report tells you more about our approach, progress and achievement in each of these areas. 2005/2006 was a further year of investment, progress and record results, thanks to our people and our clients.

Building on our success we have initiated 'Aspire', a three-year programme to drive the firm's strategic development and continue to grow a firm differentiated for its innovative and people focused approach. With a foundation of professional excellence and by organising our business to serve the increasingly sophisticated needs of our clients, our goal in a changing world is to build on our position of strength, enabling us to deliver more value to clients and more opportunities to our people.

Michael Cleary
National Managing Partner

8.5%

Operating profit increase

£276m

Turnover at record high

20%

Fee growth in key metropolitan offices in London, Manchester and Scotland

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Front cover image:

From left to right:

Roopa Aitken – Client Service Director
International Tax

Mark Balatoni – Manager
International Tax

Howard Cooper – Manager
Forensic and Investigation Services

The Grant Thornton experience: for our clients

To thrive and prosper, you have to keep ahead of change

Not easy in today's demanding and uncertain business climate, but precisely the kind of challenge we relish.

Milan Dalal
Project Manager



The Grant Thornton experience: for our clients

To thrive and prosper, you have to keep ahead of change: not easy in today's demanding and uncertain business climate, but precisely the kind of challenge we relish.

Drawing on our deep technical knowledge, broad commercial experience and innovative thinking, we help our clients build a strong, sustainable platform for future growth, no matter what lies ahead. And whatever their situation or size, our clients can rest assured that our class-leading range of financial solutions will help them meet their unique needs, be they short or long term.

And if our clients' business is international, or they would like it to be, we can help. Whether a domestic business with global reach or the UK operation of a multinational organisation, we can offer our clients access to high quality professional advice throughout the world, **through our membership to Grant Thornton International.**

With our taxation services being so highly valued by clients, it was no surprise that our corporate and international tax team was recognised as the best large firm tax team at the prestigious Lexis Nexis taxation awards.

An individual perspective

What makes us different is the way we work. Our people are encouraged to focus on forging long term, sustainable relationships with our clients. To respond to their challenges with independence, innovative thinking and flexibility, and in every aspect of our work to ensure we live up to our guiding values.

- **Drive: helping our clients to meet their goals.**
- **People people: having respect for individuality.**
- **Responsibility: acting with seriousness and consideration.**
- **Real world view: creating practical, workable solutions.**
- **Perceptiveness: responding with insight and ingenuity.**
- **Courage: saying it like it is.**

A sharper focus on client care

We are also continuously developing our approach to client care. Our partners work closely with our clients to understand their individual challenges and ambitions. And from first contact we seek to ensure the solutions we deliver exceed our clients' expectations and set standards beyond those of our competitors. By regularly seeking feedback and tailoring our approach to fit our clients' individual needs, we are constantly working together to enhance every element of the Grant Thornton experience for our clients.

“The Grant Thornton team worked with us to understand our issues and concerns and tailored their service accordingly. They pride themselves on quality service, strength of relationships and responsiveness. They have certainly demonstrated these qualities and as a result have delivered the results we demanded of them.”

Steve Hoblyn – Compensation & Benefits Manager
Nestlé Purina PetCare

“A professional firm with a commercial attitude... they consistently rise to our fast moving challenges.”

Nitil Patel – Chief Executive
Ten Alps plc

“They showed a deep commitment and the quality of work we received was very good on what was a very complex transaction. This was a big and very visible transaction, so we needed a firm with clear international capabilities. We were impressed with the resources that Grant Thornton invested in the transaction.”

Michael Madar – Director
Lehman Brothers Merchant Banking

The Grant Thornton experience: for our people

We recruit and retain, motivate and reward the highest calibre people

Our clients get the best quality service and our people
get a great place to work.

Kuvera Sivalingam
National Finance Support and Expense Clerk



The Grant Thornton experience: for our people

We recruit and retain, motivate and reward the highest calibre people: our clients get the best quality service and our people get a great place to work.

Offering our people top quality technical, personal and business skills training, a strong culture of shared values and fulfilling career choices is crucial. Right from day one. This is why we invest more than 2% of our turnover in internal training and development, funding training for a wide range of external professional qualifications and ensure we create many other opportunities for personal growth.

Something for everyone

Our people are unique and so is every career path. So we offer an extensive and varied menu of tools and opportunities to help each person discover the best way forward at every stage. This might include traditional training, online courses, personal coaching, or secondment to another industry, area of expertise or country. Formal career development reviews are available to all and, where appropriate, three-day residential development centres help our people take stock of their career progress and future.

Whatever each individual's goal and circumstances, we encourage our people to take responsibility for their development and do our best to help them make this work. This will be made even easier in 2006/07 as our new online learning management system enables people to select their own opportunities and meet their individual needs even more precisely.

But while we work together to be the best we can be, we also want our people to enjoy a good work-life balance. And we are constantly seeking to improve our range of benefits. Parents have particularly gained from the introduction of childcare vouchers and, more recently, enhanced maternity, paternity and adoption pay, and return-to-work bonuses. We also have a wide range of flexible working arrangements and our home working technology allows our people to meet our clients' needs wherever they work.

“I joined Grant Thornton as an audit trainee, qualified with the firm and then went into industry for a brief period. I rejoined Grant Thornton knowing I would have interesting client work and get further training and development. By volunteering to get involved in trainee recruitment I began my interest in HR-related issues. Today, having had the support of the firm and colleagues I am now National HR Operations Director, showing that careers really can follow different paths here.”

Jenny Balme – National HR Operations Director

“At the national trainee induction day I got the feeling that we'd joined a really ambitious firm that completely supports its people. At the same time, we came away very clear on what's expected of us in return. I really, really enjoyed it – it's given me the confidence I needed to settle in.”

Kate Cornelius – Corporate Tax Trainee

In 2006, Grant Thornton was named as the only non-Big 4 firm in The Times Top 100 Graduate Employers 2006/2007 – the essential guide used by graduates wanting the lowdown on great places to work.

“There are a number of reasons I've stayed with the firm for 30 years. But, importantly, the job opportunities have just kept coming at exactly the right time. This is still the case now. And the people have kept me here too.”

Adrian Storrie – Senior Manager
Recovery & Reorganisation

Our place in the profession: leadership and integrity

In a fast-changing world subject to growing regulation, we can be relied upon for independent advice rooted in the highest professional ethics, principles and standards

Add our passion for unconventional thinking to the mix and you have all the right ingredients for success.



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We like to think we have a talent for developing innovative ideas that inspire others, taking cutting-edge concepts and turning them into practical, workable solutions anchored in the real world. Call it thought leadership or just good business, it works for us and it works for our clients.

It's an approach that runs through everything we do. Our people are encouraged to take a fresh perspective, thinking beyond convention. Our partners help shape the domestic and international debate by actively participating on professional and industry bodies. And together we work with our peers to support necessary change in our profession, such as liability reform, and positively influence the future of financial services.

Our strong record of maintaining independence reflects our rigorous independence policies, which meet or exceed all of the requirements set by the UK institutes, the Auditing Practices Board and the International Federation of Accountants.

Underpinning all of this are rigorous internal control processes, risk assessment measures and monitoring systems that ensure we all live up to the high standards we set ourselves – and our clients expect. Nowhere is this more important than in the case of audits, for which our ability to demonstrate independence is critical for our clients and professional regulators. We have established a range of safeguards governing audit appointments and the independence of partners and staff.

Maintaining each individual's commitment to our strong ethical culture is high on every partner's agenda. And by every action they seek to set the tone for the business and inspire our people to ever higher standards of behaviour.

“A passion for technical excellence must underpin everything we do.”

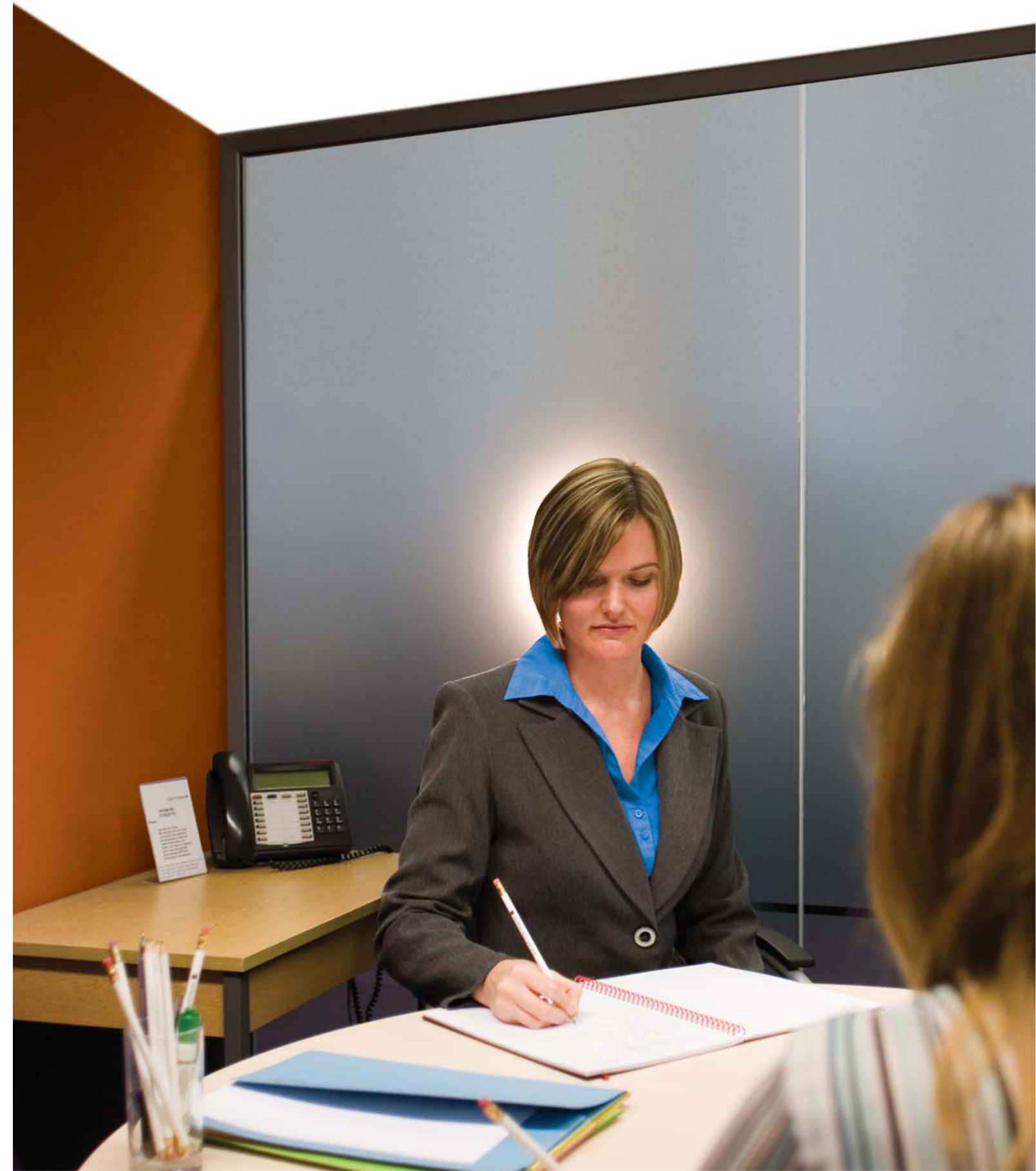
Michael Cleary, 2006 Partners' conference

Our place in society: taking responsibility

Corporate responsibility lies at the heart of our business

This means respecting our environment, offering our people a great place to work, supporting our communities and behaving with integrity towards our clients and suppliers.

