PRG-Schultz UK Limited

Directors' report and financial statements

Registered number 1478123

31 December 2004

Contents

Directors' report

The directors present their report and the audited financial statements for the year ended 31 December 2004.

Principal activities and review of the business

The principal activity of the company in the year under review continued to be that of the provision of general financial services, including recovery audit services.

Results and dividends

The results for the year are shown in the profit and loss account on page 4.

No interim dividends were paid *(2003: £nil)*, and no final dividend is proposed *(2003: £nil)*.

Directors and directors' interests

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

J Cook (resigned 25 July 2005)
J McCurry (appointed 25 July 2005)

The director who held office at the end of the financial year and his immediate family had the following interests in the ordinary shares of PRG-Schultz International, Inc., the ultimate parent company, according to the register of directors' interests.

	Interest at end of year	Interest at start of year
J Cook	1,728,940	2,916,404
J Cook's Spouse	1,180,597	1,154,613

Political and charitable contributions

During the year the company made charitable donations totalling £3,399 *(2003: £4,253)*.

Auditors

The auditors, KPMG LLP, have expressed their willingness to continue in office and a resolution that they may be reappointed will be proposed at the forthcoming Annual General Meeting.

By order of the board

C Tyrrell
Secretary

950 Capability Green
Luton
Bedfordshire
LU1 3LU

31 March 2006

Statement of directors' responsibilities

Company law requires the directors to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that period. In preparing those financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements;
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

The directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the company and to enable them to ensure that the financial statements comply with the Companies Act 1985. They have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the company and to prevent and detect fraud and other irregularities.

KPMG

PO Box 685
8 Salisbury Square
London
EC4Y 8BB

Independent auditors' report to the members of PRG-Schultz UK Limited

We have audited the financial statements on pages 4 to 17.

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

Respective responsibilities of directors and auditors

The directors are responsible for preparing the directors' report and, as described on page 2, the financial statements in accordance with applicable United Kingdom law and accounting standards. Our responsibilities, as independent auditors, are established in the United Kingdom by statute, the Auditing Practices Board and by our profession's ethical guidance.

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act 1985. We also report to you if, in our opinion, the directors' report is not consistent with the financial statements, if the company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and transactions with the company is not disclosed.

Basis of audit opinion

We conducted our audit in accordance with Auditing Standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

Opinion

In our opinion the financial statements give a true and fair view of the state of affairs of the company as at 31 December 2004 and of its loss for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

KPMG LLP

KPMG LLP
Chartered Accountants
Registered Auditor

31 March 2006

Profit and loss account

for the year ended 31 December 2004

	Note	2004	2003
		£	£
Turnover	*1*	**24,527,213**	25,097,628
Cost of sales		**(19,392,729)**	(18,360,419)
Gross profit		**5,134,484**	6,737,209
Other operating income		**1,221,381**	656,785
Administrative expenses		**(9,203,108)**	(8,069,096)
Impairment of goodwill	*8*	**(11,103,215)**	-
Operating loss	*2*	**(13,950,458)**	(675,102)
Interest receivable and similar income	*5*	**13,461**	77,970
Interest payable and similar charges	*6*	**(99,777)**	-
Loss on ordinary activities before taxation		**(14,036,774)**	(597,132)
Tax on loss on ordinary activities	*7*	**-**	42,122
Retained loss for the financial year		**(14,036,774)**	(555,010)
Retained profit brought forward		779,963	1,334,973
Retained (loss)/profit carried forward		**(13,256,811)**	779,963

The results stated above are all derived from continuing operations.

There is no difference between the profit on ordinary activities before taxation stated above for both years, and their historical cost equivalents.

Balance sheet

at 31 December 2004

	Note	2004		2003	
		£	£	£	£
Fixed assets					
Intangible assets	8		**2,434,528**		13,667,584
Tangible assets	9		**1,288,243**		1,336,264
			3,722,771		15,003,848
Current assets					
Debtors	10	**8,450,698**		7,038,157	
Cash at bank and in hand		**505,039**		2,035,014	
		8,955,737		9,073,171	
Creditors: amounts falling due within one year	11	**(7,575,463)**		(5,687,200)	
Net current assets			**1,380,274**		3,385,971
Total assets less current liabilities			**5,103,045**		18,389,819
Net assets			**5,103,045**		18,389,819
Capital and reserves					
Called up share capital	12		**210**		210
Share premium	17		**17,609,646**		17,609,646
Capital contribution reserve	17		**750,000**		-
Profit and loss	17		**(13,256,811)**		779,963
Shareholders' funds - Equity			**5,103,045**		18,389,819

