

Company number

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MKM Group Plc
(formerly MKM Holdings Limited)

Report and Financial Statements
Year ended 31 March 2004

1-11-04

685

Directors, Secretary and Advisors

Directors

C R Garston (appointed 10 May 2004)
M Koch
V Koch
L O'Toole (appointed 19 May 2004)
J C McGuire (appointed 10 May 2004)
A H Berg (appointed 10 May 2004)

Secretary and registered office

HL Secretaries Limited
Nelson House
Park Road
Timperley
Cheshire WA14 5BZ

Nominated Advisor

W.H. Ireland Limited
11 St James's Square
Manchester
M2 1WE

Solicitors

Halliwells LLP
St James's Court
Brown Street
Manchester
M2 2JF

Bankers

Royal Bank of Scotland plc
St Ann's Street
Manchester
M20 2SS

Auditors

BDO Stoy Hayward LLP
Commercial Buildings
11-15 Cross Street
Manchester
M2 1WE

Company number

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MKM Group plc Annual Accounts for the year ended 31 March 2004

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Report of the directors

The directors present their report together with the audited financial statements for the year ended 31 March 2004.

RESULTS AND DIVIDENDS

The results of the Group for the year are set out in the profit and loss account on page 8.

The profit for the year after tax amounted to £477,373 (2003 - £523,453).

The directors do not recommend payment of a dividend (2003 - £127,800).

PRINCIPAL ACTIVITIES, REVIEW OF BUSINESS AND FUTURE DEVELOPMENTS

The principal activity of the Group during the year was the design of promotional campaigns as well as the provision of travel and leisure services.

A summary of the Group's activities is included in the Chairman's Statement and the Chief Executive's review on pages 1 - 4.

CHARITABLE AND POLITICAL CONTRIBUTIONS

During the year the group made the following contributions:

	£
Charitable	1,300

CREDITORS POLICY

The company endeavours to agree the terms of payment with suppliers prior to placing business. It is the company's policy to settle liabilities by the due date. At 31 March 2004 the company had an average of 41 days purchases outstanding in trade creditors (2003 - 57 days).

DIRECTORS

The directors of the company during the year and their beneficial interests (unless otherwise stated) in the ordinary share capital of the parent company were as follows:

	Ordinary shares of £1 each	
	31 March 2004	1 April 2003*
M Koch	50	50
V Koch	50	50
J Pink (appointed 1 September 2003 resigned 19 May 2004)	-	-
J Harris (appointed 1 September 2003 resigned 19 May 2004)	-	-
J Mitchell (appointed 1 September 2003 resigned 19 May 2004)	-	-
L Hardman (appointed 1 September 2003 resigned 19 May 2004)	-	-

*or date of appointment (if later)

No director has any interest in the shares of any of the subsidiary companies.

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 group and of the profit or loss of the group 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 group 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 are also responsible for safeguarding the assets of the group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

AUDITORS

During the year, Alexander & Co resigned as auditors and BDO Stoy Hayward LLP were appointed in their place. A resolution to reappoint BDO Stoy Hayward LLP as auditors will be proposed at the annual general meeting.

CORPORATE GOVERNANCE

The directors seek to comply with corporate governance best practice to the extent considered appropriate and in particular will adopt those aspects of the Combined Code of Corporate Governance (the "Combined Code") appropriate to the Company's size and its status as an AIM-listed company. The directors consider that Corporate Governance is important and have adopted a number of procedures set out in the Combined Code. Further explanation of how the principles are to be applied is set out below.

Directors of the Board

The Board currently comprises 3 executive directors and 3 non-executive directors. The Board considers this to be adequate. The Board meets regularly.

Remuneration and Audit Committees

The Remuneration Committee and the Audit Committee are comprised of the following directors:

Remuneration Committee	Audit Committee
John McGuire (Chairman)	Adrian Berg (Chairman)
Clive R Garston	Clive R Garston
Adrian Berg	John McGuire

The Remuneration and Audit Committee have established terms of reference. Both the Remuneration Committee and the Audit Committee intend to meet a minimum of twice a year.

