

**REGISTRAR OF
COMPANIES**

4520540

**Mustoe Merriman Levy Group Holdings
Limited**
(formerly Hexagon 292 Limited)

Report and Financial Statements

Period Ended

31 December 2003



BDO Stoy Hayward
Chartered Accountants

Mustoe Merriman Levy Group Holdings Limited

Annual report and financial statements for the period ended 31 December 2003

Contents

Directors

Page:

1	Chairman's statement
2	Report of the directors
4	Report of the independent auditors
6	Consolidated profit and loss account
7	Consolidated balance sheet
8	Company balance sheet
9	Consolidated cash flow statement
10	Notes forming part of the financial statements

Directors

N Clark
I Jackson
N Mustoe
A Levy
H Jitsukawa
S Matsumoto
R Katsui

Company secretary

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

Registered office

2-4 Bucknall Street, London, WC2H 8LA.

Company number

4520540

Auditors

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

Mustoe Merriman Levy Group Holdings Limited

Chairman's statement

Following the sale of 49% of its shares to Hakuodo Inc, our group now has a strong international network with offices in most major countries.

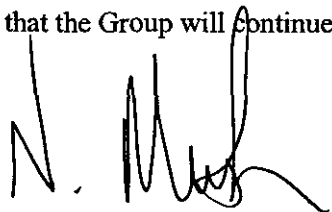
The results for the trading period were acceptable given the difficult market conditions, which affected the advertising sector. The weak dollar coupled with the threat of an epidemic with SARS and the war in Iraq fuelled the global economic worry for advertisers and as a consequence the sector receded.

Our profit margin before exceptional costs was 13.6%. Exceptional costs of £280,466 related to the restructure of the group and its subsidiaries. Classifications of shares were structured to differentiate between the trading activities and its freehold interest.

During the year the company received a dividend in specie and an interim dividend totalling £1,392,536 from Mustoes Limited. The Group disposed of its freehold property and redeemed the shares related to its freehold interest.

We are confident that the Group will continue to grow and prosper in an international market.

Chairman



Date

30th March '04

Mustoe Merriman Levy Group Holdings Limited

Report of the directors for the period ended 31 December 2003

The directors present their report together with the audited financial statements for the period ended 31 December 2003. The company was incorporated on 28 August 2002 and changed its name from Hexagon 292 Limited to Mustoe Merriman Levy Group Holdings Limited on 3 December 2002.

On 9 December 2002, a share for share group re-organisation took place whereby the company acquired Mustoe Merriman Levy Holdings Limited. The results, including the results for the comparative period, have been prepared as if the group had been in existence throughout the period.

Results and dividends

The profit and loss account is set out on page 6 and shows the profit for the period.

The directors do not recommend the payment of a dividend.

Principal activities, trading review and future developments

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

Directors

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

At 31 December 2003		
	'A' ordinary shares of 1p each	'B' ordinary shares of 1p each
N Mustoe (Chairman/Chief Executive) (appointed 3 December 2002)	-	847,371
N Clark (appointed 3 December 2002)	-	-
I Jackson (appointed 3 December 2002)	-	107,904
Hexagon Directors Limited (appointed 28 August 2002, resigned 3 December 2002)	-	-
A Levy (appointed 3 December 2002)	-	378,390
H Jitsukawa (appointed 9 December 2002)	-	-
S Matsumoto (appointed 9 December 2002)	-	-
R Katsui (appointed 9 December 2002)	-	-

Share capital

Details of changes in share capital are set out in note 19 to the financial statements.

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

Mustoe Merriman Levy Group Holdings Limited

Report of the directors for the period ended 31 December 2003 (*Continued*)

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 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; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

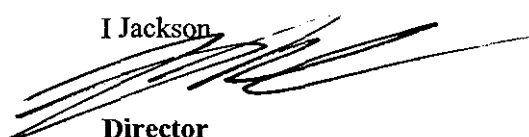
The directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the company and to enable them to ensure that the financial statements comply with the Companies Act 1985. They are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Auditors

BDO Stoy Hayward LLP, who were appointed as first auditors of the company by the directors, 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

I Jackson



Director

Date

30 March 2004

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 financial statements of Mustoe Merriman Levy Group Holdings Limited for the period ended 31 December 2003 on pages 6 to 25 which have been prepared under the accounting policies set out on pages 10 to 12.