These financial statements were approved by the board of directors on 31 March 2006 and were signed on its behalf by:

J McCurry
Director

Cash flow statement

for the year ended 31 December 2004

	Note	2004 £	2003 £
Net cash (outflow)/inflow from operating activities	*13*	**(2,006,644)**	1,956,483
Returns on investments and servicing of finance	*14*	**(86,316)**	77,970
Taxation		**(60,773)**	(517,117)
Capital expenditure	*14*	**(661,487)**	(573,188)
Acquisitions	*14*	**-**	478,815
Cash (outflow)/inflow before financing		**(2,815,220)**	1,422,963
Financing	*14*	**1,285,245**	(2,325)
(Decrease)/increase in cash		**(1,529,975)**	1,420,638

Reconciliation of net cash flow to movement in net (deficit)/funds

	Note	2004 £	2003 £
(Decrease)/increase in cash in the year		**(1,529,975)**	1,420,638
Cash (inflow)/outflow from (increase)/decrease in debt and lease financing	*15*	**(535,245)**	2,425
(Decrease)/increase in net funds in the year		**(2,065,220)**	1,423,063
Net funds at 1 January		**2,035,014**	611,951
Net (deficit)/funds at 31 December		**(30,206)**	2,035,014

Statement of total recognised gains and losses

for the year ended 31 December 2004

	2004	2003
	£	£
Loss for the financial year	**(14,036,774)**	(555,010)
Capital contribution	**750,000**	-
Total recognised gains and losses relating to the financial year	**(13,286,774)**	(555,010)

Reconciliation of movements in equity shareholders' funds

for the year ended 31 December 2004

	2004	2003
	£	£
Loss for the financial year	**(14,036,774)**	(555,010)
New share capital	-	17,609,746
Capital contribution	**750,000**	-
Net (reduction)/addition to shareholders' funds	**(13,286,774)**	17,054,736
Opening shareholders' funds	**18,389,819**	1,335,083
Closing shareholders' funds	**5,103,045**	18,389,819

Notes

(forming part of the financial statements)

1 Accounting policies

Basis of accounting

The following principal accounting policies have been applied consistently throughout the year, dealing with items which are considered material to the company's financial statements.

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

Turnover

Turnover represents amounts derived from the principal business of providing recovery audit services to large and medium businesses. Turnover is stated net of VAT and is recognised when a customer has secured a recovery from its supplier.

Depreciation

Depreciation is calculated to write off the cost less the estimated residual value of tangible fixed assets by equal instalments over their estimated useful economic lives as follows:

Computer equipment	-	33% straight line per annum
Office equipment	-	20% straight line per annum
Leasehold improvements	-	10% straight line per annum

Leases and hire purchase contracts

Assets held under finance leases and hire purchase contracts are capitalised in the balance sheet and are depreciated in accordance with the company's depreciation policy. The interest element of the rental obligation is charged to the profit and loss account over the period of the lease or hire purchase contract and represents a constant proportion of the balance of capital repayments outstanding.

Deferred taxation

Deferred tax is recognised without discounting, in respect of all timing differences between the treatment of certain items for taxation and accounting purposes which have arisen and not reversed by the balance sheet date, except as otherwise required by FRS 19. A net deferred tax asset is regarded as recoverable an therefore recognised only when, on the basis of all available evidence, it can be regarded as more likely than not that there will be suitable taxable profits from which the future reversal of the underlying timing differences can be deducted.

Foreign currencies

Profit and loss account transactions in foreign currencies are translated into sterling at the exchange rate in operation of the date of the transaction. Assets and liabilities denominated in foreign currencies are translated into sterling at the closing rates and the exchange differences are included in the profit and loss account.

Pensions

The company operates a defined contribution pension scheme. Contributions payable for the period are charged in the profit and loss account.

Notes *(continued)*

1 Accounting policies *(continued)*

Goodwill

Purchased goodwill, being the difference between the fair value of consideration payable and the fair value of separable net assets acquired is capitalised in accordance with the requirements of FRS 10: Goodwill and intangible assets, and is amortised on a straight line basis over the directors' estimate of useful life, which is up to 20 years.

Fair value accounting adjustments are made in respect of acquisitions and these may be made on provisional estimates. Amendments may be made to these adjustments in the subsequent accounting period with corresponding adjustment to goodwill in the light of post acquisition experience.