Remuneration Committee

The Remuneration Committee comprises non-executive directors as set out above. The terms of reference for the Remuneration Committee are:

- to ensure that the executive directors are fairly rewarded for their individual contributions to the overall performance of the Company;
- to determine all elements of the remuneration of the executive directors; and
- to demonstrate to the Company's shareholders that the remuneration of the executive directors is set by a Board committee whose members have no personal interest in the outcome of the committee's decision and who will have appropriate regard to the interests of the shareholders.

Audit Committee

The Audit Committee comprises non-executive directors as set out above. Generally the function of the Audit Committee is to consider how the Board should:

- apply the Company's financial reporting and internal control principles; and
- maintain an appropriate relationship with the Company's external auditors

Relationship with Shareholders

Communication with shareholders is given high priority. The Chairman's Statement and the Chief Executive's Report include a detailed review of the business and future developments. There is intended to be regular dialogue with institutional investors including presentations after the Group's announcement of full year and interim results. The AGM provides a forum for shareholders to communicate with the Board. A notice of the AGM can be found on page 26.

Internal controls

The Board has overall responsibility for the Group's system of internal financial control, which is designed to provide reasonable, but not absolute, assurance that assets are safeguarded against material loss or unauthorised use and that transactions are properly authorised and recorded.

The control environment is supported through accounting and control policies and procedures, clearly drawn lines of accountability and delegation of authority. Operational management has a clear responsibility for the identification of business risk and the implementation of an appropriate control response.

Given the Group's size and strong operational controls exercised by senior management, the Board does not consider an internal audit function necessary at this point.

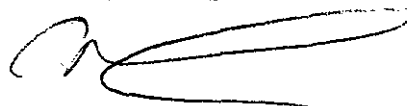
Going Concern

The directors believe that the Group has adequate resources to continue in operational existence for the foreseeable future. For this reason, they continue to adopt the going concern basis in preparing the financial statements.

POST BALANCE SHEET EVENTS

On 13 May 2004, the Company re-registered as a public company and changed its name to MKM Group plc. On 7 June 2004, the company was admitted to the Alternative Investment Market. Further details of these events can be found in note 28.

On behalf of the Board



Clive R Garston
Chairman

24 September 2004.

Report of the independent auditors

TO THE SHAREHOLDERS OF MKM GROUP PLC

We have audited the financial statements of MKM Group plc for the year ended 31 March 2004 on pages 8 to 25 which have been prepared under the accounting policies set out therein.

Respective responsibilities of directors and auditors

The directors' responsibilities for preparing the annual report and the financial statements in accordance with applicable law and United Kingdom Accounting Standards are set out in the Statement of Directors' Responsibilities.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and United Kingdom Auditing Standards.

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 group is not disclosed.

We read other information contained in the annual report and consider whether it is consistent with the audited financial statements. This other information comprises only the Directors' Report, the Chairman's Statement and the Chief Executive's review. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. Our responsibilities do not extend to any other information.

Our report has been prepared pursuant to the requirements of the Companies Act 1985 and for no other purpose. No person is entitled to rely on this report unless such a person is a person entitled to rely upon this report by virtue of and for the purpose of the Companies Act 1985 or has been expressly authorised to do so by our prior written consent. Save as above, we do not accept responsibility for this report to any other person or for any other purpose and we hereby expressly disclaim any and all such liability.

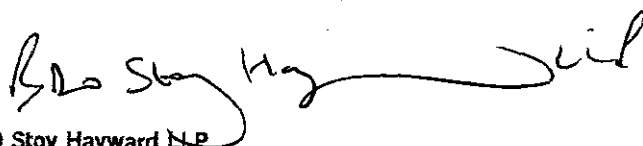
Basis of audit opinion

We conducted our audit in accordance with United Kingdom 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 affairs of the company and the group as at 31 March 2004 and of the profit of the group for the year then ended and have been properly prepared in accordance with the Companies Act 1985.