Melanie DeBeer
Assistant Manager,
Risk Management Services Group



Our place in society: taking responsibility

Corporate responsibility lies at the heart of our business. This means respecting our environment, offering our people a great place to work, supporting our communities and behaving with integrity towards our clients and suppliers.

Our biggest impact on society is made through our delivery of excellent client service and this is reflected in our strong reputation in the business community.

However, we recognise that being a good business is also about understanding our community and environmental performance, alongside our financial performance, and demonstrating our good business behaviours to our many stakeholders.

Community involvement

Many of our partners and staff, together and individually, use their time and skills to make a difference to a variety of charitable and community organisations. The amount of time given has more than doubled year on year (from 1,609 to 3,666 hours). But we want to increase this even further. So we are working with a growing number of community partnerships, including Business in the Community, the Prince's Trust and Young Enterprise, to identify opportunities for our people to contribute to the wider community in worthwhile projects that also provide personal development opportunities.

We also support named charities on a national and local basis and ask our people to vote annually for our national charity. Our most memorable fundraising event was our 1,500-mile round-Britain bike ride where over 300 of our people formed relay teams that rode from Belfast to our national training centre at Bradenham in Buckinghamshire raising awareness about Leukaemia Research, the firm's 2006 charity of the year. In total the amount raised for this and other charities exceeded £25,000.

Concern for the environment

A significant number of our everyday business activities impact adversely on the environment. And while we do not produce as much damage as, say, a manufacturing business, nonetheless there are many opportunities to reduce our impact on the environment by the way in which we work.

As part of our commitment to being a responsible business we have measured aspects of our environmental footprint, and set targets on an office and firm-wide basis.

Our chosen key performance indicators for 2006/07 and corresponding targets are:

- to reduce carbon emissions from business travel by car by 10% per person
- to reduce paper usage per person by over 30%
- to reduce CO₂ emissions arising from office energy usage by 5% per square metre
- to increase our use of recycled or recyclable general stationery products to 30%.

Our current performance in each of these indicators, together with next year's target are as follows:

Current activities to help our people meet these targets include: a national car sharing database to promote and facilitate car sharing; video conferencing facilities in all offices to cut down on travel; season ticket loans to promote and encourage use of public transport; the provision of core stationery items that are either recyclable or reclaimed; using paper from recognised, managed and sustainable forests; and reduction in the use of printed marketing material in favour of appropriate electronic marketing.

In addition, in October 2006, we carried out energy efficiency audits in partnership with the Carbon Trust. We will be implementing recommendations from the results of that work across all our locations.

Annual paper (sheets per person)

Firm average	13,757
Our target	10,000

Annual energy (CO₂ kg/m²)

Firm average	98
Our target	93

Annual business mileage per person (car) (CO₂ kg)

Firm average	744
Our target	670

Stationery (% green purchased per annum)

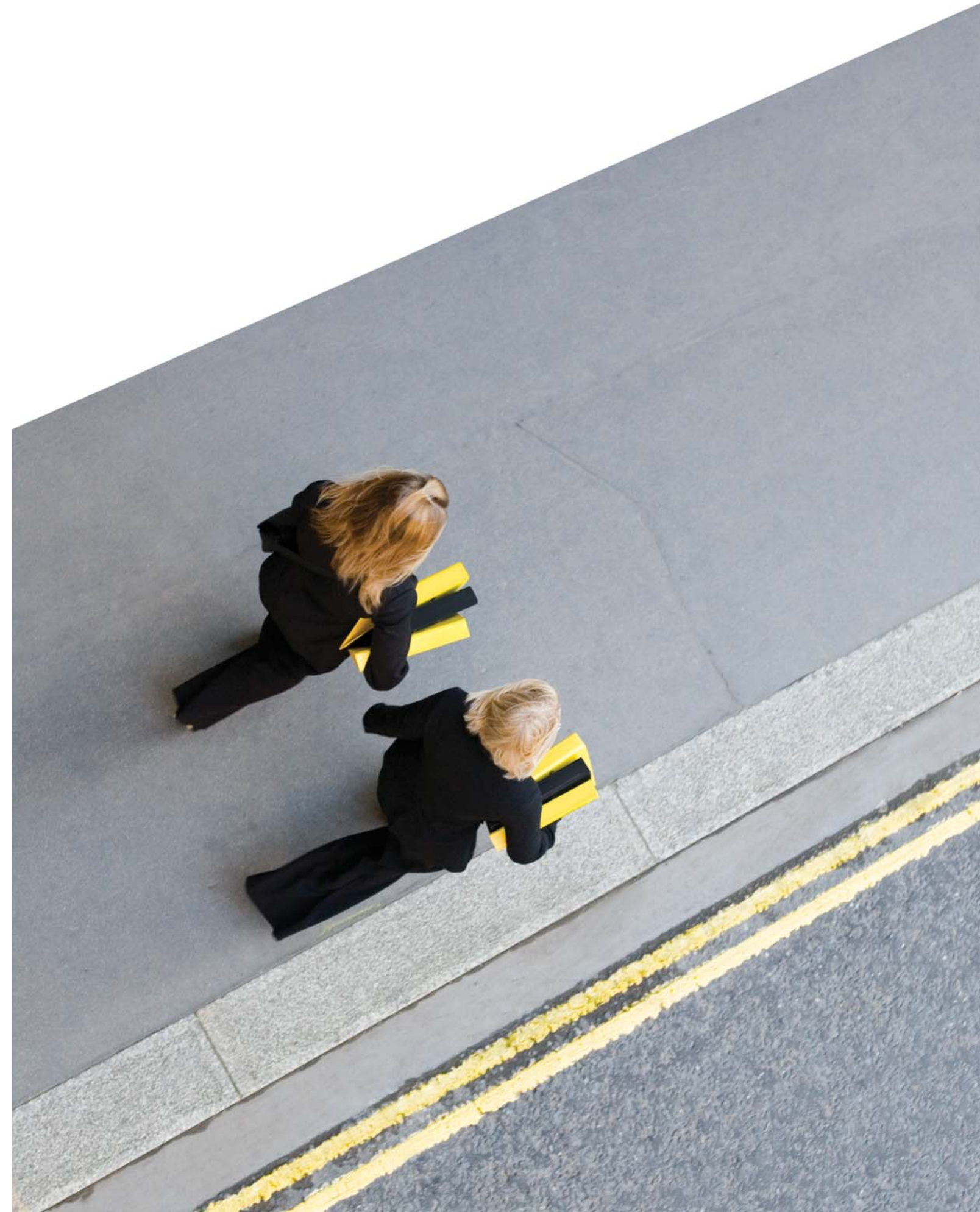
Firm average	9.2
Our target	20

Business and financial review

A further year of investment, progress and record results

Clockwise:
Emma Fuller
Senior Account Executive

Victoria Lennon
Account Executive



Business and financial review

Nature of the business

Principal activities

The principal activity of Grant Thornton UK LLP is the provision of professional financial services which are delivered from 31 locations across the UK. An analysis of these services by turnover is given on page 42 of the financial statements.

A number of the firm's activities are subject to regular review by a variety of UK regulators, details of which are given in page 27 under the firm's regulators and professional bodies.

Our legal structure

Grant Thornton UK LLP (the firm) is a single national limited liability partnership (LLP) owned by its members. All of our professional activities are conducted through the LLP, while certain support and infrastructure activities are carried out through the LLP's wholly owned subsidiaries. Within our organisation, the term "Partner" indicates a member or senior employee of the firm who is not in partnership for the purposes of the Partnership Act 1890.

Objectives and strategy

The firm's overall aim is to retain and continually enhance our position as a highly profitable, innovative and entrepreneurial professional financial services business which upholds the highest professional and ethical standards and excels in its chosen market sectors by:

- acting for high quality clients
- attracting and retaining quality people at all levels who are proud to be part of the firm.

Crucial to us achieving this ambition is developing our people so that they are able to provide our clients with the skills and expertise they need to find appropriate solutions to their problems, and in doing so enabling us to continue to build the reputation of the firm for leadership and excellence in all that we do.

The firm's new strategic development plan, "Aspire," is based on three overriding principles:

- organising ourselves to face our customer groups – not in our traditional service silos
- blending services into solutions to deliver more value to clients
- delivering quality and excellence with strong and innovative technical communities.

Management of our business

The firm's constitution sets out the rights and obligations of members and our governance framework, together with the key responsibilities for the management of our business. The management of the firm is primarily the responsibility of the national managing partner and chief executive officer, currently Michael Cleary.

The national managing partner is responsible for:

- ensuring that the firm operates within the LLP's statement of principles
- formulating the firm's strategy and policies
- the profitable management of the firm in a manner consistent with the interests of clients, our people and the firm's values and ethical standards
- the appointment, appraisal and removal of partners, and determining their remuneration.

The national managing partner is appointed for not more than two five-year terms and, subject to oversight by the partnership committee (see Governance and risk management page 23), is responsible for determining his management team. Currently, this comprises a national management on board responsible for the strategic direction of the firm and an operations board responsible for executing the firm's strategy.

Remuneration committee

The remuneration committee, which comprises of elected members of the partnership committee, is responsible for setting the remuneration framework applicable to the national managing partner, dependent upon the achievement of predetermined objectives.

Members remuneration

We recognise the need to attract and retain the most able partners to drive excellent client service. We aim to achieve fairness between partners, recognising the contribution of value over time and over a wide range of attributes.

This year over 70% of the firm's profits were distributed in accordance with profit sharing units, which are allocated depending on role and assessed ability. The remaining 30% of the profits are allocated by reference to members' individual and team performances having regard to areas such as client service, risk management, technical performance and the upholding of ethical and independence standards. A significant proportion is also used to reward members operating in the parts of the firm that have been the most financially successful.

To avoid the risk of prejudicing auditor independence, the firm does not make personal awards for selling of non-audit services to listed clients.

There are separate arrangements for capital profits and losses. Members have full access to information on each other's earnings.

Competition and choice

The firm continues to operate in an increasingly competitive but dynamic environment with the emergence of new and evolving competition in our traditional markets, the increasingly sophisticated demands of our clients in terms of breadth and depth of services and changing legislation and regulation.

In particular, the UK audit profession has been dominated by the introduction of liability reform in the recent Companies Act and by the wide-ranging debate on the need for greater choice in the quoted company audit marketplace – following the demise of Andersen and the dominance in that sector by only four firms.

This has led to firms such as ours being encouraged to compete in audit markets formerly, in general, the preserve of the Big 4 firms. There is now increased interest amongst third parties to meet our people and understand our firm. On a regular basis we actively engage with regulators, government, and investors to demonstrate the depth and breadth of our expertise, the quality of our people, our commitment to technical excellence and the high standards of independence and objectivity to which we work.

We welcome the opportunities presented by this important debate. Indeed, many of our non-audit teams already compete very effectively against the Big 4 firms, as well as many other smaller, often niche providers.

Furthermore, as a member firm of Grant Thornton International, we benefit from the international organisation's commitment to larger audit clients, involving not only the development of outstanding people within member firms who provide distinctive client service with consistently high quality, but also a dedication to becoming a more cohesive global organisation, establishing a structure where member firms implement an agreed global strategy.

While we act in the UK for over 200 publicly listed clients, privately held businesses and their owners lie at the heart of our business and we continue to be a market leader in providing financial advisory and assurance services to these clients. Many of our offices are based in locations where they compete with locally-based firms and do so effectively, using the resources of a national firm and being part of a large international network as a key differentiator in their local markets.