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 and Chairman's Statement are 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.

We read the Directors' Report and Chairman's Statement and consider the implications for our report if we become aware of any apparent misstatements within it.

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 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 financial statements give a true and fair view of the state of affairs of the group and company as at 31 December 2003 and of the profit of the group for the period then ended and have been properly prepared in accordance with the Companies Act 1985.

BDO Stoy Hayward LLP

BDO STOY HAYWARD LLP

*Chartered Accountants
and Registered Auditors
London*

30 March 2004

Mustoe Merriman Levy Group Holdings Limited

Consolidated profit and loss account for the period ended 31 December 2003

	Note	18 months ended 31 December 2003 £	18 months ended 31 December 2003 £	Year ended 30 June 2002 £
Turnover	2		15,040,308	8,935,994
Cost of sales			8,514,132	3,902,010
Gross profit			6,526,176	5,033,984
Administrative expenses				
- Ongoing		5,748,115		
- Exceptional	5	280,466		
Total administrative expenses			6,028,581	
Other operating income			112,416	-
Operating profit	6		610,011	1,297,982
Profit on sale of fixed assets			2,314,599	-
Interest receivable	7		14,942	-
Interest payable and similar charges	8		333,641	171,564
Profit on ordinary activities before taxation			2,605,911	1,126,418
Taxation	9		686,456	386,273
Profit on ordinary activities after taxation and retained profit for the period	20		1,919,455	740,145

All amounts relate to continuing activities.

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

The notes on pages 10 to 25 form part of these financial statements.

Mustoe Merriman Levy Group Holdings Limited

Consolidated balance sheet at 31 December 2003

	Note	31 December 2003 £	31 December 2003 £	30 June 2002 £	30 June 2002 £
Fixed assets					
Intangible assets	11		16,306		69,986
Tangible assets	12		569,717		5,384,311
			<u>586,023</u>		<u>5,454,297</u>
Current assets					
Work in progress	14	47,313		199,330	
Debtors	15	1,910,791		661,920	
Cash at bank and in hand		1,304,702		859,241	
		<u>3,262,806</u>		<u>1,720,491</u>	
Creditors: amounts falling due within one year	16	2,980,348		1,609,447	
		<u></u>		<u></u>	
Net current assets			<u>282,458</u>		<u>111,044</u>
Total assets less current liabilities			<u>868,481</u>		<u>5,565,341</u>
Creditors: amounts falling due after more than one year	17	-		3,125,000	
Provision for liabilities and charges	18	43,454		43,454	
		<u></u>	<u>(43,454)</u>	<u></u>	<u>(3,168,454)</u>
			<u>825,027</u>		<u>2,396,887</u>
Capital and reserves					
Called up share capital	19		38,576		38,576
Merger reserve	20		(4,676,866)		11,424
Profit and loss account	20		641,317		2,346,887
Capital redemption reserve	20		4,822,000		-
			<u>825,027</u>		<u>2,396,887</u>
Shareholders' funds - equity			<u>825,027</u>		<u>2,396,887</u>

The financial statements were approved by the Board on 30 March 2004

Director

The notes on pages 10 to 25 form part of these financial statements.

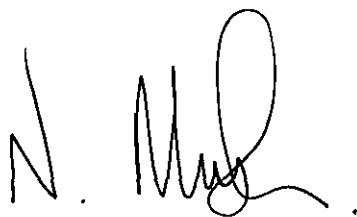
Mustoe Merriman Levy Group Holdings Limited

Company balance sheet at 31 December 2003

	Note	£
Fixed assets		
Investments	13	11,210,000
		<hr/>
		11,210,000
Creditors: amounts falling due within one year	16	10,000
		<hr/>
Net assets		11,200,000
		<hr/>
Capital and reserves		
Called up share capital	19	38,576
Merger reserve	20	6,339,424
Profit and loss account	20	-
Capital redemption reserve	20	4,822,000
		<hr/>
Shareholders' funds - equity		11,200,000
		<hr/>

The financial statements were approved by the Board on 30 March 2004

Director



The notes on pages 10 to 25 form part of these financial statements.

