

Scholz & Friends London Limited

**Directors' report and financial
statements**

Registered number 3398022

Year ended 31 December 2000



Contents

Directors' report	1
Statement of directors' responsibilities	3
Independent auditors' report to the members of Scholz & Friends London Limited	4
Profit and loss account	5
Balance sheet	6
Notes	7

Directors' report

The directors present their annual report and the audited financial statements for the year ended 31 December 2000. During 2000 the company acquired Herman Beasley Advertising Limited and the trade of CKMP (Focus) Limited.

Principal activities

The company's activity continues to be that of an advertising agency.

Results

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 £370,258 (1999: profit of £141,974), which has been transferred from/to reserves. The directors do not propose the payment of a dividend (1999: £nil).

Fixed assets

The movement in fixed assets is set out in notes 8 and 9.

Directors and directors' interests

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

AK Boland	(appointed 24 July 2000; resigned 18 January 2002)
DF Ham	(appointed 31 January 2000; resigned 19 January 2001)
S Howard	(resigned 17 March 2000)
D Williams	
JD Buss	(appointed 19 January 2001; resigned 10 May 2002)
S Wilson	(appointed 27 March 2002)

None of the directors held any shares in the Company either at the beginning or end of the period.

The interests of the directors in the shares of Cordiant Communications Group plc at the beginning and end of the period were as follows:

	Balance at 31/12/99*	Exercised during period	Granted during period	Lapsed During period	Balance at 31/12/00	Average exercise price	Exercisable at 31/12/00
A Boland	50,152	-	-	-	50,152	164p	-
D Ham	78,571	-	-	-	78,571	105p	-
D Williams	50,152	-	-	-	50,152	164p	-

*or date of appointment if later

Directors' interests include share options granted.

Directors' report *(continued)*

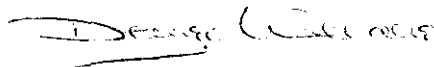
Political and charitable contributions

The company made no political contributions during the period. Donations to UK charities amounted to £1,235 (1999: £1,270).

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 each year.

By order of the board



D Williams
Secretary

121-141 Westbourne Terrace
London
W2 6JR

22 July 2002

Statement of directors' responsibilities

Company law requires the directors to prepare financial statements for each financial period which give a true and fair view of the state of affairs of the company and of the profit or loss 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 Audit Plc

PO Box 695
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 on pages 5 to 16.

Respective responsibilities of directors and auditors

The directors are responsible for preparing the directors' report and, as described on page 3, 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 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 the company's affairs as at 31 December 2000 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

24 July 2002

Profit and loss account
for the year ended 31 December 2000

		Year ended 31 December 2000			Year ended 31 December 1999
	Note	Continuing operations £	Acquisitions £	Total £	£
Turnover	2	6,742,039	983,714	7,725,753	4,621,251
Cost of sales		(4,788,220)	(281,746)	(5,069,966)	(3,125,529)
Gross profit		1,953,819	701,968	2,655,787	1,495,722
Administrative expenses	3	(2,390,152)	(660,656)	(3,050,808)	(1,421,852)
Operating (loss)/profit	3	(436,333)	41,312	(395,021)	73,870
Other interest receivable and similar income	5			559	102,889
Interest payable and similar charges	6			(116,796)	(34,785)
(Loss)/profit on ordinary activities before taxation				(511,258)	141,974
Tax on (loss)/profit on ordinary activities	7			141,000	-
(Loss)/profit on ordinary activities after taxation and retained (loss)/profit for the year	16			(370,258)	141,974

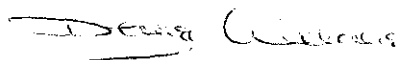
There are no recognised gains or losses other than those shown above.

There is no difference in either year between the above loss and the loss on a historical cost basis.

