Grant Thornton

MEDIA SQUARE PLC

FINANCIAL STATEMENTS

FOR THE YEAR ENDED

28 FEBRUARY 2007

Company Number 4006884

MEDIA SQUARE PLC

FINANCIAL STATEMENTS

For the 12 months ended 28 February 2007

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MEDIA SQUARE PLC

CHAIRMAN'S STATEMENT

Overview

The last 12 months have been challenging for the Group but, in relation to the strategy set out for shareholders in 2003, good progress has been made overall Over the last four years, the Group has grown from annualised sales of £8 3 million to £205 6 million and from revenues of just £6 0 million to more than £100 million In terms of our geographic spread, we have expanded from being a wholly UK based enterprise to a group that encompasses operations in nine countries, including the fast growing markets in China and the Far East

During the year under review, the size of our business more than tripled following the acquisition of the Marketing Services Group at the end of the previous financial period However, this resulted in an immense integration and reorganisation task which was compounded by a disappointing performance in some of the Group's existing businesses

I am pleased to report that the integration of the Marketing Services Group businesses into the Group is now substantially complete and many of the operating companies that comprise the Group are showing strong signs of sustainable organic growth This does not mean that we are complacent or that there is not still much to do We are, however, content that the inherent value of the Group's businesses will be realised in the medium term

Acquisitions and Disposals

During the year we made two small, strategic acquisitions to strengthen our businesses in Germany and China and we disposed of three companies The disposals of Tangozebra (Digital Advertising & Marketing Limited) and Karen Earl Sponsorship Limited were highly successful transactions which resulted in aggregate net cash proceeds to the Group of £13 4 million, for which we have foregone historic post tax earnings of £0 4 million The third disposal, of SBG Finex, was less successful from a value perspective, although it did considerably reduce the Group's risk profile

Financials

The results for the year to 28 February 2007 show that the Group has made solid progress in many areas of its business Whilst the overall profitability of the business was below our expectations, this should not detract from the considerable achievements that have been achieved during the period

Sales for the year were £205 6 million (2006 £125 9 million) and revenue (or gross income) totalled £103 0 million (2006 £73 3 million) Underlying operating profits increased 4% to some £6 7 million, however, exceptional costs and the non cash write-down of goodwill on disposals meant that, at a post tax level, the Group incurred a loss of £3 2 million On an underlying basis EBITDA was £9 4 million (2006 £8 7 million), operating profits were £6 7 million (2006 £6 4 million) and pre tax profits were £4 5 million (2006 £5 3 million)

Underlying net debt at the year end was £13 7 million, a significantly lower position that the £28 7 million position at the half year Operating cash generation in the year was 88% of operating profits The Group's gross bank debt facilities were £44 5 million, of which £10 million was repaid post year end and £9 5 million remains undrawn The Group had cash balances of more than £25 million at the year end, despite some investment in working capital during the last quarter of the financial year

The Group is now in a much stronger financial position than was the case at the half year We have no contingent considerations or earn out liabilities which would cause future shareholder dilution or increased short term debt This means that we are well positioned to focus on driving the organic growth of our portfolio of businesses to ensure that, over the medium term, we deliver the value which shareholders rightly expect

MEDIA SQUARE PLC

CHAIRMAN'S STATEMENT

People

Early in the financial year, Michael George joined the Board as a Non Executive Director and has proven to be a valuable contributor to the Group's strategy Kelvin MacKenzie stepped down from the Board shortly after the year end having served with the Group for 15 months The Group wishes to record its thanks to him for his help and advice during his time as our Chairman The Company has today announced the appointment of Roger Parry as Executive Chairman, with effect from 2 July 2007 Jeremy Middleton, the Group's Chief Executive, has stepped down from his post and from the Board with immediate effect, but will act as a consultant to the business during a handover period The Board would like to take this opportunity to thank Jeremy for his hard work and commitment throughout the last five years A separate announcement has been issued today relating to these directorate changes

The Group's senior management team remained relatively stable throughout the year– just four out of the 35 most senior managers in the Group left or were asked to leave Our employees have worked hard during the period and deserve our thanks for their commitment, enthusiasm and determination Media Square's businesses are, in many cases, leaders in their field and are increasingly demonstrating their ability to build on their success

Current Trading & Outlook

Despite the set backs of the last 12 months, the Group remains committed to its strategy of building a powerful and resilient international marketing communications and services business In the majority, by number of regions and business sectors, the Group's companies have performed better than in the recent past and enjoy a reasonable medium term outlook Current trading remains relatively slow but we expect this to improve as we reach the busier autumn period

We are confident that where challenges still exist within the Group's portfolio of businesses, we are fully aware both of what needs to be done and what the probable results will be The Board is committed to a sensible and pragmatic programme of business improvement which will, in time, deliver the returns expected

Overall the Group's outlook remains cautious and is likely to do so until we have seen several consecutive periods of sustained performance from all the businesses that make up the Group However, we look forward to a better year in 2007/8

Nigel Bacon
Chairman
26 June 2007

Introduction

This year, in common with many companies of our type, Media Square has chosen to dispense with the traditional Chief Executive's and Finance Director's reports Instead we present a formal Business Review which is intended to provide shareholders with an overview of the past year's performance, how the Group is now structured, and the Group's strategy for the future

Summary Financial Performance

Sales for the year were £205 6 million (2006 £125 9 million) and revenue (or gross income) totalled £103 0 million (2006 £73 3 million) Given the disposals made and their timing, these two numbers are more or less in line with our expectations at the start of the period Underlying operating profits increased 4% to some £6 7 million, which was lower than our expectations at the start of the year Exceptional costs and the non cash write-down of goodwill on disposals meant that, at a post tax level, the Group incurred a loss of £3 2 million

On an underlying basis, EBITDA was £9 4 million (2006 £8 7 million), operating profits were £6 7 million (2006 £6 4 million), and pre tax profits were £4 5 million (2006 £5 3 million)

The UK- based marketing services sector proved to be the Group's major problem during the course of the year Operating profits in this sector fell by more than £2 million during the period However, trading in the first months of the current financial year show that these businesses are now operating in line with our internal expectations

Net debt on an underlying basis at the year end was £13 7 million and operating cash generation in the year was 88% of operating profits The Group's gross debt facilities were £44 5 million, of which £9 5 million remains undrawn The Group had cash balances of more than £25 million at the year end, despite significant investment in working capital during the last quarter of the financial year following two large contract wins

Financial Review

The 12 months to February 2007 was the first full year of the enlarged group following the acquisition of the Marketing Services Group in November 2005 Shareholders will recall that we changed our year end following this transaction and therefore all references to 2006 are references to the 16 month period ended 28 February 2006 Whilst the overall performance of the Group has been below expectation during the year under review, the majority of the Group's businesses traded well and improved their performance on a like-for-like basis when compared to 2006

Profit and Loss

During the year, sales were £205 6 million (2006 £125 9 million), revenue was £103 0 million (2006 £73 3 million) and underlying operating profit was £6 7 million (2006 £6 4 million) The operating margin before central costs was 9 1% which was less favourable than the 11 5% achieved during the 16 month 2006 period

Almost 80% of the Group's revenue and operating profit was generated in the United Kingdom, with the next largest contributor being the rest of the world encompassing businesses in United States of America, South Africa and Asia and then continental Europe, principally our German businesses

Underlying basis

In establishing the basis for underlying EBITDA, operating profits and profit before tax, the following non-cash and non-recurring items have been excluded exceptional costs of £2 8 million (2006 £3 2 million), notional costs of share based remuneration of £0 1 million (2006 £0 1 million), goodwill impairment on disposal of £3 8 million (2006 nil), and the loss on disposal of fixed assets £0 1 million (2006 nil) Included within exceptional costs was a non-cash £0 3 million related to fixed asset write-downs The balance was incurred restructuring the Marketing Services Group and Marketing Services businesses and in non-recurring property relocation costs Underlying net debt excludes the notional debt of shares yet to be issued of £0 7 million (2006 £1 0 million)

