

**REGISTRAR OF
COMPANIES**

**Mustoe Merriman Levy Group Holdings
Limited**

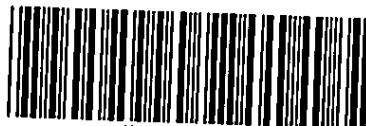
Report and Financial Statements

Year Ended

31 December 2006

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BDO Stoy Hayward
Chartered Accountants

Mustoe Merriman Levy Group Holdings Limited

Annual report and financial statements for the year ended 31 December 2006

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Directors

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Directors

N Mustoe
I Jackson

Company secretary

Hexagon Registrars Limited, Ten Dominion Street, London, EC2M 2EE

Registered office

Ground Floor, Paramount Building, 206-216b St John Street, London, EC1V 4PH

Company number

4520540

Auditors

BDO Stoy Hayward LLP, 8 Baker Street, London, W1U 3LL

Mustoe Merriman Levy Group Holdings Limited

Chairman's statement

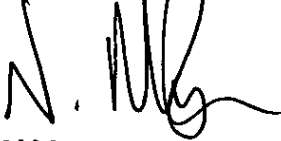
During the course of 2006 the company underwent some fundamental changes following the loss of revenue from several Japanese clients. As a result of this the company was reorganised to reflect both the current revenue base and the focus on domestic UK clients. Specifically this reorganisation included the disposal of its largest liability, the lease on Bucknall Street WC2 and moved into more affordable premises in St John Street EC1. Also in 2007, it involved the management buying back all but 12% of the equity from Hakuhodo Inc and re-launching the company as a UK independent Agency once again.

The re-launched Agency has a new management line up which includes myself resuming as Managing Director, Andrew Levy resuming as Planning Director, new Creative Directors, Simon Brotherston and Ben Friend who joined from BBC agency Red Bee. Ingrid Jackson continues her role as Finance Director.

As part of this re-launch we have a new position, which captures our unique offering in the market place "to give people something worth talking about". In an ever fragmenting media landscape, with evermore distrusting consumers, for any brand to succeed it must be able to answer the question "why does this brand exist"?

It is only when this question truly be answered in an ownable way is there a basis for investing in media.

We believe that with our new structure, management team and positioning we are confident that we will deliver strong solutions for our clients and the business will prosper.



N Mustoe
Chairman

Date

13/04/07

Mustoe Merriman Levy Group Holdings Limited

Report of the directors for the year ended 31 December 2006

The directors present their report together with the audited financial statements for the year ended 31 December 2006

Results and dividends

The profit and loss account is set out on page 7 and shows the result for the year

The directors recommended an interim dividend of £Nil (2005 - £675,000) The directors do not recommend the payment of a final dividend (2005 - £Nil)

Principal activities

The activity of the group is to act as a communications agency, principally advertising, and including other communication services and consultancy The activity of the company is a holding company

Review of the business

The profit and loss account is set out on page 7 and shows turnover for the year of £9,725,322 and a pre tax loss for the year of £1,006,315 Over half of the losses came from costs associated attributable with the disposal of the lease on the office premises in Bucknall Street, which amounted to £577,289 Cash management is paramount to the business and although losses were made, the company was cash positive during the period Notwithstanding this, there continues to be in place a rolling facility of £400,000 with the National Westminster Bank

Turnover was down on previous year This was mainly due to the loss of businesses from several Japanese clients As a result of this the company decided to control costs by reducing its headcount and also moved into temporary serviced offices prior to securing a more affordable leased premises in EC1

The company was reorganised to reflect both its current revenue base and to focus on domestic UK clients Client contracts for 2007 have been renewed With a new management structure in place and the return of its Planning Partner Andrew Levy, as part of the re-launch of a new positioning and offering to our domestic clients, the company is poised to make healthy profits in 2007