Business and financial review

The Grant Thornton International network

Grant Thornton UK LLP is the UK member firm of Grant Thornton International, one of the world's leading organisations of independently owned and managed accounting and consulting firms providing assurance, tax and specialist advice to independent businesses and their owners. All Grant Thornton International member firms share a commitment to providing the same high quality service to their clients wherever they choose to do business.

Through our membership of Grant Thornton International, we have access to a network of member firms worldwide, combining the knowledge and experience of individual marketplaces with technologies, methodologies and specialist resources. Firms operate in over 110 countries in 520 locations worldwide with a combined fee income of \$2.8 billion.

Member firms share methodologies where appropriate, but remain responsible for meeting local regulatory requirements and quality assurance. All member firms are required to apply ethics and independence policies that are consistent with the globally respected International Federation of Accountants' (IFAC) code of ethics.

Grant Thornton International is a non-practising international umbrella organisation that does not deliver services in its own name. Each member and correspondent firm in Grant Thornton International is a separate, independent national firm, delivering assurance, tax and specialist business advisory services to clients nationally. These firms are not members of one international partnership or otherwise legal partners with each other (with the exception of certain limited instances), nor is any one firm responsible for the activities or services provided by any other. Each firm governs itself and is administered locally. While many of the member firms in Grant Thornton International now carry the Grant Thornton name, there is no common ownership among the firms or by Grant Thornton International (with the exception of certain limited circumstances).

Management of Grant Thornton International is the responsibility of the chief executive officer, currently David McDonnell, who is appointed by an international board of governors, drawn from the member firms. The chief executive officer has appointed a global leadership board, including a chief operating officer, a leader for each of the four main global service areas (tax, assurance, specialist advisory services and privately held business services), a leader of the member firm network and a director of marketing communications.

Grant Thornton International is one of the six founding members of the Forum of Firms, which promotes consistently high standards of audit and financial reporting worldwide. There are now 23 members of the forum, comprising all of the major accounting organisations with international networks.

Governance and risk management

The firm is committed to the highest standards of governance and we continually monitor developments in corporate governance and benchmark our performance against them. 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.

As a LLP, the firm does not have a traditional board structure. The firm is owned by its members, whose rights and obligations are set out in the firm's constitution. The members vote to confirm the appointment of a national managing partner in accordance with the constitution, which gives management the authority to exercise strong and effective leadership of the business. This authority is underpinned by robust independent oversight on behalf of the members by the firm's partnership committee.

Partnership committee

The main role of the partnership committee is to monitor the national managing partner's stewardship of the firm's business, including oversight, appointment, removal and remuneration of the national managing partner.

It is also responsible for the LLP's statement of principles, which is the firm's highest level statement of objectives, values and philosophy and is binding on the national managing partner. The statement of principles is approved by the members.

The partnership committee comprises 12 members elected by the members of the LLP, together with two additional ex-officio members, the national managing partner and one other member of the national management board. 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.

Risk management

The firm recognises that risk is an integral part of our business activities and it is committed to the active management of risk in order to ensure our reputation and business is protected from adverse commercial, legal or regulatory failure.

The national managing partner has overall responsibility for effective risk management and specifically for ensuring our risk management strategy, culture and supporting systems drive and underpin our strategic development.

Our formal risk management framework, is embedded in each part of our business and provides a rigorous, continuous and consistent approach to the management of risks.

While the overall responsibility lies with the national managing partner, the primary responsibility for risk management rests with the line management of each business area. On at least an annual basis, each part of the business is required to formally identify its risks using the firm's risk management processes and provide assurances to management that risks are being managed.

The national management board regularly reviews these and other risks in the light of an ever changing environment and ensures that the associated internal controls are operational and effective throughout the organisation. See page 25 for a summary of our principal risks.

Business and financial review

Internal audit

Internal audit is an integral part of the firm's risk management processes and provides high level assurances to the national managing partner and the partnership committee (through the risk assurance sub-committee) that risks are understood and are being managed effectively. Each area of the business is subject to an internal audit review over a planned three year cycle. This review, which is carried out by our independent internal audit function, considers the effectiveness of the risk management framework within the business area and its compliance with the firm's mandatory risk management policies and procedures.

Risk assurance sub committee

The risk assurance sub committee comprises five elected members of the partnership committee, including its chairman.

The committee's principal responsibility is to monitor the implementation and effectiveness of the firm's risk management policies and strategy across all areas of the business and specifically to:

- monitor and review the effectiveness of the firm's internal audit function
- monitor the firm's relationship with external auditors, including overseeing the appointment process, agreement of fees and assessment of independence
- review the annual financial statements before submission to the partners, and in particular critical accounting policies and practices and decisions requiring a major element of judgement.

The risk assurance sub committee met four times in the year. The business risk management partner, head of internal audit, director of finance and representatives from the national management board, including the national management partner, are invited to, and normally attend, each meeting. In addition, the external auditors attended three meetings to discuss the audit of the accounts and related matters.

Quality management and technical excellence

Quality is fundamental in everything we do and the firm is committed to maintaining the highest standards of technical excellence. Each area of the business is required to have in place rigorous quality management procedures to ensure that the required standards of quality (in terms of professional, regulatory and the firm's requirements) are achieved, including:

- technical and procedural manuals – to ensure work is delivered to a consistently high standard
- training and development of all partners and staff (including induction and appraisal)
- quality control procedures – to ensure each assignment meets required standards and quality
- quality assurance processes, including retrospective reviews – to enable management to gain comfort that procedures are in place, are operating and are effective.

As part of the firm's risk management framework, business area management are required to demonstrate annually the quality management processes in place and, specifically, that where weaknesses or failures are highlighted in the assurance reviews, appropriate action is taken and improvements monitored. This is routinely checked as part of the firm's internal audit reviews.

Principal risks

The effective management of risk is key to the achievement of the firm's business objectives. Our principal risks arise from, or relate to: client acceptance and continuance; compliance with regulation and legislation; professional negligence claims; including the importing of liability from cross-border activities; material breach of ethical guidelines; including independence and significant events that disrupt business operations; including major information systems failure.

The key methods by which the firm manages these risks are set out below and compliance with the corresponding procedures are checked as part of the national internal audit reviews.

Client acceptance and continuance

The firm has rigorous client acceptance procedures across all areas of the business. We only engage with clients where we have the necessary capacity, skills and expertise to offer the highest possible standards of service and care to meet client expectations and ensure that the acceptance does not prejudice our independence, objectivity or integrity. High profile appointments must be pre-approved by senior management independent of the proposed client service team. A similar re-acceptance process is required on an annual basis or if there are any known changes in circumstances.

The firm has strong quality management systems in place in all service areas to ensure that each customer assignment is delivered to consistently high standards of professional and technical excellence. In addition, we have dedicated central specialist support teams in all service areas providing practical support and advice to our client-facing partners and staff.

Compliance with regulatory requirements and legislation

Rigorous procedures and controls are in place to ensure compliance with the requirements of each of the firm's regulators and legislative requirements. Dedicated partners and staff, including an Investment Business Compliance Partner, ensure the control environment is operational and effective across all our business areas.

Professional indemnity insurance

One of the risks faced by all professional firms lies in being sued for professional negligence. In order to mitigate this risk, in addition to our commitment to the highest standards of technical excellence and client service, the firm arranges appropriate insurance, both through a captive insurance company and the London insurance market.

International work

Where the firm undertakes work of an international nature, there are additional detailed procedures, including a consultation requirement prior to client acceptance and the appointment of client service teams with relevant international experience.

Business and financial review

Ethics and independence

The firm's national ethics partner reports directly to the national managing partner and is responsible for ensuring the firm complies with the requirements set by the firm's regulators. Specific controls in place include:

- audit partner rotation on listed and other public interest entities
- recognition of technical quality in partner remuneration policies
- adherence to detailed procedures to identify potential conflicts of interest prior to accepting work
- application of policies regarding partners and staff working for clients when leaving the firm.

In addition all partners and managers maintain a real time record of investments held on a global database and the ethics team ensure that any potential conflicts are identified and resolved.

Business continuity and disaster recovery

Each of our offices is required to have a regularly tested business continuity plan so that, in the event of a significant event that disrupts business operations, existing clients' business is serviced, business critical operations are established in the shortest possible time and the firm's reputation is protected. In the event that one office location is put out of action by a major incident, our firm-wide IS network gives us the flexibility to deploy staff to any one of our other locations throughout the country, in addition to them being able to work remotely from their home environment.

Major information systems failure

A resilient IS infrastructure is key to the delivery of efficient services to our clients and we operate a dual data centre model with key data being replicated at each site and backed up on a daily basis. The firm works only with quality and proven hardware and software vendors and has automated as many key security processes as possible, including anti-virus and anti-spam solutions. In addition, we operate a rigorous approach to project management, utilising Prince 2 methodology in the implementation of IS-related projects.

Independence and objective thought

Maintaining independence and objectivity of thought is vital to maintaining our reputation for providing public confidence. We have established strong independence policies which meet or exceed the ethics standards issued by the Auditing Practices Board and the professional guidance of the Institute of Chartered Accountants in England and Wales (ICAEW). Specifically:

- entrants at all levels undertake induction training in our independence policies
- a database of ethical policies and guidance is maintained on the firm's intranet
- automatic conflict checks are made of our customer list and sent to all partners before any high profile engagement can be accepted
- all partners and staff are required to check the conflict database for all other engagements
- all partners and staff are required to complete an independence return on joining and thereafter on an annual basis.

For audit engagements, where independence is a matter of public interest, our procedures are even stronger and ensure partners carry out an independence check of other services before engaging with new audit clients and the engagement team confirm their independence on each audit file. Furthermore, for all public interest clients, we disclose other services provided to the audit committee at the planning and conclusion stages.

The firm has appointed a senior and experienced partner as our national ethics partner. The national ethics partner chairs our professional issues panel, which meets quarterly to consider new ethical guidance and emerging issues, and is supported by a national team which must be consulted whenever key judgments on potential conflicts are called for. In particular, the team has established specific policies for corporate finance and tax consulting services to audit clients to ensure that the spirit, as well as the letter, of the standards is met.

Inspiring our people to fulfil our ethical standards starts with the tone at the top and partners recognise that their behaviours are key to the maintenance of our strong ethical environment and culture. In addition, the internal controls we have in place to support our ethical environment are routinely checked as part of the firm's robust risk management procedures and in the internal audit review of each business area.

Grant Thornton International also requires all its members to adopt ethical policies and procedures which meet or exceed international standards issues by the International Financial Accounting Council. Partners and managers in all member firms maintain a real time record of investments held on a global database and our ethics team ensure that potential conflicts are identified and resolved.

To date, we have established a strong record of maintaining our independence. The biggest challenge we face, in common with all large firms, is avoiding unintentional conflicts through providing non audit services in respect of an audit client of another Grant Thornton International member firm. While we believe we have avoided any significant issues to date, our procedures will continue to evolve in this area. In common with the other major international audit networks, the firm has supported convergence of international ethical standards, in particular implementation of the EU 8th Directive consistently among all member states and the adoption of common standards in the EU and US.

The firm's regulators and professional bodies

A number of the firm's activities, including audit, recovery and reorganisation and financial planning work, are regulated by a variety of independent bodies.

The firm's audit practice is regulated by the Institute of Chartered Accountants in England and Wales (ICAEW) and audit work is examined annually by the audit inspection unit of the Professional Oversight Board, a part of the Financial Reporting Council (FRC) (public interest audits) and the quality assurance directorate of the ICAEW (other audits). Our audit licence was last renewed in March 2006 with no conditions or restrictions.