Balance sheet
at 31 December 2000

	<i>Note</i>	31 December 2000		31 December 1999	
		£	£	£	£
Fixed assets					
Intangible assets	8	2,623,028		-	
Tangible assets	9	788,566		101,850	
Investments	10	-		-	
		3,411,594		101,850	
Current assets					
Work in progress	11	447,455		7,818	
Debtors	12	2,146,946		647,470	
Cash at bank and in hand		75,127		764,465	
		2,669,528		1,419,753	
Creditors: amounts falling due within one year	13	(6,804,695)		(1,913,010)	
Net current liabilities		(4,135,167)		(493,257)	
Total assets less current liabilities		(723,573)		(391,407)	
Creditors: amounts falling due after more than one year	14	(38,092)		-	
Net liabilities		(761,665)		(391,407)	
Capital and reserves					
Called up share capital	15	2		2	
Profit and loss account	16	(761,667)		(391,409)	
Equity shareholders' deficit	17	(761,665)		(391,407)	

These financial statements were approved by the board of directors on **22 July** 2002 and were signed on its behalf by:



D Williams
 Director

Notes

(forming part of the financial statements)

1. Accounting policies

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

Basis of preparation

The financial statements have been prepared in accordance with applicable accounting standards, except as described below, and under the historical cost accounting rules.

In compliance with Financial Reporting Standard 1(revised), the financial statements of Cordiant Communications Group plc include a consolidated cash flow statement hence the company is not required 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.

Cordiant Communications Group plc 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 these financial statements.

Profit recognition

Profits are recognised generally when work is billed. Billings are generally rendered upon presentation date for media advertising and upon the completion of radio, television and print production. Fixed fees are recognised over the period of the related agreements.

Turnover

Turnover comprises amounts billed to clients excluding value added tax.

Fixed asset investments

Fixed asset investments are stated at cost less provision for permanent diminution in value.

Fixed assets and depreciation

Depreciation is provided by the company to write off the cost of tangible fixed assets by equal instalments over their estimated useful economic lives as follows: -

Short leasehold property	-	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.

Notes (continued)

1 Accounting policies (continued)

Goodwill

During the year, the trade and net assets of Herman Beasley Advertising Limited, the company's subsidiary undertaking, were transferred to the company at net book value. The residual net assets of Herman Beasley Advertising Limited are not sufficient to support the carrying value of the investment and consequently the investment carrying value has been impaired. However, the directors consider that to charge an impairment to the company's profit and loss account would not reflect the substance of the transaction, as the company's overall position is unchanged.

The difference of £737,541 between the cost of the investment and the value of investment following the transfer of assets and trade has, therefore, been transferred to goodwill.

Under the specific requirements of the Companies Act, only purchased goodwill should be reflected in a company's balance sheet and consequently the Act does not permit this transfer. Accordingly, the directors have departed from the requirement of the Act in order that a true and fair view be given of the company's financial position and results.

Purchased goodwill has been capitalised as an intangible fixed asset. The directors of Cordiant Communications Group plc, the ultimate parent undertaking, are of the opinion that the intangible fixed assets of the group have an indefinite economic life and as such the goodwill relating to acquisitions to date is not amortised but is subject to annual review for impairment. In accordance with group accounting policies, these financial statements depart from the specific requirements of companies legislation to amortise goodwill over a given period, in order to give a true and fair view.

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 its estimated useful life or the term of the lease, whichever is shorter. 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, 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 which still have to be recharged.

Deferred tax

Deferred tax is provided on all timing differences between accounting profits and taxable profits to the extent that it is probable that a liability will crystallise in the foreseeable future.

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

Notes (continued)

2. Analysis of turnover and (loss)/ profit on ordinary activities before taxation

The whole of the company's turnover and loss (*period ended 31 December 1999: profit*) before taxation is attributable to its activity as an advertising agency which was carried on in the UK.