Balance Sheet and Cashflow

Balance sheet movements during the period reflect the trading of the Group together with the positive cashflows arising from the disposals made during the period Net debt at the end of the year was £13 7 million on an underlying basis which was better than expectations and net current assets were some £18 0 million, each representing a much stronger position than was the case some 12 or six months earlier

Operating cashflow was slightly behind our target conversion rate of 100% of operating profit, which is principally a result of the Group commencing work on two material contracts in the last quarter of the financial year These contracts, having just started at the year end, meant increased stock levels and work in progress Without the effect of these contracts we would have expected operational cash-flow to exceed 100%

Net Debt and Debt Facilities

The Group's underlying net debt of £13 7 million represents the balance of the debt versus the cash held by the Group at the year end The Group's gross debt facility was £44 5 million, of which some £9 5 million was undrawn The Group's natural level of debt is estimated to be approximately £20 million and net debt will seasonally rise, as it has in previous years, during the first half of the 2007/8 financial year, before falling during the second half

Financial Risk Management

The interest rate hedging put in place by way of interest rate swaps taken out in 2005 has protected the Group from recent interest rate rises in the United Kingdom Following the disposals in February, the Group has been able to realise a material cash profit by terminating the interest rate swaps that were not needed following repayment of debt earlier than originally scheduled

The Group has currency risk with regard to the approximately 20% of the Group located outside the United Kingdom Although adverse exchange rates cost the group some £0 1 million during the current year, the Group does not currently plan to enter into any hedging arrangements in respect of currency risk

Key Performance Indicators

The Group monitors individual business performance using key performance indicators including Operating Profit Margin percentage, where the target ranges from 10 to 18% depending on the type of activity undertaken by that unit and where the unit is in its lifecycle The overall group target is to exceed 10% and then grow over time to 15%

The Group and all business units focus on efficient use of working capital and target a minimum rate of conversion of operating profit to operating cashflow of at least 100%

Dividend

The Board has decided to suspend the payment of a dividend in the short-term in favour of undertaking a programme of share buy-backs which the Directors believe will deliver greater shareholder returns

Taxation

The total tax charge for the year was £0 9 million, of which £0 3 million represents the non cash release of a deferred tax asset This release was made to ensure our deferred tax policy was even more prudent and the Group now has £9 1 million of unrecognised tax losses which are available for future use The remaining £0 6 million of tax charge represents an effective rate of 36% which is at the higher end of our expected long term rate This is due to some unrelieved losses in non-UK jurisdictions and we expect that the rate will normalise to between 33 – 35% based on our current structure

MEDIA SQUARE PLC

BUSINESS REVIEW

International Financial Reporting Standards (IFRS)

The implementation of FRS 20, 23, 25 and 26 by the Group means that a number of the most applicable features of the IFRS regime are incorporated into the figures as reported The Group's transition date to IFRS is 1 March 2006 and it will report under IFRS for the interim report to 31 August 2007

It is anticipated that the IFRS 3 Business combinations, IFRS 12 Income taxes and IFRS 17 Leases are where the Group will see some impact However, it is not anticipated that the impact will be material Further details on this subject are contained within the Corporate Governance report

Operating Company Performance

The Group suffered two major disappointments in the year, which resulted in a much poorer than expected financial performance for the Group as a whole This should not, however, detract from the remarkably good performance which the vast majority of the Group's businesses delivered during the year

The two major disappointments were the failure of the divisional management structure put in place at the start of the year and the reversal in fortunes experienced in the marketing services sector of the Group's operations

The failure of the divisional management structure resulted from the very poor performance delivered by three out of six divisions Two of the divisional CEOs delivered against all their promises and three of the remainder are no longer with the Group As a result of this failure, the Group has been restructured into three operating divisions, two led by the successful divisional CEOs with the remaining businesses reporting directly to the Group's Chief Executive

The decline in the marketing services group was led by Coutts Retail Communications (CRC) This business undertook an ambitious expansion plan and a major relocation and upgrading of its principal manufacturing plant While the relocation was an organisational success, the business failed to meet virtually every KPI in its business plan In addition, there was continued weakness in the catalogue sector leading to short- term under-performance in this area of our business

With the exception of the above issues, most of the Group's operating companies worked hard to meet the challenges of their local markets As a result, the Group is pleased to report that it has a core of high quality businesses that will, over the medium term, deliver improved financial performance

Segmental Summary

At an operating level, before central costs, three out of four sectors materially improved their sales and revenues over the previous period The one segment where the business went backwards was the UK marketing services sector where we experienced a number of problems during the year In the majority, the performance of each segment and the businesses within them, was good

UK Marketing Communications

UK Marketing Communications sales rose, partly as a result of the MSG acquisition, to £73 8 million (2006 £41 0 million) and revenues increased to £39 5 million (2006 £24 0 million) Operating profit at a company level was £3 1 million (2006 £2 3 million) The largest companies in this sector are CMW, our direct marketing business, Dynamo, our sales promotion business IAS Smarts, our regional through-the-line network and Lloyd Northover, our design and branding group

After a difficult start, the management reorganisation at CMW proved very positive and resulted in a strong second half and a growing business Dynamo remained weak during the period and still faces a number of challenges in respect of sustained performance improvement IAS Smarts resulted from the merger of a number of existing and newly acquired businesses in the group The management team has worked hard to develop their business and they are now enjoying considerable success Lloyd Northover substantially increased in scale following its merger with Marketplace, an original Media Square business, and though it initially struggled to find its feet, the business has now won significant new projects from new and existing clients and is looking forward to a hugely improved year in 2007/8

SBG Finex and Karen Earl Sponsorship were sold during the year which is likely to result in lower sales and revenues from this division during the current year However, on a like for like basis, we expect the UK Marketing Communications business to grow by three to five per cent during the year

UK Marketing Services

UK Marketing Services sales fell relative to 2006, partly as a result of the 2006 period being 16 months and therefore an unflattering comparator, to £39 5 million (2006 £53 4 million) and revenues were lower at £21 7 million (2006 £30 8 million) Operating profit at a company level was markedly lower at £1 1 million (2006 £3 6 million)

Coutts Retail Communications was the worst performing business in this sector Profits fell by more than two- thirds following a badly executed expansion plan The management team has been changed and early signs are that this business will have a materially better year in 2007/8 The business is now almost fully invested and its resources are among the best in the market it serves

Coutts Arken, our permanent POP business invested heavily in securing the CBS Outdoor contract which we announced a few months ago This contract is material, both for Arken and Media Square, and helps to underpin the profitability of Arken for the next two to three years

Our Fourninety businesses in Leeds and Manchester enjoyed mixed results for the year Substantial reduction in spend and visibility of future spend by a major client adversely affected our business in Leeds In Manchester the management team's plans began to bear fruit and profitability increased by more than 100% during the course of the year Further investment and development in and by both these businesses will result in materially better results during the new financial year

Overall, we expect to see double digit growth in the current year, although we do not expect to see a return to 2005/6 levels of performance until the following year

International Advertising and Intelligence

International advertising and intelligence sales rose, wholly as a result of the MSG acquisition, to £73 5 million (2006 £20 1 million) and revenues increased to £26 3 million (2006 £9 2 million) Operating profit at a company level was up considerably at £3 3 million (2006 £1 2 million)

The Gate Worldwide, one of the Group's best performing businesses, produced an excellent result in its three main markets – UK, USA and Asia Organic profits growth was in excess of 100% and the management team have proven themselves to be excellent business operators Illuminas, our international research business, responded excellently to the internal promotion of a new management team and enjoyed more than 300% organic profits growth overall The Illuminas operations in the UK and the USA all made a positive contribution to the Group's profits

Performance in Germany was noticeably less good where our largest business is SEA GmbH SEA has suffered as a result of reduced spending and considerable political uncertainty with its largest client, Deutsche Telecom The management team has worked hard to diversify the business away from its reliance on this client, but still has much work to do Our smaller businesses in Germany traded profitably throughout the period

