

GRANT THORNTON UK LLP

Financial Statements for the year ended 30 June 2008

Registered No. OC307742

ANNUAL REPORT 2008

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Grant Thornton UK LLP is a limited liability partnership registered in England and Wales with registered number OC307742. A list of members' names is available for inspection at Grant Thornton House, Melton Street, Euston Square, London NW1 2EP, the firm's principal place of business and registered office.

CEO'S REVIEW OF THE YEAR

The 2007/8 financial year was a challenging, but in many ways exciting, one for Grant Thornton. Internationally, Grant Thornton member firms across the globe embraced the new international strategy, a key component of which is to create a cohesive, global network. This is the prerequisite for Grant Thornton to achieve leadership in our markets and in our profession, through a world-wide reputation for distinctive client service delivered by outstanding people, and bold leadership on issues that matter to our clients. This has involved not only the articulation and introduction of common values and related behaviours across the globe and the introduction of our new branding, but also a strengthening of global risk management and quality control processes. The Global Service Leaders for Audit, Tax, Specialist Advisory Services and Privately Held Businesses are implementing steps to strengthen and develop our client offering, and as part of our commitment to audit quality, Grant Thornton International invested heavily in the enhancement of our world-class audit software. This will be introduced in the UK in the current year, with world-wide implementation planned to complete by the end of 2009. Grant Thornton world-wide increased significantly the number of companies that member firms act for in the larger, public interest, audit market place, with the US member firm being placed first in gains of SEC clients in the Public Accounting Report's 2nd quarter audit rankings, the first time a non Big 4 firm has achieved such a ranking.

Our global strategy also involves strengthening the Grant Thornton network through strategic acquisitions and assisting member firms particularly in the emerging markets to deal with rapidly growing client demands. Grant Thornton member firms made strategic acquisitions in the UK, Ireland, Hong Kong and Australia, and other member firms strengthened their depth and range of services. In the emerging economic giants, Grant Thornton firms grew in the 12 months to December 2007 (the year end of Grant Thornton International) by over 90% in Hong Kong, by 85% in India and 65% in Brazil. The growth in the emerging markets is now a primary source of new work for the UK firm. Of particular note is the close association between the UK and India member firms, which has produced some outstanding examples of client service development, not least that Grant Thornton has been involved in one capacity or another in every IPO involving an Indian company on AiM.

In the UK, the financial year began with the completion of our strategic merger with RSM Robson Rhodes, and in a very tight timescale. The merger was the largest in our long history, and one of the largest ever in the profession. The merger helped achieve our mutual objective of leadership in our chosen markets and leadership in the profession. We materially increased our share in many of our key markets such as AiM where in the Hemscott statistics we now have a market share of about 16%, over 30% more than our nearest competitor. Our share of the Fledgling and Small cap market increased from 2.6% to over 8% and the number of FTSE 250 audits increased from one to six. The merger was instrumental in enabling the firm to become one of the largest audit providers to the public sector, and enhanced our position for a variety of services in sectors ranging from financial services to the not for profit sector as well.

Within our stronghold of the privately held businesses sector, we are currently ranked 3rd as auditors of the top 2,500 private companies, our tax teams have been voted as being among the best in the profession and we were the leading mid market M&A adviser by number of deals completed in the 'up to £50m' category. The merger strengthened the depth of our services in such areas as forensic and financial services, and in key locations such as in Manchester, Leeds, Bristol and Birmingham, where our teams are the match of any firm. In London, we nearly doubled in size to become the 5th largest firm.

Critical to our strategy is leadership in the profession, so as to shape the profession's response to regulatory and business developments. Never has this been more important than during the global economic trauma we are currently going through, and which is set to continue for some time. There is a clear need for a single global accounting framework and cohesive, if not a single, global regulatory platform to provide a solid base for the development of the world's capital markets. Grant Thornton is represented on professional groupings of the six internationally recognised audit networks and in key jurisdictions such as the US and EU, as well as the UK. Our merger in the UK enabled us to extend our contribution in such areas as Audit Registration, Ethics, and Corporate Finance, and at a European and global level in the European Contact Group, the Forum of Firms and the Global Public Policy Committee.

Key to the success of the newly enlarged firm is the quality of our people. Our leadership is dependent upon our people delivering high quality services to our clients, and on speaking out boldly and objectively about important matters of public interest. We used the merger as an opportunity to review and then introduce new terms and conditions for all our people. We reviewed our benefits programme, and introduced flexible benefits based on a staff survey as to which benefits were most valued. We continue our investment in our training and development programmes to ensure they remain among the very best in the profession so as to attract and develop the highest quality people. In that regard we were pleased to be voted in The Times survey as one of the top 100 employers of graduates.

During the year we also continued to invest in our relationship management and client satisfaction systems and processes. We completed the implementation of both across the enlarged firm. These help us to improve our understanding and address the changing needs of our clients. It was pleasing that in the feedback so many of our clients said they would recommend the firm. Where client satisfaction levels are mainly 'average' we have mandated actions to understand the client's needs better and to improve upon the overall level of our services. Client satisfaction and willingness to refer other contacts to us is part of the life blood of the firm and we continue to monitor our performance and strive to improve on the quality, depth and breadth of our services.

While 2007/8 has been a very active year for us, we have placed our clients' needs as our priority. The integration of two large firms is always a time consuming and complex task, and has had a significant impact on our results for the year. This is particularly so as the merger came at the same time as a slowing down in the economy and the early manifestation of the credit crunch. Our focus has been on integration and consolidation of the business and our income on a like for like basis has been broadly stable. There is no doubt that the economic environment has deteriorated at an alarming rate and the challenge for us is to ensure our resources match our anticipated levels of income going forward. Now that the main part of the integration of the two firms is complete, we are working towards the restoration of our gross margin and utilisation rates to pre merger levels, as well as exploiting the market opportunities the merger has presented. Although this will inevitably cause some short-term discomfort as we 'shake the tree', it will enable us to provide opportunities for our most able staff to come through to leadership positions and for us to fund further significant investment in the UK and globally. So while it has been a challenging and exciting year, it is always a disappointment when partner earnings take a downturn, even if only for the short term.

Now that the merger is behind us, we have a stronger platform in London and nationally and a stronger presence in our key markets in the UK and globally from which to build the firm. Together with the other member firms of Grant Thornton International we are well and truly on course to have leadership in our chosen markets and in the profession by providing distinctive client service, delivered by outstanding people, and an ability and willingness to speak out on issues that matter to business and the wider public.

Our brand, reputation and influence are increasing in leaps and bounds in our current areas of strength. Over the medium-term, business leaders and governments are seeking greater choice in an accounting market overly influenced by just four giant firms. Grant Thornton has the ability, motivation and drive to succeed in our goal of being a global leader in our chosen markets and in the profession. I wish the firm and my successor, Scott Barnes, well for the future, a future which I am sure will continue the Grant Thornton story of success.

Michael Cleary
Chief Executive Officer

BUSINESS AND FINANCIAL REVIEW

Objectives and strategy

Our merger with RSM Robson Rhodes created a firm that offers greater resource, deeper expertise and enhanced credibility. Similar strengthening of Grant Thornton International member firms has taken place in a number of jurisdictions as part of a global strategy to continue to enhance a genuine international capability.

The firm's overall aim is to retain and continually enhance its 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 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. Doing so will enable us to continue to build the reputation of the firm for leadership and excellence in all that we do.

Overall financial performance

The Robson Rhodes merger has naturally had a significant impact on the results for the year, both in terms of the scale of the enlarged business and specific matters connected with the merger. Bringing together two sizeable operations, each with its own office networks and central support functions, presents opportunities for longer term synergies and efficiencies, but also comes with a certain amount of one-off integration costs.

By comparison with the reported 2007 figures of Grant Thornton UK LLP, turnover grew by 25.3% to £394.1m. Because of the structure of the merger, whereby certain of the assets and parts of the business of Robson Rhodes were not included and because other parts of the business acquired were reorganised in the merger, it is not possible to supply meaningful growth figures on a like for like basis, although overall income has been broadly stable.

Staff employment costs increased by 32.1% to £197.8m as headcount (including salaried partners) rose by 28.8%. These increases reflect the merger and salary pressures in the financial services sector generally, but have also been influenced by the introduction of a new and much improved range of flexible benefits which came into effect on 1 April 2008. These aim to set our overall remuneration packages at levels to attract and reward the calibre of staff appropriate for a business of our quality and standing.

