

Scholz & Friends London Limited

Directors' Report and Financial Statements

Registered Number 3398022

Year ended 31 December 2005



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Directors' Report

The directors present their annual report and the audited financial statements for the year ended 31 December 2005.

Principal activities

The company's activity continues to be advertising.

Business review

The company continued to be loss making in 2005. However, a renewed focus on new client wins in 2006 is expected to lead to a gradual improvement in results in future periods.

Results and dividends

The results for the year are given in the profit and loss account on page 5. The loss on ordinary activities after taxation amounted to £316,664 (2004: £570,808), which has been deducted from reserves. The directors are unable to propose the payment of a dividend (2004: £nil).

Directors and directors' interests

The directors who held office in the year and up to date of this report were as follows:

C J K Tiedemann
H E Page

None of the directors held any disclosable interests in shares, options or debentures in the company or other group companies either at the beginning or the end of the year.

Political and charitable contributions

The company made no political contributions during the year. Donations to UK charities amounted to £nil (2004: £310).

Elective resolutions

The company has passed resolutions under sections 252, 366A and 386 of the Companies Act 1985 dispensing with the requirements to lay accounts and reports before the company in general meeting, hold annual general meetings and reappoint auditors annually.

By order of the Board



M Kornhass
Company Secretary

80 Clerkenwell Road
London
EC1M 5RJ

16/05/2006

Statement of directors' responsibilities

The directors are required by company law 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; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business for the foreseeable future.

The directors confirm that the financial statements comply with the above requirements.

The directors are responsible for maintaining adequate accounting records which disclose with reasonable accuracy at any time the financial position of the company and which enable them to ensure that the financial statements comply with the Companies Act 1985. The directors also have a 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 Audit Plc

8 Salisbury Square
London
EC4Y 8BB
United Kingdom

Independent auditors' report to the members of Scholz & Friends London Limited

We have audited the financial statements of Scholz & Friends London Limited for the year ended 31 December 2005 which comprise the Profit and Loss Account, the Balance Sheet and the related notes. These financial statements have been prepared under the accounting policies set out therein. This report is made solely to the company's members, as a body, in accordance with section 235 of the Companies Act 1985. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in 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

As described in the Statement of Directors' Responsibilities on page 2, the company's directors are responsible for the preparation of the financial statements in accordance with applicable law and UK Accounting Standards (UK Generally Accepted Accounting Practice).

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act 1985. 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 other transactions is not disclosed.

We read the Directors' Report and consider the implications for our report if we become aware of any apparent misstatements 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 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.

Independent auditors' report to the members of Scholz & Friends London Limited
(continued)

Opinion

In our opinion the financial statements:

give a true and fair view, in accordance with UK Generally Accepted Accounting Practice, of the state of the company's affairs as at 31 December 2005 and of its loss for the year then ended; and

have been properly prepared in accordance with the Companies Act 1985.

KPMG Audit Plc

KPMG Audit Plc
Chartered Accountants
Registered Auditor

30 May 2006

Profit and loss account for the year ended 31 December 2005

	Note	2005 £	2004 £
Turnover	1,2,3	3,551,008	3,954,937
Cost of sales	1,2	(1,604,026)	(2,060,561)
Gross Profit	1	1,946,982	1,894,376
Other operating income	8	97,540	80,040
Administrative expenses before exceptional items		(2,312,839)	(2,208,692)
Exceptional items	4	-	(60,000)
Administrative expenses after exceptional items		(2,312,839)	(2,268,692)
Operating loss	2,5	(268,317)	(294,276)
Interest receivable and similar income	9	203,054	2,237
Interest payable and similar charges	10	(251,401)	(278,769)
Loss on ordinary activities before taxation		(316,664)	(570,808)
Tax on loss on ordinary activities	11	-	-
Loss on ordinary activities after taxation and retained loss for the year	17	(316,664)	(570,808)

There were no recognised gains or losses other than those shown above for the year and the prior year. The losses for the year and the prior year are all derived from continuing operations.

The accompanying notes are an integral part of this profit and loss account.