Due to the uncertainty relating to client dependency in Germany, we expect the performance of this sector as a whole to be flat in 2007/8 However businesses such as The Gate Worldwide are likely to continue to grow profits and revenue at a very respectable pace

Online Advertising and Technology

Online advertising and technology sales rose, partly as a result of the MSG acquisition, to £18 9 million (2006 £11 2 million) and revenues increased to £15 5 million (2006 £9 2 million) Operating profit at a company level was £1 9 million (2006 £1 4 million)

Following the sale of Tangozebra, we expect the overall results for this division will decline slightly during 2007/8 as a result of it being a smaller business However, the Twentysix brand businesses in London and Leeds are growing quite quickly and there is a possibility we may make up all the lost ground during the year In New York our specialist digital consultancy, Twentysix New York, has started the new year with a much better performance than this time last year

The digital communications environment represents the most exciting and most challenging aspect of our industry Growth rates are considerable, but there is increasing evidence of price competition in certain areas In the short to medium term this may well be ameliorated by the shift of spend from conventional products and services, especially in areas such as direct marketing, but the long- term picture is less certain as online and digital marketing become more embedded in the industry

The Group is committed to trying to achieve at least 30 percent of its total revenues from online activities by 2010

Geographical Analysis

The UK continues to dominate the Group accounting for 70% of total sales (£144 7 million), 78% of total revenues (£80 8 million) and 77% of company operating profits (£7 2 million) The Rest of Europe accounted for 11% of sales (£22 2 million), 7% of revenues (£7 1 million) and 5% of company operating profits (£0 5 million) In the Rest of the World, of which the USA is our largest contributor, sales were 19% of the total (£38 7 million), revenues were 15% (£15 1 million) and company operating profits were 18% (£1 7 million)

In the previous year (2005/6), the UK had accounted for 89% of revenues and 87% of company operating profits These figures are not directly comparable as they covered a 16 month period during which the majority of the Group's overseas businesses were only owned for a four month period

In the UK, the Group has fairly broad exposure across a wide range of markets – from high street retailing and home shopping to financial services and the motor trade Certain of our businesses are more reliant on particular sectors than others, but overall, the Group is not dominated by a particular consumer or business-to-business market sector This means that, over the medium term, the Group should prove to be quite resilient to fluctuations in any particular market Similarly, the Group has a broad spread of clients and, although there are some client dependencies in particular businesses of the Group, overall the Group is not dominated by a single client exposure

In the Rest of Europe our largest business, in Germany, has historically been very reliant on Deutsche Telecom for a considerable proportion of its revenues The management team is working hard to diversify away from this reliance, but Deutsche Telecom's well publicised troubles are currently having a negative impact on its marketing spend with our business Our two smaller businesses in Germany are doing well and have a reliable, widely spread profit stream

In the Rest of the World, most of our businesses are of a relatively small size and are more dependent on the skills and success of their management teams than they are on the general economic climate In the USA, both our advertising agency and research businesses had a good year and are looking forward to more success in the current year In Asia, our businesses in Hong Kong and Singapore performed well and grew their profits In South Africa we have appointed a new local manager with a brief to restructure and turn round the business after several years of quite poor performance

Business Strategy

Despite the set backs of the last 12 months, the Group remains committed to its strategy of building a powerful and resilient international marketing services and marketing communications business In the majority, by number, of regions and business sectors, the Group's companies have performed better than in the recent past and enjoy a reasonable medium term outlook

Where challenges still exist within the Group's portfolio of businesses, the Group is fully aware both of what needs to be done and what the probable results will be The Board is committed to a sensible and pragmatic programme of business improvement which will, in time, deliver the returns expected

Our four strategic principles remain

1 that we aim to significantly expand the size of our business
2 that we will continue our prudent investment approach and not become debt or earn-out driven
3 that we will continue to keep a sensible balance between our creative and production businesses
4 that we will continue to be corporately active and will seek to concentrate our investment in areas where we believe there are better opportunities to generate stronger long-term profits growth

Four years on, we set out below our performance in relation to the strategy which we set out to shareholders in 2003

In terms of expansion, the Group has grown from annualised sales of £8 3 million to £205 6 million and from revenues of just £6 0 million to more than £100 million In terms of our geographic spread, we have expanded from being a wholly UK-based enterprise to a group that encompasses operations in nine countries, including the fast growing markets in China and the Far East In terms of numbers of people employed, we have grown from just 109 to more than 1,500 in under four years

Our prudent investment approach, although not recognised or acknowledged by all, has served us well We have no contingent liabilities or earn-outs resulting from acquisitions, and therefore we have no forward debt that is effectively "off balance sheet" Our underlying net debt at the year end was £13 7 million which represents less than 1 5 times our underlying operating company EBITDA for the last 12 months

The balance of creative versus production businesses in the group has fluctuated from 50 50 to 75% creative and 25% production At present we have around three quarters of our business in the creative space and this mix is likely to be maintained for the foreseeable future Our production businesses play an important role in keeping a balance to the group's overall activities

And finally, in terms of corporate activity, we remain committed to securing the best value for our shareholders, both from acquisitions and disposals During the last four years we have completed 18 transactions, ranging from a few tens of thousands to more than £60 million in terms of acquisitions, and we have achieved some very successful disposals We continue to evaluate opportunities to acquire more businesses for the group, but are keen to avoid overpaying in the current rather "frothy" M&A market

Overall, we have stuck very closely to our strategy and our guiding principles We think that they have served the business well and that they will, in the medium term, prove to have been the right ones for our people and our shareholders

Acquisitions and Disposals

During the year, the Group spent £399,000 on the acquisition of Cremo, an advertising agency in Shanghai, China and on a small UK acquisition of Retail Planning & Innovation to bolster the Lloyd Northover business offering All the acquisitions were driven by local managers with the intention of improving their existing market presence and service offer

Disposals during the year were Karen Earl Sponsorship, our online technology business Digital Advertising & Marketing (Tangozebra) and our second string direct marketing business SBG Finex Total cash proceeds from disposals were £14 6 million All net proceeds, some £13 4 million, have been used to repay a substantial proportion of the Group's debt

The Group also investigated a large number of merger and acquisition options, but chose not to pursue them at this time In November 2006 we announced our intention to acquire a majority stake in Leonhardt & Kern in Germany but, due to the owners being unable to fulfil contractual conditions, we abandoned these plans

We do not expect to undertake any significant or costly corporate activity during the 2007/8 financial year, but we remain open minded to opportunities which might arise

Current Trading and Outlook

Trading in the first quarter of the new financial year has been below par as a result of the changes the Group made immediately prior to and following the end of the 2006/7 financial year The Group expects the first half to be relatively slow, as it was last year, and for overall trading performance to improve as we reach the busier autumn period Overall the Group's outlook remains cautious and is likely to do so until we have seen several periods of sustained performance from all the businesses that make up the Group

Future Plans

The Group's new Executive Chairman, Roger Parry, has announced that he intends to conduct a thorough review of the business over the next few months The purpose of the review is to understand which businesses in the Group offer the best long term opportunities for growth and where the Group's future investment should be focused

It is anticipated that the strategic review will take several months to conclude and an announcement on the outcome will be made in conjunction with the Group's Interim Results by early November 2007

Group Management and Board

The Group's senior management team remained relatively stable throughout the year At an operating unit level, the Group had 35 business units or offices during the course of the year, each of which is led by a senior manager During the year, four out of the 35 most senior managers in the Group left or were asked to leave The Group's 70 most senior managers meet regularly to ensure that we are making the most of the opportunities open to us all Substantial discretionary bonuses were paid to the best management teams during the course of the year

There were two changes to the PLC board during the course of the year Having served with the Group for 15 months, Kelvin MacKenzie stepped down from the Board shortly after the financial year end The Board wishes to thank Kelvin for his time and commitment to the Group during his time with us Michael George joined the Group early in the financial year and has proven to be a valuable contributor to the Group's strategy