BDO Stoy Hayward LLP

Chartered Accountants and Registered Auditors
Manchester

24 September 2004

Consolidated profit and loss account for the year ended 31 March 2004

	Note	Continuing operations			2003 As restated £
		Existing £	Acquisitions £	2004 £	
Turnover	2	3,812,571	2,639,032	6,451,603	3,201,778
Cost of sales		1,768,902	2,309,265	4,078,167	1,194,901
Gross profit		2,043,669	329,767	2,373,436	2,006,877
Administrative expenses		1,437,140	264,615	1,701,755	1,243,799
Operating profit	3	606,529	65,152	671,681	763,078
Interest receivable and similar income	6			19,027	14,718
Interest payable and similar charges	7			(24,719)	(21,336)
Profit on ordinary activities before taxation				665,989	756,460
Tax charge on profit on ordinary activities	8			(188,616)	(233,007)
Profit on ordinary activities after taxation				477,373	523,453
Dividends	9			—	(127,800)
Retained profit for the year	21			477,373	395,653
Earnings per share (£)					
Basic and diluted	11			4,773.73	5,234.53

The notes on pages 13 to 25 form part of these financial statements.

Consolidated statement of total recognised gains and losses for the year ended 31 March 2004

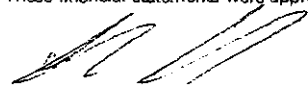
	2004	2003
	£	As restated £
Profit for the year	477,373	395,653
Prior year adjustment (as explained in note 26)	179,698	
Total gains and losses recognised since last annual report	657,071	

The notes on pages 13 to 25 form part of these financial statements.

Consolidated balance sheet at 31 March 2004

	Note	£	2004 £	£	2003 £
				As restated	As restated
Fixed assets					
Intangible assets	12		873,970		877,137
Tangible assets	13		143,925		73,166
			1,017,895		950,303
Current assets					
Stocks	15	1,164		1,164	
Debtors	16	1,152,827		860,909	
Cash at bank and in hand		1,373,441		776,338	
		2,527,432		1,638,411	
Creditors: amounts falling due within one year	17	2,117,732		1,920,218	
Net current assets/(liabilities)			409,700		(281,807)
Total assets less current liabilities			1,427,595		668,496
Creditors: amounts falling due after more than one year	18	526,781		245,055	
Provision for liabilities and charges					
Deferred taxation	19	4,440		4,440	
			531,221		249,495
			896,374		419,001
Capital and reserves					
Called up share capital	20		100		100
Profit and loss account	21		896,274		418,901
Equity shareholders' funds	22		896,374		419,001

These financial statements were approved by the Board on 24 September 2004



M Koch
Director

The notes on pages 13 to 25 form part of these financial statements.

Company balance sheet at 31 March 2004

	Note	2004 £	2004 £	2003 £ As restated	2003 £ As restated
Fixed assets					
Investments	14		1,020,000		1,020,000
Current assets					
Debtors	16	54,300		54,300	
		54,300		54,300	
Creditors: amounts falling due within one year					
	17	956,465		833,655	
Net current liabilities			(902,165)		(779,355)
Total assets less current liabilities			117,835		240,645
Creditors: amounts falling due after more than one year	18		(120,000)		(240,000)
			(2,165)		645
Capital and reserves					
Called up share capital	20		100		100
Profit and loss account	21		(2,265)		545
Equity shareholders' funds	22		(2,165)		645

These financial statements were approved by the Board on 24 September 2004


M Koch
Director

The notes on pages 13 to 25 form part of these financial statements.