Principal risks and uncertainties

Above-the-line advertising is challenged by the growing digital age More advertisers are looking toward digital advertising as an important forum The company is developing a link with a creative digital agency and so far has already proved to have added value to some of its key clients

The company credit risk is primarily attributable to its trade debtors Whilst the company continues to trade with its long standing big brand clients, credit checks on new clients are undertaken and payment terms are pre-agreed prior to commencement of work The company has a policy to invoice in advance of work commissioned by its clients Cash flow is monitored as part of the day to day control procedures The directors review its cash flow projections on a monthly basis and ensures that appropriate facilities are available to be drawn upon as necessary

The business is measured by its margin on revenue The industry expected operating profit margin is 10-15% Staff costs ratio is 58-60% whilst property ratio is 10% The company is confident to manage its business within these indicators

Mustoe Merriman Levy Group Holdings Limited

Report of the directors for the year ended 31 December 2006

Directors

The directors of the company during the year and their interests in the ordinary share capital of the company were

		At 31 December 2006		At 1 January 2006	
		'A' ordinary shares of 1p each	'B' ordinary shares of 1p each	'A' ordinary shares of 1p each	'B' ordinary shares of 1p each
N Mustoe	(Chairman/Chief Executive)	-	405,519	-	405,519
I Jackson		-	51,648	-	51,648
A Levy	(resigned 13 February 2006)	-	181,088	-	181,088
S Matsumoto	(resigned 15 March 2007)	-	-	-	-
R Katsui	(resigned 13 August 2006)	-	-	-	-
T Kato	(resigned 15 March 2007)	-	-	-	-
Y Miyazaki	(resigned 15 March 2007)	-	-	-	-
S Okawa	(appointed 13 August 2006, resigned 15 March 2007)	-	-	-	-

There were no other directors' interests requiring disclosure under the Companies Act 1985

Directors' responsibilities

The directors are responsible for preparing the annual report and the financial statements in accordance with applicable law and United Kingdom Generally Accepted Accounting Practice

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 of the profit or loss of the company for that year. 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, 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 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 company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Mustoe Merriman Levy Group Holdings Limited

Report of the directors for the year ended 31 December 2006 (*Continued*)

Post balance sheet events

On 15 March 2007 Hakuhodo sold all but 12% of their shares in Mustoe Merriman Levy Group Holdings Limited to Nick Mustoe. Immediately following the sale and exchange of shares the entire share capital of the company was restructured to include members of the new management team.

Auditors

All of the current directors have taken all the steps that they ought to have taken to make themselves aware of any information needed by the company's auditors for the purposes of their audit and to establish that the auditors are aware of that information. The directors are not aware of any relevant audit information of which the auditors are unaware.

BDO Stoy Hayward LLP have expressed their willingness to continue in office and a resolution to re-appoint them will be proposed at the annual general meeting.

On behalf of the Board



Director

Date

13/04/07

Mustoe Merriman Levy Group Holdings Limited

Report of the independent auditors

To the shareholders of Mustoe Merriman Levy Group Holdings Limited

We have audited the group and parent company financial statements (the "financial statements") of Mustoe Merriman Levy Group Holdings Limited for the year ended 31 December 2006 which comprise the consolidated profit and loss account, the consolidated and company balance sheets, the consolidated cash flow statement and the related notes. These financial statements 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 (United Kingdom Generally Accepted Accounting Practice) 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 International Standards on Auditing (UK and Ireland).

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act 1985. We also report to you if, in our opinion, the Directors' Report is not consistent with the financial statements, if the company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and other transactions is not disclosed.

We read 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 and the chairman's statement. 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 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 group's and 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.