Our margins continued to come under pressure as the market for many of our services remained highly competitive and utilisation rates were impacted by internal restructuring and office moves arising from the merger. Dual operations in Leeds, Bristol, Cambridge and Manchester were all consolidated into single locations during the 2007/8 year, with Birmingham following suit early in the current year. In addition, staffing between our London offices in Euston and Finsbury Square was completely reorganised to achieve early integration and alignment of client service capability.

Operating profits for the year were £74.3m compared to £77.2m for 2006/7. However, the 2007/8 results are after charging £7.7m of one-off integration costs, and the comparative period included a £6.3m increase in profits arising from a refinement to a key estimation technique implicit within our revenue recognition calculations under UITF40. Adjusting for both of these one-off amounts, underlying profits for 2007/8 would be £82.0m, representing a 15.7% increase on the pro-forma adjusted comparative of £70.9m.

After net interest costs, which increased by £1.2m due mainly to higher bank borrowings offset by increased net interest income on pension scheme assets/liabilities, the profit for the year decreased by 5.4% to £71.9m.

Profit per partner (both variable and fixed share partners), including the results of profits retained in subsidiary entities, fell from £363,000 to £247,000 and the average amount of profit allocated to each partner fell from £348,000 to £248,000. For illustrative purposes, the average profit allocation in respect of all members for 2006/7 of £348,000 would reduce to £286,000 if the total consolidated results and average number of members of RSM Robson Rhodes LLP were aggregated with those of Grant Thornton UK LLP for that year. On that basis, the year on year reduction in profits per partner would narrow to £38,000. The impact of one-off costs and revenues in the 2007/8 and the prior period, referred to above, has further served to magnify the year on year movements.

Our markets

We continue to go from strength to strength in Audit. We have increased the number of our FTSE 250 audit clients from one to six, we currently audit more AiM-listed companies than any other firm and we are the third largest auditor of the UK's top 2,500 private companies. This year we were awarded Auditor of the Year Award (Outside the Big 4) 2008 – RealFD Excellence Awards.

We are one of the principal providers to the Audit Commission, Audit Scotland and the Wales Audit Office, of external audit of public sector bodies. Our major clients include Manchester City Council, Bristol City Council, a number of London Boroughs and a range of significant healthcare trusts, all of which are large and complex organisations. We also work with the National Audit Office and the Northern Ireland Audit Office, as well as auditing a number of NHS foundation trusts.

In non-audit services, our standing is equally positive. We work with one in six of the FTSE 100 and many other high-profile organisations, and our people have recently won the 'Best High Net Worth Team' and 'Lifetime Achievement' at the LexisNexis Taxation Awards. Our annual review of corporate governance in the FTSE 350 has become a standard reference document in the market. Recovery and Reorganisation continued its track record of growth, achieving fees of £60 million for the year. The core corporate and personal insolvency practices continued to flourish, as demand for restructuring and recovery services began to grow on the back of the economic downturn.

With 300 corporate finance professionals nationwide, Grant Thornton is the number one mergers and acquisitions adviser in the privately-held middle market for deal values up to £50 million, and we completed 88 transactions last year. Our Government Infrastructure Advisory team has also been leading the way among the industry's top rated financial advisers. It ranks first place in a number of league tables.

Additionally, our specialist Forensic and Investigation team has conducted investigations and provided expert evidence in connection with very large, high profile international audit negligence assignments.

We continue to focus and develop our expertise in a wide range of sectors, from renewable energy to financial services, within which we demonstrate a real depth of industry knowledge.

Accounting policy changes

There were no accounting policy changes in 2007/8.

Management judgments and estimates

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

Defined benefit pension scheme

Following the merger with Robson Rhodes, the group now operates two defined benefit pension schemes. The Grant Thornton Pensions Fund is significantly larger than the Robson Rhodes Retirement Benefit Scheme, the latter having a deficit on acquisition of £0.6m. Both schemes are closed to new members. The assumptions used to value the schemes are adopted by the firm following discussion with the schemes' actuarial advisers. Key assumptions include those in relation to the discount rate to be applied to liabilities, where a 0.1% point change to the discount rate alters the liability by £4.4m, as well as those in relation to mortality. The assumptions in respect of discount rate are consistent with the requirements of FRS 17, which requires the use of an applicable yield on AA Corporate Bonds to be applied. We have continued to use the same mortality assumptions as last year, specifically the 92 series tables with 'medium cohort' mortality improvement projections up to 2005. Given the ongoing inherent unpredictability of anticipating future improvement in mortality, no allowance for improvements beyond 2005 has been built in to the estimate of future liabilities reflected in the accounts. If instead 'medium cohort' projections were applied beyond 2005, we estimate that the liabilities would increase by c.£19m.

Because increases in life expectancy are considered to vary depending on a person's age, and will also depend on how far into the future the change is being measured, it is difficult to derive the financial impact on pension scheme liabilities of a one-year change in assumed life expectancy across all age groups. The tables below, however, provide an appreciation of the impact on life expectancy of allowing for longevity improvements beyond 2005 adopting medium cohort assumptions.

Current assumption: no allowance for improvements post 2005

	Life expectancy (years)	
	Male	Female
Currently aged 65	18.4	21.2
Aged 65 in 20 years' time	18.4	21.2

Alternative assumption: allowance for 'medium cohort' improvements post 2005

	Life expectancy (years)	
	Male	Female
Currently aged 65	20.2	23.1
Aged 65 in 20 years' time	21.4	24.2

Retirement annuities to partners

The firm also obtains actuarial advice for the purpose of evaluating its annuity obligations to current and former members. Key areas of estimate include the discount rate, where the 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. Approximate calculations suggest that incorporating future 'medium cohort' improvements would increase the annuity liabilities by about £2m.

Revenue recognition

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 estimated recoverable value of work in progress balances are reviewed individually by partners and managers responsible for the assignment. We reflect the inherent uncertainty arising from the stage of completion by discounting the estimated profits attributable to the stage of completion of an assignment. The level of discounting decreases as a contract progresses and its ultimate profitability becomes more predictable. 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. During the 2006/7 year, the discount levels applied to estimated contract profits were reviewed and refined in the light of experience gained since we adopted the requirements of UITF40. That refinement increased turnover and profit for the 2006/7 year by £6.3m. There was no such refinement during the year ended 30 June 2008.

Balance sheet analysis

Net assets attributable to members in the group balance sheet decreased by £8.5m to £44.7m and total members' interests decreased by £9.9m to £37.8m. A significant factor in these movements has been the pension scheme liability increasing by £20.7m.

Within the totals, fixed assets were up by £25.6m to £64.0m. £19.7m of the increase is due to goodwill arising on the Robson Rhodes transaction, and the fair value of tangible fixed assets acquired from Robson Rhodes was £4.2m. Capital expenditure during the year on property improvements, furniture and equipment amounted to £6.1m, whereas the value of fixed asset investments, principally within our captive insurance subsidiary, increased by £0.9m.

At £107.8m, net current assets were £20.3m higher than at the previous year end. The effect of the net current liabilities taken on from Robson Rhodes has been more than offset by the conversion of acquired current bank debt into debt due after more than one year as part of the bank facility refinancing arranged for the purposes of the merger.

Claims provisions and property provisions in aggregate increased by £5.9m to £12.4m, with £4.7m arising on the Robson Rhodes merger.

As noted earlier, the firm's defined benefit pension scheme obligations have increased significantly from £24.2m to £44.9m, due mainly to net actuarial losses in the year of £26.4m. Underpinning these net actuarial losses were worse than expected gains on scheme assets of £33.6m. Annuity obligations in respect of former partners decreased by £1.0m to £27.3m, while similar obligations in respect of current partners, included as part of members' interests, fell by £0.2m to £1.9m.

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 exercise 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 to such funds.

A significant part of the firm's funding is from members' capital, which is only repayable following retirement except under very exceptional circumstances. Members' capital requirements are determined from time to time by the Chief Executive Officer, and the amount of capital required to be contributed increases depending on the amount of fixed profit share or number of profit sharing units a member has. £7.4m of capital was introduced at the start of the financial year by former Robson Rhodes partners – and a further £17.5m was introduced during the year by virtue of a planned capital call and by other new members. After allowing for transfers to former members, members' capital rose from £30.5m at 30 June 2007 to £52.8m by 30 June 2008.