Consolidated cash flow statement for the year ended 31 March 2004

	Note	2004 £	2003 £ As restated
Net cash inflow from operating activities	23	618,339	899,977
Returns on investments and servicing of finance	24	(5,692)	(6,618)
Taxation		(147,551)	(12,906)
Capital expenditure and financial investment	24	(67,572)	(22,420)
Acquisitions	24	(168,114)	(714,000)
Equity dividends paid		-	(127,800)
Net cash inflow before financing		229,410	16,233
Financing	24	327,562	(26,950)
Increase/(decrease) in cash in the year		556,972	(10,717)
Reconciliation of net cash flow to movement in net debt			
Increase/(decrease) in cash in the year		556,972	(10,717)
Cash (inflow)/outflow from financing		(327,562)	26,950
Change in net funds resulting from cash flows	25	229,410	16,233
New finance leases		(4,876)	(15,000)
Movement in net funds in the year		224,534	1,233
Net funds at the start of the year		668,768	667,535
Net funds at the end of the year	25	893,302	668,768

These financial statements were approved by the Board on 24 September 2004



M Koch
Director

The notes on pages 13 to 25 form part of these financial statements.

Notes forming part of the financial statements for the year ended 31 March 2004

1 ACCOUNTING POLICIES

The financial statements have been prepared under the historical cost convention and are in accordance with applicable accounting standards. The following principal accounting policies have been applied:

Basis of consolidation

The consolidated financial statements incorporate the results of the company and all of its subsidiary undertakings as at 31 March 2004 using the acquisition method of accounting. The results of subsidiary undertakings are included from the date of acquisition.

Turnover – Change in accounting policy

The Group has changed its revenue recognition policy during the year.

Previously, the Group recognised promotions income when promotions fees on contracts were invoiced or ancillary bookings made and to recognise net direct costs attributable to the promotions as they arose.

With the introduction of FRS5, Application note G "Revenue Recognition", the group now recognises income from setting up and handling promotions contracts to the extent that the Group has fulfilled its obligations under each contract. Sales of vouchers redeemable against holidays and flights sourced by the Group are recognised at the point of sale and measured at the fair value of the consideration received less the fair value of the voucher. The fair value of the voucher is treated as deferred income in the balance sheet and released to turnover to the extent that the group has fulfilled its redemption obligations under each contract.

Details of the effect that the change in this accounting policy has had on the current year and comparative results are given in note 26.

Turnover from the Group's activities as a tour operator and travel agent is recognised when the Group has fulfilled its contractual obligations connected with the sale.

There has been no change to the turnover recognition policy on travel agency and tour operator income.

Depreciation: Other tangible fixed assets

Depreciation is provided to write off the cost or valuation, less estimated residual values, of all tangible fixed assets over their expected useful lives. It is calculated at the following annual rates:

Leasehold improvements - over the lease term
Fixtures, fittings and equipment - 25% reducing balance

Goodwill

Goodwill arising on the acquisition of subsidiaries is the difference between the fair value of the consideration paid and the fair value of the assets and liabilities acquired. It is capitalised and amortised through the profit and loss account over the directors' estimate of its useful economic life which does not exceed 20 years. Impairment tests on the carrying value of goodwill are undertaken:

- at the end of the first full financial year following acquisition;
- in other periods if events or changes in circumstances indicate that the carrying value may not be recoverable.

Valuation of investments

Investments held as fixed assets are stated at cost less any provision for impairment in value. Investments held as current assets are stated at the lower of cost and net realisable value.

Stocks

Stocks are valued at the lower of cost and net realisable value. Cost is based on the cost of purchase on a first in, first out basis. Net realisable value is based on estimated selling price less any additional costs to completion and disposal.

Foreign currency

Foreign currency transactions of individual companies are translated at the rates ruling when they occurred. Foreign currency monetary assets and liabilities are translated at the rates ruling at the balance sheet date. Any differences are taken to the profit and loss account.

Deferred taxation

Deferred tax balances are recognised in respect of all timing differences that have originated but not reversed by the balance sheet date except that the recognition of deferred tax assets is limited to the extent that the company anticipates to make sufficient taxable profits in the future to absorb the reversal of the underlying timing differences. Deferred tax balances are not discounted.