Mustoe Merriman Levy Group Holdings Limited

Report of the independent auditors (*Continued*)

Opinion

In our opinion

- the group financial statements give a true and fair view, in accordance with United Kingdom Generally Accepted Accounting Practice, of the state of the group's affairs as at 31 December 2006 and of its result for the year then ended,
- the parent company financial statements give a true and fair view, in accordance with United Kingdom Generally Accepted Accounting Practice, of the state of the parent company's affairs as at 31 December 2006,
- 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

BDO Stoy Hayward LLP

BDO STOY HAYWARD LLP

*Chartered Accountants
and Registered Auditors
London*

13 April 2007

Mustoe Merriman Levy Group Holdings Limited**Consolidated profit and loss account for the year ended 31 December 2006**

	Note	2006 £	2005 £
Turnover	2	9,725,322	13,757,672
Cost of sales		6,445,487	8,876,784
		<hr/>	<hr/>
Gross profit		3,279,835	4,880,888
Administrative expenses - ongoing		3,810,996	4,441,843
- exceptional		238,401	-
Other operating income		103,587	112,420
		<hr/>	<hr/>
Operating (loss)/profit	5	(665,975)	551,465
Loss on disposal of fixed assets	6	338,888	-
Interest receivable		328	386
Interest payable and similar charges	7	1,780	545
		<hr/>	<hr/>
(Loss)/profit on ordinary activities before taxation		(1,006,315)	551,306
Taxation	8	(188,648)	154,896
		<hr/>	<hr/>
(Loss)/profit on ordinary activities after taxation		<u>(817,667)</u>	<u>396,410</u>

All amounts relate to continuing activities

All recognised gains and losses are included in the profit and loss account

The notes on pages 11 to 22 form part of these financial statements

Mustoe Merriman Levy Group Holdings Limited

Consolidated balance sheet at 31 December 2006

	Note	2006 £	2006 £	2005 £	2005 £
Fixed assets					
Tangible assets	11		69,042		475,826
Current assets					
Debtors	13	1,336,960		3,280,407	
Cash at bank and in hand		246,423		483,564	
		1,583,383		3,763,971	
Creditors: amounts falling due within one year	14	1,422,545		3,154,869	
Net current assets			160,838		609,102
Total assets less current liabilities			229,880		1,084,928
Provision for liabilities and charges	15		-		37,381
			229,880		1,047,547
Capital and reserves					
Called up share capital	16		38,576		38,576
Merger reserve	17		-		(4,676,866)
Profit and loss account	17		(4,630,696)		863,837
Capital redemption reserve	17		4,822,000		4,822,000
Shareholders' funds	18		229,880		1,047,547

The financial statements were approved by the Board of Directors and authorised for issue on **13 APR 2007**

N Mustoe)

) **Directors**

I Jackson)

The notes on pages 11 to 22 form part of these financial statements

Mustoe Merriman Levy Group Holdings Limited

Company balance sheet at 31 December 2006

	Note	2006 £	2006 £	2005 £	2005 £
Fixed assets					
Investments	12		193,710		11,210,000
Creditors: amounts falling due within one year	14	10,000		10,000	
Net current liabilities			(10,000)		(10,000)
Net assets			183,710		11,200,000
Capital and reserves					
Called up share capital	16		38,576		38,576
Merger reserve	17		-		6,339,424
Profit and loss account	17		(4,676,866)		-
Capital redemption reserve	17		4,822,000		4,822,000
Shareholders' funds	18		183,710		11,200,000

The financial statements were approved by the Board of Directors and authorised for issue on **13 APR 2007**

N Mustoe)

) **Directors**

I Jackson)

The notes on pages 11 to 22 form part of these financial statements

Mustoe Merriman Levy Group Holdings Limited

Consolidated cash flow statement for the year ended 31 December 2006

	Note	2006 £	2006 £	2005 £	2005 £
Net cash outflow from operating activities	20		(52,631)		(138,314)
Returns on investments and servicing of finance					
Interest received		328		386	
Interest paid		(1,780)		(545)	
New cash outflow from returns on investments and servicing of finance			(1,452)		(159)
Dividend			-		(675,000)
Taxation					
UK corporation tax			(177,412)		(221,227)
Capital expenditure					
Purchase of tangible fixed assets		(21,383)		(76,964)	
Proceeds from sale of tangible fixed assets		15,737		-	
			(5,646)		(76,964)
Decrease in cash	22		(237,141)		(1,111,664)

