Scholz & Friends London Limited

Directors' Report and Financial Statements

Registered Number 3398022

Year ended 31 December 2003

Contents

Directors' Report

The directors present their annual report and the audited financial statements for the year ended 31 December 2003.

Principal Activities

The company's activity continues to be advertising.

Business Review

There has been a slight improvement in the level of business since 2003.

On 11 July 2003, Scholz & Friends Holdings GmbH acquired the majority shareholding in Scholz & Friends AG, which controlled 100% of the company's shares. Scholz & Friends Holdings GmbH is owned and controlled by a private equity company, Electra Partners Europe and members of Scholz & Friends AG's former management team.

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 £896,972 (2002: £1,608,891), which has been deducted from reserves. The directors are unable to propose the payment of a dividend (2002: £nil).

Directors and Directors' Interests

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

D Williams	(resigned 11 July 2003)
S Wilson	(resigned 11 July 2003)
C J K Tiedemann	(appointed 11 July 2003)
H E Page	(appointed 11 July 2003)

None of the directors held any disclosable interests in shares or options in the company either at the beginning or the end of the period.

The Company's Register of Directors' Interests (which is open to inspection) contains full details of directors' shareholdings and options to subscribe.

Director's Report (Continued)

Political and Charitable Contributions

The company made no political contributions during the year. Donations to UK charities amounted to £660 (2002: £130).

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

R H M Clegg
Company Secretary

80 Clerkenwell Road
London
EC1M 5RJ

19 January **2005**

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. They 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.

Report of the Independent Auditors, KPMG Audit Plc to the Members of Scholz & Friends London Limited

We have audited the financial statements on pages 5 to 15.

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 financial statements. As described on page 3, this includes responsibility for preparing 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 have been 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 group'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 the company's affairs as at 31 December 2003 and of the loss of the company 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

1 Puddle Dock
London EC4V 3PD
United Kingdom

26/1/ 2005

Profit and Loss Account for the year ended 31 December 2003

	Note	2003 £	2002 £
Turnover	1,2,3	**4,286,088**	3,154,377
Cost of sales	1,2	**(2,461,889)**	(1,443,446)
Revenue	1	**1,824,199**	1,710,931
Administrative expenses before exceptional items	2	**(1,796,756)**	(2,140,672)
Exceptional items	4	**(462,926)**	(853,980)
Administrative expenses after exceptional items		**(2,259,682)**	(2,994,652)
Operating loss	5	**(435,483)**	(1,283,721)
Interest receivable and similar income	8	**13**	87
Interest payable and similar charges	9	**(461,502)**	(325,257)
Loss on ordinary activities before taxation		**(896,972)**	(1,608,891)
Tax on profit on ordinary activities	10	**-**	-
Loss on ordinary activities after taxation and retained loss for the year	17	**(896,972)**	(1,608,891)

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 and are stated on an unmodified historical cost basis.

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

Balance Sheet at 31 December 2003

	Note	31 December 2003 £	31 December 2002 £
Fixed Assets			
Tangible assets	11	**437,734**	549,934
Intangible assets	12	**-**	-
		437,734	549,934
Current assets			
Work in progress		**32,365**	94,661
Debtors	13	**1,318,291**	536,645
Cash at bank and in hand		**197,088**	377
		1,547,744	631,683
Creditors: amounts falling due within one year	14	**(7,374,591)**	(6,049,171)
Net current liabilities		**(5,826,847)**	(5,417,488)
Total assets less current liabilities		**(5,389,113)**	(4,867,554)
Creditors: amounts falling due after one year	14	**(2,556)**	(9,715)
Provisions for liabilities and charges	15	**(539,200)**	(156,628)
Net liabilities		**(5,930,869)**	(5,033,897)
Capital and reserves			
Called up share capital	16	**4**	**4**
Share premium	17	**684,875**	**684,875**
Profit and loss account	17	**(6,615,748)**	**(5,718,776)**
Equity shareholders' deficit	17	**(5,930,869)**	**(5,033,897)**

These financial statements were approved by the Board of Directors on 19 January 2005.

Signed on behalf of the Board of Directors

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, except as noted below. 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 AG for the year ended 31 December 2003 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, none the less 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, cost of sales and revenue

Turnover comprises the gross amounts billed to clients in respect of commission based income together with the total of other fees earned. Cost of sales comprises media payments and production costs. Turnover and revenue are stated exclusive of VAT, sales taxes and trade discounts.

Revenue is derived from commissions or fees. Traditionally, revenue was calculated as commission based on total media and production expenditure. In recent years, changes in compensation arrangements have meant that revenue has become a mixture of commissions and fees which are negotiated and agreed with clients on an individual basis. Revenue is recognised when the service is performed in accordance with the terms of the contractual arrangement.