Balance sheet at 31 December 2005

	Note	2005 £	2004 £
Fixed assets			
Tangible assets	12	362,103	397,884
Current assets			
Work in progress		15,281	20,892
Debtors	13	920,260	1,270,673
Cash at bank and in hand		598,836	331,662
		<u>1,534,377</u>	<u>1,623,227</u>
Creditors: amounts falling due within one year	14	(7,478,770)	(7,547,798)
Net current liabilities		<u>(5,944,393)</u>	<u>(5,924,571)</u>
Total assets less current liabilities		<u>(5,582,290)</u>	<u>(5,526,687)</u>
Provisions for liabilities and charges	15	(736,051)	(474,990)
Net liabilities		<u>(6,318,341)</u>	<u>(6,001,677)</u>
Capital and reserves			
Called up share capital	16	8	8
Share premium	17	1,184,871	1,184,871
Profit and loss account	17	(7,503,220)	(7,186,556)
Equity shareholders' deficit	17	<u>(6,318,341)</u>	<u>(6,001,677)</u>

These financial statements were approved by the Board of Directors on ~~16~~ May 2006 and signed on its behalf by:

C J K Tiedemann
Director



Notes (forming part of the financial statements)

1. Accounting Policies

Basis of preparation

The financial statements have been prepared under the historical cost convention and in accordance with applicable accounting standards and with the Companies Act 1985. The following accounting policies have been applied consistently in dealing with items which are considered material in relation to the company's financial statements.

The financial statements of Scholz & Friends Holdings GmbH, the company's ultimate parent undertaking, for the year ended 31 December 2005 included a consolidated cash flow statement and are publicly available. The company is not, therefore, required by Financial Reporting Standard 1 (Revised) to prepare a cash flow statement.

The company is exempt, under the provisions of section 228 of the Companies Act 1985, from the requirement to prepare group accounts. Consequently these financial statements present information about the company as an individual entity and not about its group.

The company has net liabilities, and is dependent on a loan from Scholz & Friends Group GmbH to meet its operating cash requirements. The financial statements have, been prepared on the going concern basis, which the directors believe to be appropriate, because Scholz & Friends Group GmbH has indicated that it is its intention to continue to provide sufficient finance to the company to enable it to continue trading and meet its liabilities as they fall due for at least one year from the date of approval of these financial statements. As with any company placing reliance upon other group entities for financial support, the directors acknowledge that there can be no certainty that this support will continue although, at the date of approval of these financial statements they have no reason to believe that it will not do so

Turnover

Turnover comprises the gross amounts billed to clients in respect of commission based income together with the total of other fees earned. Turnover is stated exclusive of VAT, other sales taxes and trade discounts.

Fixed assets

Tangible fixed assets are stated at historical cost less accumulated depreciation. Additions, improvements and major renewals are capitalised. Maintenance repairs and minor renewals are expensed as incurred. The cost of tangible fixed assets less the estimated residual value is written off by equal annual instalments over the expected useful lives of the assets as follows:

Short leasehold properties	
with terms of less than 50 years:	- life of lease
Furniture and equipment	- 10 years
Motor vehicles	- 4 years

Notes (continued)

1. Accounting Policies (continued)

Foreign currencies

Transactions in foreign currencies are recorded using the rate of exchange ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated using the rate of exchange ruling at the balance sheet date and the gains or losses on translation are included in the profit and loss account.

Leases

Where the company enters into a lease which entails taking substantially all the risks and rewards of ownership of an asset, the lease is treated as a finance lease. The asset is recorded in the balance sheet as a tangible fixed asset and is depreciated over the shorter of its estimated useful life and of the lease term. Future instalments under such leases, net of finance charges, are included within creditors. Rentals payable are apportioned between the finance element, which is charged to the profit and loss account as interest and the capital element which reduces the outstanding obligation for future instalments.

All other leases are accounted for as operating leases and the rental charges are charged to the profit and loss account on a straight line basis over the life of the lease.

Work in progress

Work in progress is valued at the lower of cost and net realisable value and comprises mainly outlays incurred on behalf of clients and work in progress under project arrangements. Provision is made for irrecoverable costs where appropriate.

