

Scholz & Friends London Limited

Directors' Report and Financial Statements

Registered Number 3398022

Year ended 31 December 2006

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Directors' Report

The directors present their annual report and the audited financial statements for the year ended 31 December 2006

Principal activities

The company's activity continues to be advertising

Business review

The company continued to be loss making in 2006. However, a renewed focus on new client wins in 2007 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 7. The loss on ordinary activities after taxation amounted to £439,907 (2005 £316,664), which has been deducted from reserves. The directors are unable to propose the payment of a dividend (2005 £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 (2005 £nil). Donations to UK charities amounted to £20 (2005 £nil)

Post balance sheet events

Subsequent to the year end the Scholz Group, which includes Scholz & Friends London Limited, has formed a strategic alliance with the Lowe Group (network of InterPublic Group). The alliance may result in a part or substantially all of the Company's trade being transferred to the Lowe Group.

Disclosure of information to auditors


The directors who held office at the date of approval of this directors' report confirm that, so far as they are each aware, there is no relevant audit information of which the Company's auditors are unaware, and each director has taken all the steps that he ought to have taken as a director to make himself aware of any relevant audit information and to establish that the Company's auditors are aware of that information.

Directors' Report (continued)

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

25 July 2007

Statement of directors' responsibilities in respect of the Directors' Report and the financial statements

The directors are responsible for preparing the Directors' Report and the financial statements in accordance with applicable law and regulations

Company law requires the directors to prepare financial statements for each financial year. Under that law they have elected to prepare the financial statements in accordance with UK Accounting Standards.

The company financial statements are required by law to 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 these financial statements, the directors 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, and
- 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 that disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that its 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 Audit Plc

8 Salisbury Square
London
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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 2006 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

The directors' responsibilities for preparing the financial statements in accordance with applicable law and UK Accounting Standards (UK Generally Accepted Accounting Practice) are set out in the Statement of Directors' Responsibilities on page 4.

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 whether in our opinion the information given in the Directors' Report is consistent with the financial statements.

In addition we report to you if, in our opinion, 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.

Going concern

In forming our opinion, we have considered the adequacy of the disclosures made in note 1 to the financial statements concerning the reliance on the company's ultimate parent, Scholz & Friends Holdings GmbH, for continued financial support. In view of the significance of the uncertainty inherent in this matter, we consider that it should be drawn to your attention but our opinion is not qualified in this respect.

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 2006 and of its loss for the year then ended,
- the financial statements have been properly prepared in accordance with the Companies Act 1985 and
- the information given in the Directors' Report is consistent with the financial statements

KPMG Audit Plc

KPMG Audit Plc
Chartered Accountants
Registered Auditor

6 August 2007

Profit and loss account for the year ended 31 December 2006

	Note	2006 £	2005 £
Turnover	1,2,3	2,146,302	3,551,008
Cost of sales	1,2	(977,027)	(1,604,026)
Gross Profit	1	1,169,275	1,946,982
Other operating income	8	97,540	97,540
Administrative expenses before exceptional items		(1,432,899)	(2,312,839)
Exceptional items	4	(135,433)	-
Administrative expenses		(1,568,332)	(2,312,839)
Operating loss	2,5	(301,517)	(268,317)
Interest receivable and similar income	9	161,583	203,054
Interest payable and similar charges	10	(299,973)	(251,401)
Loss on ordinary activities before taxation		(439,907)	(316,664)
Tax on loss on ordinary activities	11	-	-
Loss on ordinary activities after taxation	17	(439,907)	(316,664)

The losses for the year and the prior year are all derived from continuing operations

The Company has no recognised gains and losses other than the above and, therefore, no separate statement of total recognised gains and losses has been presented

Balance sheet at 31 December 2006

	Note	2006 £	2005 £
Fixed assets			
Tangible assets	12	269,723	362,103
Current assets			
Work in progress		33,168	15,281
Debtors	13	658,658	920,260
Cash at bank and in hand		153,711	598,836
		<u>845,537</u>	<u>1,534,377</u>
Creditors: amounts falling due within one year	14	(7,306,575)	(7,478,770)
Net current liabilities		<u>(6,461,038)</u>	<u>(5,944,393)</u>
Total assets less current liabilities		<u>(6,191,315)</u>	<u>(5,582,290)</u>
Provisions for liabilities and charges	15	(566,933)	(736,051)
Net liabilities		<u>(6,758,248)</u>	<u>(6,318,341)</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	(7,943,127)	(7,503,220)
Equity shareholders' deficit	17	<u>(6,758,248)</u>	<u>(6,318,341)</u>

These financial statements were approved by the Board of Directors on 25 July 2007 and signed on its behalf by


C J K Tiedemann
Director

Notes

1. Accounting Policies

The following accounting policies have been applied consistently in dealing with items which are considered material in relation to the financial statements

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 COMARCO Holding GmbH, the company's ultimate parent undertaking, for the year ended 31 December 2006 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 AG 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 AG 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	- shorter of life of lease or useful economic life of asset
Furniture and equipment	- 10 years
Motor vehicles	- 4 years

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

Notes (continued)

1. Accounting Policies (continued)

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 costs 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