For project based business, revenue is derived from a mixture of fees for services performed and retainer fees which are specific to the contract with the client. In such cases, revenue is recognised when the service has been performed, in accordance with the contractual arrangements and the stage of completion of the work.

Goodwill

Purchased goodwill arising in respect of acquisitions of businesses before 1 January 1998 (including any additional goodwill estimated to arise from contingent capital payments) was written off to reserves in the year of acquisition. Goodwill written off directly to reserves and not previously charged to the company profit and loss account is included in determining the profit or loss on disposal of a business. Purchased goodwill arising from acquisitions on and after 1 January 1998 has been capitalised as an intangible fixed asset.

Goodwill is amortised on a straight-line basis over its estimated useful economic life of 10 years. Goodwill is reviewed for impairment at the end of the first full financial year following the acquisition, and in other periods if events of changes in circumstances indicate that the carrying value may not be recoverable.

1. Accounting Policies (continued)

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

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 that 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 within the profit and loss account of the year in which they become payable.

Notes (continued)

2. Analysis of turnover and operating profit

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

3. Geographical analysis of turnover by destination

	2003	2002
Turnover	**£**	£
United Kingdom	**1,341,242**	1,780,716
Rest of Europe	**2,899,435**	1,310,531
United States of America	**42,200**	47,799
Rest of World	**3,211**	15,331
	4,286,088	3,154,377

4. Exceptional items

	2003	2002
	£	£
Goodwill impairment (see note 12)	-	599,697
Severance	-	97,655
Property provision (see note 15)	**462,926**	156,628
	462,926	853,980

As a result of the economic down turn in 2001 and 2002, the company, along with fellow subsidiary companies, implemented cost reduction initiatives, driven principally by headcount reduction.

5. Operating loss

	2003	2002
	£	£
The operating loss is stated after charging/(crediting):		
Auditors' remuneration:		
Audit	**10,500**	10,300
Depreciation and other amounts written off tangible fixed assets – owned	**122,537**	122,021
Depreciation and other amounts written off tangible fixed assets - held under finance leases	**9,587**	15,846
Amortisation of goodwill	-	115,303
Profit on disposal of fixed assets	-	(673)
Exchange (gains) / losses	**(539)**	4,294
Rentals payable under operating leases		
Hire of plant and machinery	**4,482**	21,922
Leasehold property net of sublease income	**147,146**	166,805

Notes (continued)

6. Remuneration of directors

Denise Williams', and Stephen Wilson's emoluments were borne by Cordiant Group Limited, a fellow subsidiary company up to 11 July 2003. 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	
	2003	2002
Average number of persons employed by the company (including directors) during the year	**15**	20

The aggregate payroll costs of these persons were as follows:

	2003	2002
	£	£
Wages and salaries	**800,711**	970,446
Social security costs	**95,923**	121,807
Other pension costs (see note 19)	**47,336**	56,533
	943,970	1,148,786

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

8. Interest receivable and similar income

	2003	2002
	£	£
Bank deposit interest	**13**	87
	13	87

9. Interest payable and similar charges

	2003	2002
	£	£
On bank loans and loan notes	**67,343**	4,357
Payable to group undertakings	**227,362**	297,827
Net exchange losses	**165,880**	20,693
Finance leases and hire purchase charges	**917**	2,380
	461,502	325,257

Notes (continued)

10. Taxation

	2003 £	2002 £
UK corporation tax at 30% (2002: 30%)	-	-
Adjustments in respect of prior period	-	-
Taxation on ordinary activities	-	-

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

	2003 £	2002 £
Tax on pre tax profit/(loss) at 30%	**(269,091)**	(482,667)
Effects of:		
Permanent differences between expenditures charged in arriving at income and expenditures allowed for tax purposes	**3,515**	219,632
Tax effect of timing differences	**36,652**	48,379
Tax losses carried forward	**228,924**	214,656
	-	-

A net deferred tax asset of £991,300 (2002: £633,163) 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.

	2003 £	2002 £
Tax losses carried forward	**1,009,000**	679,163
Other timing differences	**(17,700)**	(46,000)
	991,300	633,163

Notes (continued)

11. Tangible Fixed Assets

	Land and buildings £	Furniture and equipment £	Total £
Cost			
At 1 January 2003	*13,409*	*961,408*	*974,817*
Additions	-	19,924	19,924
Disposals	-	-	-
At 31 December 2003	**13,409**	**981,332**	**994,741**
Depreciation			
At 1 January 2003	2,682	422,201	424,883
Charge for period	894	131,230	132,124
Disposals	-	-	-
At 31 December 2003	**3,576**	**553,431**	**557,007**
Net book value			
At 31 December 2003	**9,833**	**427,901**	**437,734**
At 31 December 2002	10,727	539,207	549,934

Included in the total net book value is £3,995 (2002: £13,582) in respect of assets held under finance leases, and the depreciation charged on assets held under finance leases was £9,587 (2002: £15,846).