3. Loss on ordinary activities before taxation

	2000 £	1999 £
<i>Loss on ordinary activities before taxation is stated after charging/(crediting)</i>		
Auditors' remuneration:		
Audit	4,250	6,000
Depreciation and other amounts written off tangible fixed assets:		
Owned assets	95,605	21,331
Assets held under finance leases and hire purchase contracts	23,786	4,501
Exchange losses/(gains)	38,937	(102,889)
Rentals payable under operating leases		
Hire of plant and machinery	25,110	24,871
Leasehold property net of sublease income	124,352	30,842
	<hr/>	<hr/>

4. Staff numbers and costs

	Number of employees	
	2000	1999
Average number of persons employed by the company (including directors) during the period	43	15
	<hr/>	<hr/>

The directors of the company received no remuneration during the year (*year ending 31 December 1999: £nil*). The aggregate payroll costs of these persons were as follows:

	2000 £	1999 £
Wages and salaries	1,573,060	755,286
Social security costs	163,888	70,606
Other pension costs (see note 20)	71,958	32,878
	<hr/>	<hr/>
	1,808,906	858,770
	<hr/>	<hr/>

Notes (continued)

5. Other interest receivable and similar income

	2000 £	1999 £
Bank deposit interest	559	-
Net exchange gains	-	102,889
	<u>559</u>	<u>102,889</u>

6. Interest payable and similar charges

	2000 £	1999 £
On bank loans and loan notes	7,254	1
Payable to group undertakings	63,761	33,849
Net exchange losses	38,937	-
Finance charges payable in respect of finance leases and hire purchase contracts	6,844	935
	<u>116,796</u>	<u>34,785</u>

7. Taxation

No liability to UK corporation tax arises on ordinary activities for the year ended 31 December 2000 nor for the year ended 31 December 1999.

Tax losses were surrendered to other group companies for consideration of £141,000 (1999: £nil).

8. Intangible fixed assets

	Goodwill £
<i>Cost and net book value</i>	
At 1 January 2000	-
Additions (notes 1 and 10)	2,623,028
	<u>2,623,028</u>
At 31 December 2000	<u>2,623,028</u>

In accordance with the company's accounting policies, no amortisation has been charged on goodwill.

Notes (continued)

9. Tangible fixed assets

	Land and buildings £	Furniture and equipment £	Motor cars £	Total £
<i>Cost</i>				
At 1 January 2000	-	146,765	-	146,765
Additions	13,409	745,197	-	758,606
Additions : new subsidiaries	-	73,534	126,636	200,170
Disposals	-	(85,257)	(34,186)	(119,443)
	<hr/>	<hr/>	<hr/>	<hr/>
At 31 December 2000	13,409	880,239	92,450	986,098
	<hr/>	<hr/>	<hr/>	<hr/>
<i>Depreciation</i>				
At 1 January 2000	-	44,915	-	44,915
New subsidiaries	-	36,070	52,010	88,080
Charge for period	894	104,804	13,693	119,391
Disposals	-	(27,784)	(27,070)	(54,854)
	<hr/>	<hr/>	<hr/>	<hr/>
At 31 December 2000	894	158,005	38,633	197,532
	<hr/>	<hr/>	<hr/>	<hr/>
<i>Net book value</i>				
At 31 December 2000	12,515	722,234	53,817	788,566
	<hr/>	<hr/>	<hr/>	<hr/>
At 31 December 1999	-	101,850	-	101,850
	<hr/>	<hr/>	<hr/>	<hr/>

Included in the total net book value of furniture and equipment is £91,450 (1999: £9,376) in respect of assets held under finance leases and similar hire purchase contracts. Depreciation for the period on these assets was £23,786 (1999: £4,501).

10. Fixed asset investments

	Shares in subsidiary undertaking £
<i>Cost and net book value</i>	
At beginning of year	-
Additions	916,134
Transfer to goodwill (note 1)	(916,134)
	<hr/>
At end of year	-
	<hr/>

On 14 July 2000 the company acquired 100% of the equity share capital of Herman Beasley Advertising Limited, an advertising company registered in the UK

The consideration was £916,134, which included accruals for contingent consideration of £178,593.

The operating assets and liabilities of Herman Beasley Advertising Limited were transferred to Scholz & Friends London during the year.