The notes on pages 11 to 22 form part of these financial statements

Mustoe Merriman Levy Group Holdings Limited

Notes forming part of the financial statements for the year ended 31 December 2006

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 Mustoe Merriman Levy Group Holdings Limited and all of its subsidiary undertakings as at 31 December 2006 using the acquisition or merger method of accounting as required. Where the acquisition method is used, the results of subsidiary undertakings are included from the date of acquisition or incorporation.

Merger accounting

Where merger accounting is used, the investment is recorded in the company's balance sheet at the fair value of the shares issued together with the fair value of any additional consideration paid.

In the group financial statements, merged subsidiary undertakings are treated as if they had always been a member of the group. The results of such a subsidiary are included for the whole year in the year it joins the group. The corresponding figures for the previous years include its results for that year, the assets and liabilities at the balance sheet date and the shares issued by the company as consideration as if they had always been in issue. Any difference between the nominal value of the shares acquired by the company and those issued by the company to acquire them is taken to reserves.

Turnover

Turnover represents amounts receivable from clients, exclusive of VAT, in respect of billings for production and fees.

Revenue is recognised when billings are made to clients. Fee income is recognised in accordance with the agreements with clients.

Tangible fixed assets and depreciation

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

Fixtures, fittings and equipment - over 5-10 years

Impairment of fixed assets

The need for any fixed asset impairment write down is assessed by comparison of the carrying value of the asset against the higher of its realisable value and value in use.

Mustoe Merriman Levy Group Holdings Limited

Notes forming part of the financial statements for the year ended 31 December 2006 (*Continued*)

1 Accounting policies (*Continued*)

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 for the recognition of deferred tax assets is limited to the extent that the group anticipates to make sufficient taxable profits in the future to absorb the reversal of the underlying timing differences

Deferred tax balances are not discounted

Operating leases

Annual rentals in respect of operating leases are charged to the profit and loss account on a straight-line basis over the term of the lease

Foreign currencies

Assets and liabilities in foreign currencies are translated into sterling at the rate of exchange ruling at the balance sheet date. Transactions in foreign currencies are translated into sterling at the rate of exchange ruling at the date of the transaction. Exchange differences are taken into account in arriving at the operating profit

Pension costs

The charge against the profit and loss account is equal to the employer contributions for the year in respect of personal pension plans for individual employees. There is no group pension plan

Valuation of investments

Investments held as fixed assets are stated at cost less any provision for a permanent diminution in value

2 Turnover and profit

The turnover and profit before taxation is wholly attributable to the company's principal activity and arose entirely in the United Kingdom

Mustoe Merriman Levy Group Holdings Limited**Notes forming part of the financial statements for the year ended 31 December 2006 (Continued)****3 Employees**

	2006 £	2005 £
Staff costs (including directors) consist of		
Wages and salaries	2,072,590	2,419,528
Social security costs	230,489	274,946
Other pension costs	35,039	41,211
	<u>2,338,118</u>	<u>2,735,685</u>
	Number	Number
The average number of employees during the year was as follows	36	51

4 Directors' remuneration

	2006 £	2005 £
Emoluments for management services	547,620	560,191
Pension contributions	24,137	29,048
Contribution for loss of office	30,000	-
	<u>601,757</u>	<u>589,239</u>
Remuneration of highest paid director		
Emoluments excluding pension contributions	135,000	141,400
Pension contributions	-	10,440
Contribution for loss of office	30,000	-
	<u>165,000</u>	<u>151,840</u>

There were 3 (2005 – 3) directors in the company's defined contribution pension scheme during the year