Deferred tax

Deferred tax is recognised in respect of all timing differences that have originated but not reversed at the balance sheet date where transactions or events that result in an obligation to pay more tax in future or a right to pay less tax in future have occurred at the balance sheet date. A net deferred tax asset is regarded as recoverable and 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.

Pension costs

Retirement benefits for employees of the company are provided for employees by means of contribution to money purchase schemes. The company's share of contributions to defined contribution schemes are charged to the profit and loss account in the year in which they become payable.

Notes (continued)

2. Analysis of turnover and operating loss

The turnover and operating loss is attributable to the provision of advertising services and originates in the United Kingdom

3. Geographical analysis of turnover by destination

	2005	2004
	£	£
Turnover		
United Kingdom	2,353,207	1,528,499
Rest of Europe	1,153,033	2,421,392
United States of America	34,510	208
Rest of World	10,258	4,838
	<u>3,551,008</u>	<u>3,954,937</u>

4. Exceptional Items

	2005	2004
	£	£
Severance	-	60,000
	<u>-</u>	<u>60,000</u>

5. Operating loss

	2005	2004
	£	£
The operating loss is stated after charging/(crediting):		
Auditors' remuneration:		
Audit	15,000	12,566
Depreciation and other amounts written off tangible fixed assets – owned	85,276	90,298
Depreciation and other amounts written off tangible fixed assets		
- held under finance leases	-	3,995
Exchange gains	850	-
Rentals payable under operating leases		
Leasehold property	270,575	270,575
	<u>270,575</u>	<u>270,575</u>

Notes (continued)

6. Remuneration of directors

Christian Tiedemann and Helene Page's emoluments were borne by Scholz & Friends AG and Scholz & Friends Hamburg GmbH respectively.

7. Staff numbers and costs

	Number of employees	
	2005	2004
Average number of persons employed by the company (including directors) during the year	17	16

The aggregate payroll costs of these persons were as follows:

	2005	2004
	£	£
Wages and salaries	948,705	934,974
Social security costs	131,895	120,247
Other pension costs (see note 19)	33,490	50,674
	<u>1,114,090</u>	<u>1,105,895</u>

The aggregate payroll costs shown above are exclusive of exceptional severance costs.

8. Other income

	2005	2004
	£	£
Rent receivable	97,540	80,040
	<u>97,540</u>	<u>80,040</u>

9. Interest receivable and similar income

	2005	2004
	£	£
Bank deposit interest	22,214	2,237
Net exchange gains	180,840	-
	<u>203,054</u>	<u>2,237</u>

10. Interest payable and similar charges

	2005	2004
	£	£
On bank loans and loan notes	8	-
Payable to group undertakings	251,271	245,861
Net exchange losses	-	32,293
Finance leases and hire purchase charges	122	615
	<u>251,401</u>	<u>278,769</u>

Notes (continued)

11. Taxation

	2005 £	2004 £
UK corporation tax at 30% (2004: 30%)	-	-

Reconciliation of the Company's current tax to the United Kingdom statutory rate:

	2005 £	2004 £
Tax on pre tax loss at 30%	(94,999)	(171,242)
Effects of:		
Expenses not deductible for tax purposes	10,999	5,952
Tax effect of timing differences	3,113	29,578
Tax losses carried forward	80,887	135,712
	-	-

A net deferred tax asset of £1,241,000 (2004: £1,156,600) as detailed below has not been recognised. In the opinion of the Directors, there is not sufficient evidence presently available that income will be generated to support the recovery of this asset.

	2005 £	2004 £
Tax losses carried forward	1,208,000	1,144,800
Other timing differences	33,000	11,800
	1,241,000	1,156,600

Notes (continued)

12. Fixed assets

12(a) Tangible fixed assets

	Leasehold Improvements £	Furniture and equipment £	Motor Vehicles	Total £
Cost				
At 1 January 2005	13,409	1,034,750	1,025	1,049,184
Additions	-	57,472	-	57,472
Disposals	-	(176,776)	-	(176,776)
At 31 December 2005	13,409	915,446	1,025	929,880
Depreciation				
At 1 January 2005	4,470	646,531	299	651,300
Charge for period	894	83,870	512	85,276
Disposals	-	(168,799)	-	(168,799)
At 31 December 2005	5,364	561,602	811	567,777
Net book value				
At 31 December 2005	8,045	353,844	214	362,103
At 31 December 2004	8,939	388,219	726	397,884

Included in the total net book value is £Nil (2004: £Nil) in respect of assets held under finance leases, and the depreciation charged on assets held under finance leases was £Nil (2004: £3,995).