	2006	2005
	£	£
Turnover		
United Kingdom	1,721,363	2,353,207
Rest of Europe	406,579	1,153,033
United States of America	18,360	34,510
Rest of World	-	10,258
	<u>2,146,302</u>	<u>3,551,008</u>

4. Exceptional items

	2006	2005
	£	£
Severance	<u>135,433</u>	-

Redundancy costs incurred as a result of the decline in trading

5. Operating loss

	2006	2005
	£	£
<i>The operating loss is stated after charging</i>		
Auditors' remuneration		
Audit of these financial statements	14,600	15,000
Depreciation and other amounts written off tangible fixed assets	86,617	85,276
Exchange gains	300	850
Rentals payable under operating leases	<u>270,575</u>	<u>270,575</u>

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	
	2006	2005
Average number of persons employed by the company (including directors) during the year	12	17
The aggregate payroll costs of these persons were as follows		
	2006	2005
	£	£
Wages and salaries	621,874	948,705
Social security costs	80,142	131,895
Other pension costs (see note 19)	26,848	33,490
	<u>728,864</u>	<u>1,114,090</u>

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

Notes (continued)

8 Other income

	2006 £	2005 £
Rent receivable	<u>97,540</u>	<u>97,540</u>

9. Interest receivable and similar income

	2006 £	2005 £
Bank deposit interest	13,900	22,214
Net exchange gains	<u>147,683</u>	<u>180,840</u>
	<u>161,583</u>	<u>203,054</u>

10. Interest payable and similar charges

	2006 £	2005 £
On bank loans and loan notes	94	8
Payable to group undertakings	299,879	251,271
Finance leases and hire purchase charges	-	122
	<u>299,973</u>	<u>251,401</u>

11. Taxation

	2006 £	2005 £
UK corporation tax at 30% (2005 30%)	-	-

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

	2006 £	2005 £
Tax on pre tax loss at 30%	(131,972)	(94,999)
<i>Effects of</i>		
Expenses not deductible for tax purposes	3,972	10,999
Tax effect of timing differences	26,342	3,113
Tax losses carried forward	<u>101,658</u>	<u>80,887</u>
	-	-

A net deferred tax asset of £1,372,000 (2005 £1,241,000) 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.

	2006 £	2005 £
Tax losses carried forward	1,310,000	1,208,000
Other timing differences	<u>62,000</u>	<u>33,000</u>
	<u>1,372,000</u>	<u>1,241,000</u>

After the balance sheet date a change in the corporation tax rate was announced, but has yet to be enacted. Therefore the above deferred tax asset has been calculated based on a tax rate of 30%.

Notes (continued)

12. Fixed assets

12(a) Tangible fixed assets

	Leasehold Improvements £	Furniture and equipment £	Motor Vehicles £	Total £
Cost				
At 1 January 2006	13,409	915,446	1,025	929,880
Additions	-	3,637	-	3,637
Disposals	-	(25,620)	(1,025)	(26,645)
At 31 December 2006	13,409	893,463	-	906,872
Depreciation				
At 1 January 2006	5,364	561,602	811	567,777
Charge for period	894	85,723	-	86,617
Disposals	-	(16,434)	(811)	(17,245)
At 31 December 2006	6,258	630,891	-	637,149
Net book value				
At 31 December 2006	7,151	262,572	-	269,723
At 31 December 2005	8,045	353,844	214	362,103

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

	2006 £	2005 £
Due within one year:		
Trade debtors	161,626	450,645
Amounts owed by parent and fellow subsidiary undertakings	387,947	323,584
Other debtors	10,649	1,216
Prepayments and accrued income	98,436	144,815
	<u>658,658</u>	<u>920,260</u>

14. Creditors

	2006 £	2005 £
Due within one year:		
Trade creditors	167,760	201,048
Amounts owed to group and fellow subsidiary undertakings	6,780,346	6,634,152
Taxation and social security	14,483	46,076
Other creditors	17,680	25,969
Accruals and deferred income	326,306	571,525
	<u>7,306,575</u>	<u>7,478,770</u>

15. Provisions for liabilities and charges

	2006 £	2005 £
At 1 January 2006	736,051	474,990
Utilised	(169,118)	(46,710)
Provided in the year	-	307,771
At 31 December 2006	<u>566,933</u>	<u>736,051</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

	2006 £	2005 £
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

17 Reconciliation of movements in shareholders' funds

	Share capital £	Share premium £	Profit and loss account £	Total £
At 1 January 2006	8	1,184,871	(7,503,220)	(6,318,341)
Loss for the year	-	-	(439,907)	(439,907)
At 31 December 2006	8	1,184,871	(7,943,127)	(6,758,248)

18 Commitments

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

	2006 Land and Buildings £	2005 Land and Buildings £
Operating leases which expire		
Over five years	270,575	270,575

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 2006 the charge to the profit and loss account for the stakeholder pension scheme was £10,650 (2005 £14,917).

There is a further profit and loss charge of £16,198 (2005 £18,573) relating 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 2006, the company's financial statements are consolidated into those of COMARCO Holding 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

22. Post balance sheet events

Subsequent to the year end the Scholz Group, which includes Scholz & Friends London Limited, has formed a strategic alliance with the Lowe Group (network of InterPublic Group). The alliance may result in a part or substantially all of the Company's trade being transferred to the Lowe Group.