In our Recovery & Reorganisation team, each of the 40 partners and directors who accept insolvency related appointments are licensed by one of the Recognised Professional Bodies (RPBs) (which include the ICAEW, ICAS, ICAI, DTI, ACCA, IPA) and are subject to regular monitoring reviews by their RPB. All appointment-takers hold current insolvency practitioner licenses issued without conditions or restrictions.

Some of the firm's client services, principally financial planning and certain corporate finance lead advisory work, are regulated by the Financial Services Authority (FSA). The FSA carries out regular assessments of any risks that the firm's relevant activities might pose to their statutory objectives as laid down in the Financial Services and Markets Act 2000. Their most recent risk assessment was conducted in September 2006.

In addition the firm is subject to practice reviews by the ICAEW quality assurance directorate of those activities not otherwise regulated. The first review is scheduled to commence in summer 2007.

Serious consideration is given by senior management to any recommendations made by a regulator and action taken to implement appropriate changes.

Business and financial review

Contribution to the profession

We are committed to investing our senior partners' time in professional leadership positions to ensure that our clients have access to excellent technical support and their interests are properly represented as public policy is developed. Specifically we invest in people who will help drive public policy debate that affects our clients. Our papers on a range of topics, can be seen on our website at www.grant-thornton.co.uk. Further information is available from our head of external professional affairs, Steve Maslin.

Our people

Our ability to recruit, develop, and retain the highest calibre people is critical to our future success and is one of our most important commercial imperatives. Our national HR team develop policies and procedures covering all aspect of people management and professional development and constantly look for new and innovative ways to succeed in the highly competitive market for skilled and high quality people.

Recruitment

We employ rigorous and thorough recruitment processes which reflect best practice in professional recruitment. References and, where appropriate, credit reference checks, are taken for all successful applicants and all relevant qualifications are routinely checked. We welcome direct applications via our website and work with reputable recruitment agencies who share and support our values.

Training and staff development

The firm is committed to ensuring that our people have the skills and expertise necessary to provide the range of quality services and technical excellence required by our clients. All partners and qualified staff are required to keep up to date with professional guidance, including the firm's own risk management, ethical and independence requirements. All those within specialist disciplines or serving specialist markets, including statutory audit, must comply with mandatory training requirements, which are actively monitored. On an annual basis, all our people are required to prepare a training plan and submit continuing professional development returns, which the firm actively monitors.

We invest in our own national residential training centre, Bradenham Manor, where core and specialist training is provided by dedicated staff, supplemented by external specialists. This level of resource is almost unique among professional services organisations and a clear and tangible manifestation of our commitment to training for all our people.

In December 2006 we invested in a state of the art learning management system which gives all partners and staff the ability to manage their own training and development.

Reward

We regularly benchmark our pay and benefits with other organisations to ensure that we offer competitive remuneration and reward packages. In addition, we have recently enhanced our maternity, paternity and adoption pay provisions, renewed our holiday buying and childcare voucher schemes and are committed to extending our range of flexible benefits and working practices.

Financial review

Review of the year

The period 2005/06 was a year of major change in the business, involving significant investment in people across a variety of service lines, commitment to local marketplaces with new properties occupied or planned, and a fundamental review of our approach to our key markets. Together, we believe these changes will in due course allow us to better respond to demands for our services and will make the firm a more dynamic and effective environment from the perspective of attracting and retaining clients and people.

Our investment in people is particularly focused on strengthening our teams in financial markets, project finance, tax and risk management services. We committed to significant new properties in Sheffield, Leeds and Manchester and have contributed to the further development of Grant Thornton International, including its new strategy which was unveiled at the 2006 international conference. In parallel with this, the UK firm has undertaken a wide-ranging review of its own strategy, aimed at giving greater focus on the

provision of solutions to the problems faced by clients in the key markets that we serve.

Following the restatement of last year's results (as discussed below), overall growth in turnover for the year was 7.8%. Within that figure, assurance services grew by 13% and corporate finance by 19%. However, these performances were moderated by a fall in turnover in our forensic investigations practice, which had a difficult year following the very untimely illness and death of its senior partner, Philip Kabraji. During the early part of the year we also completed the sale of our discretionary fund management business, which in the year generated income of £300,000 (2004/05: £1.06 million).

In terms of profitability, our recovery and reorganisation business enjoyed an outstanding year. Overall, the firm's operating profits improved by 8.5%. While our overall gross margin percentage suffered a decline compared to the previous year, it was slightly ahead of budget. And after charging overheads, average profits per member, calculated in accordance with the Statement of Recommended Practice, showed a 4.6% increase.

So 2005/06 was a year when the firm made very substantial investment in its medium term future. We are now well positioned to seize future opportunities for growth.

Key performance indicators

Fees per partner and staff member

Our financial success over the long term has been achieved by improving leverage, through growing our turnover at a faster rate than the rate of growth in the number of partners and client-facing staff. The firm has also achieved success through investing in specialist services, which can take some time to build, both in terms of turnover and profitability.

During 2005/06 the firm continued to build critical mass in a number of key specialist areas. This had the impact of increasing headcount of both partners and staff beyond the rates recently experienced. The average partner headcount (including salaried partners) in 2005/06 was 240 (2004/05: 234) while total headcount rose from 2,924 to 3,139.

Notwithstanding these recent investments, we have continued the upward trend in this key performance area and, over the course of the past four years, we have grown turnover per fee earner and turnover per partner by over 30%.

Gross margin and marginal contribution

While turnover grew by 7.8% in the year, the market for many of our services remained highly competitive, which again limited our ability to increase prices. Salary pressures in the financial services manpower marketplace also remained very strong and, as a consequence, and in an environment of incremental training and increased regulatory demands, the gross margin rate was squeezed during the year. Although there was some reduction in direct overhead costs, the rate of contribution to indirect and fixed overhead costs also fell slightly.

Operating profits as a percentage of turnover

Following on from the increase in turnover, and after charging indirect and fixed overheads, operating profits as a percentage of turnover rose slightly from 23.3% to 23.5%.

Average profit per member

Average profit per member, calculated in accordance with the requirements of the SORP from £367,852 to £384,840, an increase of 4.6%.

Business and financial review

Capital, treasury, liquidity

The firm's liquidity risk is managed through periodically undertaking reviews of its short, medium and long term funding requirements, as well as continuously monitoring its working capital usage.

Central management exercises control over external treasury using conventional techniques to minimise the firm's total cost of third party borrowing and, where possible, to maximise the return achieved on invested surplus funds, having regard to risk and the need for ready availability of such funds.

A significant part of the firm's funding is from members' capital, which is normally only repayable following retirement. Apart from a relatively small number of members who have taken advantage of certain transitional arrangements which were put in place at the last capital review, the vast majority of full share equity partners now provide capital at a common level, although certain fixed share partners are permitted to provide lower levels of capital than full share members.

The financial statements this year have been presented so as to comply with the revised SORP on accounting by limited liability partnerships and, consistent with most large professional services LLPs, our members' capital is now classified as a liability within loans

and other debts due to members within one year, albeit as noted above, as a matter of course such capital is only repaid to partners following retirement. Constitutionally repayment is required to take place within two years of the retirement date.

Members' capital rose from £25.5 million at 1 July 2005 to £27 million by 30 June 2006, largely reflecting the increased number of members.

Members also contribute to the firm's funding via medium term loans and undrawn profits. While the value of loans is typically modest, the funding levels provided by way of undrawn profits is significant. Funding from undrawn profits is provided through the combined mechanisms of the timing of taxation payments (since provisions are used to limit partner drawings and where payments are administered by the firm), a prudent drawings policy and post year end allocation of profits.

In addition to certain loan, hire purchase and leasing obligations with third parties, the firm also has available significant short term bank facilities with a number of banks. These facilities are called upon periodically, according to mainly predictable cycles of drawing demand and working capital need. Maximum overdraft usage is typically experienced immediately following the January income tax payment and reached £9 million during February 2006.

From time to time, the firm protects itself from interest rate risk through capping its exposure to interest rate increases on material borrowing.

Accounting policy changes

In common with other similar businesses, the year to 30 June 2006 represented a period of significant change in reporting requirements and the resultant new accounting policies have been adopted and are reflected in these financial statements.

This year's balance sheet includes for the first time the net obligations of the firm's defined benefit pension scheme, in accordance with the requirements of FRS17.

In addition, the revised SORP on accounting by limited liability partnerships has required for the first time the inclusion of annuity obligations on the balance sheet in respect of current partners. The revised SORP has also led to the need for a number of reclassification and presentation changes, the most notable of which was that of members' capital, which has been referred to previously. Other changes include the requirement to treat certain interest payments to members as an expense, rather than as an allocation of profit.

The impact of the various accounting policy changes on the comparative results and net assets is set out in Note 1 to the financial statements.

Management judgments and estimates

Critical elements of the financial statements that are highly dependent upon management judgments and estimates are those in relation to the firm's defined benefit pension scheme, retirement annuities to partners following retirement, recognition of revenue and provisions against irrecoverable work in progress.

In terms of the firm's defined benefit pension scheme, the assumptions applied are adopted by the firm following discussion with the scheme's actuarial advisers. Key assumptions include those in relation to the discount rate to be applied to liabilities as well as those in relation to longevity. The assumptions in respect of discount rate are consistent with the requirements of FRS17, which requires the use of an applicable yield on AA corporate bonds to be applied. Longevity assumptions are based on commonly used actuarial survival tables. Given the inherent unpredictability of anticipating future improvement or deterioration in mortality, no allowance for this is built into the tables used.

The firm also uses the same actuaries to provide advice for the purpose of evaluating its annuity obligations to current and former members. Key areas of estimate include the discount rate, where the revised SORP provides direction on rates to be applied, and mortality, where the firm has used assumptions consistent with those adopted for its defined benefit pension scheme.

Revenue is recognised by reference to the stage of completion of the contract concerned and the degree of uncertainty inherent in that stage of completion as well as the nature of the assignment. The stage of completion and ultimate recoverability of work in progress balances are reviewed individually by partners and managers responsible for the assignment. There is then a separate review of material assignments to ensure that the firm's accounts reflect a prudent approach while complying with relevant accounting standards.

The firm's reporting and review mechanisms include established procedures for assessing the need for, and value of, provisions against work in progress.

Balance sheet analysis

Net assets attributable to members in the group balance sheet rose by £9 million to £13.9 million and total members' interests increased by £8.8 million to £10.4 million.

Within the totals, net current assets remained broadly the same at £85.1 million.

In accordance with FRS17, net assets are stated for the first time after deducting the firm's defined benefit pension scheme obligation which fell from £57.4 million to £54.3 million, in large part as a consequence of improved scheme asset values.

Annuity obligations in respect of former partners fell by £1.6 million to £27.8 million, while similar obligations in respect of current partners, included for the first time in accordance with the requirements of the revised SORP, fell by £2.4 million to £2.9 million.

Payments to make good the deficit of the pension scheme are being made in equal instalments of £3.4 million over ten years commencing 1 July 2006. Annual payments in respect of annuities to former partners amounted to £2.5 million.

Although the inclusion in the accounts of both the firm's defined benefit pension scheme deficit and retirement annuity obligations has significantly affected the shape of the balance sheet, taken together, the projected 2006/07 cash obligation for these two significant obligations amounts to approximately £5.9 million or 2.1% of the firm's turnover. Subject to changes in demographic and financial assumptions and experience in respect of the pension scheme assets, there is no reason why this level of cash commitment to these obligations will vary materially in the short to medium term.