The Group today announced that Roger Parry has been appointed Executive Chairman with effect from 2 July 2007 and that Jeremy Middleton will step down as Chief Executive and as an employee of the Company with immediate effect, but will act as a consultant to the business during a handover period

Our People

Media Square is a people business and we are justifiably proud of everyone on our team There are very many examples of individual and team success during the year and we are confident that we have a great team both running and working in our business The Board wishes to express its sincere thanks, on behalf of itself and our shareholders, to all Media Square's employees for their hard work and commitment to the companies they work for and to the Group as a whole

In closing we would also like to offer our sincere thanks the shareholders, professional advisers, suppliers and business partners of the Group for their help and support during the last 18 months

Jeremy Middleton
Director
26 June 2007

Graeme Burns
Director
26 June 2007

CORPORATE INFORMATION

Company registration number	4006884
Registered office	Clarence Mill Clarence Road Bollington Cheshire SK10 5JZ
Directors	Nigel Bacon, Interim Non Executive Chairman Jeremy Middleton, Chief Executive Graeme Burns, Group Finance Director Michael George, Non Executive Director
Company secretary	Graeme Burns
Banker	Halifax Bank of Scotland plc Level 7 155 Bishopsgate London EC2M 3YB
Solicitors	Rosenblatts 9-13 St Andrew Street London EC4A 3AF
	Browne Jacobson LLP 44 Castle Gate Nottingham NG1 7BJ
Auditor	Grant Thornton UK LLP Registered Auditors Chartered Accountants Enterprise House 115 Edmund Street Birmingham B3 2HJ
Nominated adviser and broker	Collins Stewart Europe Limited 88 Wood Street London EC2V 7QR
Registrar	Neville Registrars Limited 18 Laurel Lane Halesowen West Midlands B63 3DA

The directors present their report together with the audited financial statements for the year ended 28 February 2007

Principal activity

The principal activity of the Group is that of marketing communications and services The principal activity of the Company is that of a holding company

Business review

A detailed review of the business is included in the Business Review appear on pages 3 to 10 of these financial statements which includes an overview of the key performance indicators of the business

There was a loss for the year to 28 February 2007 after taxation and minority interests amounting to £3,239,000 (period ended 28 February 2006 restated profit £1,229,000) This was after charging exceptional operating costs of £2,838,000 (period ended 28 February 2006 £3,217,000) During the year an interim dividend of £391,000 was proposed and paid on 16 March 2007 (period ended 28 February 2006 £236,000) The Board has decided to suspend the payment of a dividend in the short-term in favour of undertaking a programme of share buy-backs which the Directors believe will deliver greater shareholder returns (the final dividend in 2006 was 0 13 pence per share amounting £423,000)

Financial risk management objectives and policies

The objective of the Board is to manage risk across the Group enabling the Group to achieve its business objectives A strong system of internal controls as detailed on page 17 is a key component of the risk management process

Changes in key business objectives which may alter the risks faced by the operating or central divisions are monitored closely by the Board throughout the year to ensure that the necessary changes to internal controls or procedures are implemented

The main risks arising from the Group's financial instruments are interest rate risk, credit risk, liquidity risk and foreign currency risk

In addition the Group faces ongoing operational risk including the predominance of its business within the UK, potential loss of key clients and potential loss of key personnel

A detailed review of financial risk management is given in note 28

Directors and their interests

The directors of the Company, all of whom were directors for the whole year unless indicated otherwise and their interests in the shares of the Company as at 1 March 2006 (or date of appointment if later) and 28 February 2007 were as follows

	Number of ordinary shares of 5p each	
	2007	2006
Nigel Bacon	-	-
Jeremy Middleton	**10,574,672**	10,574,672
Graeme Burns	**1,499,311**	1,499,311
Michael George (appointed 8 June 2006)	-	-
Kelvin MacKenzie (resigned 29 March 2007)	**815,000**	-

Share options

The Company has six option schemes, as follows

Enterprise Management Incentive (EMI) Scheme
Unapproved Share Option Scheme
1996 Savings-Related Share Option Scheme (originally a Coutts Holdings plc scheme)
2005 Savings-Related Share Option Scheme
2005 Company Share Option Plan
2006 Savings-Related Share Option Scheme

The only director to have interests in the above schemes is Graeme Burns His interests in the schemes are as follows

	At 1 March 2006 Number	Granted in year Number	At 28 February 2007 Number	Exercise price Pence	Option period
Enterprise Management Incentive (EMI) Scheme	540,000	-	540,000	18 0	May 2005 – May 2010
Unapproved Share Option Scheme	460,000	-	460,000	18 0	May 2005 – May 2010
2005 Savings-Related Share Option Scheme	16,844	-	16,844	22 5	July 2008 – January 2009

During the year the maximum share price was 24 5 pence (period ended 28 February 2006 31 5 pence) and the minimum was 12 0 pence (period ended 28 February 2006 18 0 pence) The share price at 28 February 2007 was 14 5 pence (28 February 2006 20 79 pence)

Substantial shareholdings

Apart from the interests of the directors, the only interests in excess of 3% of the issued share capital of which the Company has been notified at 26 June 2007 were as follows

	Ordinary shares of 5p each Number	Percentage of ordinary share capital %
AXA Framlington Investment Management	65,898,302	20 09
Promethean Plc	23,360,000	7 12
Legal and General Investment Management	16,568,760	5 05
Hansa Capital Partners	13,000,000	3 96
Canada Life	10,800,000	3 29
Electra Partners	10,357,143	3 16

Payments to suppliers

It is the Group's policy to agree appropriate terms and conditions for its transactions with suppliers by means ranging from standard terms and conditions to individually negotiated contracts and to pay suppliers according to agreed terms and conditions, provided that the supplier meets those terms and conditions The Group does not have a standard or code which deals specifically with the payment of suppliers

Trade creditors of the Group at the year end amounted to 52 days (2006 48 days) invoicing by suppliers

Employment policies

The employment policies of the Group embody the principles of equal opportunity and are tailored to meet the needs of its different businesses and the local areas in which they operate This includes suitable procedures to support the Group's policy that individuals should not be discriminated against on the basis of race, disability, age, gender, sexuality or religion and that they should be considered for employment and subsequent training, career development and promotion on the basis of their aptitudes and abilities

The Group gives full consideration to applications for employment from mentally and physically disadvantaged people where the requirements of the job can be adequately fulfilled by a disadvantaged person

Where existing employees become disadvantaged, it is the Group's policy wherever practicable to provide continuing employment under normal terms and conditions and to provide training and career development and promotion to disadvantaged employees wherever appropriate

Directors' responsibilities for the financial statements

Company law requires the directors to prepare financial statements for each financial year Under that law the directors have elected to prepare financial statements in accordance with United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice) The financial statements are required by law to 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 these financial statements, the directors are required to

- select suitable accounting policies and then apply them consistently
- make judgments and estimates that are reasonable and prudent
- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business

The directors are responsible for keeping proper accounting records that disclose with reasonable accuracy at any time the financial position of the company and 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

In so far as the directors are aware

- there is no relevant audit information of which the company's auditors are unaware, and
- the directors have taken all steps that they ought to have taken to make themselves aware of any relevant audit information and to establish that the auditors are aware of that information

The directors' are responsible for the maintenance and integrity of the corporate and financial information included on the company's website Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions

Auditor

Grant Thornton UK LLP offers themselves for reappointment as auditors in accordance with section 385 of the Companies Act 1985

BY ORDER OF THE BOARD

Graeme Burns
Company Secretary
26 June 2007

MEDIA SQUARE PLC

CORPORATE GOVERNANCE

The directors recognise the value of the Principles of Good Governance and have taken appropriate measures to ensure that the Group has adopted measures appropriate for a Group of its size