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 are significant. Funding from undrawn profits is provided through the combined mechanisms of the timing of taxation payments (which 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.

As part of the Robson Rhodes acquisition, the firm refinanced its own borrowings and those of Robson Rhodes which it assumed as part of the acquisition. The facilities now in place are for a five-year period and are made up of a combination of term loans and revolving credit facilities. These will be utilised in line with mainly predictable cycles of drawing demand and working capital need. Net debt before loans and other debts due to members increased from £12.4m at 30 June 2007 to £28.4m at 30 June 2008, yet remain well within the facilities now at the firm's disposal.

Payments to make good the deficit in the Grant Thornton Pensions Fund are being made in equal instalments of £3.4m over ten years commencing 1 July 2006. Total employer contributions into the two defined benefit schemes are expected to be £5.7m in the year commencing 1 July 2008. The settlement of obligations in respect of annuities to former partners amounted to £3.1m in the year to 30 June 2008 and is expected to stay at this level in the current next year. Taken together, the projected 2008/2009 settlements for these two significant obligations amount to approximately £8.8m or 2.2% (last year £8.5m or 2.7%) 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 medium term.

MEMBERS' REPORT

The members present their report together with the financial statements for the year ended 30 June 2008.

Principal activity

Grant Thornton UK LLP (the "partnership") and its subsidiary entities (together the "group") are principally engaged in the provision of accounting, business assurance, insolvency and restructuring, transaction advisory and tax services in the UK.

On 2 July 2007, the group acquired a substantial part of the trading activities, together with many of the net assets, of RSM Robson Rhodes LLP, a firm of chartered accountants approximately one-third the size of the group at the time of the acquisition. Details of the assets and liabilities acquired are set out in note 19 to the accounts. Sixty partners of RSM Robson Rhodes LLP became members of the partnership on 3 July 2007.

Designated members

The designated members during the year ended 30 June 2008 and those who have been appointed subsequently are as follows:

M J Cleary	– National Managing Partner
J D Mew	– Management Board Member
S Morris	– Management Board Member (appointed 19 May 2008)
S Romanovitch	– Management Board Member (appointed 10 September 2008)
M Ward	– Management Board Member (appointed 7 September 2007)
N Ruddock	– Chairman of the Partnership Committee
T A J Back	
D Barnes	(appointed 1 October 2007)
J Bowler	
C Hartnell	(appointed 1 July 2007)
E J G Healey	
A Lees	(appointed 1 October 2007)
T J W Lincoln	
S Maslin	(appointed 1 July 2007)
N Morrison	
R N Proctor	
S J Quest	
R C Rowe	
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. Drawings are restricted to prudent levels, taking into account working capital performance, 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 partnership. The amount of capital required to be contributed increases depending on the amount of fixed profit share or number of profit sharing units a member has. Members may opt to contribute up to the highest required level. While 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 (LLP) Regulations 2001 made under the Limited Liability Partnerships Act 2000 require the members to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the limited liability partnership and the group and of the profit or loss of the group for that period. The members have elected to prepare financial statements in accordance with United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice). In preparing those financial statements the members are required to:

- select suitable accounting policies and then apply them consistently
- make judgments and estimates that are reasonable and prudent
- state whether applicable UK 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 limited liability partnership will continue in business.

Under the Limited Liability Partnership Regulations 2001, the members are responsible for keeping proper accounting records that disclose with reasonable accuracy at any time the financial position of the group and which enable them to ensure that the financial statements 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 the financial statements may differ from legislation in other jurisdictions.

Auditors

PKF (UK) LLP will be proposed for reappointment.

On behalf of the members

N Ruddock
12 November 2008

PRINCIPAL ACCOUNTING POLICIES

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 (United Kingdom Generally Accepted Accounting Practice), 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 and these have remained unchanged from the previous year.

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 9.

The financial statements of all group companies are adjusted, where necessary, to ensure the use of consistent accounting policies. Acquisitions are accounted for under the acquisition method. At the date of acquisition, which is the date on which the group obtains control of the business acquired, the fair value of the identifiable assets and liabilities of the entity acquired are included in the balance sheet at their fair value. Where the fair values of the consideration paid exceeds the fair value of the net assets acquired, this excess is recorded as goodwill. The results of companies acquired or disposed of are included in the group profit and loss account from or up to the date that control passes respectively.

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

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. Stage of completion is measured by comparing actual contract costs to date with estimated total contract costs. 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.

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 and the relative uncertainty of predicting ultimate profitability. The approach has been to reflect this relative uncertainty by discounting the estimated profits attributable to the stage of completion of a contract. The level of discounting decreases as a contract progresses and its ultimate profitability becomes more predictable. During the year ended 30 June 2007, management reviewed and refined these discount levels in the light of experience gained since we adopted the requirements of UITF40, Revenue Recognition and Service Contracts. The effect of this refinement (which did not constitute a change in accounting policy) was to increase turnover and profit for that year by £6.3m. In the current year, no such refinement was necessary.

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 at the lower of cost and net realisable value.

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 of ten years. This period is the period over which the members estimate that the value of the underlying business acquired is expected to exceed the value of the underlying assets.

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 because the estimated residual values of the properties are such that any depreciation charge would be immaterial.

Leased assets

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

Investments

Investments are included at cost less amounts written off, save for those held by Fulwood Insurances Limited, the group's principal 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.

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 certain subsidiary undertakings, the provision for annuities to current and former members, pension scheme charges, the spreading of acquisition integration costs 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 (excluding discretionary fixed share bonuses) 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 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 that 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 are set against amounts due from members as appropriate.

Amounts identified as taxation in these financial statements relate to corporate subsidiaries.

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 which, in the case of quoted investments are at bid price. 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 partnership 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. The obligation for annuities to former members is included within provisions for liabilities and the obligation for annuities to current members is included within loans and other debts due to/(from) members.

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.

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.

The financial statements of foreign subsidiaries and the related goodwill are translated at the closing exchange rate at the balance sheet date. The exchange differences arising from the retranslation of the opening net investment in subsidiaries are taken directly to reserves through the statement of total recognised gains and losses.

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 their 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

	Note	2008 £'000	2007 £'000
Turnover	1	394,137	314,643
Other external charges: client disbursements		(23,709)	(16,553)
Net fees		370,428	298,090
Cost of sales	2	(161,293)	(120,876)
Gross profit		209,135	177,214
Other operating costs	2	(134,847)	(100,053)
Operating profit	1	74,288	77,161
Profit on sale of fixed assets		145	50
Net interest and other similar charges	3	(2,477)	(1,260)
Profit on ordinary activities before tax		71,956	75,951
Tax on profit on ordinary activities of subsidiaries	5	(31)	60
Profit for the financial year before members' remuneration and profit shares		71,925	76,011
Profit for the financial year before members' remuneration and profit shares		71,925	76,011
Members' remuneration charged as an expense		(21,654)	(11,654)
Profit for the financial year available for discretionary division among members	16	50,271	64,357

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

	Note	2008 £'000	2007 £'000
Profit for the financial year available for discretionary division among members		50,271	64,357
Movement in unrealised gains/losses on investments		21	14
Actuarial (losses)/gains on pension scheme	22	(26,401)	26,500
Total recognised gains and losses for the year		23,891	90,871

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

CONSOLIDATED BALANCE SHEET

	Note	2008 £'000	2008 £'000	2007 £'000	2007 £'000
Fixed assets					
Intangible assets – goodwill	7		19,713		–
Tangible assets	8		35,276		30,262
Investments	9		9,003		8,117
			63,992		38,379
Current assets					
Debtors	10	167,968		135,649	
Cash at bank and in hand	11	19,312		8,604	
			187,280		144,253
Creditors: amounts falling due within one year	12		(79,441)		(56,683)
Net current assets			107,839		87,570
Total assets less current liabilities			171,831		125,949
Creditors: amounts falling due after more than one year	13		(42,519)		(13,657)
Provisions for liabilities	15		(39,676)		(34,857)
Pension scheme liability	22		(44,887)		(24,200)
Net assets attributable to members			44,749		53,235
Represented by:					
Loans and other debts due to members within one year					
Members' capital classified as a liability	16		52,825		30,532
Other amounts	16		15,930		10,597
			68,755		41,129
Loans and other debts due to members after more than one year					
Other amounts	16		3,100		2,625
			71,855		43,754
Equity					
Members' other interests – other reserves classified as equity	16		(27,067)		9,541
Revaluation reserve	16		(39)		(60)
			44,749		53,235
Total members' interests					
Loans and other debts due to members	16		71,855		43,754
Members' other interests	16		(27,106)		9,481
Amounts due from members	16		(6,910)		(5,525)
			37,839		47,710