Mustoe Merriman Levy Group Holdings Limited

Consolidated cash flow statement for the period ended 31 December 2003

		18 months ended 31 December 2003 £	18 months ended 31 December 2003 £	Year ended 30 June 2002 £	Year ended 30 June 2002 £
	Note				
Net cash inflow from operating activities	23		701,169		1,054,516
Returns on investments and servicing of finance					
Interest received		14,942		-	
Interest paid		(333,641)		(171,564)	
New cash outflow from returns on investments and servicing of finance			(318,699)		(171,564)
Taxation					
UK corporation tax			(231,733)		(345,362)
Capital expenditure					
Purchase of tangible fixed assets		(65,275)		(319,010)	
Sale of tangible fixed assets		6,976,314		11,200	
			6,911,039		(307,810)
Cash inflow before use of liquid resources and financing			7,061,776		229,780
Financing					
Redemption of 'P' shares		(2,825,025)		-	
Buy back of shares in subsidiary		(800,000)		-	
New loans		400,000		-	
Repayment of loans		(3,525,000)		(155,000)	
Exercise of share options in subsidiary		133,710		-	
			(6,616,315)		(155,000)
Increase in cash	24		445,461		74,780

The notes on pages 10 to 25 form part of these financial statements.

Mustoe Merriman Levy Group Holdings Limited

Notes forming part of the financial statements for the period ended 31 December 2003

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 preparation

The consolidated financial statements for the period ended 31 December 2003 include the results of Mustoe Merriman Levy Group Holdings Limited from its date of incorporation and its subsidiary undertakings for their extended accounting reference period from 1 July 2002 to 31 December 2003. Comparative figures are for the year ended 30 June 2002 as this gives a continuous record for the combined group.

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 2003 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 period in the year it joins the group. The corresponding figures for the previous years include its results for that period, 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.

Goodwill

Goodwill arising on an acquisition of a subsidiary is the difference between the fair value of the consideration paid and the fair value of the assets and liabilities acquired. Goodwill arising on consolidation is amortised through the profit and loss account over the directors' estimate of its useful economic life of ten years.

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.

Mustoe Merriman Levy Group Holdings Limited

Notes forming part of the financial statements for the period ended 31 December 2003 (*Continued*)

1 Accounting policies (*Continued*)

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:

Freehold buildings	-	over 50 years
Freehold improvements	-	over 50 years
Fixtures, fittings and equipment	-	over 5-10 years
Motor vehicles	-	over 4 years

Impairment of fixed assets and goodwill

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.

Work in progress

Work in progress represents unbilled production costs and is stated at the lower of cost and net realisable value.

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.

Mustoe Merriman Levy Group Holdings Limited

Notes forming part of the financial statements for the period ended 31 December 2003 (*Continued*)

1 Accounting policies (*Continued*)

Pension costs

The charge against the profit and loss account is equal to the employer contributions for the period 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.

3 Employees

	18 months ended 31 December 2003 £	Year ended 30 June 2002 £
Staff costs (including directors) consist of:		
Wages and salaries	3,458,366	2,322,231
Social security costs	382,188	255,229
Other pension costs	70,308	44,577
	<hr/>	<hr/>
	3,910,862	2,622,037
	<hr/>	<hr/>
	Number	Number
The average number of employees during the period was as follows:		
	52	53
	<hr/>	<hr/>

Mustoe Merriman Levy Group Holdings Limited

Notes forming part of the financial statements for the period ended 31 December 2003 (Continued)

4 Directors' remuneration

	18 months ended 31 December 2003 £	Year ended 30 June 2002 £
Emoluments for management services	780,670	912,779
Pension contributions	50,040	44,577
Compensation for loss of office	-	66,000
	<u>830,710</u>	<u>1,023,356</u>
Remuneration of highest paid director:		
Emoluments excluding pension contributions	132,644	116,363
Pension contributions	15,660	10,440
	<u>148,304</u>	<u>126,803</u>

There were 6 directors in the company's defined contribution pension scheme during the period.

5 Exceptional items - Group restructuring costs

On the 9 December 2003, a significant minority shareholding in the group was acquired by Hakuholdo Inc, a company incorporated in Japan. Costs of £280,466 (2002 - £Nil) relating to legal and professional expenses incurred as a result of this purchase and in connection with the restructuring of the group have been classified as exceptional.