Directors

The Board is responsible for approving Group policy and strategy It met a number of times during the financial period and has a schedule of matters specifically reserved to it for decision Management supply the Board with appropriate and timely information and the Board are free to seek any further information they consider necessary All directors have access to independent professional advice at the Company's expense

The biographies of the directors are set out below

Nigel Bacon, Interim Non Executive Chairman and Non Executive Director

Nigel joined the Board on 12 March 2004 Nigel qualified as a chartered accountant after obtaining a degree in Business Management at Aston University He began his career in the early 1980s, training with KPMG in Birmingham and Melbourne, Australia Prior to joining Pertemps Group in 2002, Nigel spent five years with Ernst & Young operating in Corporate Finance on the buy-side for clients and venture capital organisations Nigel's current role is Finance Director for the Pertemps Group of companies

Jeremy Middleton, Group Chief Executive

Jeremy entered the marketing communications sector in 1981 He has knowledge and experience of all major marketing disciplines and his client experience includes working with major public companies both in the UK and internationally

He established Equanim Group in the late 1990s and led the Company's development and growth He joined the Media Square board, on its acquisition of Equanim in 2002, initially as Group Operations Director, and was appointed Group Chief Executive in June 2004

Graeme Burns, Group Finance Director

Graeme is a qualified chartered accountant and prior to its acquisition by Media Square in 2002 was Commercial Director of Equanim Group Previously Graeme held senior commercial and finance positions with Interchange and Namibian Minerals Corporation, both international groups, which operate in the financial services and mining sectors respectively

Michael George, Non Executive Director

Michael joined the Board on 8 June 2006 as a Non-Executive Director He is the Managing Director of Maxcap Partners and Stanhope Capital Partners and until 2006 was an Investment Director with Electra Quoted Management Limited where he managed a portfolio of venture capital trust and private equity investments

Relations with shareholders

The Group values the views of its shareholders and recognises their interests in the Group's strategy and performance The Annual General Meeting is used to communicate with shareholders and they are encouraged to participate The directors will be available to answer questions at the Annual General Meeting Separate resolutions are proposed on each issue in order that they can be given proper consideration and there is a resolution to approve the annual report and financial statements

All shareholders can gain access to information about the Group through the website www mediasquare co uk

The role of the Board

The Board, supported by an operational Board and an executive team, is responsible for the management and successful development of the Group by

- setting the strategic direction
- upholding the highest standards of corporate governance
- supporting management and encouraging entrepreneurial excellence
- monitoring and guiding operational performance
- establishing polices and internal controls to safeguard the Group's assets
- enabling the personal development of employees

The composition of the Board provides a blend of skills and experience that ensures it operates as a balanced team

Internal control

The Board is responsible for maintaining a strong system of internal control to safeguard shareholders' investments and the Group's assets The system of internal financial control is designed to provide reasonable, but not absolute, assurance against material misstatement or loss

The directors are responsible for the Group's system of financial control and for reviewing its effectiveness The key features of the systems of internal financial control are as follows

- the Group is headed by an effective Board which leads and controls the Group The final selection of any director is performed by the full Board and any appointment is approved by the Board
- the Board receives and reviews on a timely basis financial and operating information appropriate to being able to discharge its duties
- the Group's operating procedures include systems for reporting financial and non-financial information to the Board including
    - preparation and review of annual plans and budgets
    - preparation and review of monthly management information reports
    - review of the business at each Board meeting, focusing on any new risks arising

The Board has concluded that an internal audit function is not required at this time but the ongoing requirement will be kept under review

Audit committee

This committee is comprised of both Non Executive Directors and its terms of reference include reviewing the findings of the auditors' work and the effectiveness of internal controls

Going concern

Having reviewed the financial position and after making enquiries, the directors have a reasonable expectation that the Group has adequate resources to continue in operational existence for the foreseeable future

International Financial Reporting Standards (IFRS)

The Board recognises that the Group is required to prepare its Group financial statements under IFRS for the financial year ending 29 February 2008

The date of transition is 1 March 2006 Consequently the Group will include the following statements in its Interim Statement covering the 6 months to August 2007

- IFRS reconciliation of consolidated profit and loss account comparatives
- IFRS reconciliation of balance sheet comparatives
- reconciliation of net equity

The Board has made an initial assessment of the impact of IFRS and believes that the principal impact will be in relation to the following standards

<u>IFRS 3 Accounting for business combinations</u>

IFRS3 will require a restatement of the intangible assets in respect of all acquisitions made on or after the transition date For all acquisitions made after 1 March 2006, any goodwill created on acquisition will need to be assessed to identify specific intangible assets, such as customer lists and contracts, website names and trade marks Values are assigned to these intangible assets and they are then amortised over their useful economic life The balance that cannot be allocated to intangible assets will be classified as goodwill and be subject to annual impairment reviews

<u>IAS 12 Income Taxes</u>

IAS 12 may require full provision to be made for deferred tax on some additional temporary differences

<u>IAS 17 Leases</u>

IAS 17 requires certain leases to be reclassified as finance leases subject to certain criteria For property leases where substantially all of the risks and rewards of ownership are transferred to the Company by the landlord, the property element of the lease will be accounted for as a finance lease

Grant Thornton

REPORT OF THE INDEPENDENT AUDITORS TO THE MEMBERS OF MEDIA SQUARE PLC

We have audited the group and parent company financial statements (the financial statements) of Media Square plc for the year ended 28 February 2007 which comprise the consolidated profit and loss account, the consolidated and company balance sheets, the consolidated cash flow statement, the consolidated statement of total recognised gains and losses and notes 1 to 37 These financial statements have been prepared under the accounting policies set out therein

This report is made solely to the Company's members, as a body, in accordance with Section 235 of the Companies Act 1985 Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditors' report and for no other purpose To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed

Respective responsibilities of directors and auditors

The directors' responsibilities for preparing the annual report and the financial statements in accordance with United Kingdom law and accounting standards (United Kingdom Generally Accepted Accounting Practice) are set out in the statement of directors' responsibilities

Our responsibility is to audit the group 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 whether in our opinion the information given in the Directors' Report is consistent with the financial statements

In addition we report to you if, in our opinion, the group and 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 Chairman's Statement and the Business 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

Basis of 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 group financial statements It also includes an assessment of the significant estimates and judgments made by the directors in the preparation of the group 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

Opinion

In our opinion

- the financial statements give a true and fair view, in accordance with United Kingdom Generally Accepted Accounting Practice, of the state of the affairs of the Company and the Group as at 28 February 2007 and of the loss of the Group for the year then ended
- 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

Grant Thornton UK LLP

GRANT THORNTON UK LLP
REGISTERED AUDITORS
CHARTERED ACCOUNTANTS
BIRMINGHAM
26 June 2007

MEDIA SQUARE PLC

CONSOLIDATED PROFIT AND LOSS ACCOUNT

For the 12 months ended 28 February 2007

		Year ended 28 February 2007			16 months ended 28 February 2006		
	Note	Pre-exceptional 2007 £'000	Exceptional (note 4) 2007 £'000	Total 2007 £'000	Pre-exceptional 2006 Restated £'000	Exceptional (note 4) 2006 Restated £'000	Total 2006 Restated £'000
Turnover	2	**205,610**	-	**205,610**	125,868	-	125,868
Material cost of sales		**(102,582)**	-	**(102,582)**	(52,598)	-	(52,598)
Revenue		**103,028**	-	**103,028**	73,270	-	73,270
Administrative expenses		**(96,419)**	**(2,838)**	**(99,257)**	(66,939)	(3,217)	(70,156)
Operating profit		**6,609**	**(2,838)**	**3,771**	6,331	(3,217)	3,114
Loss on disposal of fixed assets				**(112)**			-
Goodwill impairment on disposal of subsidiary undertakings	31			**(3,780)**			-
Interest receivable and other income	5			**1,527**			441
Interest payable and other charges	5			**(3,699)**			(1,588)
(Loss)/ profit on ordinary activities before taxation	2/3			**(2,293)**			1,967
Tax on (loss)/ profit on ordinary activities	8			**(867)**			(726)
(Loss)/ profit on ordinary activities after taxation				**(3,160)**			1,241
Minority interests				**(79)**			(12)
(Loss)/ profit for the financial year	23			**(3,239)**			1,229
Basic (loss)/ earnings per share	9			**(0 99p)**			0 54p
Diluted (loss)/ earnings per share	9			**(0 99p)**			0 50p