The financial statements were approved by the Partnership Committee on 12 November 2008 and signed on behalf of the partnership by:
Michael Cleary National Managing Partner *Nigel Ruddock* Chairman of the Partnership Committee

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

PARTNERSHIP BALANCE SHEET

	Note	2008 £'000	2008 £'000	2007 £'000	2007 £'000
Fixed assets					
Intangible assets	7		17,391		–
Tangible assets	8		35,067		30,262
Investments	9		3,969		1,218
			56,427		31,480
Current assets					
Debtors	10	166,647		135,993	
Cash at bank and in hand	11	15,893		5,798	
			182,540		141,791
Creditors: amounts falling due within one year	12		(78,532)		(56,047)
Net current assets			104,008		85,744
Total assets less current liabilities			160,435		117,224
Creditors: amounts falling due after more than one year	13		(42,519)		(13,657)
Provisions for liabilities	15		(32,768)		(31,759)
Net assets attributable to members			85,148		71,808
Represented by:					
Loans and other debts due to members within one year					
Members' capital classified as a liability	16		52,825		30,532
Other amounts	16		15,930		10,597
			68,755		41,129
Loans and other debts due to members after more than one year					
Other amounts	16		3,100		2,625
			71,855		43,754
Equity					
Members' other interests – other reserves classified as equity	16		13,293		28,054
			85,148		71,808
Total members' interests					
Loans and other debts due to members	16		71,855		43,754
Members' other interests	16		13,293		28,054
Amounts due from members	16		(6,910)		(5,525)
			78,238		66,283

The financial statements were approved by the Partnership Committee on 12 November 2008 and signed on behalf of the partnership by:
Michael Cleary National Managing Partner *Nigel Ruddock* Chairman of the Partnership Committee

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

CONSOLIDATED CASH FLOW STATEMENT

	Note	2008 £'000	2007 £'000
Net cash inflow from operating activities	17	88,260	64,915
Returns on investments and servicing of finance			
Interest received		1,628	916
Interest paid		(4,012)	(659)
Finance lease interest paid		(1,391)	(1,417)
Net cash outflow from returns on investments and servicing of finance		(3,775)	(1,160)
Taxation		(12)	(83)
Capital expenditure and financial investment			
Purchase of tangible fixed assets		(5,729)	(5,720)
Sale of tangible fixed assets		918	799
Purchase of investments		(37,593)	(24,889)
Sale of investments		36,728	27,219
Net cash outflow from capital expenditure and financial investment		(5,676)	(2,591)
Acquisitions and Disposals	19		
Purchase of businesses		(5,782)	-
Net overdraft acquired with purchased businesses		(3,591)	-
Net cash outflow from acquisitions and disposals		(9,373)	-
Transactions with members and former members			
Payments to or on behalf of members		(76,331)	(66,471)
Capital contributions by members		24,993	5,540
Annuity payments to former members		(2,425)	(2,152)
Repayments to former members		(3,553)	(6,472)
Net cash outflow from transactions with members and former members		(57,316)	(69,555)
Management of liquid resources			
Net (purchase)/sale of short-term deposits		(4,931)	11,700
Net cash (outflow)/inflow from management of liquid resources		(4,931)	11,700
Financing			
Net payments from borrowing		(852)	(1,011)
Capital element of finance lease rentals		(548)	(995)
Net cash outflow from financing		(1,400)	(2,006)
Increase in cash	18	5,777	1,220

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

NOTES TO THE FINANCIAL STATEMENTS

1. 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:

	2008	2007
	£'000	£'000
Accountancy and growth and development	20,940	15,802
Assurance	117,172	81,182
Corporate finance	65,650	58,825
Forensic investigation services	14,764	11,589
Other	4,981	2,754
Recovery and reorganisation	67,907	57,236
Taxation and financial planning	102,723	87,255
	394,137	314,643

The destination of turnover was primarily to UK clients although 1.7% (2007: 2.1%) were sales to North America, 1.7% (2007: 1.6%) to mainland Europe and 0.9% (2007: 0.7%) to the rest of the world.

Analysis of operating profit and net assets is as follows:

	Operating profit		Net assets	
	2008	2007	2008	2007
	£'000	£'000	£'000	£'000
Accountancy and growth and development	8,226	6,870	5,225	4,634
Assurance	46,029	35,297	29,036	23,708
Corporate finance	26,340	26,488	18,856	17,685
Forensic investigation services	6,921	5,339	5,911	4,442
Other	1,957	1,197	597	689
Recovery and reorganisation	31,849	26,821	32,753	30,304
Taxation and financial planning	40,353	37,937	23,753	24,447
	161,675	139,949	116,131	105,909
Unallocated items	(87,387)	(62,788)	(71,382)	(52,674)
	74,288	77,161	44,749	53,235

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.

NOTES TO THE FINANCIAL STATEMENTS

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

Net assets attributed to the business 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 business functions.

The profit for the financial year is stated after:

	2008	2007
	£'000	£'000
Auditors' remuneration:		
Group and partnership audits	158	136
Subsidiary company audits	23	9
Depreciation and amortisation:		
Goodwill	2,260	14
Tangible fixed assets, owned	6,675	4,184
Tangible fixed assets, held under finance leases and hire purchase contracts	768	660
Other operating lease rentals:		
Equipment	4,467	4,044
Land and buildings	9,740	6,041
Exceptional one-off costs in connection with acquired businesses (see below)	7,746	-

Exceptional items

The costs of £7.7m incurred in connection with the acquisition of the Robson Rhodes business principally relate to harmonisation of estimation techniques applied to long term contract evaluation, termination costs of Robson Rhodes LLP's international membership of RSM International and property provisions arising from decisions to vacate certain leasehold premises.

NOTES TO THE FINANCIAL STATEMENTS

2. Cost of sales and other operating costs

	2008	2007
	£'000	£'000
Professional staff employment costs	161,293	120,876
Other operating costs:		
Support staff employment costs	36,462	28,838
Property	24,211	15,561
IT and other equipment costs	12,798	9,697
Administration	46,979	38,112
Other financial costs including insurance	9,042	5,662
Annuities to former members	475	1,233
Other	4,880	950
	134,847	100,053

3. Net interest and other similar charges

	2008	2007
	£'000	£'000
Interest payable on bank loans and overdrafts	3,627	445
Finance charges in respect of finance leases	1,391	1,417
Other interest payable and similar charges	385	214
Unwinding of discount for former member annuity provisions	1,400	1,200
Net interest on pension scheme assets/liabilities	(2,698)	(1,100)
Other interest receivable and similar income	(1,628)	(916)
Net interest and similar charges	2,477	1,260

NOTES TO THE FINANCIAL STATEMENTS

4. Partners and staff

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

	2008	2007
	£'000	£'000
Wages and salaries	164,578	126,606
Social security costs	17,258	13,279
Other pension costs	6,478	4,522
	188,314	144,407

The average number of full time equivalent members, salaried partners and employees during the year was 4,271 (2007: 3,299), all of whom were engaged in the group's principal activity:

	2008	2007
	Number	Number
Members	291	209
Salaried partners	15	31
Professional staff	3,048	2,271
Support staff	917	788
	4,271	3,299

Profits are shared among members in accordance with agreed profit sharing arrangements. The average profit allocation in respect of the year's results, calculated by dividing allocable profits for the financial year by the average number of all members, amounted to £248,000 (2007: £348,000). However, the average profit allocation per variable share member amounted to £276,000 (2007: £385,000). For illustrative purposes, the average profit allocation in respect of all members for 2007 of £348,000 would reduce to £286,000 if the total consolidated results and average number of members of RSM Robson Rhodes LLP were aggregated with those of Grant Thornton UK LLP for that year, notwithstanding that not all of the Robson Rhodes business was acquired.

The profit attributable to the member with the largest entitlement was £834,534 (2007: £999,986). Allocated profits take into account pension and annuity payments rather than pension and annuity charges, the spreading of acquisition integration costs and include sums allocated as interest, members' motor expenses and capital profits but exclude profits, in certain subsidiary entities.