Mustoe Merriman Levy Group Holdings Limited**Notes forming part of the financial statements for the period ended 31 December 2003 (Continued)****6 Operating profit**

	18 months ended 31 December 2003 £	Year ended 30 June 2002 £
This has been arrived at after charging/(crediting):		
Amortisation of intangible assets	53,679	35,786
Depreciation of tangible assets	218,686	160,406
Hire of other assets - operating leases	35,644	32,820
Auditors' remuneration - audit services (group)	26,000	20,200
- audit services (company)	4,500	-
- non-audit services	86,554	12,000
Profit/(loss) on sale of fixed assets	532	(8,910)

7 Interest receivable

	18 months ended 31 December 2003 £	Year ended 30 June 2002 £
Bank interest	14,942	-

8 Interest payable and similar charges

	18 months ended 31 December 2003 £	Year ended 30 June 2002 £
Interest on bank loans	199,641	171,564
Fee in respect of early settlement of bank loans	134,000	-
	333,641	171,564

Mustoe Merriman Levy Group Holdings Limited

Notes forming part of the financial statements for the period ended 31 December 2003 (Continued)

9 Taxation

	18 months ended 31 December 2003 £	Year ended 30 June 2002 £
<i>Current tax</i>		
UK corporation tax on profits for the period	686,456	386,819
<i>Deferred tax</i>		
Origination and reversal of timing differences	-	11,454
Sundry timing differences	-	(12,000)
	<u>686,456</u>	<u>386,273</u>

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

	18 months ended 31 December 2003 £	Year ended 30 June 2002 £
Profit on ordinary activities before tax	2,605,911	1,126,418
Profit/loss on ordinary activities at the standard rate of corporation tax in the UK of 30% (2002 – 30%)	781,773	337,925
Effects of:		
Expenses not deductible for tax purposes	113,491	64,259
Capital allowances for period in excess of depreciation	23,042	(11,454)
Sundry timing differences	-	12,000
Adjustment to tax in respect of prior periods	-	(15,911)
Dividends	-	-
Difference in net book value and tax written down value on assets transferred	(29,767)	-
Capital gains less than accounting gains (primarily indexation)	(190,993)	-
Marginal relief	(11,090)	-
	<u>686,456</u>	<u>386,819</u>

Mustoe Merriman Levy Group Holdings Limited

Notes forming part of the financial statements for the period ended 31 December 2003 (Continued)

10 Result for the financial period

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 group profit for the year includes a loss after tax of £1,996,975 which is dealt with in the accounting parent company.

11 Intangible assets

	Goodwill £
Group	
At 1 July 2002	69,986
Amortisation charge for period	(53,680)
	<hr/>
At 31 December 2003	16,306
	<hr/>

Notes forming part of the financial statements for the period ended 31 December 2003 (Continued)

The company holds no fixed assets.

Mustoe Merriman Levy Group Holdings Limited

Notes forming part of the financial statements for the period ended 31 December 2003 (*Continued*)

13 Investments

	Shares in subsidiary undertakings £
Company	
<i>Cost</i>	
Additions and at 31 December 2003	16,032,000
<i>Provisions for diminution in value</i>	
Provided for in period and at 31 December 2003	4,822,000
<i>Net book value</i>	
At 31 December 2003	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%	Holding company
The Oven Limited	England	100%	Advertising

14 Work in progress

	Group 31 December 2003 £	Group 30 June 2002 £	Company 31 December 2003 £
Work in progress	47,313	199,330	-

Mustoe Merriman Levy Group Holdings Limited

Notes forming part of the financial statements for the period ended 31 December 2003 (*Continued*)

15 Debtors

	Group 31 December 2003 £	Group 30 June 2002 £	Company 31 December 2003 £
Trade debtors	1,593,058	568,867	-
Other debtors	19,590	19,415	-
Prepayments and accrued income	298,143	73,638	-
	<u>1,910,791</u>	<u>661,920</u>	<u>-</u>

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

16 Creditors: amounts falling due within one year

	Group 31 December 2003 £	Group 30 June 2002 £	Company 31 December 2003 £
Trade creditors	954,153	437,329	-
Amounts owed to group undertakings	-	-	10,000
Taxation and social security	262,396	361,306	-
Corporation tax	719,790	265,067	-
Other creditors	25,189	5,667	-
Accruals and deferred income	1,018,820	540,078	-
	<u>2,980,348</u>	<u>1,609,447</u>	<u>10,000</u>

17 Creditors: amounts falling due after more than one year

	Group 31 December 2003 £	Group 30 June 2002 £	Company 31 December 2003 £
Bank loan (secured)	-	3,125,000	-
	<u>-</u>	<u>3,125,000</u>	<u>-</u>