2 Loss on ordinary activities before taxation

	2004	2003
	£	£
Loss on ordinary activities before taxation is stated after charging:		
Auditors' remuneration:		
Audit	**47,000**	40,000
Other services	**-**	-
Loss on disposal of fixed assets	**5,964**	118,955
Foreign currency exchange loss	**75,779**	98,882
Depreciation of tangible fixed assets:		
Owned	**703,544**	599,765
Leased	**-**	2,454
Amortisation of goodwill	**129,841**	173,007
Impairment of goodwill	**11,103,215**	-
Hire of other assets - operating leases	**149,872**	281,349

3 Remuneration of directors

Directors' remuneration is borne by another group company.

No directors are accruing benefits under money purchase pension schemes *(2003:£ nil)*.

Notes *(continued)*

4 Staff numbers and costs

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

	Number of employees	
	2004	2003
Administration	**79**	103
Audit	**100**	77
	179	180

The aggregate payroll costs of these persons were as follows:

	2004	2003
	£	£
Wages and salaries	**9,735,338**	6,282,123
Social security costs	**1,152,628**	897,512
Other pension costs	**411,418**	266,375
	11,299,384	7,446,010

The pension cost for 2004 of £411,418 relates to contributions payable to the company's defined contribution pension scheme. At 31 December 2004, there were outstanding contributions of £89,045 *(2003: £71,965)*.

5 Interest receivable and similar income

	2004	2003
	£	£
Bank interest	**13,461**	10,892
Intercompany interest receivable	**-**	67,078
	13,461	77,970

6 Interest payable and similar charges

	2004	2003
	£	£
Intercompany interest payable	**99,777**	-

Notes *(continued)*

7 Taxation

(i) Analysis of tax charge in year

	2004	2003
	£	£
UK corporation tax		
Corporation tax on loss on ordinary activities at 30% *(2003: 30%)*	-	(24,373)
Adjustments in respect of previous year	-	(17,749)
Current tax	-	(42,122)
Deferred tax	-	-
	-	(42,122)

(ii) Factors affecting the tax charge for the current year

Current tax for the year is higher *(2003: lower)* than the standard rate of tax in the UK of 30% *(2003: 30%)*. The differences are explained below:

	2004	2003
	£	£
Current tax reconciliation		
Loss on ordinary activities before tax	**(14,036,774)**	(597,133)
Current tax at 30% *(2003: 30%)*	**(4,211,032)**	(179,140)
Effect of:		
Expenses not deductible for tax purposes	**3,544,006**	107,803
Depreciation in excess of capital allowances	**50,682**	36,308
Other timing differences	**12,153**	10,656
Adjustments in respect of prior periods	-	(17,749)
Tax losses not recognised	**604,191**	-
Total current tax credit	-	(42,122)

(iii) Deferred tax

There was no deferred tax provided at 31 December 2004 *(2003: £nil)*. A deferred tax asset of £854,906 has not been recognised on accelerated capital allowances, other timing differences and tax losses carried forward at 31 December 2004 *(2003: £93,706)* on the grounds that there is insufficient evidence that the asset will be recoverable.

Notes *(continued)*

8 Intangible assets

	Goodwill £
Cost	
At beginning and end of year	**13,840,591**
Amortisation	
At beginning of year	(173,007)
Charged in year	(129,841)
Impairment in the year	(11,103,215)
At end of year	**(11,406,063)**
Net book value	
At 31 December 2004	**2,434,528**
At 31 December 2003	13,667,584

The goodwill is being amortised over 20 years, being its estimated useful life.

Notes *(continued)*

9 Tangible fixed assets

	Computer equipment £	Office equipment £	Leasehold improvements £	Total £
Cost				
At 1 January 2004	972,078	95,309	544,808	1,612,195
Additions	637,329	6,225	17,933	661,487
Disposals	(6,701)	-	-	(6,701)
At 31 December 2004	**1,602,706**	**101,534**	**562,741**	**2,266,981**
Depreciation				
At 1 January 2004	166,110	54,854	54,967	275,931
Charge for year	617,094	19,090	67,360	703,544
Disposals	(737)	-	-	(737)
At 31 December 2004	**782,467**	**73,944**	**122,327**	**978,738**
Net book value				
At 31 December 2004	**820,239**	**27,590**	**440,414**	**1,288,243**
At 31 December 2003	805,968	40,455	489,841	1,336,264

The net book value of fixed assets includes £nil *(2003: £nil)* in respect of assets held under finance leases and hire purchase contracts. The depreciation charged in the year for these assets was £nil *(2003: £2,454)*.