12. Goodwill

	£
Cost	
At 1 January 2003 and 31 December 2003	2,655,614
Amortisation and Impairment	
At 1 January 2003 and 31 December 2003	2,655,614
Net book value at 31 December 2003	-
Net book value at 31 December 2002	-

Notes (continued)

13. Debtors

	2003	2002
	£	£
Due within one year:		
Trade debtors	**544,332**	320,473
Amounts owed by parent and fellow subsidiary *undertakings*	**326,979**	97,920
Other debtors	**109,644**	-
Prepayments and accrued income	**337,336**	118,252
	1,318,291	536,645

14. Creditors

	2003	2002
	£	£
Due within one year:		
Bank overdraft	**-**	4,904,311
Finance leases and hire purchase	**7,159**	7,159
Trade creditors	**757,677**	427,798
Amounts owed to group and fellow subsidiary undertakings	**6,187,881**	403,949
Taxation and social security	**32,417**	29,472
Other creditors	**21,036**	46,848
Accruals and deferred income	**368,421**	229,634
	7,374,591	6,049,171
Due after one year:		
Finance leases and hire purchase	**£2,556**	£9,715

Finance leases and hire purchase	**2003**	2002
	£	£
Due within 1 year	**7,159**	7,159
Due within 2–5 years	**2,556**	9,715
	9,715	16,874

15. Provisions for liabilities and charges

	2003	2002
	£	£
At 1 January 2003	**156,628**	-
Utilised	**(80,354)**	-
Profit and loss account charge for year	**462,926**	156,628
At 31 December 2003	**539,200**	156,628

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

	2003	2002
	£	£
Authorised		
1,000 ordinary shares of £1 each	**1,000**	1,000
Allotted, called-up and fully paid		
4 Ordinary shares of £1 each	**4**	4
	4	4

17. Reconciliation of movements in shareholders' funds

	Share capital	Share premium	Profit and loss account	Total
	£	£	£	£
At 1 January 2003	4	684,875	(5,718,776)	(5,033,897)
Shares issued during the year	-	-	-	-
Loss for the year	-	-	(896,972)	(896,972)
At 31 December 2003	**4**	**684,875**	**(6,615,748)**	**(5,930,869)**

18. Commitments

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

	2003			2002		
	Land and Buildings	Other	Total	Land and Buildings	Other	Total
	£	£	£	£	£	£
Operating leases which expire:						
Within one year	-	-	-	-	-	-
In the second to fifth years inclusive	-	-	-	-	-	-
Over five years	**270,575**	-	**270,575**	270,575	-	270,575
	270,575	-	**270,575**	270,575	-	270,575

19. Pension schemes

The company was a member of the Cordiant Group Money Purchase Plan until 31 December 2003, contributions being charged to the profit and loss account as they become payable. Payments were made in the year to both The Cordiant Group Money Purchase plan and employees' personal pension plans. During the year ended 31 December 2003 the charge to the profit and loss account for the Cordiant Group Money Purchase Plan was £24,046 (2002: £27,182). For the year ending 31 December 2003 a further profit and loss charge of £23,290 (2002:£29,351) 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. The following is a summary of transactions and balances with Bates UK Limited, which was a fellow subsidiary until 11 July 2003, which are required to be reported under FRS8.

	2003	2002
	£	£
Interest payable to Bates UK Limited	**108,920**	280,689
Intercompany creditor balance with Bates UK Limited	-	25,134

21. Ultimate Parent Company and Parent Undertaking of Smallest Group of Which the Company is a Member

During the year ended 31 December 2002, the ultimate parent company and head of the largest group into which the company's results are consolidated is Cordiant Communications Group plc, which is registered in England and Wales. These financial statements are consolidated into those of Cordiant Communications Group plc. Copies of the consolidated financial statements can be obtained from Companies House, Crown Way, Cardiff, CF14 3UZ.

From 11 July 2003, Scholz & Friends Holdings GmbH, which is registered in Germany became the ultimate parent undertaking. For the year ended 31 December 2003, the company's financial statements are consolidated into those of Scholz & Friends Holdings GmbH. 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 2003 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.