Mustoe Merriman Levy Group Holdings Limited

Notes forming part of the financial statements for the period ended 31 December 2003 (*Continued*)

18 Provisions for liabilities and charges

	Group 31 December 2003 £	Group 30 June 2002 £	Company 31 December 2003 £
<i>Deferred taxation</i>			
Accelerated capital allowances	55,454	55,454	-
Sundry timing differences	(12,000)	(12,000)	-
	<u>43,454</u>	<u>43,454</u>	<u>-</u>

19 Share capital

	Number	£
<i>Authorised</i>		
'A' ordinary shares of £0.01	1,890,224	18,902
'B' ordinary shares of £0.01	1,967,376	19,674
Ordinary shares of £0.01	13,932,400	139,324
Deferred shares of £1	100	100
	<u>17,790,100</u>	<u>178,000</u>
<i>Allotted, called up and fully paid</i>		
'A' ordinary shares of £0.01	1,890,224	18,902
'B' ordinary shares of £0.01	1,967,376	19,674
Ordinary shares of £0.01	-	-
Deferred shares of £1	-	-
	<u>3,857,600</u>	<u>38,576</u>

Mustoe Merriman Levy Group Holdings Limited

Notes forming part of the financial statements for the period ended 31 December 2003 (Continued)

19 Share capital (Continued)

The authorised share capital of the company on 28 August 2002 was 100 ordinary shares of £1 each.

On 3 December 2003, the authorised share capital of the company was increased to 5,000,000 ordinary shares of £1 each.

On 9 December 2002 the following events took place:

- (a) Each of the issued and unissued ordinary shares of £1 each were subdivided into 100 ordinary shares of £0.01 each.
- (b) The company acquired the whole of the issued share capital of Mustoe Merriman Levy Holdings Limited by issuing 3,857,600 £0.01 shares as consideration to the shareholders of Mustoe Merriman Levy Holdings Limited in a share for share exchange.
- (c) The issued share capital of the company of 3,857,600 ordinary shares of £0.01 each were redesignated as 3,857,600 'B' ordinary shares of £0.01 each.
- (d) 1,890,224 of the 'B' ordinary shares of £0.01 each were redesignated as 'A' ordinary shares of £0.01 each.
- (e) The unissued share capital of the company was redesignated as 13,932,400 ordinary shares of £0.01 each, 482,200,000 'P' shares of £0.01 each and 100 deferred shares of £1 each.
- (f) A bonus issue of the 482,200,000 'P' shares was made.

On 8 August 2003, all of the 482,200,000 'P' shares of £0.01 each were redeemed and subsequently cancelled.

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 after the distribution to the holders of the 'P' shares but 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.

Mustoe Merriman Levy Group Holdings Limited

Notes forming part of the financial statements for the period ended 31 December 2003 (Continued)

20 Reserves

Group	Capital redemption reserve £	Merger reserve £	Profit and loss account £
At 1 July 2002	-	11,424	2,346,887
Retained profit for the period	-	-	1,919,455
Bonus issue of shares	-	(4,822,000)	-
Redemption of 'P' shares	4,822,000	-	(2,825,025)
Redemption of shares in subsidiary	-	-	(800,000)
Issue of shares by subsidiary undertaking	-	133,710	-
Balance at 31 December 2003	<u>4,822,000</u>	<u>(4,676,866)</u>	<u>641,317</u>

The redemption of shares relates to redemption of 'P' shares on 8 August 2003 in the company and the redemption of 800,000 £1 shares in a subsidiary undertaking on 18 September 2002.

Company	Capital redemption reserve £	Merger reserve £	Profit and loss account £
At 1 July 2002	-	-	-
Retained loss	-	-	(1,996,975)
Share for share exchange	-	15,983,424	-
Bonus issue of 'P' shares	-	(4,822,000)	-
Redemption of 'P' shares	4,822,000	-	(2,825,025)
Reserve transfer	-	(4,822,000)	4,822,000
At 31 December 2003	<u>4,822,000</u>	<u>6,339,424</u>	<u>-</u>