Members' report

For the year ended 30 June 2006

The members present their report together with financial statements for the year ended 30 June 2006.

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.

Designated members

The designated members during the year ended 30 June 2006 and those who have been appointed subsequently are as follows:

M J Cleary – National Managing Partner
 J D Mew – Management Board Member
 G W Sykes
 T A J Back
 J Bowler
 E J G Healey
 P K Hems (resigned 30 June 2006)
 J W Lewis (resigned 30 June 2006)
 T J W Lincoln (appointed 1 October 2006)
 N Morrison
 R N Proctor
 S J Quest (appointed 1 July 2006)
 R C Rowe
 N Ruddock
 A H Smith
 D M Whitehead

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. New members joining on a fixed profit share basis contribute a lower level of capital than other members. Transitional provisions exist for the first three years of membership for those joining on a unitised profit sharing basis between 1 July 2002 and 31 March 2007. At the end of that transitional period, and for those members who joined before 1 July 2002 or after 31 March 2007, all unitised members are required to contribute equally. Whilst the Membership Agreement provides power to the National Managing Partner to repay a member's capital before retirement, such discretion is only exercised in exceptional cases.

Statement of members' responsibilities in respect of the financial statements

The Limited Liability Partnerships 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 Partnerships 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.

The members are responsible for the maintenance and integrity of the corporate and financial information included on the partnership's website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Auditors

PKF (UK) LLP will be proposed for reappointment.

On behalf of the members

G W Sykes
 8 November 2006

Principal accounting policies

For the year ended 30 June 2006

Basis of preparation

The financial statements have been prepared in accordance with applicable United Kingdom accounting standards including the revised Statement of Recommended Practice (SORP), Accounting by Limited Liability Partnerships, issued in March 2006, 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. These have remained unchanged from the previous year apart from the policy for retirement benefits following the implementation of FRS17, and those for members' remuneration and retirement benefits of former members which have been modified following the issue of the revised SORP, Accounting by Limited Liability Partnerships. In addition, following the adoption of FRS 25, members' capital balances have been re-classified as debt rather than equity. Where it has been considered appropriate, certain other 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 instalments over their estimated useful economic lives. The periods generally applicable are:

Long and short leasehold properties	Period of the lease
Furniture and equipment	5-8 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.

Principal accounting policies continued

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.

Divisible profits and partners' and members' remuneration

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 current and former members, pension scheme charges 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.

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

profit before members' remuneration and profit shares.

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 in arriving at profit before members' remuneration and profit shares. For profit sharing purposes, such members' motor expenses are automatically charged to each member on the basis of specific costs incurred. Members' fixed shares of profits and interest earned on members' balances are also automatically allocated and, together with members' motor expenses, are treated as members' remuneration charged as an expense to the profit and loss account in arriving at profit available for discretionary division among members.

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 and included within equity reserves.

Members' interests

Members' capital is repayable and is therefore classified as a liability. Other than in rare and exceptional cases, it is not repaid until after retirement. Because members may retire with less than one year's notice and typically have their capital repaid within one year of serving notice, members' capital is shown as being due within one year notwithstanding repayment could be made after more than one year at the discretion of the National Managing Partner.

Amounts due to members after more than one year comprise provisions for annuities to current members and certain loans from members which are not repayable within twelve months of the balance sheet date.

Taxation

The taxation payable on the partnership profits is the personal liability of the members, 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.

Amounts identified as taxation in these financial statements relate to profits within 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

Principal accounting policies continued

importance rather than the calculation of systematic annual depreciation. Depreciation is only one of many factors reflected in the valuation.

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. The nature of Fulwood's business is such that a portfolio of investments is held for the long term even though the individual investments making up the portfolio may be regularly changed in response to market risks and opportunities.

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. Revaluations below historical cost are taken to the profit and loss account where they are considered to be permanent.

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 as part of cost of sales are the employer's contributions payable to the scheme in respect of the accounting period.

Defined Benefit Pension Scheme

Scheme assets are measured at fair values. Scheme liabilities are measured on an actuarial basis using the projected unit method and are discounted at appropriate high quality corporate bond rates. The net surplus or deficit is presented separately from other net assets on the consolidated balance sheet. A net surplus is recognised only to the extent that it is recoverable by the group.

The current service cost and costs from settlements and curtailments are charged against operating profit. Past service costs are spread over the period until the benefit increases vest. Interest on the scheme liabilities and the expected return on scheme assets are included in other finance costs. Actuarial gains and losses are reported in the statement of total recognised gains and losses.

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.

The obligation for all annuities remains with the members for the time being and in accordance with the requirements of the SORP, the financial statements include obligations for retirement annuities payable in the

future to current and retired members. The obligation has been discounted to its net present value. The nature of the annuities contractually payable in the future to current members is such that no further rights will accrue to those members based on further service.

New obligations granted to members on their retirement and changes in estimates and assumptions in respect of existing obligations, together with the unwinding of the discount, are dealt with through the profit and loss account.

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 2006

	Note	2006 £'000	Restated 2005 £'000
Turnover	2	275,675	255,816
Other external charges: client disbursements		(10,779)	(12,307)
Net fees		264,896	243,509
Cost of sales	3	(111,675)	(98,370)
Gross profit		153,221	145,139
Other operating costs	3	(88,539)	(85,511)
Operating profit		64,682	59,628
Profit on sale of fixed assets		453	71
Profit/(loss) on sale of subsidiary	20	1,895	(32)
Net interest and other similar charges	4	(1,810)	(2,588)
Profit on ordinary activities before tax		65,220	57,079
Tax on profit on ordinary activities of subsidiaries	6	(182)	(55)
Profit on ordinary activities after tax on subsidiaries		65,038	57,024
Minority interest		–	(7)
Profit for the financial year before members' remuneration and profit shares		65,038	57,017
Profit for the financial year before members' remuneration and profit shares		65,038	57,017
Members' remuneration charged as an expense		(4,657)	(4,786)
Profit for the financial year available for discretionary division among members	17	60,381	52,231

Profits have arisen from continuing activities.

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

Consolidated statement of total recognised gains and losses

For the year ended 30 June 2006

	Note	2006 £'000	Restated 2005 £'000
Profit for the financial year available for discretionary division among members		60,381	52,231
Movement in unrealised gains/losses on investments		(74)	–
Actuarial gains and losses on pension scheme	23	1,000	(8,300)
Total recognised gains and losses for the year		61,307	43,931
Prior year adjustment	1	(62,700)	
Total recognised gains and losses since last financial statements		(1,393)	

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

Consolidated balance sheet

As at 30 June 2006

	Note	2006 £'000	2006 £'000	2005 £'000	Restated 2005 £'000
Fixed assets					
Intangible assets – goodwill	8		14		22
Tangible assets	9		27,628		24,365
Investments	10		10,433		7,340
			38,075		31,727
Current assets					
Debtors	11	115,651		103,757	
Cash at bank and in hand	12	19,084		26,702	
			134,735		130,459
Creditors: amounts falling due within one year	13		(49,632)		(45,404)
Net current assets			85,103		85,055
Total assets less current liabilities					
			123,178		116,782
Creditors: amounts falling due after more than one year	14		(20,745)		(19,962)
Provisions for liabilities	16		(34,241)		(34,547)
Pension liability	23		(54,300)		(57,400)
Net assets attributable to members			13,892		4,873
Represented by:					
Loans and other debts due to members within one year					
Members' capital classified as a liability under FRS 25	17		26,963		25,500
Other amounts	17		9,848		9,437
			36,811		34,937
Loans and other debts due to members after more than one year					
Other amounts	17		3,425		5,950
			40,236		40,887
Equity					
Members' other interests – other reserves classified as equity under FRS 25	17		(26,270)		(36,514)
Revaluation reserve	17		(74)		500
			13,892		4,873
Total members' interests					
Loans and other debts due to members	17		40,236		40,887
Members' other interests	17		(26,344)		(36,014)
Amounts due from members	17		(3,452)		(3,211)
			10,440		1,662

The financial statements were approved by the Partnership Committee on 8 November 2006 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 2006

	Note	2006 £'000	2006 £'000	2005 £'000	Restated 2005 £'000
Fixed assets					
Intangible assets – goodwill	8		14		22
Tangible assets	9		27,628		23,799
Investments	10		1,062		1,085
			28,704		24,906
Current assets					
Debtors	11	115,619		102,425	
Cash at bank and in hand	12	18,504		25,657	
			134,123		128,082
Creditors: amounts falling due within one year	13		(48,052)		(44,100)
Net current assets			86,071		83,982
Total assets less current liabilities					
			114,775		108,888
Creditors: amounts falling due after more than one year	14		(20,745)		(19,962)
Provisions for liabilities	16		(31,423)		(33,009)
Net assets attributable to members			62,607		55,917
Represented by:					
Loans and other debts due to members within one year					
Members' capital classified as a liability under FRS 25	17		26,963		25,500
Other amounts	17		9,848		9,437
			36,811		34,937
Loans and other debts due to members after more than one year					
Other amounts	17		3,425		5,950
			40,236		40,887
Equity					
Members' other interests – other reserves classified as equity under FRS 25	17		22,371		15,030
			62,607		55,917
Total members' interests					
Loans and other debts due to members	17		40,236		40,887
Members' other interests	17		22,371		15,030
Amounts due from members	17		(3,452)		(3,211)
			59,155		52,706

The financial statements were approved by the Partnership Committee on 8 November 2006 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 2006

	Note	2006 £'000	Restated 2005 £'000
Net cash inflow from operating activities	18	57,708	50,784
Returns on investments and servicing of finance			
Interest received		1,117	1,277
Interest paid		(587)	(533)
Finance lease interest paid		(1,440)	(1,432)
Net cash outflow from returns on investments and servicing of finance		(910)	(688)
Taxation		(14)	(29)
Capital expenditure and financial investment			
Purchase of tangible fixed assets		(6,180)	(3,376)
Sale of tangible fixed assets		1,599	584
Purchase of investments		(26,451)	(26,838)
Sale of investments		23,256	26,366
Net cash outflow from capital expenditure and financial investment		(7,776)	(3,264)
Acquisitions and Disposals			
Disposal of subsidiary company	20	1,684	5
Net cash inflow from acquisitions and disposals		1,684	5
Transactions with members and former members			
Payments to or on behalf of members		(56,312)	(46,252)
Capital contributions by members		3,949	6,336
Annuity payments to former members		(2,089)	(2,086)
Repayments to former members		(2,445)	(2,440)
Net cash outflow from transactions with members and former members		(56,897)	(44,442)
Management of liquid resources			
Net sale/(purchase) of short term deposits		7,100	(2,800)
Net cash inflow/(outflow) from management of liquid resources		7,100	(2,800)
Financing			
Net receipts from borrowing		310	198
Capital element of finance lease rentals		(1,153)	(1,188)
Net cash outflow from financing		(843)	(990)
Increase/(decrease) in cash	19	52	(1,424)

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 2006

1. Changes in accounting policies

Comparative figures have been restated to reflect a change in accounting policy in connection with the implementation of the requirements of FRS 17, Retirement Benefits. Last year's figures have also been restated to reflect the requirements of the revised SORP, Accounting by Limited Liability Partnerships, issued in March 2006 and FRS 25, Financial Instruments: Disclosure and Presentation. The SORP has altered the way annuities to current and former members are accounted for, it now treats profits which are automatically divided as an expense in the profit and loss account and the presentation of certain member related balances have been re-classified and modified in the balance sheet in accordance with FRS 25 and the SORP.