Notes *(continued)*

10 Debtors

	2004 £	2003 £
Trade debtors	**4,195,705**	4,209,876
Other debtors	**1,098,460**	1,043,759
Prepayments and deferred income	**82,132**	144,357
Amounts owed from group undertakings	**2,677,810**	1,304,347
Corporation tax	**396,591**	335,818
	8,450,698	7,038,157

11 Creditors: amounts falling due within one year

	2004 £	2003 £
Trade creditors	**1,701,011**	2,168,907
Other taxes and social security	**417,627**	418,923
Accruals and deferred income	**2,241,132**	2,018,843
Bank loans and overdrafts	**535,245**	-
Amounts owed to group undertakings	**2,680,448**	1,080,527
	7,575,463	5,687,200

Notes *(continued)*

12 Called up share capital

	2004	2003
	£	£
Authorised:		
200 ordinary shares of £1 each	**200**	200
10 A ordinary shares of £1 each	**10**	10
	210	210
Allotted, called up and fully paid:		
200 ordinary shares of £1 each	**200**	200
10 A ordinary shares of £1 each	**10**	10
	210	210

13 Reconciliation of operating loss to net cash flow from operating activities

	2004	2003
	£	£
Operating loss	**(13,950,458)**	(675,103)
Loss on sale of fixed assets	**5,964**	118,955
Depreciation	**703,544**	602,219
Goodwill amortisation	**129,841**	173,007
Impairment loss on goodwill	**11,103,215**	-
Intercompany writeoff	**553,483**	602,307
(Increase)/decrease in debtors	**(1,905,251)**	111,018
Increase in creditors	**1,353,018**	1,024,080
Net cash (outflow)/inflow from operating activities	**(2,006,644)**	1,956,483

Notes *(continued)*

14 Analysis of cash flows

	2004 £	2003 £
Returns on investment and servicing of finance		
Interest received	**13,461**	77,970
Interest paid	**(99,777)**	-
Interest element of finance lease rental payments	-	-
	(86,316)	77,970
Capital expenditure		
Purchase of tangible fixed assets	**(661,487)**	(579,188)
Sale of tangible fixed assets	-	6,000
	(661,487)	(573,188)
Acquisitions		
Cash acquired	-	478,815
Financing		
Issue of ordinary share capital	-	100
Capital element on finance lease rental payments	-	(2,425)
Capital contribution	**750,000**	-
Bank loan and overdraft	**535,245**	-
	1,285,245	(2,325)

15 Analysis of changes in net funds/(deficit)

	At 1 January 2004 £	Cash flow £	**At 31 December 2004 £**
Cash in bank and in hand	2,035,014	(1,529,975)	**505,039**
Financing	-	(535,245)	**(535,245)**
Total net funds/(deficit)	2,035,014	(2,065,220)	**(30,206)**

Notes *(continued)*

16 Commitments

Capital commitments

At 31 December 2004 the company had contracted capital commitments of £nil *(2003: £195,000).*

Operating lease commitments

At 31 December 2004 the company had annual commitments under non-cancellable operating leases as follows:

	2004	2003
	£	£
Expiring within two to five years		
- property	**149,872**	160,578
- other	-	-

17 Capital and reserves

	Share capital	**Share premium**	**Profit and loss**	**Capital contribution reserve**	**Total**
	£	£	£	£	£
At 1 January 2004	210	17,609,646	779,963	-	18,389,819
Retained loss for the financial year	-	-	(14,036,774)	-	(14,036,774)
Capital contribution	-	-	-	750,000	750,000
At 31 December 2004	**210**	**17,609,646**	**(13,256,811)**	**750,000**	**5,103,045**

On 26 October 2004, PRG-Schultz International, Inc. contributed capital of £750,000 in the form of cash. The capital contribution reserve is distributable.

18 Immediate and ultimate parent company

The immediate parent company is Tamebond Limited, a company registered in England and Wales.

The company's ultimate parent company is PRG-Schultz International, Inc., incorporated in the United States. The largest group in which the results of the company are consolidated is that headed by PRG-Schultz International, Inc. The consolidated accounts of this company are available to the public and may be obtained from PRG-Schultz International, Inc., 600 Galleria Parkway, Suite 100, Atlanta, GA 30339. No other group accounts include the results of the company.

29 Related party transactions

Under Financial Reporting Standard 8 "Related Party Disclosures", the Company has taken advantage of the exemption from disclosing transactions with other group companies.