Mustoe Merriman Levy Group Holdings Limited

Notes forming part of the financial statements for the year ended 31 December 2006 (*Continued*)

5 Operating (loss)/profit

	2006 £	2005 £
This has been arrived at after charging/(crediting)		
Amortisation of intangible assets	-	-
Depreciation of tangible assets	73,543	95,638
Auditors' remuneration - audit services (group)	25,000	26,500
- audit services (company)	1,500	1,500
Operating leases - premises	440,733	526,795
Exceptional costs (see note 6 below)	238,401	-
	<u>238,401</u>	<u>-</u>

6 Exceptional costs

The exceptional costs are wholly attributable to the disposal of the lease on Bucknall Street and the acquisition of a new lease for the company at the new registered office address in St John Street, London, EC1

7 Interest payable and similar charges

	2006 £	2005 £
Other interest	1,780	545
	<u>1,780</u>	<u>545</u>

8 Taxation

	2006 £	2006 £	2005 £	2005 £
<i>Current tax</i>				
UK corporation (credit)/tax on profits for the year	(121,326)		177,411	
Adjustment in respect of prior periods	-		(21,595)	
Total current tax	<u>(121,326)</u>	(121,326)	<u>155,816</u>	155,816
<i>Deferred tax</i>				
Origination and reversal of timing differences		(67,322)		(920)
Taxation on profit on ordinary activities		<u>(188,648)</u>		<u>154,896</u>

Mustoe Merriman Levy Group Holdings Limited**Notes forming part of the financial statements for the year ended 31 December 2006 (Continued)****8 Taxation (Continued)**

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

	2006 £	2005 £
(Loss)/profit on ordinary activities before tax	(1,006,315)	551,306
(Loss)/profit on ordinary activities at the standard rate of corporation tax in the UK of 30% (2005 – 30%)	(301,895)	165,392
Effects of		
Expenses not deductible for tax purposes	113,247	-
Capital allowances for year in deficit/(excess) of depreciation	67,322	(2,473)
Adjustment to tax in respect of prior periods	-	(21,595)
Difference in tax rate	-	(920)
Depreciation on non-qualifying assets	-	7,943
Permanent differences	-	6,549
Current tax (credit)/charge for year	(121,326)	154,896

9 Dividends

	2006 £	2005 £
Interim - £Nil per share (2005 - £0.175)	-	675,000

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 prepared its own profit and loss account in these financial statements. The profit for the year includes a retained loss of £11,016,290 (2005 - £Nil) which is dealt with in the financial statements of the parent company.

Mustoe Merriman Levy Group Holdings Limited

Notes forming part of the financial statements for the year ended 31 December 2006 (Continued)

11 Tangible assets

Group	Fixtures, fittings and equipment £
<i>Cost</i>	
At beginning of year	814,077
Additions	21,383
Disposals	(681,884)
	<hr/>
At end of year	153,576
	<hr/>
<i>Depreciation</i>	
At beginning of year	338,251
Provided for the year	73,543
Disposals	(327,260)
	<hr/>
At end of year	84,534
	<hr/>
<i>Net book value</i>	
At 31 December 2006	69,042
	<hr/>
At 31 December 2005	475,826
	<hr/>
The company holds no fixed assets	

Mustoe Merriman Levy Group Holdings Limited

Notes forming part of the financial statements for the year ended 31 December 2006 (*Continued*)

12 Investments

Company	Shares in subsidiary undertakings £
<i>Cost</i>	
At 1 January 2006 and 31 December 2006	16,032,000
<i>Provisions for diminution in value</i>	
At 1 January 2006	(4,822,000)
Provided for in year	(11,016,290)
At 31 December 2006	(15,838,290)
<i>Net book value</i>	
At 31 December 2006	193,710
At 1 January 2006	11,210,000

Subsidiary undertakings

The principal undertakings in which the company's interest at the year end is 20% or more are as follows