Notes (continued)

10. Fixed asset investments (continued)

	Book and fair value £
Fixed assets	
Tangible assets	112,090
Current assets	
Stocks	32,346
Debtors	453,513
Investments	-
Cash and bank and in hand	20,417
	<hr/>
Total assets	618,366
Current liabilities	(583,966)
	<hr/>
Net assets	34,400
Goodwill	881,734
	<hr/>
	916,134
	<hr/>
Discharged by	
Transfer from fixed asset investments	916,134
	<hr/>

Goodwill has been capitalised and is included within intangible fixed assets.

In August 2000 Scholz & Friends London Limited purchased the trade of CKMP (Focus) Limited.

	Book and fair value £
Fair value of net assets acquired	-
Goodwill	1,741,294
	<hr/>
Discharged by	
Purchase consideration	1,741,294
	<hr/>

Purchase consideration included £688,219 of accruals for contingent consideration.

Notes (continued)

11. Stocks

	2000 £	1999 £
Work in progress	447,455	7,818

12. Debtors

	2000 £	1999 £
Trade debtors	1,752,817	516,086
Amounts owed by parent and fellow subsidiary undertakings	169,824	22,929
Other debtors	144,613	8,809
Prepayments and accrued income	79,692	99,646
	<u>2,146,946</u>	<u>647,470</u>

13. Creditors: amounts falling due within one year

	2000 £	1999 £
Obligations under finance leases and hire purchase contracts (see note 14)	36,070	4,475
Trade creditors	1,377,015	652,625
Amounts owed to group undertakings	3,066,009	470,039
Taxation and social security	110,699	25,007
Other creditors	299,307	2,178
Accruals and deferred income	1,915,595	758,686
	<u>6,804,695</u>	<u>1,913,010</u>

Notes (continued)

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

	2000 £	1999 £
Obligations under finance leases and hire purchase contracts	38,092	-

The maturity of net obligations under finance leases and hire purchase contracts is as follows:

	2000 £	1999 £
Within one year	36,070	4,475
In the second to fifth years	38,092	-
Over five years	-	-
	<u>74,162</u>	<u>4,475</u>

15. Called up share capital

	2000 £	1999 £
<i>Authorised</i>		
1,000 Ordinary shares of £1 each	1,000	1,000
<i>Allotted, called up and fully paid</i>		
2 Ordinary shares of £1 each	2	2

Notes (continued)

16. Profit and loss account

	Profit and loss account £
At 1 January 2000	(391,409)
Retained loss for the period	(370,258)
	<hr/>
At 31 December 2000	(761,667)
	<hr/>

17. Reconciliation of movement in shareholders' deficit

	2000 £	1999 £
(Loss)/profit for the year	(370,258)	141,974
Shareholders' deficit at the beginning of the year	(391,407)	(533,381)
	<hr/>	<hr/>
Shareholders' deficit at the end of the year	(761,665)	(391,407)
	<hr/>	<hr/>

18. Contingent liabilities

The company is grouped for VAT purposes with certain other group companies. Consequently, the company is contingently liable for the VAT liabilities of those companies.

19. Commitments

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

	31 December 2000		31 December 1999	
	Land and buildings £	Other £	Land and buildings £	Other £
Operating leases which expire:				
Within one year	-	947	-	5,677
In the second to fifth years inclusive	-	-	-	947
Over five years	270,575	-	-	-
	<hr/>	<hr/>	<hr/>	<hr/>
	270,575	947	-	6,624
	<hr/>	<hr/>	<hr/>	<hr/>

Notes *(continued)*

20. Pension scheme

The company is a member of the Cordiant Group Money Purchase Plan, contributions being charged to the profit and loss account so as to spread the cost of pensions over employees' working lives with the company. Payments were made in the year to both The Cordiant Group Money Purchase Plan and employees' personal pension plans. During the year ending 31 December 1999 no payments were made to The Cordiant Group Money Purchase Plan and for the year ended 31 December 2000 the charge to the profit and loss account was £48,161. For the year ending 31 December 1999 a further profit and loss charge of £23,797 related to payments to employees' personal pension plans.

21. 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.

22. Ultimate parent company and parent undertakings groups of which the company is a member

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 the Secretary, 121-141 Westbourne Terrace, London W2 6JR.

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