As a result of the above changes, comparative figures for the year ended 30 June 2005 have been adjusted as follows:

	Profit for the year £'000	Other recognised gains and losses £'000	Net assets £'000
As previously reported	54,936	(1,219)	52,186
Prior year adjustment for FRS 17 :			
2005 – reversal of previous SSAP 24 charge	5,100	–	5,100
2005 – FRS 17 charges and losses	(2,600)	(8,300)	(10,900)
2005 total	2,500	(8,300)	(5,800)
Periods prior to 2005	–	–	(51,600)
Prior year adjustments for revised LLP SORP :			
Annuities to <u>former</u> members:			
2005	(419)	1,219	800
Periods prior to 2005	–	–	–
As restated before members' remuneration and profit shares	57,017		
Annuities to <u>current</u> members:			
2005	(600)	–	(600)
Periods prior to 2005	–	–	(5,500)
			(62,700)
Net assets			(10,514)
Re-classifications:			
Other members' remuneration charged as an expense	(4,186)	–	–
Loans and other debts due to members	–	–	15,387
As restated available for discretionary division among members	52,231	(8,300)	
Net assets attributable to members			4,873

The adjustment to net assets arising from the re-classification of loans and other debts due to members is comprised of £10,087,000 relating to the liability for loans and other debts due to members shown in the 2005 accounts and £5,300,000 in respect of the loans and other debts due to members arising from the provision for annuities to current members.

Current year profits available for discretionary division among members and other recognised gains and losses have been increased by £3,100,000 following the implementation of FRS 17 and by £2,400,000 following the adoption of the new LLP SORP in connection with annuities. Net assets have increased by £5,500,000 as a consequence of the above, although net assets attributable to members have increased by £5,300,000 reflecting the impact of certain adjustments relating to annuities to current members.

Following the adoption of FRS 25, members' capital previously treated as equity has been re-classified as a liability. The amount at 30 June 2005, which has now been re-classified, was £25,500,000 and the equivalent amount at 30 June 2006 is £26,963,000.

Notes to the financial statements continued

2 Segmental analysis and profit for the financial year

Turnover is attributable to the following classes of continuing business. The analysis is based on the predominant nature of the services provided during an engagement rather than by the technical discipline of those performing the work:

	2006 £'000	Restated 2005 £'000
Accountancy and growth and development	14,777	13,917
Assurance	71,569	63,311
Corporate finance	46,076	38,715
Discretionary fund management	299	871
Forensic investigation services	11,778	13,091
Other including company secretarial services	1,935	2,383
Recovery and reorganisation	55,136	52,329
Taxation and financial planning	74,105	71,199
	275,675	255,816

The destination of turnover was primarily to UK clients although 1.7% (2005: 1.6%) were sales to North America, 2.1% (2005: 1.2%) to mainland Europe and 0.5% (2005: 0.3%) to the Rest of the World.

Analysis of operating profit and net assets are as follows:

	Operating profit		Net assets	
	2006 £'000	Restated 2005 £'000	2006 £'000	Restated 2005 £'000
Accountancy and growth and development	6,306	6,046	4,192	3,716
Assurance	30,540	27,503	20,158	16,662
Corporate finance	19,074	18,119	11,985	8,593
Discretionary fund management	35	50	–	417
Forensic investigation services	3,786	5,630	4,177	3,906
Other including company secretarial services	826	1,035	470	1,451
Recovery and reorganisation	27,215	21,455	26,531	24,506
Taxation and financial planning	31,622	30,930	19,836	17,810
	119,404	110,768	87,349	77,061
Unallocated items	(54,722)	(51,140)	(73,457)	(72,188)
	64,682	59,628	13,892	4,873

Following the disposal in the year of the discretionary fund management business, that class of business has been shown separately and the financial planning segment has been grouped with the taxation segment. The 2005 figures have been restated accordingly.

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.

Notes to the financial statements continued

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

The profit for the financial year is stated after:

	2006 £'000	2005 £'000
Auditors' remuneration:		
Audit services	152	144
Non-audit services	–	–
Depreciation and amortisation:		
Goodwill	8	98
Tangible fixed assets, owned	3,164	2,362
Tangible fixed assets, held under finance leases and hire purchase contracts	748	1,023
Provisions for diminution in value:		
Write down of fixed asset investments	43	3
Write back of provisions no longer required	–	(124)
Other operating lease rentals:		
Equipment	3,826	3,698
Land and buildings	5,999	6,108

3. Cost of sales and other operating costs

	2006 £'000	Restated 2005 £'000
Professional staff employment costs	111,618	98,018
Other cost of sales	57	352
	111,675	98,370
Other operating costs:		
Support staff employment costs	28,011	25,246
Property	14,163	12,117
IT and other equipment costs	9,307	8,945
Administration	31,414	29,097
Other financial costs including insurance	6,216	4,492
Annuities to former members	(2,391)	2,119
Other	1,819	3,495
	88,539	85,511

Notes to the financial statements continued

4. Net interest and other similar charges

	2006	Restated 2005
	£'000	£'000
Interest payable on bank loans and overdrafts	394	399
Finance charges in respect of finance leases	1,440	1,432
Other interest payable and similar charges	193	134
Unwinding of discount for former member annuity provisions	1,200	1,300
Net interest on pension scheme assets/liabilities	(300)	600
Other interest receivable and similar income	(1,117)	(1,277)
Net interest and similar charges	1,810	2,588

5. Partners and staff

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

	2006	Restated 2005
	£'000	£'000
Wages and salaries	117,971	106,070
Social security costs	12,178	9,966
Other pension costs	3,643	2,808
	133,792	118,844

The average number of full time equivalent members, salaried partners and employees during the year was 3,139 (2005: 2,924), all of whom were engaged in the group's principal activity:

	2006	2005
	Number	Number
Members	169	155
Salaried partners	71	79
Professional staff	2,096	1,958
Support staff	803	732
	3,139	2,924

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 £384,840 (2005: £367,852 restated).

Profits are shared among members in accordance with agreed profit sharing arrangements. Including capital profits, sums allocated as interest and members' motor expenses, 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 £357,882 (2005: £363,725). On the same basis, the profit attributable to the member with the largest entitlement was £860,703 (2005: £960,537).

Notes to the financial statements continued

5. Partners and staff (continued)

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

	2006	Restated 2005
	£'000	£'000
Average profit per member	385	368
Prior year adjustment relating to UITF 40	–	18
Retirement annuities and other costs	(18)	10
Retained (profits)/ losses for the year in subsidiary entities net of consolidation adjustments	(9)	(32)
Average profit allocation per member	358	364

6. Tax on profit on ordinary activities

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

	2006	2005
	£'000	£'000
United Kingdom corporation tax at 30% (2005: 30%)	182	58
Adjustments relating to prior years	–	(1)
Total current tax	182	57
Origination and reversal of timing differences	–	(2)
Total deferred tax	–	(2)
Tax on profit on ordinary activities	182	55

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 higher for 2006 and lower for 2005 than the standard rate of corporation tax in the UK. The differences are explained as follows:

	2006	Restated 2005
	£'000	£'000
Profits on ordinary activities before tax of subsidiary undertakings	2,352	4,959
Profits of LLP subsidiary undertakings not subject to corporation tax	(2,100)	(2,500)
	252	2,459
Tax on profit on ordinary activities at 30% (2005: 30%)	76	738
Effect of:		
Depreciation for the year in excess of capital allowances	–	2
Losses/(profits) exempt from tax	13	(698)
Adjustments to tax charge in respect of prior periods	–	(1)
Tax losses carried forward	38	16
Tax treatment of capital disposals	55	–
Total current tax	182	57

Notes to the financial statements continued

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 available for discretionary division among members was £58,978,000 (2005 restated: £47,377,000).

8. Intangible fixed assets – goodwill

The group and the partnership	Purchased goodwill £'000
Cost	
At 1 July 2005 and at 30 June 2006	493
Amortisation	
At 1 July 2005	471
Provided in the year	8
At 30 June 2006	479
Net book amount at 30 June 2006	14
Net book amount at 30 June 2005	22

9. Tangible fixed assets

The group	Investment property £'000	Freehold and long leasehold property £'000	Short leasehold property £'000	Furniture and equipment £'000	Office equipment £'000	Motor cars £'000	Total £'000
Cost or valuation:							
At 1 July 2005	100	18,540	6,375	11,532	11,642	4,568	52,757
Additions	–	–	1,937	1,871	2,372	2,167	8,347
Disposal on sale of subsidiary	–	–	–	–	(54)	–	(54)
Other disposals	(100)	(450)	(225)	(363)	(1,966)	(1,526)	(4,630)
At 30 June 2006	–	18,090	8,087	13,040	11,994	5,209	56,420
Depreciation:							
At 1 July 2005	–	5,175	3,988	7,384	9,631	2,214	28,392
Provided in the year	–	177	631	1,172	831	1,101	3,912
Eliminated on sale of subsidiary	–	–	–	–	(42)	–	(42)
Eliminated on disposals	–	–	(207)	(363)	(1,961)	(939)	(3,470)
At 30 June 2006	–	5,352	4,412	8,193	8,459	2,376	28,792
Net book amount at 30 June 2006	–	12,738	3,675	4,847	3,535	2,833	27,628
Net book amount at 30 June 2005	100	13,365	2,387	4,148	2,011	2,354	24,365

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 (2005: £756,000) and long leasehold property £12,432,000 (2005: £12,609,000).

Notes to the financial statements continued

9. Tangible fixed assets (continued)

The partnership	Freehold and long leasehold property £'000	Short leasehold property £'000	Furniture and equipment £'000	Office equipment £'000	Motor cars £'000	Total £'000
Cost						
At 1 July 2005	18,090	6,375	11,527	11,588	4,568	52,148
Additions	–	1,937	1,871	2,372	2,167	8,347
Disposals	–	(225)	(358)	(1,966)	(1,526)	(4,075)
At 30 June 2006	18,090	8,087	13,040	11,994	5,209	56,420
Depreciation						
At 1 July 2005	5,175	3,988	7,379	9,593	2,214	28,349
Provided in the year	177	631	1,172	826	1,101	3,907
Eliminated on disposals	–	(207)	(358)	(1,960)	(939)	(3,464)
At 30 June 2006	5,235	4,412	8,193	8,459	2,376	28,792
Net book amount at 30 June 2006	12,738	3,675	4,847	3,535	2,833	27,628
Net book amount at 30 June 2005	12,915	2,387	4,148	1,995	2,354	23,799

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 (2005: £306,000) and long leasehold property of £12,432,000 (2005: £12,609,000).