Subsidiary undertaking	Country of incorporation or registration	Proportion of voting rights ordinary share capital held	Nature of business
Mustoes Limited	England	100%	Advertising
Mustoe Merriman Levy Holdings Limited	England	100%	Non-trading
The Oven Limited	England	100%	Non-trading

Mustoe Merriman Levy Group Holdings Limited

Notes forming part of the financial statements for the year ended 31 December 2006 (Continued)

13 Debtors

	Group 2006 £	Group 2005 £	Company 2006 £	Company 2005 £
Trade debtors	710,291	2,792,282	-	-
Other debtors	13,904	143,348	-	-
Prepayments and accrued income	461,498	344,777	-	-
Deferred tax	29,941	-	-	-
Corporation tax debtor	121,326	-	-	-
	<u>1,336,960</u>	<u>3,280,407</u>	<u>-</u>	<u>-</u>

All amounts shown under debtors fall due for payment within one year

14 Creditors: amounts falling due within one year

	Group 2006 £	Group 2005 £	Company 2006 £	Company 2005 £
Trade creditors	334,836	1,557,373	-	-
Amounts owed to group undertakings	-	-	10,000	10,000
Taxation and social security	131,729	125,675	-	-
Corporation tax	-	177,411	-	-
Other creditors	1,732	22,145	-	-
Accruals and deferred income	954,248	1,272,265	-	-
	<u>1,422,545</u>	<u>3,154,869</u>	<u>10,000</u>	<u>10,000</u>

Mustoe Merriman Levy Group Holdings Limited

Notes forming part of the financial statements for the year ended 31 December 2006 (*Continued*)

15 Provisions for liabilities and charges

	Group 2006 £	Group 2005 £	Company 2006 £	Company 2005 £
<i>Deferred taxation</i>				
Accelerated capital allowances	-	38,301	-	-
Sundry timing differences	-	(920)	-	-
	-	37,381	-	-
				Deferred taxation £
At 1 January 2006				37,381
Credit to profit and loss account				(67,322)
				(29,941)
At 31 December 2006				

The deferred tax asset is included in note 13

16 Share capital

	2006 Number	2006 £	2005 Number	2005 £
<i>Authorised</i>				
'A' ordinary shares of £0.01	3,086,080	30,861	3,086,080	30,861
'B' ordinary shares of £0.01	1,967,376	19,674	1,967,376	19,674
Ordinary shares of £0.01	13,942,400	139,324	13,942,400	139,324
Deferred shares of £1	100	100	100	100
	18,995,956	189,959	18,995,956	189,959
<i>Allotted, called up and fully paid</i>				
'A' ordinary shares of £0.01	3,086,080	30,861	3,086,080	30,861
'B' ordinary shares of £0.01	771,520	7,715	771,520	7,715
Ordinary shares of £0.01	-	-	-	-
Deferred shares of £1	-	-	-	-
	3,857,600	38,576	3,857,600	38,576

Mustoe Merriman Levy Group Holdings Limited

Notes forming part of the financial statements for the year ended 31 December 2006 (Continued)

16 Share capital (Continued)

Rights of Shares

The 'A' and 'B' ordinary shares rank pari passu except in relation to the deferred shares as described below

The deferred shares can only be issued to 'A' ordinary shareholders and are not transferable other than to another 'A' ordinary shareholder. On a return of assets on liquidation or otherwise, the deferred shares shall have a right to receive 0.0001p per share prior to any distribution to the holders of the ordinary shares. The deferred shares carry no right to dividends and no right to attend or vote at any general meeting of the Company.