The accompanying accounting policies and notes form an integral part of these financial statements

MEDIA SQUARE PLC

CONSOLIDATED BALANCE SHEET

As at 28 February 2007

	Note	2007 £'000	2006 Restated £'000
Fixed assets			
Intangible assets			
- positive goodwill	11	**61,955**	69,670
- negative goodwill	11	**-**	(32)
Tangible assets	12	**10,548**	12,144
Investments	13	**8**	8
		72,511	81,790
Current assets			
Stocks	14	**2,420**	2,423
Debtors	15	**43,491**	46,410
Cash at bank and in hand		**25,216**	22,377
		71,127	71,210
Creditors amounts falling due within one year	16	**(53,092)**	(55,031)
Net current assets		**18,035**	16,179
Total assets less current liabilities		**90,546**	97,969
Creditors amounts falling due after one year	17	**(34,750)**	(37,129)
Provisions for liabilities	19	**(2,323)**	(3,346)
Net assets		**53,473**	57,494
Capital and reserves			
Called up share capital	21	**16,400**	16,264
Shares to be issued	23	**-**	70
Share premium account	23	**37,436**	37,426
Merger reserve	23	**5,078**	4,705
Share based payment reserve	23	**143**	92
Profit and loss account	23	**(5,119)**	(819)
Shareholders' funds	24	**53,938**	57,738
Minority interests (equity)		**(465)**	(244)
Total equity capital employed		**53,473**	57,494

The financial statements were approved by the Board of Directors on 26 June 2007 and signed on its behalf by

Jeremy Middleton
Director

Graeme Burns
Director

The accompanying accounting policies and notes form an integral part of these financial statements

MEDIA SQUARE PLC

COMPANY BALANCE SHEET

As at 28 February 2007

	Note	2007 £'000	2006 Restated £'000
Fixed assets			
Tangible assets	12	**348**	801
Investments	13	**26,400**	28,565
		26,748	29,366
Current assets			
Debtors amounts owing within one year	15	**11,516**	67,094
Debtors amounts owing after one year	15	**52,474**	53,059
Cash at bank and in hand		**11,975**	15,326
		75,965	135,479
Creditors amounts falling due within one year	16	**(9,149)**	(68,354)
Net current assets		**66,816**	67,125
Total assets less current liabilities		**93,564**	96,491
Creditors amounts falling due after one year	17	**(35,494)**	(40,595)
Provisions for liabilities	19	**(198)**	-
Net assets		**57,872**	55,896
Capital and reserves			
Called up share capital	21	**16,400**	16,264
Shares to be issued	23	**-**	70
Share premium account	23	**37,436**	37,426
Share based payment reserve	23	**143**	92
Profit and loss account	23	**3,893**	2,044
Equity shareholders' funds		**57,872**	55,896

The financial statements were approved by the Board of Directors on 26 June 2007 and signed on its behalf by

Jeremy Middleton
Director

Graeme Burns
Director

The accompanying accounting policies and notes form an integral part of these financial statements

MEDIA SQUARE PLC

CONSOLIDATED CASHFLOW

As at 28 February 2007

	Note	Year ended 28 02 2007 £'000	16 months ended 28 02 2006 £'000
Net cash inflow from operating activities	25	3,320	11,606
Returns on investments and servicing of finance			
Interest received		508	441
Interest paid		(3,011)	(1,203)
Hire purchase interest paid		(73)	(135)
Net cash outflow from returns on investments and servicing of finance		(2,576)	(897)
Taxation			
Corporation tax paid		(308)	(1,133)
Capital expenditure and financial investment			
Disposal of tangible fixed assets		1,564	6,910
Disposal of investments		-	247
Purchase of tangible fixed assets		(4,253)	(1,563)
Net cash (outflow)/ inflow from capital expenditure and financial investment		(2,689)	5,594
Acquisitions and disposals			
Purchase of subsidiary undertakings		(1,156)	(67,910)
Net cash acquired with subsidiary undertakings		-	8,942
Disposal of subsidiary undertakings		14,600	-
Net cash disposed of with subsidiary undertakings		(150)	-
Purchases of trade and assets		(58)	(204)
Net cash inflow/ (outflow) from acquisitions and disposals		13,236	(59,172)
Equity dividends paid		(423)	(236)
Net cash inflow/ (outflow) before financing		10,560	(44,238)
Financing			
Issue of ordinary share capital		30	30,000
Share issue costs		-	(1,665)
Loans advanced	26	-	44,141
Fees in relation to bank loans	26	-	(2,045)
Repayment of loans	26	(6,880)	(7,365)
Capital element of hire purchase agreements	26	(603)	(739)
Net cash (outflow)/ inflow from financing		(7,453)	62,327
Increase in cash in the period	26	3,107	18,089

The accompanying accounting policies and notes form an integral part of these financial statements

MEDIA SQUARE PLC

CONSOLIDATED STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES

As at 28 February 2007

	Year ended 28 02 2007 £'000	16 months ended 28 02 2006 Restated £'000
(Loss)/ profit for the financial year/ period	(3,239)	1,229
Currency translation differences on foreign currency net investments	(295)	123
Total (losses)/ gains recognised relating to the year/ period	(3,534)	1,352
Prior period adjustment (note 36)	(128)	-
Total (losses)/ gains recognised since last annual report	(3,662)	1,352

The accompanying accounting policies and notes form an integral part of these financial statements

1 **PRINCIPAL ACCOUNTING POLICIES**

Basis of preparation

The financial statements have been prepared under the historical cost convention, in accordance with applicable United Kingdom accounting standards

The principal accounting policies of the Group are set out below

Changes in accounting policy

In preparing the financial statements for the current period, the Group has adopted for the first time the following standards

- Financial Reporting Standard 20 Share Based Payments
- Financial Reporting Standard 23 The Effects of Changes in Foreign Exchange Rates
- Financial Reporting Standard 25 Financial Instruments – Disclosure and Presentation
- Financial Reporting Standard 26 Financial Instruments - Measurement

The impact of the adoption of these Financial Reporting Standards is detailed below

Basis of consolidation

The Group financial statements consolidate those of the Company and all of its subsidiary undertakings drawn up to 28 February 2007 Acquisitions of subsidiaries are dealt with by the acquisition method of accounting

Prior year adjustments

The following prior year adjustments have been included in the comparative figures for the financial statements for 28 February 2007 in accordance with the accounting policies stated below Note 36 shows the effect of the prior year adjustments on the Consolidated Profit and Loss Account and the Consolidated Balance Sheet

<u>FRS20 Share Based Payments</u>

This change in accounting policy has resulted in a decrease in the profit before taxation of £92,000 and a decrease in the taxation on profit of £13,000 for the period ended 28 February 2006 A deferred tax asset has been created of £13,000 as at 28 February 2006 This change has increased net assets at 28 February 2006 by £13,000

<u>FRS 26 Financial Instruments Measurement</u>

This change in accounting policy has resulted in a interest charge of £202,000 and a decrease in the taxation on profit of £61,000 for the period ended 28 February 2006 Creditors less than 1 year have increased by £202,000 and a deferred tax asset has been created of £61,000 as at 28 February 2006 The change has reduced net assets at 28 February 2006 by £141,000

FRS 25 Financial Instruments Disclosure and Presentation

This change in accounting policy has resulted in an increase in retained consideration creditor less than 1 year of £583,000, an increase in retained consideration creditor greater than 1 year of £428,000 and a corresponding reduction in shares to be issued of £1,011,000 as at 28 February 2006 The change has reduced net assets at 28 February 2006 by £1,011,000