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	Motor cars £'000	Total £'000
Net book amount at 30 June 2006	8,925	–	113	20	1,485	10,543
Net book amount at 30 June 2005	9,052	204	449	99	1,097	10,901
Depreciation provided in the year	127	14	86	21	500	748

Notes to the financial statements continued

10. Fixed asset investments

The group	Listed investments £'000	Other investments £'000	Total £'000
Cost			
At 1 July 2005	7,269	280	7,549
Additions	26,451	–	26,451
Disposals	(23,157)	(165)	(23,322)
Revaluation	(74)	–	(74)
At 30 June 2006	10,489	115	10,604
Provisions			
At 1 July 2005	139	70	209
Provided in the year	43	–	43
Eliminated on disposal	(11)	(70)	(81)
At 30 June 2006	171	–	171
Net book amount at 30 June 2006	10,318	115	10,433
Net book amount at 30 June 2005	7,130	210	7,340

	2006 £'000	2005 £'000
Listed investments at market value	10,318	7,130
Listed investments on historical cost basis	10,392	7,130

The partnership	Investment in group undertakings £'000	Loans £'000	Listed investments £'000	Other investments £'000	Total £'000
Cost					
At 1 July 2005	803	180	281	70	1,334
Additions	250	130	15	–	395
Disposals	(150)	(100)	(8)	(70)	(328)
At 30 June 2006	903	210	288	–	1,401
Provisions					
At 1 July 2005	–	–	179	70	249
Provided in the year	–	168	–	–	168
Eliminated on disposal	–	–	(8)	(70)	(78)
At 30 June 2006	–	168	171	–	339
Net book amount at 30 June 2006	903	42	117	–	1,062
Net book amount at 30 June 2005	803	180	102	–	1,085

Notes to the financial statements continued

10. Fixed asset investments (continued)

	2006 £'000	2005 £'000
Listed investments at market value	117	102
Listed investments on historical cost basis	117	102

At 30 June 2006 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
Fulwood Insurances Limited	Guernsey	Ordinary	100%	Insurance services
Grant Thornton Services LLP	England	–	100%	Provision of staff to the group

At 30 June 2006, 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	Grant Thornton Nominees*
Grant Thornton Limited	Grant Thornton Property Nominees*
Grant Thornton Corporate Finance Limited	Grant Thornton Contracts LLP
Grant Thornton Management Consultants Limited	Grant Thornton Trust Company Limited
Grant Thornton Personal Financial Planning Limited	Grant Thornton Consulting Limited
GTN1 Limited	Thornton Baker UK LLP
GTN2 Limited	Thornton Baker Limited
GTPN1 Limited	
GTPN2 Limited	

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

Notes to the financial statements continued

11. Debtors

	The group		The partnership	
	2006	2005	2006	2005
	£'000	£'000	£'000	£'000
Trade debtors	67,120	58,933	67,120	58,898
Amounts owed by group undertaking	–	–	–	116
Amounts recoverable on contracts	34,211	30,417	34,211	30,417
Other debtors	1,552	1,036	1,541	1,025
Amounts due from members	3,452	3,211	3,452	3,211
Deferred tax asset	–	1	–	–
Prepayments and accrued income	9,316	10,159	9,295	8,758
	115,651	103,757	115,619	102,425

Included in the above for both the group and the partnership are the following amounts which are due after more than one year:

	The group		The partnership	
	2006	2005	2006	2005
	£'000	£'000	£'000	£'000
Prepayments and accrued income	156	–	156	–

12. Cash at bank and in hand

	The group		The partnership	
	2006	2005	2006	2005
	£'000	£'000	£'000	£'000
Cash and immediately available bank balances	7,384	7,902	6,804	6,857
Short term deposits at bank	11,700	18,800	11,700	18,800
	19,084	26,702	18,504	25,657

Notes to the financial statements continued

13. Creditors: amounts falling due within one year

	The group		The partnership	
	2006	Restated 2005	2006	Restated 2005
	£'000	£'000	£'000	£'000
Bank overdrafts	–	570	–	570
Bank loans	583	1,084	583	1,084
Excess payments received on account	10,689	9,338	10,689	9,336
Trade creditors	3,730	3,089	3,730	3,077
Amounts owed to group undertakings	–	–	15,506	15,337
Corporation tax	143	55	–	–
Social security and other taxes	8,045	7,383	4,510	4,148
Other creditors	1,148	1,455	924	1,257
Accruals and deferred income	21,126	18,505	7,942	5,366
Provisions for foreseeable losses	753	2,285	753	2,285
Amounts due to former members	2,877	1,026	2,877	1,026
Amounts due under finance leases and hire purchase contracts	538	614	538	614
	49,632	45,404	48,052	44,100

The comparative figures for the partnership have been restated to reflect that payroll balance items are dealt with through Grant Thornton Services LLP. Accordingly, £3,202,000 previously included in social security and other taxes, £172,000 previously included in other creditors and £11,951,000 previously included in accruals and deferred income, have now been included in amounts owed to group undertakings.

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

	The group		The partnership	
	2006	2005	2006	2005
	£'000	£'000	£'000	£'000
Bank loans	8,679	7,868	8,679	7,868
Amounts due under finance leases and hire purchase contracts	12,066	12,094	12,066	12,094
	20,745	19,962	20,745	19,962

Notes to the financial statements continued

15. Borrowings

Borrowings are repayable as follows:

	The group		The partnership	
	2006 £'000	2005 £'000	2006 £'000	2005 £'000
Within one year				
Bank and other borrowings	583	1,084	583	1,084
Finance leases and hire purchase contracts	538	614	538	614
After one and within two years				
Bank and other borrowings	6,536	693	6,536	693
Finance leases and hire purchase contracts	295	377	295	377
After two and within five years				
Bank and other borrowings	2,143	7,175	2,143	7,175
Finance leases and hire purchase contracts	308	245	308	245
After five years				
Bank and other borrowings	–	–	–	–
Finance leases and hire purchase contracts	11,463	11,472	11,463	11,472
	21,866	21,660	21,866	21,660

Bank loans totalling £6,300,000 are secured by a charge over certain leasehold property and loans totalling £347,000 are secured on endowment policies taken out in the names of individual members. Bank loans totalling £2,615,000 are repayable in a mixture of monthly and quarterly instalments between 1 July 2006 and 30 June 2011, amounts totalling £347,000 are repayable in a single instalment in March 2007 and amounts totalling £6,300,000 are repayable in a single instalment in July 2007.

Amounts due under finance leases and hire purchase contracts are secured on the assets to which they relate.

16. Provisions for liabilities

The group	Claim provisions £'000	Property provisions £'000	Former members' annuities £'000	Total £'000
At 1 July 2005	3,872	1,228	29,447	34,547
New obligations	–	–	709	709
Amortisation of discount	–	–	1,200	1,200
Settlement of obligations during year	(445)	–	(2,643)	(3,088)
Change in assumptions and experience (gains)/losses	–	–	(3,100)	(3,100)
Released to profit and loss account	(964)	(570)	–	(1,534)
Provided during year in profit and loss account	2,357	950	–	3,307
Transfer from loans and other debts due to members	–	–	2,200	2,200
At 30 June 2006	4,820	1,608	27,813	34,241

Notes to the financial statements continued

16. Provisions for liabilities (continued)

The partnership	Claim provisions £'000	Property provisions £'000	Former members' annuities £'000	Total £'000
At 1 July 2005	2,334	1,228	29,447	33,009
New obligations	–	–	709	709
Amortisation of discount	–	–	1,200	1,200
Settlement of obligation during year	(445)	–	(2,643)	(3,088)
Change in assumptions and experience (gains)/losses	–	–	(3,100)	(3,100)
Released to profit and loss account	(954)	(570)	–	(1,524)
Provided during year in profit and loss account	1,067	950	–	2,017
Transfer from loans and other debts due to members	–	–	2,200	2,200
At 30 June 2006	2,002	1,608	27,813	31,423

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.

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:

	2006 £'000	2005 £'000
In less than one year	2,729	2,705
Between two and five years	10,091	9,592
Between six and ten years	8,347	9,109
Between eleven and twenty-five years	6,596	7,933
In more than twenty-five years	50	108
	27,813	29,447

Notes to the financial statements continued

17. Members' interests

The group	Members' capital classified as equity	Revaluation reserves	Other reserves	Total	Loans and other debts due to/(from) members	Total
	£'000	£'000	£'000	£'000	£'000	£'000
At 1 July 2005 – as previously stated	25,500	500	26,186	52,186	6,876	59,062
Prior year adjustment – re-classification (note 1)	(25,500)	–	–	(25,500)	25,500	–
Prior year adjustment – FRS17 (note 1)	–	–	(57,400)	(57,400)	–	(57,400)
Prior year adjustment – annuities (note 1)	–	–	(5,300)	(5,300)	5,300	–
Members' interests as restated	–	500	(36,514)	(36,014)	37,676	1,662
Members' remuneration charged as an expense	–	–	–	–	4,657	4,657
Profit for the financial year available for discretionary division among members	–	–	60,381	60,381	–	60,381
Members' interests after profit for year	–	500	23,867	24,367	42,333	66,700
Allocated profits	–	–	(52,191)	(52,191)	52,191	–
Tax adjustments on payment of annuities to former members	–	–	554	554	–	554
Members' capital introduced	–	–	–	–	3,949	3,949
Other amounts introduced by members	–	–	–	–	1,287	1,287
Drawings (including tax payments)	–	–	–	–	(56,480)	(56,480)
Transfer of capital to former members' balances	–	–	–	–	(2,486)	(2,486)
Transfer of other amounts to former members' balances	–	–	–	–	(1,810)	(1,810)
Transfer to provision for former members' annuities	–	–	–	–	(2,200)	(2,200)
Pension scheme actuarial gain	–	–	1,000	1,000	–	1,000
Movement in unrealised gains/losses on investments	–	(74)	–	(74)	–	(74)
Realisation of revaluation	–	(500)	500	–	–	–
At 30 June 2006	–	(74)	(26,270)	(26,344)	36,784	10,440

Notes to the financial statements continued

17. Members' interests (continued)

The partnership	Members' capital classified as equity	Other reserves	Total	Loans and other debts due to/(from) members	Total
	£'000	£'000	£'000	£'000	£'000
At 1 July 2005 – as previously stated	25,500	20,330	45,830	6,876	52,706
Prior year adjustment – re-classification (note 1)	(25,500)	–	(25,500)	25,500	–
Prior year adjustment – annuities (note 1)	–	(5,300)	(5,300)	5,300	–
Members interests as restated	–	15,030	15,030	37,676	52,706
Members' remuneration charged as an expense	–	–	–	4,657	4,657
Profit for the financial year available for discretionary division among members	–	58,978	58,978	–	58,978
Partners' interests after profit for year	–	74,008	74,008	42,333	116,341
Allocated profits	–	(52,191)	(52,191)	52,191	–
Tax adjustments on payment of annuities to former members	–	554	554	–	554
Members' capital introduced	–	–	–	3,949	3,949
Other amounts introduced by members	–	–	–	1,287	1,287
Drawings (including tax payments)	–	–	–	(56,480)	(56,480)
Transfer of capital to former members' balances	–	–	–	(2,486)	(2,486)
Transfer of other amounts to former members' balances	–	–	–	(1,810)	(1,810)
Transfer to provision for former members' annuities	–	–	–	(2,200)	(2,200)
At 30 June 2006	–	22,371	22,371	36,784	59,155

Allocated profits for the group and the partnership comprise: **£'000**

Profits for the year ended 30 June 2005, allocated in the year ended 30 June 2006	52,191
	52,191

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

The group and the partnership	Due within one year	Due after one year	2006	Due within one year	Due after one year	Restated 2005
	£'000	£'000	£'000	£'000	£'000	£'000
Members' capital classified as a liability	26,963	–	26,963	25,500	–	25,500
Other amounts due to members	9,848	525	10,373	9,437	650	10,087
Provision for annuities in relation to current members	–	2,900	2,900	–	5,300	5,300
Loans and other debts due to members	36,811	3,425	40,236	34,937	5,950	40,887
Amounts due from members included in debtors	(3,452)	–	(3,452)	(3,211)	–	(3,211)
	33,359	3,425	36,784	31,726	5,950	37,676

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, represented above by other reserves, rank after unsecured creditors.