12(b) Fixed asset investments

The company owns 100% of the ordinary share capital of Herman Beasley Advertising Limited. Herman Beasley Advertising Limited is incorporated in the United Kingdom and ceased trading in the year ended 31 December 2000. The investment has a net book value of £nil.

Notes (continued)

13. Debtors

	2005 £	2004 £
Due within one year:		
Trade debtors	450,645	611,859
Amounts owed by parent and fellow subsidiary undertakings	323,584	88,445
Other debtors	1,216	49,295
Prepayments and accrued income	144,815	521,074
	<u>920,260</u>	<u>1,270,673</u>

14. Creditors

	2005 £	2004 £
Due within one year:		
Finance leases and hire purchase	-	2,556
Trade creditors	201,048	390,549
Amounts owed to group and fellow subsidiary undertakings	6,634,152	6,551,959
Taxation and social security	46,076	44,514
Other creditors	25,969	45,147
Accruals and deferred income	571,525	513,073
	<u>7,478,770</u>	<u>7,547,798</u>

15. Provisions for liabilities and charges

	2005 £	2004 £
At 1 January 2005	474,990	539,200
Utilised	(46,710)	(64,210)
Provided in the year	307,771	-
At 31 December 2005	<u>736,051</u>	<u>474,990</u>

Provision has been made for the estimated unavoidable future cost of those parts of the company's leased property which became vacant in the year and for anticipated future rental shortfalls on currently vacant and sublet parts of the property.

Notes (continued)

16. Called up share capital

	2005 £	2004 £
Authorised 1,000 ordinary shares of £1 each	1,000	1,000
Allotted, called-up and fully paid		
8 Ordinary shares of £1 each	8	8
	<u>8</u>	<u>8</u>

17. Reconciliation of movements in shareholders' funds

	Share capital £	Share premium £	Profit and loss account £	Total £
At 1 January 2005	8	1,184,871	(7,186,556)	(6,001,677)
Loss for the year	-	-	(316,664)	(316,664)
At 31 December 2005	<u>8</u>	<u>1,184,871</u>	<u>(7,503,220)</u>	<u>(6,318,341)</u>

18. Commitments

(a) Annual commitments under non-cancellable operating leases are as follows:

	2005 Land and Buildings £	2004 Land and Buildings £
Operating leases which expire:		
Within one year	-	-
In the second to fifth years inclusive	-	-
Over five years	270,575	270,575
	<u>270,575</u>	<u>270,575</u>

19. Pension schemes

Payments were made in the year to both the stakeholder pension scheme and employees' personal pension plans. During the year ended 31 December 2005 the charge to the profit and loss account for the stakeholder pension scheme was £14,917 (2004:£17,436).

For the year ending 31 December 2005 a further profit and loss charge of £18,573 (2004:£33,238) related to employees' personal pension plans.

Notes (continued)

20. Related party disclosures

The company has taken advantage of the exemption under Financial Reporting Standard 8 – Related Party Disclosures (FRS 8) not to disclose related party transactions between wholly owned group undertakings.

21. Ultimate parent company and parent undertaking of smallest group of which the company is a member

For the year ended 31 December 2005, the company's financial statements are consolidated into those of Scholz & Friends Holdings GmbH, the ultimate parent company. Copies of financial statements can be obtained from the Secretary, Hanseatic Trade Centre, AM Sandtorkai 76, D-20457, Hamburg, Germany.

The head of the smallest group into which the company's 2005 results are consolidated is Scholz & Friends AG, which is registered in Germany. The consolidated financial statements of Scholz & Friends AG can be obtained from the Secretary, Hanseatic Trade Centre, AM Sandtorkai 76, D-20457, Hamburg, Germany.