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 £247,000 (2007: £363,000). The exceptional items referred to in note 1 have reduced the average members' profits for the year by £27,000.

NOTES TO THE FINANCIAL STATEMENTS

4. Partners and staff *(continued)*

The table below provides a reconciliation between the average profit per member calculated in accordance with the SORP and the average profit allocation per variable share member.

	2008	2007
	£'000	£'000
Average profit per member	247	363
Integration costs, retirement annuities and other items	16	2
Retained profits for the year in subsidiary entities net of consolidation adjustments	(15)	(17)
Average profit allocation per member	248	348
Effect of fixed profit share members	28	37
Average profit allocation per variable share member	276	385

5. Tax on profit on ordinary activities

The tax charge/(credit) arises within the subsidiary undertakings of the group and represents:

	2008	2007
	£'000	£'000
United Kingdom corporation tax at 30% (2007: 30%)	31	(60)
Total current tax and tax on profit on ordinary activities	31	(60)

Fulwood Insurances Limited and Selden Insurance Company Limited were granted exemption from tax until 31 December 2007 under the Income Tax (Exempt Bodies) (Guernsey) Ordinance 1989 to 1997. With effect from January 2008, both companies are now taxable at the standard rate in Guernsey of zero per cent.

Grant Thornton Specialist Services (Cayman) Limited and Grant Thornton (British Virgin Islands) Limited are not subject to corporation tax.

The tax assessed for the year differs from the standard rate of corporation tax in the UK. The differences are explained as follows:

	2008	2007
	£'000	£'000
Profits on ordinary activities before tax of subsidiary undertakings	4,781	3,665
Profits of LLP subsidiary undertakings not subject to corporation tax	(5,592)	(3,665)
	(811)	-
Tax on loss on ordinary activities at 30% (2007: 30%)	(243)	-
Effect of:		
Losses taxed at zero per cent	274	-
Under/(over) provision from earlier years	12	(60)
Pension cost charge less than pension cost relief	(6)	-
Other timing differences	(6)	-
Total current tax charge/(credit)	31	(60)

NOTES TO THE FINANCIAL STATEMENTS

6. 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 £45,717,000 (2007: £60,729,000).

7. Intangible fixed assets

The group and the partnership	The group goodwill £'000	The partnership goodwill £'000
Cost		
At 1 July 2007	493	493
Arising on acquisitions (note 19)	21,973	19,388
At 30 June 2008	22,466	19,881
Amortisation		
At 1 July 2007	493	493
Provided in the year	2,260	1,997
At 30 June 2008	2,753	2,490
Net book amount at 30 June 2008	19,713	17,391
Net book amount at 30 June 2007	–	–

NOTES TO THE FINANCIAL STATEMENTS

8. Tangible fixed assets

The group	Freehold and long leasehold property	Short leasehold property	Furniture and equipment	Office equipment	Motor cars	Total
	£'000	£'000	£'000	£'000	£'000	£'000
Cost						
At 1 July 2007	18,090	11,633	12,061	11,775	5,965	59,524
Additions	–	2,357	1,468	2,264	2,937	9,026
Arising on acquisitions	–	2,361	636	1,207	–	4,204
Disposals	–	(814)	(1,364)	(3,394)	(1,766)	(7,338)
At 30 June 2008	18,090	15,537	12,801	11,852	7,136	65,416
Depreciation						
At 1 July 2007	5,529	5,436	8,282	7,409	2,606	29,262
Provided in the year	178	1,707	1,422	2,619	1,517	7,443
Disposals	–	(814)	(1,355)	(3,394)	(1,002)	(6,565)
At 30 June 2008	5,707	6,329	8,349	6,634	3,121	30,140
Net book amount at 30 June 2008	12,383	9,208	4,452	5,218	4,015	35,276
Net book amount at 30 June 2007	12,561	6,197	3,779	4,366	3,359	30,262
The partnership	Freehold and long leasehold property	Short leasehold property	Furniture and equipment	Office equipment	Motor cars	Total
	£'000	£'000	£'000	£'000	£'000	£'000
Cost						
At 1 July 2007	18,090	11,633	12,061	11,775	5,965	59,524
Additions	–	2,357	1,453	2,184	2,937	8,931
Arising on acquisitions	–	2,325	581	1,166	–	4,072
Disposals	–	(814)	(1,355)	(3,394)	(1,766)	(7,329)
At 30 June 2008	18,090	15,501	12,740	11,731	7,136	65,198
Depreciation						
At 1 July 2007	5,529	5,436	8,282	7,409	2,606	29,262
Provided in the year	178	1,707	1,420	2,612	1,517	7,434
Disposals	–	(814)	(1,355)	(3,394)	(1,002)	(6,565)
At 30 June 2008	5,707	6,329	8,347	6,627	3,121	30,131
Net book amount at 30 June 2008	12,383	9,172	4,393	5,104	4,015	35,067
Net book amount at 30 June 2007	12,561	6,197	3,779	4,366	3,359	30,262

NOTES TO THE FINANCIAL STATEMENTS

8. Tangible fixed assets (continued)

Freehold and long leasehold property at net book value at the balance sheet date in the above group and partnership tables comprises freehold property of £306,000 (2007: £306,000) and long leasehold property £12,077,000 (2007: £12,255,000).

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	Furniture and equipment £'000	Office equipment £'000	Motor cars £'000	Total £'000
Net book amount at 30 June 2008	8,674	642	–	1,564	10,880
Net book amount at 30 June 2007	8,797	51	6	1,597	10,451
Depreciation provided in the year	127	54	6	581	768

9. Fixed asset investments

The group	Listed investments £'000	Other investments £'000	Total £'000
Cost or valuation			
At 1 July 2007	8,260	20	8,280
Additions	37,593	–	37,593
Disposals	(36,728)	–	(36,728)
Revaluation	21	–	21
At 30 June 2008	9,146	20	9,166
Provisions			
At 1 July 2007 and 30 June 2008	163	–	163
Net book amount at 30 June 2008	8,983	20	9,003
Net book amount at 30 June 2007	8,097	20	8,117
		2008	2007
		£'000	£'000
Listed investments at market value held by Fulwood Insurances Limited		8,668	7,782
Total listed investments at market value		8,771	8,367
Total listed investments on historical cost basis		8,983	8,157

NOTES TO THE FINANCIAL STATEMENTS

9. Fixed asset investments (continued)

The partnership	Investment in group undertakings £'000	Loans £'000	Listed investments £'000	Total £'000
Cost				
At 1 July 2007	903	168	478	1,549
Arising on acquisitions	3,111	–	–	3,111
At 30 June 2008	4,014	168	478	4,660
Provisions				
At 1 July 2007	–	168	163	331
Arising on acquisitions	360	–	–	360
At 30 June 2008	360	168	163	691
Net book amount at 30 June 2008	3,654	–	315	3,969
Net book amount at 30 June 2007	903	–	315	1,218
			2008	2007
			£'000	£'000
Listed investments at market value			143	585
Listed investments on historical cost basis			315	315

NOTES TO THE FINANCIAL STATEMENTS

9. Fixed asset investments (continued)

At 30 June 2008, 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
Fulwood Insurances Limited	Guernsey	Ordinary	100%	Insurance services
Selden Insurance Company Limited	Guernsey	Ordinary	100%	Insurance services
Grant Thornton Services LLP	England	–	100%	Provision of staff to the group
Grant Thornton Business Services	England	Ordinary	100%	Provision of staff to the group
Grant Thornton Specialist Services (Cayman) Limited	Cayman Islands	Ordinary	100%	Provision of insolvency and restructuring
Grant Thornton (British Virgin Islands) Limited	British Virgin Islands	Ordinary	100%	Provision of insolvency and restructuring
Moffat Communications Limited	England	Ordinary	100%	Provision of computer consultancy and project management

At 30 June 2008, 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:

The Centre for Families in Business Limited	GTPN1 Limited
Barfreston Limited	GTPN2 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
GTN1 Limited	Grant Thornton Consulting Limited
GTN2 Limited	Thornton Baker UK LLP
Thornton Baker Limited	Grant Thornton Primo Limited
Grant Thornton Business Consulting Limited	Potentia International Limited
Grant Thornton Personal Financial Planning Limited	GT Partner 1 Limited
GTI Limited	