Leased assets

Where assets are financed by leasing agreements that give rights approximating to ownership (finance leases), the assets are treated as if they had been purchased outright. The amount capitalised is the present value of the minimum lease payments payable over the term of the lease. The corresponding leasing commitments are shown as amounts payable to the lessor. Depreciation on the relevant assets is charged to the profit and loss account.

Lease payments are analysed between capital and interest components. The interest element of the payment is charged to the profit and loss account over the period of

the lease and is calculated so that it represents a constant proportion of the balances of capital repayments outstanding. The capital element reduces the amounts payable to the lessor.

All other leases are treated as operating leases. Their annual rentals are charged to the profit and loss account on a straight line basis over the term of the lease.

Pension costs

Contributions to defined contribution pension schemes are charged to the profit and loss account in the year in which they become payable.

Notes forming part of the financial statements for the year ended 31 March 2004 (cont).

2 TURNOVER

Turnover is wholly attributable to the principal activity of the group and arises in the United Kingdom.

3 OPERATING PROFIT

	2004 £	2003 £
This is stated after charging:		
Loss on disposal of fixed assets	-	6,311
Auditors' remuneration	15,000	9,000
Depreciation - owned assets	33,665	16,613
Depreciation - on assets held under finance leases	4,063	1,250
Hire of other assets - operating leases	-	2,393
Amortisation	51,210	28,088

4 DIRECTORS

	2004 £	2003 £
Directors' remuneration consist of:		
Salary and bonuses	369,544	289,167
Pension contributions	12,089	11,761
	381,633	300,928

Remuneration in respect of the highest paid director:

Salary and bonuses	117,094	133,072
Pension contributions	4,889	4,656
	121,983	137,728

Pension contributions paid in respect of 2 directors (2003: 3)

5 EMPLOYEES

	2004 £	2003 £
Staff costs (including directors) consist of:		
Wages and salaries	1,341,334	944,766
Social Security costs	131,572	88,400
Pension costs	33,541	23,185
	1,506,447	1,056,351

	2004 £	2003 £
The average number of employees during the year was as follows:		
Sales and administration	71	39

Notes forming part of the financial statements for the year ended 31 March 2004 (cont).

6 OTHER INTEREST RECEIVABLE AND SIMILAR INCOME

	2004	2003
	£	£
Bank interest	19,027	14,718

7 INTEREST PAYABLE AND SIMILAR CHARGES

	2004	2003
	£	£
Bank and other interest	21,860	18,990
On finance leases and hire purchase contracts	2,859	2,346
	24,719	21,336

8 TAXATION

	2004	2003
	£	£
UK corporation tax in respect of the current period	192,000	233,007
Deferred taxation	(3,384)	—
	188,616	233,007

The tax assessed for the year is higher than the standard rate of corporation tax in the UK. The differences are explained below:

	2004	2003
	£	£
Profit on ordinary activities before taxation	665,989	756,460
Expected tax charge @ 30%	199,797	226,938
Effect of:		
Expenses not deductible for tax purposes	13,081	9,703
Capital allowances in excess of depreciation	(2,505)	(3,634)
Other short term timing differences	(18,373)	—
	192,000	233,007

9 DIVIDENDS

	2004	2003
	£	£
Ordinary dividends paid of £nil per share (2003 - £1,278 per share)	—	127,800

Notes forming part of the financial statements for the year ended 31 March 2004 (cont).

10 PROFIT FOR THE FINANCIAL YEAR

The company has taken advantage of the exemption allowed under section 230 of the Companies Act 1985 and has not presented its own profit and loss account in these financial statements. The group profit for the year includes a company loss after tax and before dividends of £2,810 (2003 profit - £15,114) which is dealt with in the financial statements of the parent undertaking.

11 EARNINGS PER SHARE

Earnings per share have been calculated using the weighted average number of shares in issue during the relevant financial periods. The weighted average number of equity shares in issue is 100 (2003 - 100) and the earnings, being profit after tax, are £477,373 (2003 - £523,453).