Notes to the financial statements continued

18. Net cash inflow from operating activities

	2006 £'000	Restated 2005 £'000
Operating profit	64,682	59,628
Depreciation and amortisation	3,920	3,483
Increase in debtors	(11,784)	(13,627)
Increase in creditors	3,710	3,862
Increase/(decrease) in provisions against investments	43	(121)
Adjustments in provisions for liabilities	(1,063)	659
Adjustments in pension liability	(1,800)	(3,100)
Net cash inflow from operating activities	57,708	50,784

Reconciliation of net cash flow to movement in net debt

	2006 £'000	Restated 2005 £'000
Increase/(decrease) in cash in the year	52	(1,424)
Cash inflow from financing	(310)	(198)
Cash outflow from finance leases	1,153	1,188
Cash outflow from transactions with members	52,363	39,916
Cash (inflow)/outflow from movement in liquid resources	(7,100)	2,800
Change in net funds resulting from cash flows	46,158	42,282
Non-cash items	(52,761)	(47,927)
Movement in net debt in the year	(6,603)	(5,645)
Net debt at 1 July 2005	(36,415)	(30,770)
Net debt at 30 June 2006	(43,018)	(36,415)

19. Analysis of changes in net debt

	Restated At 1 July 2005 £'000	Cash flow £'000	Non-cash items £'000	At 30 June 2006 £'000
Cash in hand and at bank	7,902	(518)	–	7,384
Overdraft	(570)	570	–	–
	7,332	52	–	7,384
Liquid resources	18,800	(7,100)	–	11,700
Debt	(8,952)	(310)	–	(9,262)
Finance leases	(12,708)	1,153	(1,049)	(12,604)
Net funds/(debt) before loans and other debts due to members	4,472	(6,205)	(1,049)	(2,782)
Loans and other debts due to members	(40,887)	52,363	(51,712)	(40,236)
Net debt including loans and other debts due to members	(36,415)	46,158	(52,761)	(43,018)

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

Non-cash items within the movement in loans and other debts due to members principally represent allocated profits.

Notes to the financial statements continued

20. Disposals

During the year, the partnership disposed of its interest in Grant Thornton Asset Management Limited. Group profits include £63,010 earned by Grant Thornton Asset Management Limited up to its date of disposal on 31 October 2005.

	2006 £'000
Net assets disposed of:	
Tangible fixed assets	12
Debtors	131
Cash at bank and in hand	691
Creditors	(354)
	480
Profit on disposal	1,895
	2,375
Satisfied by:	
Cash	2,375
	2,375

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

	2006 £'000
Cash at bank and in hand disposed of	(691)
	(691)
Cash consideration	2,375
	1,684

In the year ended 30 June 2005, the group disposed of its interest in MSP Secretaries Limited for a consideration of £50,000 generating a loss on disposal of £32,000.

21. Capital commitments

	2006 £'000	The group 2005 £'000	2006 £'000	The partnership 2005 £'000
Contracted for but not provided in these financial statements	476	1,440	476	1,440

22. Contingent liabilities

There were no contingent liabilities at 30 June 2006 (2005: none) other than in connection with guarantees given by the partnership relating to the defined benefit pension scheme as more fully described in note 23.

Notes to the financial statements continued

23. Retirement benefits

Defined Contribution Pension Scheme

The group operates a defined contribution pension scheme for the benefit of certain employees.

The assets of the scheme are administered in a fund independent from those of the group.

Employer contributions to the scheme by the group in the period ended 30 June 2006 amounted to £1,047,000 (2005: £773,000).

Defined Benefit Pension Scheme

The group operates a defined benefit pension scheme, the Grant Thornton Pensions Fund, for the benefit of certain employees.

The assets of the scheme are administered by trustees in a fund independent from the assets of the group.

The latest full actuarial valuation report, upon which the FRS 17 figures have been based, was at 30 June 2005.

The major assumptions used for the purpose of the FRS 17 valuation at 30 June 2006 were:	2006	2005	2004
	%	%	%
Rate of general increase in salaries	5.00	4.60	4.80
Rate of revaluation of accrued and deferred pensions	3.00	2.60	2.80
Rate of increase in pensions in payment	3.00	2.60	2.80
Discount rate	5.25	5.10	5.80
Inflation assumptions	3.00	2.60	2.80

The mortality assumptions adopted at 30 June 2006 are the same as at the previous year end and consistent with the underlying, commonly used, base table adopted in the most recent funding valuation. All the assumptions used by the actuary are the best estimates chosen from a range of possible actuarial assumptions which, due to the timescale covered, may not necessarily be borne out in practice.

The fair value of the 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		
	2006	2005	2004	2006	2005	2004
	%	%	%	£'000	£'000	£'000
UK Equities	8.2	8.0	8.5	96,000	79,500	67,300
Overseas Equities	8.3	8.1	9.0	29,500	25,000	21,400
Fixed interest Gilts	4.6	4.2	5.1	–	–	14,100
Index-linked Gilts	4.6	4.2	5.1	18,500	19,800	3,900
Corporate Bonds	5.3	5.1	–	22,600	18,900	–
Property	6.4	6.1	6.8	18,500	15,900	12,000
Cash	4.0	3.6	4.0	900	1,500	19,200
Total market value of assets				186,000	160,600	137,900
Present value of scheme liabilities				(240,300)	(218,000)	(189,500)
Net pension liability				(54,300)	(57,400)	(51,600)

Notes to the financial statements continued

23. Retirement benefits (continued)

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 amount charged to operating profit was:

	2006	Restated 2005
	£'000	£'000
Current service cost, less employee contributions	2,900	2,000
Total operating charge	2,900	2,000
Other finance costs/(income) comprises:		Restated 2005
	2006	2005
	£'000	£'000
Expected return on pension scheme assets	(11,300)	(10,300)
Interest on pension scheme liabilities	11,000	10,900
	(300)	600

The amount recognised in the statement of total recognised gains and losses is:

	2006	Restated 2005
	£'000	£'000
Actual return less expected return on pension scheme assets	(12,100)	(10,500)
Experience (gains) and losses arising on the scheme liabilities	100	(5,400)
Changes in the assumptions underlying the present value of the scheme liabilities	11,000	24,200
	(1,000)	8,300

The history of experience (gains) and losses has been:

	2006	2005	2004	2003	2002
Difference between expected and actual return on scheme assets:					
Amount (£'000)	(12,100)	(10,500)	(4,400)	22,600	(28,000)
Percentage of scheme assets	6.51%	6.54%	3.19%	18.62%	21.64%
Experience (gains) and losses on scheme liabilities:					
Amount (£'000)	100	(5,400)	1,700	1,700	(3,200)
Percentage of present value of scheme liabilities	0.04%	2.48%	0.90%	0.91%	1.76%
Changes in the assumptions underlying the present value of the scheme liabilities:					
Amount (£'000)	11,000	24,200	(10,400)	9,500	(20,300)
Percentage of present value of scheme liabilities	4.58%	11.10%	5.49%	5.11%	11.16%
Total actuarial (gains) and losses:					
Amount (£'000)	(1,000)	8,300	(13,100)	33,800	(51,500)
Percentage of present value of scheme liabilities	0.42%	3.81%	6.91%	18.18%	28.36%

Notes to the financial statements continued

23. Retirement benefits (continued)

The movement in the deficit in the year was:

	2006	Restated 2005
	£'000	£'000
Deficit in scheme at beginning of year	(57,400)	(51,600)
Current service cost	(2,900)	(2,000)
Contributions	4,700	5,100
Other finance income/(expense)	300	(600)
Actuarial gain/(loss)	1,000	(8,300)
Deficit in scheme at end of year	(54,300)	(57,400)

The actuarial valuation carried out as at 30 June 2005 indicated that the long term rate of employer contributions to cover the accrual of future service benefits was 8.1%. Previously, a funding rate computed as a percentage of pensionable pay was also established to make good the deficit in the scheme over the members' expected average future working lifetime. However, recognising that the level of pensionable pay will tend to decrease in real terms now that the scheme is closed to new members, it is now considered more appropriate to seek to fund the deficit by reference to an agreed amount. Accordingly, an amount of £3.4m per annum, payable by equal monthly installments, is being paid into the scheme by the employer to make good the scheme deficit over the ten years commencing 1 July 2006.

Guarantee and recognition of obligations

A subsidiary entity, Grant Thornton Services LLP ("GT Services"), is the principal employer to the Grant Thornton Pensions Fund, a defined benefit pension scheme, and is the sole employer of the active members of the scheme. The FRS 17 obligations in respect of the scheme are set out above. The partnership pays GT Services for the supply of staff to the partnership under the terms of a Staff Supply Agreement between the two entities, such charges being sufficient to cover all of the employment costs of the staff, including all pension payments made by GT Services to the scheme.

On 28 June 2004 the partnership provided a guarantee to the trustees of the Grant Thornton Pensions Fund under which it has undertaken to pay immediately, following a demand properly served on it by the trustees, any amount which becomes due and payable by GT Services and which remain unpaid by GT Services for a period of not less than two months from the due date.

In addition, on 29 March 2006 the partnership provided a further guarantee to the trustees of the Grant Thornton Pensions Fund in connection with the contributions payable to it by GT Services. The guarantee is to enable the trustees to provide a Type 1 Contingent Asset (as defined in section 6.1 of the document 'Guidance in relation to contingent assets' issued by the Board of the Pension Protection Fund in September 2006) to the Board of the Pensions Protection Fund. The guarantee was provided in connection with the Pensions Protection Fund Risk Based Levy and resulted in a significant reduction in the amount of the Risk Based Levy chargeable by the Pensions Protection Fund on the pension scheme. The obligation is limited to all present and future obligations and liabilities of GT Services to make payments to the scheme up to a maximum amount which, when added to the assets of the scheme, would result in the scheme being 105% funded on the date on which any liability under the guarantee arises, calculated on the basis set out in section 179 of the Pensions Act 2004.

The obligations to the scheme are reflected in the balance sheet of GT Services as the principal employer. The obligations are not reflected in the individual entity balance sheet of the partnership because, apart from the contingent liability, no obligation or liability in connection with the scheme or the contributions payable to it exist within the individual entity either to the scheme or GT Services at the balance sheet date.

Notes to the financial statements continued

24. Leasing commitments

Operating lease payments amounting to £8,789,000 (30 June 2005: £8,020,000) are due within one year. The leases to which these amounts relate expire as follows:

	Land and buildings £'000	2006 Other £'000	Land and buildings £'000	2005 Other £'000
In one year or less	445	413	387	257
Between one and five years	1,718	2,875	1,457	2,186
In five years or more	3,325	13	3,733	–
	5,488	3,301	5,577	2,443

25. 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 eight (2005: twelve) members' spouses totalled £885,000 (2005: £1,100,000) at the balance sheet date. Interest payable on these loans is charged at commercial rates of 1.5% over base rate and amounted to £61,228 (2005: £60,875) for the year.

Independent auditors' report to the members of Grant Thornton UK LLP

We have audited the financial statements of Grant Thornton UK LLP for the year ended 30 June 2006 which comprise the consolidated profit and loss account, the consolidated statement of total recognised gains and losses, the consolidated balance sheet, the balance sheet, the consolidated cash flow statement 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 ('United Kingdom Generally Accepted Accounting Practice') 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 International Standards on Auditing (UK and Ireland).

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 Partnerships 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.

We read the members' report and consider the implications for our report if we become aware of any apparent misstatements within it.

Independent auditors' report to the members of Grant Thornton UK LLP continued

Basis of audit opinion

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) 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, in accordance with United Kingdom Generally Accepted Accounting Practice, of the state of the partnership's and the group's affairs as at 30 June 2006 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 Partnerships Regulations 2001.

PKF (UK) LLP

Registered Auditors
London, UK
8 November 2006



Advisers to the independently minded

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