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

NOTES TO THE FINANCIAL STATEMENTS

10. Debtors

	The group		The partnership	
	2008	2007	2008	2007
	£'000	£'000	£'000	£'000
Trade debtors	95,534	81,458	94,874	81,458
Amounts owed by group undertakings	–	–	1,269	7
Amounts recoverable on contracts	45,874	38,997	45,685	38,997
Other debtors	9,264	1,378	9,255	1,789
Amounts due from members	6,910	5,525	6,910	5,525
Prepayments and accrued income	10,386	8,291	8,654	8,217
	167,968	135,649	166,647	135,993

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	
	2008	2007	2008	2007
	£'000	£'000	£'000	£'000
Other debtors	7,050	–	7,050	–
Prepayments and accrued income	286	334	286	334
	7,336	334	7,336	334

11. Cash at bank and in hand

	The group		The partnership	
	2008	2007	2008	2007
	£'000	£'000	£'000	£'000
Cash and immediately available bank balances	14,381	8,604	13,793	5,798
Short term deposits at bank	4,931	–	2,100	–
	19,312	8,604	15,893	5,798

NOTES TO THE FINANCIAL STATEMENTS

12. Creditors: amounts falling due within one year

	The group		The partnership	
	2008	2007	2008	2007
	£'000	£'000	£'000	£'000
Bank loans	4,312	6,688	4,312	6,688
Excess payments received on account	17,769	10,865	17,769	10,865
Trade creditors	4,546	4,947	4,472	4,947
Amounts owed to group undertakings	-	-	17,533	16,228
Corporation tax	19	-	-	-
Social security and other taxes	10,696	9,475	5,896	5,305
Other creditors	2,140	323	1,141	71
Accruals and deferred income	33,636	21,293	21,086	8,851
Provisions for foreseeable losses	783	562	783	562
Amounts due to former members	4,708	1,907	4,708	1,907
Amounts due under finance leases and hire purchase contracts	832	623	832	623
	79,441	56,683	78,532	56,047

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

	The group		The partnership	
	2008	2007	2008	2007
	£'000	£'000	£'000	£'000
Bank loans	29,960	1,563	29,960	1,563
Amounts due under finance leases and hire purchase contracts	12,559	12,094	12,559	12,094
	42,519	13,657	42,519	13,657

NOTES TO THE FINANCIAL STATEMENTS

14. Borrowings

Borrowings are repayable as follows:

	2008	The group	2008	The partnership
	£'000	2007	£'000	2007
		£'000		£'000
Within one year:				
Bank and other borrowings	4,312	6,688	4,312	6,688
Finance leases and hire purchase contracts	832	623	832	623
After one and within two years:				
Bank and other borrowings	3,674	334	3,674	334
Finance leases and hire purchase contracts	499	352	499	352
After two and within five years:				
Bank and other borrowings	26,286	1,229	26,286	1,229
Finance leases and hire purchase contracts	599	280	599	280
After five years:				
Finance leases and hire purchase contracts	11,461	11,462	11,461	11,462
	47,663	20,968	47,663	20,968

Bank loans totalling £nil (2007: £6,300,000) are secured by a charge over certain leasehold property, and loans totalling £187,000 (2007: £244,000) are secured on endowment policies taken out in the names of individual members. Bank loans totalling £34,083,000 (2007: £1,463,000) are repayable in a mixture of monthly, quarterly and annual instalments between 1 July 2008 and 30 June 2013 (2007: between 1 July 2007 and 30 June 2012), and other borrowings totalling £187,000 (2007: £244,000) are repayable in a single instalment in March 2009 (2007: March 2008). A bank loan of £6,300,000 at 30 June 2007 was repaid in July 2007.

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

15. Provisions for liabilities

The group	Claims provisions	Property provisions	Former members' annuities	Total
	£'000	£'000	£'000	£'000
At 1 July 2007	4,877	1,665	28,315	34,857
Arising on acquisitions	2,693	1,965	60	4,718
New obligations	–	–	374	374
Amortisation of discount	–	–	1,400	1,400
Settlement of obligations during year	(586)	–	(3,083)	(3,669)
Change in assumptions and experience (gains)/losses	–	–	100	100
Released to profit and loss account	(531)	(1,515)	–	(2,046)
Provided during year in profit and loss account	2,579	1,263	–	3,842
Transfer from loans and other debts due to members	–	–	100	100
At 30 June 2008	9,032	3,378	27,266	39,676

NOTES TO THE FINANCIAL STATEMENTS

15. Provisions for liabilities (continued)

The partnership

	Claims provisions £'000	Property provisions £'000	Former members' annuities £'000	Total £'000
At 1 July 2007	1,779	1,665	28,315	31,759
Arising on acquisitions	475	1,788	60	2,323
New obligations	–	–	374	374
Amortisation of discount	–	–	1,400	1,400
Settlement of obligation during year	(586)	–	(3,083)	(3,669)
Change in assumptions and experience (gains)/losses	–	–	100	100
Released to profit and loss account	(531)	(1,429)	–	(1,960)
Provided during year in profit and loss account	1,079	1,262	–	2,341
Transfer from loans and other debts due to members	–	–	100	100
At 30 June 2008	2,216	3,286	27,266	32,768

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:

	2008 £'000	2007 £'000
In less than one year	3,089	3,122
Between two and five years	10,347	10,809
Between six and ten years	8,324	8,660
Between eleven and twenty-five years	5,493	5,699
In more than twenty-five years	13	25
	27,266	28,315

NOTES TO THE FINANCIAL STATEMENTS

16. Members' interests

The group	Revaluation reserves £'000	Other reserves £'000	Total £'000	Loans and other debts due to/(from) members £'000	Total members' interest £'000
At 1 July 2007	(60)	9,541	9,481	38,229	47,710
Members' remuneration charged as an expense	–	–	–	21,654	21,654
Profit for the financial year available for discretionary division among members	–	50,271	50,271	–	50,271
Members' interests after profit for year	(60)	59,812	59,752	59,883	119,635
Allocated profits	–	(61,137)	(61,137)	61,137	–
Tax adjustments on payment of annuities to former members	–	659	659	–	659
Members' capital introduced:					
– former Robson Rhodes partners	–	–	–	7,448	7,448
– capital call and other new members	–	–	–	17,545	17,545
Other amounts introduced by members	–	–	–	3,214	3,214
Drawings (including tax payments)	–	–	–	(77,828)	(77,828)
Transfer of capital to former members' balances	–	–	–	(2,700)	(2,700)
Transfer of other amounts to former members' balances	–	–	–	(3,654)	(3,654)
Transfer to provision for former members' annuities	–	–	–	(100)	(100)
Pension scheme actuarial loss	–	(26,401)	(26,401)	–	(26,401)
Movement in unrealised gains/losses on investments	21	–	21	–	21
At 30 June 2008	(39)	(27,067)	(27,106)	64,945	37,839

NOTES TO THE FINANCIAL STATEMENTS

16. Members' interests (continued)

The partnership	Other reserves £'000	Loans and other debts due to/(from) members £'000	Total members' interest £'000
At 1 July 2007	28,054	38,229	66,283
Members' remuneration charged as an expense	–	21,654	21,654
Profit for the financial year available for discretionary division among members	45,717	–	45,717
Partners' interests after profit for year	73,771	59,883	133,654
Allocated profits	(61,137)	61,137	–
Tax adjustments on payment of annuities to former members	659	–	659
Members' capital introduced:			
– former Robson Rhodes partners	–	7,448	7,448
– capital call and other new members	–	17,545	17,545
Other amounts introduced by members	–	3,214	3,214
Drawings (including tax payments)	–	(77,828)	(77,828)
Transfer of capital to former members' balances	–	(2,700)	(2,700)
Transfer of other amounts to former members' balances	–	(3,654)	(3,654)
Transfer to provision for former members' annuities	–	(100)	(100)
At 30 June 2008	13,293	64,945	78,238

Allocated profits for the group and the partnership comprise:

	£'000
Profits for the year ended 30 June 2007, allocated in the year ended 30 June 2008	61,137