12 INTANGIBLE ASSETS

Group	2003 £
Cost	
At 1 April 2003 as previously reported	548,354
Prior year adjustment (see note 26)	367,783
	916,137
Additions (See note 27)	48,043
At 31 March 2004	964,180
Amortisation	
At 1 April 2003 as previously reported	28,088
Prior year adjustment (see note 26)	10,912
	39,000
Charge for year	51,210
At 31 March 2004	90,210
Net book value	
At 31 March 2004	873,970
Net book value	
At 31 March 2003	377,137

Notes forming part of the financial statements for the year ended 31 March 2004 (cont).

13 TANGIBLE ASSETS

Group	Leasehold improvements £	Fixtures, fittings and equipment £	Total £
Cost or valuation			
At 1 April 2003	13,962	156,897	170,859
Additions	–	67,572	67,572
Acquisition of subsidiary	–	50,743	50,743
At 31 March 2004	13,962	275,212	289,174
Depreciation			
At 1 April 2003	13,962	83,731	97,693
Acquisition of subsidiary	–	9,828	9,828
Provision for year	–	37,728	37,728
At 31 March 2004	13,962	131,287	145,249
Net book value			
At 31 March 2004	–	143,925	143,925
At 31 March 2003	–	73,166	73,166

The net book value of tangible fixed assets includes an amount of £5,966 (2003 - £13,570) in respect of assets held under hire purchase contracts. The related depreciation charge for the year was £4,063 (2003 - £1,250).

Notes forming part of the financial statements for the year ended 31 March 2004 (cont).

14 FIXED ASSETS INVESTMENTS

Company	Group undertakings
	As restated £
Cost	
At 1 March 2003 as previously stated	780,000
Prior year adjustment (note 26)	240,000
	<u>1,020,000</u>
Net book value	
At 31 March 2004	<u>1,020,000</u>
At 31 March 2003	<u>1,020,000</u>

The following were subsidiary undertakings at the end of the year and have all been included in the consolidated financial statements:

Name	Proportion of voting rights and share capital held	Nature of business
MKM Holdings Limited	100%	Holding company
MKM Marketing and Promotions Limited	100%*	Marketing and Promotions
Travel Design Limited	100%*	Travel agency
Hidden Retreats Limited	100%*	Tour operator
Yippee Experiences Limited	100%	Dormant
Free2stay Limited	100%	Dormant
Privilege	100%*	Dormant

For all undertakings listed above, the country of operation is the same as its country of incorporation or registration, the United Kingdom.

*Subsidiaries are held indirectly through an intermediate holding company.

15 STOCKS

Group	2004 £	2003 £
Voucher stock	1,164	1,164

Notes forming part of the financial statements for the year ended 31 March 2004 (cont).

16 DEBTORS

	Group 31 March 2004 £	Group 31 March 2003 £	Company 31 March 2004 £	Company 31 March 2003 £
Amounts receivable within one year:				
Trade debtors	1,023,618	852,125	–	–
Amounts due from subsidiary undertakings	–	–	54,300	52,200
Other debtors	77,500	–	–	2,100
Prepayments and accrued income	51,709	8,784	–	–
	1,152,827	860,909	54,300	54,300

17 CREDITORS:

AMOUNTS FALLING DUE WITHIN ONE YEAR

	Group 31 March 2004 £	Group 31 March 2003 £	Company 31 March 2004 £	Company 31 March 2003 £
Bank loans and overdrafts	64,717	94,983	86	70,416
Obligations under finance leases and hire purchase contracts	8,641	7,531	–	–
Deferred consideration	120,000	120,000	120,000	120,000
Trade creditors	714,090	815,720	–	–
Amounts due to subsidiary undertakings	–	–	795,296	502,156
Corporation tax	274,565	233,500	–	–
Taxation and social security	230,771	119,178	–	–
Other creditors	65,046	179,461	40,083	40,083
Accruals and deferred income	639,902	349,845	1,000	1,000
	2,117,732	1,920,218	956,465	833,655

The bank overdraft is secured by a mortgage debenture over the assets of the company.