17 Reserves

Group	Capital redemption reserve £	Merger reserve £	Profit and loss account £
At 1 January 2006	4,822,000	(4,676,866)	863,837
Loss for the year	-	-	(817,667)
Reserve transfer	-	4,676,866	(4,676,866)
	<hr/>	<hr/>	<hr/>
Balance at 31 December 2006	4,822,000	-	(4,630,696)
	<hr/>	<hr/>	<hr/>
Company			
At 1 January 2006	4,822,000	6,339,424	-
Loss for year	-	-	(11,016,290)
Reserve transfer	-	(6,339,424)	6,339,424
	<hr/>	<hr/>	<hr/>
At 31 December 2006	4,822,000	-	(4,676,866)
	<hr/>	<hr/>	<hr/>

Mustoe Merriman Levy Group Holdings Limited

Notes forming part of the financial statements for the year ended 31 December 2006 *(Continued)*

18 Reconciliation of movements in shareholders' funds

	Group 2006 £	Group 2005 £	Company 2006 £	Company 2005 £
(Loss)/profit for the year	(817,667)	396,410	(11,016,290)	675,000
Dividends	-	(675,000)	-	(675,000)
Net reduction to shareholders'	(817,667)	(278,590)	(11,016,290)	-
Opening shareholders' funds	1,047,547	1,326,137	11,200,000	11,200,000
Closing shareholders' funds	229,880	1,047,547	183,710	11,200,000

19 Commitments under operating leases

As at 31 December 2006, the group had annual commitments under non-cancellable operating leases as set out below

	2006 Land and buildings £	2006 Other £	2005 Land and buildings £	2005 Other £
Operating leases which expire				
Within one year	-	3,222	-	9,315
In two to five years	224,000	-	-	-
Greater than five years	-	-	526,795	-

20 Reconciliation of operating profit to net cash inflow from operating activities

	2006 £	2005 £
Operating (loss)/profit	(665,975)	551,465
Depreciation	73,543	95,638
Decrease/(increase) in debtors	2,094,714	(606,520)
Decrease in creditors	(1,554,913)	(178,897)
Net cash outflow from operating activities	(52,631)	(138,314)

Mustoe Merriman Levy Group Holdings Limited

Notes forming part of the financial statements for the year ended 31 December 2006 (Continued)

21 Reconciliation of net cash inflow to movement in net funds

	2006 £	2005 £
Decrease in cash in the year	(237,141)	(1,111,664)
Opening net funds	483,564	1,595,228
	<hr/>	<hr/>
Closing net funds	246,423	483,564
	<hr/>	<hr/>

22 Analysis of net funds

	At 31 December 2005 £	Cash flow £	At 31 December 2006 £
Cash in hand and at bank	483,564	(237,141)	246,423
	<hr/>	<hr/>	<hr/>

23 Related party transactions

Related party transactions and balances

During the year, the group entered into the following transactions with Hakuhoodo Inc, a company who owns 80% of the shares in the group and who has directors in common with the group in R Katsui, S Matsumoto

- The recharging of £2,220,604 (2005 - £3,134,479) to Hakuhoodo Inc for agency services provided by the group in the year for clients' of Hakuhoodo Inc At 31 December 2006, Hakuhoodo Inc owed the group £Nil (2005 - £1,357,460) in respect of this work These amounts are included within trade debtors
- The recharge of £50,674 (2005 - £40,587) to Hakuhoodo Inc in the year in relation to remuneration cost of a director of the company and a employee of Hakuhoodo At 31 December 2006, Hakuhoodo Inc owed the company £Nil (2005 - £Nil) in relation to these recharges These amounts are included within other debtors

Mustoe Merriman Levy Group Holdings Limited

Notes forming part of the financial statements for the year ended 31 December 2006 *(Continued)*

24 Ultimate parent company

At 31 December 2006 the company's ultimate parent company was Hakuodo Inc (a company incorporated in Japan) and the financial statements are consolidated at this level

25 Post balance sheet event

On 15 March 2007 Hakuodo sold all but 12% of their shares in Mustoe Merriman Levy Group Holdings Limited to Nick Mustoe. Immediately following the sale and exchange of shares the entire share capital of the company was restructured which included the allotment and issue of shares to members of the management team