21 Reconciliation of movements in shareholders' funds

	Group 31 December 2003 £	Group 30 June 2002 £	Company 31 December 2003 £
Opening shareholders' funds	2,396,887	1,656,742	-
Result for the financial period	1,919,455	740,145	(1,996,975)
Increase in share capital in subsidiary	133,710	-	38,576
Share for share exchange	-	-	15,983,424
Redemption of 'P' shares	(2,825,025)	-	(2,825,025)
Redemption of shares in subsidiary	(800,000)	-	-
Closing shareholders' funds	<u>825,027</u>	<u>2,396,887</u>	<u>11,200,000</u>

Mustoe Merriman Levy Group Holdings Limited

Notes forming part of the financial statements for the period ended 31 December 2003 (*Continued*)

22 Commitments under operating leases

As at 31 December 2003, the group had annual commitments under non-cancellable operating leases as set out below:

	31 December 2003 Premises £	30 June 2002 Premises £	31 December 2003 Other £	30 June 2002 Other £
Operating leases which expire:				
Within one year	-	-	-	-
In two to five years	-	-	24,034	12,310
Over five years	526,763	-	-	-
	<u>526,763</u>	<u>-</u>	<u>24,034</u>	<u>12,310</u>

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

	18 months ended 31 December 2003 £	Year ended 30 June 2002 £
Operating profit	610,011	1,297,982
Depreciation	218,686	160,406
Amortisation	53,680	35,786
Decrease/(increase) in work in progress	152,017	(89,921)
(Increase)/decrease in debtors	(1,248,871)	194,127
Increase/(decrease) in creditors	916,178	(534,954)
(Profit) on disposal of fixed assets	(532)	(8,910)
	<u>701,169</u>	<u>1,054,516</u>
Net cash inflow from operating activities		

Mustoe Merriman Levy Group Holdings Limited

Notes forming part of the financial statements for the period ended 31 December 2003 (Continued)

24 Reconciliation of net cash inflow to movement in net funds/(debt)

	18 months ended 31 December 2003 £	Year ended 30 June 2002 £
Increase in cash in the period	445,461	74,780
Cash outflow from movement in loan	3,125,000	155,000
Opening net debt	(2,265,759)	(2,495,539)
	<hr/>	<hr/>
Closing net funds/(debt)	1,304,702	(2,265,759)
	<hr/>	<hr/>

25 Analysis of net funds/(debt)

	At 1 July 2002 £	Cash flow £	At 31 December 2003 £
Cash in hand and at bank	859,241	445,461	1,304,702
Debt due after one year	(3,125,000)	3,125,000	-
	<hr/>	<hr/>	<hr/>
Total	(2,265,759)	3,570,461	1,304,702
	<hr/>	<hr/>	<hr/>

26 Related party transactions

Related party transactions and balances

During the year the group entered into the following transactions with Hakuhoodo Inc, a company who acquired a 49% share of the group who has directors in common with the group in R Katsui, S Matsumoto and H Jitsukawa:

- The recharging of £1,724,345 (2002 - £Nil) to Hakuhoodo Inc for agency services provided by the group in the period for clients' of Hakuhoodo Inc. At 31 December 2003, Hakuhoodo Inc owed the group £491,026 (2002 - £Nil) in respect of this work. These amounts are included within trade debtors.
- The recharge of £29,492 to Hakuhoodo Inc in the period in relation to the salary cost of a director of the company. At 31 December 2003, Hakuhoodo Inc owed the company £18,080 (2002 - £Nil) in relation to these recharges. These amounts are included within other creditors.

Mustoe Merriman Levy Group Holdings Limited

Notes forming part of the financial statements for the period ended 31 December 2003 (*Continued*)

27 Acquisitions

Mustoe Merriman Levy Holdings Limited

On 9 December 2002, the entire issued share capital of Mustoe Merriman Levy Holdings Limited was acquired by the company via a share for share exchange in which Mustoe Merriman Levy Group Holdings Limited issued 38,575 ordinary shares of £1 each in consideration for the entire issued share capital of Mustoe Merriman Levy Holdings Limited.

The combination has been accounted for using the merger method of accounting as there has been a group reorganisation.

Mustoes Limited (formerly Mustoe Merriman Limited)

On 9 December 2002, Mustoe Merriman Levy Holdings Limited granted a dividend in specie to Mustoe Merriman Levy Group Holdings Limited of the entire issued share capital of Mustoes Limited.

The combination has been accounted for using the merger method of accounting as there has been a group reorganisation.