Notes forming part of the financial statements for the year ended 31 March 2004 (cont).

18 CREDITORS: AMOUNTS FALLING DUE AFTER MORE THAN ONE YEAR

	Group 31 March 2004	Group 31 March 2003 As restated	Company 31 March 2004	Company 31 March 2003 As restated
	£	£	£	£
Other loans	403,000	-	-	-
Deferred consideration	120,000	240,000	120,000	240,000
Obligations under finance leases	3,781	5,055	-	-
	526,781	245,055	120,000	240,000

The other loan of £403,000 is an unsecured loan made to the group by M. Koch and V. Koch, directors of the company. Interest is payable on the balance outstanding at 2% above the prevailing base rate.

19 PROVISIONS FOR LIABILITIES AND CHARGES

Group	Deferred Taxation £
At 1 April 2003	4,440
Acquired with subsidiary	3,384
Transfer to profit and loss account	(3,384)
At 31 March 2004	4,440

20 SHARE CAPITAL

Group and company	2004 Number	2004 £	2003 Number	2003 £
Authorised				
Ordinary shares of £1 each	10,000	10,000	10,000	10,000
Allotted, called up and fully paid				
Ordinary shares of £1 each	100	100	100	100

Notes forming part of the financial statements for the year ended 31 March 2004 (cont).

21 RESERVES

Group	Profit and loss account 2004 £	Profit and loss account 2003 £
At beginning of year as previously stated	239,203	23,248
Prior year adjustment (note 26)	179,698	-
At beginning of year as restated	418,901	23,248
Profit for the year	477,373	215,955
At end of year	896,274	239,203
Company		
At beginning of year	545	(14,569)
(Loss) for the year	(2,810)	15,114
At end of year	(2,265)	545

22 RECONCILIATION OF MOVEMENTS IN SHAREHOLDERS' FUNDS

Group	Group 2004 £	Company 2004 £	Group 2003 £	Company 2003 £
Profit for the financial year	477,373	(2,810)	395,653	15,114
Additions to/(reduction in) shareholders' funds	477,373	(2,810)	395,653	15,114
Opening shareholders' funds as previously stated	239,303	645	23,348	(14,469)
Prior year adjustment	179,698	-	-	-
Opening shareholders' funds as restated	419,001	645	23,348	(14,469)
Closing shareholders' funds	896,374	(2,165)	419,001	545

23 RECONCILIATION OF OPERATING PROFIT TO NET CASH FLOW FROM OPERATING ACTIVITIES

	2004 £	2003 As restated £
Operating profit	671,681	763,078
Depreciation	37,728	17,863
Amortisation	51,210	39,000
Decrease/(increase) in debtors	4,549	(99,432)
(Decrease)/increase in creditors	(146,829)	173,157
Loss on disposal of fixed assets	-	6,311
Net cash inflow from operating activities	618,339	899,977

Notes forming part of the financial statements for the year ended 31 March 2004 (cont).

24 ANALYSIS OF CASH FLOWS

	2004	2003
	£	As restated £
Returns on investments and servicing of finance		
Interest received	19,027	14,718
Interest paid	(21,860)	(18,990)
Interest element of finance lease rental payments	(2,859)	(2,346)
	(5,692)	(6,618)
Capital expenditure		
Payments to acquire tangible fixed assets	(67,572)	(28,995)
Proceeds from disposal of tangible fixed assets	-	6,575
	(67,572)	(22,420)
Acquisitions and disposals		
Payments to acquire subsidiary undertakings	(164,147)	(714,000)
Bank overdrafts acquired with subsidiaries	(3,967)	-
	(168,114)	(714,000)
Financing		
Other loan advance	403,000	-
Bank loan advance	-	577,362
Capital element of hire purchase repayments	(5,041)	(14,709)
Repayment of other loans	(70,397)	(589,603)
	327,562	(26,950)