Retrospective rebates

In the prior period, retrospective volume rebates paid to customers were included as a cost of sale In the current year, these have been removed from cost of sales and included as a deduction from the turnover figure This has resulted in a decrease in turnover and a decrease in cost of sales of £509,000 for the period ended 28 February 2006 Profit before taxation and net assets are unchanged

Goodwill and intangible assets

Goodwill arising from the acquisition of subsidiary undertakings, representing the difference between the purchase consideration given together with the costs of acquisition and fair value of net assets acquired, has been capitalised in accordance with the requirements of FRS 10

The directors assess each acquisition to determine the appropriate treatment of any related goodwill and select from one of two accounting policies

Where the directors are of the opinion that intangible assets of the Group have an indefinite economic life given the acquired business' historic ability to sustain long term profitability, their position within their market sector and the Group's commitment to continue to invest in the long-term development of that business then, in accordance with FRS 10 and FRS 11, the carrying value of those intangible assets will be reviewed annually for impairment on the basis stipulated in FRS 11 and adjusted to the recoverable amount should this be required This policy departs from the requirement of companies' legislation to amortise goodwill over a finite period in order to give a true and fair view, for the reasons outlined above The impact of the departure from the Companies Act was to not charge amortisation of goodwill of £3,683,000 (2006 £1,934,000) assuming a maximum asset life of 20 years

Where the directors are of the opinion that intangible assets of the Group do not have an indefinite economic life then the goodwill on each acquisition is considered by the directors and amortised on a straight line basis over its useful economic life which is estimated to be up to a maximum of 20 years

Purchased goodwill is capitalised and is either amortised on a straight line basis over its useful economic life which is estimated to be up to a maximum of 20 years or is subject to annual impairment reviews on the same basis as noted above in relation to goodwill on consolidation

Negative goodwill

Negative goodwill is capitalised and is released to the profit and loss account over the life of the non-monetary assets to which it relates

Tangible fixed assets and depreciation

Depreciation is calculated to write down the cost less estimated residual value of all tangible fixed assets by equal annual instalments over their expected useful lives The land element of freehold property is not depreciated The rates generally applicable are

Freehold property	2% per annum
Leasehold improvements	shorter of the lease period and the life of the asset
Plant and machinery	6 7% to 33% per annum
Motor vehicles	25% per annum
Fixtures and fittings	10% to 25% per annum

Leased assets

Assets held under finance leases and hire purchase contracts are capitalised in the balance sheet and depreciated over their expected useful lives The interest element of leasing payments represents a constant proportion of the capital balance outstanding and is charged to the profit and loss account over the period of the lease

All other leases are regarded as operating leases and the payments made under them are charged to the profit and loss account on a straight line basis over the lease term

Investments

Investments are included at cost less amounts written off

When applicable the Company takes advantage of the merger relief provisions in Section 131 of the Companies Act 1985 when accounting for investments in subsidiary undertakings whereby the cost of investment in the books of the Company is calculated by reference to the nominal value of shares issued rather than the fair value used upon consolidation

Stocks and work in progress

Stocks and work in progress are stated at the lower of cost and net realisable value, after making allowance for obsolete and slow moving items Stock is accounted for on a FIFO basis

Deferred taxation

Deferred taxation is recognised on all timing differences at the balance sheet date where the transactions or events that give the Group an obligation to pay more tax in the future, or right to pay less tax in the future have occurred Deferred tax assets are recognised when it is more likely than not they will be recovered Deferred tax is measured using rates of tax that have been enacted or substantially enacted by the balance sheet date

Provisions for liabilities and charges

Provisions for liabilities and charges includes onerous property contracts for which the present value of onerous lease costs is provided along with other provisions which are provided for on an estimated basis until the final settlement amount crystallises

Research and development costs

The Group incurs expenditure on research and development in relation to online advertising technology During the financial year the Group incurred costs of £302,000 which have been capitalised within intangible fixed assets The Group's policy is that expenditure meeting the criteria set out in SSAP 13 is capitalised, namely

(a) there is a clearly defined project, and

(b) the related expenditure is separately identifiable, and

(c) the outcome of such a project has been assessed with reasonable certainty as to

(i) its technical feasibility, and

(ii) its ultimate commercial viability considered in the light of factors such as likely market conditions (including competing products), public opinion, consumer and environmental legislation, and

(d) the aggregate of the deferred development costs, any further development costs, and related production, selling and administration costs is reasonably expected to be exceeded by related future sales or other revenues, and

(e) adequate resources exist, or are reasonably expected to be available, to enable the project to be completed and to provide any consequential increases in working capital

Development expenditure is amortised over the lives of the particular projects to which it relates

FINANCIAL INSTRUMENTS

Classification as equity or financial liability

Financial liabilities and equity instruments are classified according to the substance of the contractual arrangements entered into

A financial liability exists where there is a contractual obligation to deliver cash or another financial asset to another entity, or to exchange financial assets or financial liabilities under potentially unfavourable conditions In addition contracts which result in the entity delivering a variable number of its own equity instruments are financial liabilities Shares containing such obligations are classified as financial liabilities

An equity instrument is any contract that evidences a residual interest in the assets of the Group/Company after deducting all of it liabilities Dividends and distributions relating to equity instruments are debited direct to equity

Compound instruments

Compound instruments comprise both a liability and an equity component The elements of a compound instrument are classified in accordance with their contractual provisions At the date of issue, the liability component is recorded at fair value, which is estimated using the prevailing market interest rate for a similar debt instrument without the equity feature Thereafter the liability component is accounted for as a financial liability in accordance with the accounting policy set out above

The residual is the equity component, which is accounted for as an equity instrument

Financial assets

Financial assets are divided into the following categories loans and receivables, financial assets at fair value through profit or loss, available-for-sale financial assets, and held-to-maturity investments Financial assets are assigned to the different categories by management on initial recognition, depending on the purpose for which they were acquired The designation of financial assets is re-evaluated at every reporting date at which a choice of classification or accounting treatment is available

All financial assets are recognised when the Group/Company becomes a party to the contractual provisions of the instrument Financial assets other than those categorised as at fair value through profit or loss are recognised at fair value plus transaction costs Financial assets categorised as at fair value through profit or loss are recognised initially at fair value with transaction costs expensed through the profit and loss account

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and a fixed date of maturity where it is the intention of the directors to hold them until maturity Held-to-maturity investments are measured subsequent to initial recognition at amortised cost using the effective interest method If there is objective evidence that the investment has been impaired, the financial asset is measured at the present value of estimated cash flows Any changes to the carrying amount of the investment are recognised in the profit and loss account

Financial assets at fair value through profit or loss include financial assets that are either classified as held for trading or are designated by the entity as at fair value through profit or loss upon initial recognition Subsequent to initial recognition, the financial assets included in this category are measured at fair value with changes in fair value recognised in the profit and loss account Financial assets originally designated as financial assets at fair value through profit or loss may not be reclassified subsequently

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market Trade debtors and other debtors are classified as loans and receivables Loans and receivables are measured subsequent to initial recognition at amortised cost using the effective interest method, less provision for impairment Any change in their value through impairment or reversal of impairment is recognised in the profit and loss account

Provision against trade debtors is made when there is objective evidence that the Group/Company will not be able to collect all amounts due to it in accordance with the original terms of those receivables The amount of the write-down is determined as the difference between the asset's carrying amount and the present value of estimated future cash flows

Available-for-sale financial assets include non-derivative financial assets that are either designated as such or do not qualify for inclusion in any of the other categories of financial assets All financial assets within this category are measured subsequently at fair value, with changes in value recognised in reserves, through the statement of total recognised gains and losses Gains and losses arising from investments classified as available-for-sale are recognised in the profit and loss account when they are sold or when the investment is impaired