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

The group and the partnership	Due within one year £'000	Due after one year £'000	2008 £'000	Due within one year £'000	Due after one year £'000	2007 £'000
Members' capital classified as a liability	52,825	–	52,825	30,532	–	30,532
Other amounts due to members	15,930	1,200	17,130	10,597	525	11,122
Provision for annuities in relation to current members	–	1,900	1,900	–	2,100	2,100
Loans and other debts due to members	68,755	3,100	71,855	41,129	2,625	43,754
Amounts due from members included in debtors	(6,910)	–	(6,910)	(5,525)	–	(5,525)
	61,845	3,100	64,945	35,604	2,625	38,229

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

17. Net cash inflow from operating activities	2008	2007
	£'000	£'000
Operating profit	74,288	77,161
Depreciation and amortisation	9,703	4,858
Increase in debtors	(4,630)	(17,925)
Increase in creditors	10,809	1,974
Adjustments in provisions for liabilities	1,685	1,347
Adjustments in pension liability	(3,595)	(2,500)
Net cash inflow from operating activities	88,260	64,915

Reconciliation of net cash flow to movement in net debt	2008	2007
	£'000	£'000
Increase in cash in the year	5,777	1,220
Cash outflow from financing	852	1,011
Cash outflow from finance leases	548	995
Cash outflow from transactions with members	51,338	60,931
Cash outflow/(inflow) from movement in short-term deposits	4,931	(11,700)
Change in net funds resulting from cash flows	63,446	52,457
Non-cash items	(107,534)	(65,557)
Movement in net debt in the year	(44,088)	(13,100)
Net debt at 1 July 2007	(56,118)	(43,018)
Net debt at 30 June 2008	(100,206)	(56,118)

18. Analysis of changes in net debt

	At 1 July	Cash	Acquisition	Other	At 30 June
	2007	flow	(excluding cash	non-cash	2008
	£'000	£'000	and overdrafts)	items	£'000
			£'000	£'000	
Cash in hand and at bank	8,604	5,777	–	–	14,381
Short-term deposits	–	4,931	–	–	4,931
Debt	(8,251)	852	(26,875)	–	(34,274)
Finance leases	(12,717)	548	–	(1,220)	(13,389)
Net debt before loans and other debts due to members	(12,364)	12,108	(26,875)	(1,220)	(28,351)
Loans and other debts due to members	(43,754)	51,338	–	(79,439)	(71,855)
Net debt including loans and other debts due to members	(56,118)	63,446	(26,875)	(80,659)	(100,206)

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

19. Acquisitions

On 2 July 2007, the group acquired a substantial part of the trading activities, together with many of the net assets, of RSM Robson Rhodes LLP for a cash consideration of £4.5m. The trademark and customer goodwill were acquired for £7.5m by Mayshill Limited, a company beneficially owned separately by those continuing members of the partnership who were members at 30 June 2007 (see note 24).

Because of the nature of the acquisition and the integration of acquired activities into the existing Grant Thornton operations, it is not possible to quantify the impact of the acquired activities on the results for the year. RSM Robson Rhodes LLP made a consolidated profit of £6.7m in the 14 months to 30 June 2007. It is not possible to quantify how much of that result related to activities acquired by the group.

The details of the assets and liabilities acquired by the group are as follows:

	Book value £'000	Revaluations £'000	Acquisition policy alignment £'000	Fair value £'000
Intangible fixed assets	1,019	(1,019)	-	-
Tangible fixed assets	4,564	(360)	-	4,204
Debtors	27,519	(855)	-	26,664
Cash at bank and in hand	4,657	-	-	4,657
Bank loans and overdrafts	(35,123)	-	-	(35,123)
Creditors	(10,735)	-	(561)	(11,296)
Provision for liabilities	(3,273)	(1,445)	-	(4,718)
Pension liability	(579)	-	-	(579)
Net assets acquired	(11,951)	(3,679)	(561)	(16,191)
Goodwill	-	-	-	21,973
Total consideration	-	-	-	5,782
Total consideration is analysed as follows:				
Cash	-	-	-	4,511
Legal fees	-	-	-	1,271
Total consideration	-	-	-	5,782

The fair value adjustments summarised in the table above include the following significant items:

- capitalised software development costs of £1.0m were considered to have negligible value in light of anticipated future cash flows
- provisions for onerous leases in connection with two properties were considered to be understated by £1.0m in total.

NOTES TO THE FINANCIAL STATEMENTS

20. Capital commitments

	The group	The partnership
	2008	2008
	£'000	£'000
Contracted for but not provided in these financial statements	1,100	1,100
	2007	2007
	£'000	£'000
	28	28

21. Contingent liabilities

There were no contingent liabilities at 30 June 2008 (2007: none) other than those related to the claim provisions referred to in note 15 and in connection with guarantees given by the partnership relating to the defined benefit pension scheme as more fully described in note 22.

22. Retirement benefits

Defined contribution pension scheme

The group operates defined contribution pension schemes for the benefit of certain employees. The assets of the schemes are administered in funds independent from those of the group.

Employer contributions to the schemes by the group in the year ended 30 June 2008 amounted to £4,116,000 (2007: £1,216,000). The outstanding contributions to the schemes at the year end were £790,000 (2007: £108,000) and represented the unpaid contributions for June 2008.

Defined benefit pension scheme

Following the Robson Rhodes acquisition, the group now operates two defined benefit pension schemes, for the benefit of certain employees: the Grant Thornton Pensions Fund and the Robson Rhodes Retirement Benefit Scheme. The assets of the schemes are administered by trustees in funds independent from the assets of the group.

The Robson Rhodes scheme, which is also closed to new members, is significantly smaller than the Grant Thornton scheme. The deficit on acquisition was £579,000 and the assumptions used in arriving at the valuation were not materially different to those used for the Grant Thornton scheme at 30 June 2007.

The major assumptions used for the purpose of the FRS 17 valuation at 30 June 2008 were:

	2008	2007
	%	%
Expected return on assets – Robson Rhodes scheme	6.60	–
Expected return on assets – Grant Thornton scheme	7.60	7.30
Rate of general increase in salaries	6.00	5.30
Rate of revaluation of accrued and deferred pensions – Grant Thornton scheme	4.00	3.30
Rate of revaluation of accrued and deferred pensions – Robson Rhodes scheme	5.00	–
Rate of increase in pensions in payment – pre 1 July 2006	3.75	3.20
Rate of increase in pensions in payment – post 30 June 2006	2.50	2.50
Discount rate	6.70	5.80
Price inflation	4.00	3.30
Mortality assumption	PA92C05MC*	PA92C05MC*

*Mortality rates are assumed to follow the PA92 series, incorporating medium cohort projections up to 2005 and adjusted as necessary to reflect the observed rates of mortality among members of pension schemes operated in a similar sector.

NOTES TO THE FINANCIAL STATEMENTS

22. Retirement benefits (continued)

The rate of return on each asset class should reflect long-term expectations at the beginning of the period. On gilts, bonds and cash the expected return is determined by applying the redemption yields to the market value of the assets held at the beginning of the period. For equities, the expected return is calculated by applying the rate of return expected over the long-term to the market value of the equities held at the start of the period. The rate of return available on property is assumed to be mid-way between the returns for equities and gilts.

The assumed rates of mortality have been based on standard tables, themselves derived from an analysis (undertaken by the Continuous Mortality Investigation Bureau (CMI)) of deaths within the insured pensioner population over a four-year period centred around 1992. The assumptions build in projections of improvements in mortality rates from 1992 up to 2005, including a projection (again based on analysis done by the CMI) of even higher rates of improvement for individuals born between 1925 and 1945 than for individuals born either side. This differential projection of the rates of improvement is assumed to continue for a certain period before the assumed rates of improvement converge. The actual assumptions for the two schemes are derived by fitting this particular standard table to the observed rates of death among members of occupational pension schemes of employers in the financial services sector (of which Grant Thornton and Robson Rhodes pensioners would be a subset), and making adjustments as necessary to obtain the best fit to the financial services sector data.