25 ANALYSIS OF NET DEBT

	At beginning of year	Cash flow	Other non-cash changes	At year end
	£	£	£	£
Cash at bank and in hand	776,338	597,103	-	1,373,441
Overdrafts	(24,586)	(40,131)	-	(64,717)
	751,752	556,972	-	1,308,724
Debt due within one year	(70,397)	70,397	-	-
Debt due after one year	-	(403,000)	-	(403,000)
Finance leases and hire purchase contracts	(12,587)	5,041	(4,876)	(12,422)
Total	668,768	229,410	(4,876)	893,302

Notes forming part of the financial statements for the year ended 31 March 2004 (cont).

26 PRIOR YEAR ADJUSTMENTS

As detailed in note 1, during the year the Group changed its accounting policy on recognition of promotions income.

The effect of the change in accounting policy on the comparatives was to decrease sales by £146,186 in 2004 and by £122,157 in 2003. Operating profit reduced by £77,322 in 2004 and increased by £117,039 in 2003. The effect on brought forward reserves is an increase of £62,827.

An adjustment was also made to goodwill in respect of additional consideration that had been incorrectly treated in the prior year. The amount of £116,871 has now been added to goodwill in 2003.

A prior year adjustment has been made to the company's balance sheet to correctly reflect the investment value. Previously deferred consideration had not been correctly shown in the value of investments and creditors. An adjustment of £240,000 has been made to increase the value of fixed asset investments and creditors in 2003 to reflect this. An adjustment has also been made to the cash flow statement of £594,000 to reflect a payment relating to the original investment in subsidiary undertakings.

27 ACQUISITIONS

On 2 April 2003, the group acquired Hidden Retreats Limited for £44,147 paid by cash. In calculating the goodwill arising on acquisition, the book value of net assets of Hidden Retreats Limited have been assessed as follows:

	Book and fair value £
Fixed assets	
Tangible	40,915
Current assets	
Debtors	296,467
Total assets	337,382
Creditors	
Due within one year	274,396
Due after more than one year	66,882
Net liabilities	(3,896)
Cash consideration	44,147
Net liabilities acquired	3,896
Goodwill arising on acquisition	48,043

Notes forming part of the financial statements for the year ended 31 March 2004 (cont).

27 ACQUISITIONS (CONT).

The results of Hidden Retreat Limited prior to its acquisition were as follows:
Profit and loss account

	1 December to 2 April 2003 £	Year ended 30 November 2002 £
Turnover	553,083	926,003
Operating (loss)/profit	(52,443)	11,959
Net interest	2,535	(2,704)
(Loss)/Profit on ordinary activities before taxation	(49,908)	9,255
Taxation on profit on ordinary activities	-	3,384
(Loss)/Profit for the period/year	(49,908)	5,871

Cash flows

The net outflow of cash arising from the acquisition of Hidden Retreats Limited was as follows:

	£
Cash consideration, as above	44,147
Overdraft	3,967
Net outflow of cash	48,114

28 POST BALANCE SHEET EVENTS

On 13 May 2004, the company re-registered as a public company and changed its name to MKM Group plc.

By a special resolution dated 16 April 2004, each of the 100 issued ordinary shares of £1 each and the 9,900 unissued ordinary shares of £1 each were subdivided into 200 ordinary shares of 0.5p each. On 16 April 2004 the nominal capital of the company was increased to £200,000 by the creation of 20,000,000 ordinary shares of 0.5p each to rank pari passu with the existing shares in the company. On 16 April 2004 a further 4,990,000 ordinary shares each of 0.5p each were issued at par to M Koch and V Koch.

On 7 June 2004, the company was admitted to the Alternative Investment Market with the issue of 3,181,818 ordinary shares of 0.5p each at a premium of 43.5p per share. The funds received from the placing will be utilised to grow the existing business and develop new areas of business.