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 values of the schemes' 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 schemes' liabilities, which are derived from cash flow projections over long periods and thus inherently uncertain, were:

	2008		2007		2006	2005	2004
	£'000	%	£'000	%	£'000	£'000	£'000
UK equities	89,139	44.5	115,100	51.6	96,000	79,500	67,300
Overseas equities	34,700	17.3	34,500	15.9	29,500	25,000	21,400
Fixed interest gilts	968	0.5	–	–	–	–	14,100
Index-linked gilts	24,064	12.0	20,800	9.9	18,500	19,800	3,900
Corporate bonds	22,100	11.0	20,700	12.2	22,600	18,900	–
Property	26,800	13.4	20,800	9.9	18,500	15,900	12,000
Cash	2,637	1.3	2,100	0.5	900	1,500	19,200
Total market value of assets	200,408	100.0	214,000	100.0	186,000	160,600	137,900
Present value of scheme liabilities (all funded)	(245,295)		(238,200)		(240,300)	(218,000)	(189,500)
Net pension liability recognised in the consolidated balance sheet	(44,887)		(24,200)		(54,300)	(57,400)	(51,600)

NOTES TO THE FINANCIAL STATEMENTS

22. Retirement benefits (continued)

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

	2008	2007	2006	2005	2004
	£'000	£'000	£'000	£'000	£'000
Difference between expected and actual return on scheme assets	33,639	(13,300)	(12,100)	(10,500)	(4,400)
Experience (gains) and losses on scheme liabilities	6,206	(200)	100	(5,400)	1,700
Changes in the assumptions underlying the present value of the scheme liabilities	(13,444)	(13,000)	11,000	24,200	(10,400)
Total actuarial (gains) and losses	(26,401)	(26,500)	1,000	8,300	13,100

Reconciliation of scheme liabilities during the year:

	2008	2007
	£'000	£'000
Scheme liabilities at the beginning of year	238,200	240,300
Arising on acquisitions	3,927	–
Interest cost	13,826	12,500
Current service cost	2,351	3,100
Member contributions	1,406	1,300
Benefits paid by scheme	(7,177)	(5,800)
Gain on change of assumptions	(13,444)	(13,000)
Experience loss/(gain) on liabilities	6,206	(200)
Scheme liabilities at end of year	245,295	238,200

Reconciliation of scheme assets during the year:

	2008	2007
	£'000	£'000
Market value at beginning of year	214,000	186,000
Arising on acquisitions	3,348	–
Benefits paid	(7,177)	(5,800)
Employer contributions	5,946	5,600
Member contributions	1,406	1,300
Expected return on assets	16,524	13,600
(Loss)/gain on assets	(33,639)	13,300
Market value at end of year	200,408	214,000

NOTES TO THE FINANCIAL STATEMENTS

22. Retirement benefits (continued)

Actual return on scheme assets:	2008	2007
	£'000	£'000
Expected return on scheme assets	16,524	13,600
Actuarial (loss)/gain	(33,639)	13,300
Actual return on scheme assets	(17,115)	26,900
The amount charged to operating profit was:	2008	2007
	£'000	£'000
Current service cost	2,351	3,100
Total operating charge	2,351	3,100
Other finance costs/(income) comprises:	2008	2007
	£'000	£'000
Expected return on pension scheme assets	(16,524)	(13,600)
Interest on pension scheme liabilities	13,826	12,500
	(2,698)	(1,100)
The amount recognised in the statement of total recognised gains and losses is:	2008	2007
	£'000	£'000
Actual return less expected return on pension scheme assets	33,639	(13,300)
Experience losses/(gains) arising on the scheme liabilities	6,206	(200)
Changes in the assumptions underlying the present value of the scheme liabilities	(13,444)	(13,000)
Net losses/(gains)	26,401	(26,500)
The cumulative amount of actuarial gains and losses recognised in the statement of total recognised gains and losses is a loss of £27.9 million (2007 – £1.5 million loss).		
The movement in the deficit in the year was:	2008	2007
	£'000	£'000
Deficit in schemes at beginning of year	(24,200)	(54,300)
Arising on acquisitions	(579)	–
Current service cost	(2,351)	(3,100)
Contributions	5,946	5,600
Other finance income	2,698	1,100
Actuarial (loss)/gain	(26,401)	26,500
Deficit in schemes at end of year	(44,887)	(24,200)

NOTES TO THE FINANCIAL STATEMENTS

22. Retirement benefits *(continued)*

At the year end, there was a small surplus in the Robson Rhodes scheme so the overall deficit noted above all arises in the Grant Thornton scheme. The actuarial valuation of the Grant Thornton scheme 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%. In recognition that the level of pensionable pay will tend to decrease in real terms now that the scheme is closed to new members, an annual monetary amount of £3.4m is being paid over 10 years from 1 July 2006 to make good the deficit in the scheme over the members' expected average future working lifetime. Total employer contributions in the year commencing 1 July 2008 are expected to be £5.7m (1 July 2007: £5.4m), and member contributions for the same period are expected to be £1.4m (2007: £1.2m).

Guarantee and recognition of obligations

A subsidiary entity, Grant Thornton Services LLP ("GT Services"), is the principal employer to the Grant Thornton Pensions Fund and, on 2 July 2007, also became the principal employer to the Robson Rhodes Retirement Benefit Scheme as part of the Robson Rhodes acquisition. Both schemes are defined benefit pension schemes. GT Services is the sole participating employer of the active members of the GT scheme. Another unlimited liability company subsidiary entity, Grant Thornton Business Services ("GT Business Services") is the sole participating employer of the active members of the Robson Rhodes scheme. The FRS 17 obligations in respect of the schemes are set out above. The partnership pays GT Services and GT Business Services for the supply of staff to the partnership in accordance with the terms of a Staff Supply Agreement between the partnership and GT Services two entities, such charges being sufficient to cover all of the employment costs of the staff, including all pension payments made by GT Services or GT Business 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 remains unpaid by GT Services for a period of not less than two months from the due date.

In addition, on 29 March 2007, 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.

On 2 July 2007, the partnership provided a guarantee to the trustees of the Robson Rhodes Retirement Benefit Scheme under which it has undertaken to pay immediately, following a demand by the trustees, any amount which becomes due and payable by GT Business Services in respect of its guaranteed obligations. Such obligations are defined and limited in the same way as those for GT Services set out above.

The obligations to the schemes are reflected in the respective balance sheets of GT Services and GT Business Services as the participating employers. 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 the principal/participating employers at the balance sheet date.

NOTES TO THE FINANCIAL STATEMENTS

23. Leasing commitments

Operating lease payments amounting to £11,393,000 (30 June 2007: £7,455,000) are due within one year. The leases to which these amounts relate expire as follows:

	Land and buildings £'000	2008 Other £'000	Land and buildings £'000	2007 Other £'000
In one year or less	452	2,062	257	1,463
Between one and five years	2,781	483	2,088	197
In five years or more	5,605	10	3,440	10
	8,838	2,555	5,785	1,670

24. 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.

Mayshill Limited ("Mayshill") is beneficially owned by those continuing members of the partnership who were members on 30 June 2007.

On 2 July 2007, the partnership loaned Mayshill £8,812,500 to enable Mayshill to acquire the customer goodwill of RSM Robson Rhodes LLP. The loan is repayable over 10 years in equal instalments and attracts interest at 2% over base rate. The loan principal outstanding at 30 June 2008 was £7,931,250. Other unsettled transactions between Mayshill and the partnership are carried in a loan account which also attracts interest at 2% over base rate. At 30 June 2008, the balance on this loan was £1,045,000 owed by the partnership. The net interest receivable by the partnership on these two loans for the year ended 30 June 2008 was £583,000.

On 2 July 2007, the partnership also entered into a 10-year agreement with Mayshill under which Mayshill has granted an exclusive licence to the partnership to use the customer goodwill acquired from RSM Robson Rhodes LLP. An annual royalty is payable by the partnership to Mayshill and this amounted to £1,350,000 for the year ended 30 June 2008, although payments are subject to deduction of basic rate tax.

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF GRANT THORNTON UK LLP

We have audited the group and parent entity financial statements ("the financial statements") of Grant Thornton UK LLP for the year ended 30 June 2008 which comprise the consolidated profit and loss account, the consolidated and entity balance sheets, the consolidated cash flow statement, the consolidated statement of total recognised gains and losses and the related notes. These financial statements have been prepared under the accounting policies set out therein.

This report is made solely to the members of the limited liability partnership, as a body, in accordance with section 235 of the Companies Act 1985, as modified by the Limited Liability Partnerships Regulations 2001. Our audit work has been undertaken so that we might state to the members of the limited liability partnership those matters we are required to state to them in an auditors' 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 annual report and 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 have been 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 limited liability 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 mis-statements within it.

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 group's and the limited liability partnership's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material mis-statement, 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.

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF GRANT THORNTON UK LLP

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 group's and the parent entity's affairs as at 30 June 2008 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

12 November 2008