In the case of impairment of available-for-sale assets, any loss previously recognised in reserves is transferred to the profit and loss account Impairment losses recognised in the profit and loss account on equity instruments are not reversed through the profit and loss account Impairment losses recognised previously on debt securities are reversed through the profit and loss account when the increase can be related objectively to an event occurring after the impairment loss was recognised in profit and loss

An assessment for impairment is undertaken at least at each balance sheet date

A financial asset is derecognised only where the contractual rights to the cash flows from the asset expire or the financial asset is transferred and that transfer qualifies for derecognition A financial asset is transferred if the contractual rights to receive the cash flows of the asset have been transferred or the Group/Company retains the contractual rights to receive the cash flows of the asset but assumes a contractual obligation to pay the cash flows to one or more recipients A financial asset that is transferred qualifies for derecognition if the Group/Company transfers substantially all the risks and rewards of ownership of the asset, or if the Group/Company neither retains nor transfers substantially all the risks and rewards of ownership but does transfer control of that asset

Financial liabilities

Financial liabilities are obligations to pay cash or other financial assets and are recognised when the Group/Company becomes a party to the contractual provisions of the instrument Financial liabilities categorised as at fair value through profit or loss are recorded initially at fair value, all transaction costs are recognised immediately in the profit and loss account All other financial liabilities are recorded initially at fair value, net of direct issue costs

Financial liabilities categorised as at fair value through profit or loss are re-measured at each reporting date at fair value, with changes in fair value being recognised in the profit and loss account All other financial liabilities are recorded at amortised cost using the effective interest method, with interest-related charges recognised as an expense in finance cost in the profit and loss account Finance charges, including premiums payable on settlement or redemption and direct issue costs, are charged to the profit and loss account on an accruals basis using the effective interest method and are added to the carrying amount of the instrument to the extent that they are not settled in the period in which they arise

Financial liabilities are categorised as at fair value through profit or loss where they are classified as held-for-trading or designated as at fair value through profit or loss on initial recognition

A financial liability is derecognised only when the obligation is extinguished, that is, when the obligation is discharged or cancelled or expires

Financial instruments - hedging activities

Derivative financial instruments are used by the Group/Company mainly for the management of its foreign currency and interest rate exposures

Derivatives used to hedge financial assets and liabilities are not accounted for using hedge accounting

Dividends

Dividend distributions payable to equity shareholders are included in current liabilities when the dividends are approved in general meeting prior to the balance sheet date

Retained consideration

The terms of an acquisition may provide that part of the total value of the purchase consideration, which may be payable in cash, shares or other securities at a future date, depends on uncertain future events such as the future performance of the acquired Company Where it is not possible to estimate amounts payable with any degree of certainty, the amounts recognised in the financial statements are those that are reasonably expected to be paid as at the balance sheet date

Turnover and revenue recognition

Turnover is the total amount receivable by the Group for goods supplied and services provided excluding VAT, sales volume rebates and trade discounts

Turnover is recognised when the Group has satisfied performance criteria that give it the right to income

Revenue

Revenue as stated on the face of the profit and loss account is turnover less third party direct costs, thereby giving the revenues attributable to the Group for the value of work undertaken All payroll costs are included within administrative expenses

Pension costs

The Group operates money purchase (defined contribution) pension schemes Contributions payable to the schemes are charged to the profit and loss account in the year to which they relate These contributions are invested separately from the Group's assets

Foreign exchange

- FRS 23 The Effects of Changes in Foreign Exchange Rates

As a consequence of adopting FRS 26 the Group has also adopted FRS 23 in the period

Consequently the results of overseas subsidiary undertakings are translated at average exchange rates and the balance sheets of such undertakings are translated at the year end exchange rates Exchange differences arising on the retranslation of opening net assets of overseas subsidiary undertakings are taken to reserves

No prior year adjustment is required as the amount is immaterial to the Group's results

Share options and employee share schemes

- FRS 20 Share based payments

Further to the introduction of FRS 20 the Group's accounting policy relating to share based payments is set out below

Media Square plc grants options to the employees of its subsidiary companies The expense is charged over the vesting period of options within the profit and loss account of the parent

All share-based payment arrangements are recognised in the consolidated financial statements The Group operates equity-settled share-based remuneration plans for remuneration of its employees

All employee services received in exchange for the grant of any share-based remuneration are measured at their fair values These are indirectly determined by reference to the fair value of the share options awarded Their value is appraised at the grant date and excludes the impact of any non-market vesting conditions

All share-based remuneration is ultimately recognised as an expense in profit or loss with a corresponding credit to the share based payment reserve If vesting periods or other vesting conditions apply, the expense is allocated over the vesting period, based on the best available estimate of the number of share options expected to vest Non-market vesting conditions are included in assumptions about the number of options that are expected to become exercisable Estimates are subsequently revised, if there is any indication that the number of share options expected to vest differs from previous estimates No adjustment is made to the expense recognised in prior periods if fewer share options ultimately are exercised than originally estimated

Upon exercise of share options, the proceeds received net of any directly attributable transaction costs up to the nominal value of the shares issued are allocated to share capital with any excess being recorded as share premium

This change in accounting policy has resulted in a decrease in the profit before taxation of £92,000 and a decrease in the taxation on profit of £13,000 for the period ended 28 February 2006 A deferred tax asset has been created of £13,000 as at 28 February 2006 This change has increased net assets at 28 February 2006 by £13,000

2 SEGMENTAL ANALYSIS

Geographical (by origin)	Turnover		(Loss)/profit before taxation		Net assets	
	12 months ended 28 02 2007	16 months ended 28 02 2006 Restated	12 months ended 28 02 2007	16 months ended 28 02 2006 Restated	28 2 2007	28 2 2006 Restated
	£'000	£'000	£'000	£'000	£'000	£'000
United Kingdom	**144,694**	108,629	**7,231**	7,328	**22,090**	29,254
Rest of Europe	**22,186**	5,943	**483**	389	**3,683**	3,801
Rest of the World	**38,730**	11,296	**1,661**	729	**6,370**	7,201
	205,610	125,868	**9,375**	8,446	**32,143**	40,256
Central costs/ assets			**(2,766)**	(2,115)	**21,330**	17,238
			6,609	6,331	**53,473**	57,494
Exceptional costs			**(2,838)**	(3,217)		
Loss on disposal of fixed assets			**(112)**	-		
Impairment of goodwill on disposal of subsidiary undertakings			**(3,780)**	-		
Net interest payable			**(2,172)**	(1,147)		
(Loss)/ profit before taxation			**(2,293)**	1,967		

By market sectors Year ended 28 February 2007	UK Marketing Services	UK Marketing Communications	International Advertising and Intelligence	Online Advertising and Technology	Total
	£'000	£'000	£'000	£'000	£'000
Turnover	39,450	73,770	73,534	18,856	205,610
Revenue	21,689	39,522	26,319	15,498	103,028
Operating profit before central costs	1,113	3,141	3,263	1,858	9,375
Central costs					(2,766)
Exceptional costs					(2,838)
Operating profit					**3,771**

By market sectors 16 months ended 28 February 2006	UK Marketing Services	UK Marketing Communications	International Advertising and Intelligence	Online Advertising and Technology	Total
	Restated £'000	£'000	£'000	£'000	Restated £'000
Turnover	53,492	41,057	20,074	11,245	125,868
Revenue	30,835	24,057	9,177	9,201	73,270
Operating profit before central costs	3,633	2,273	1,184	1,356	8,446
Central costs					(2,115)
Exceptional costs					(3,217)
Operating profit					**3,114**

3 (LOSS)/ PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION

The (loss)/ profit on ordinary activities is stated after charging

	Year ended 28 02 2007 £'000	16 months ended 28 02 2006 £'000
Auditors' remuneration		
Audit services	**368**	366
Non-audit services - taxation services	**18**	32
Non-audit services - transaction support	**132**	-
Non-audit services - post acquisition transitional services in relation to integration of acquired businesses	**-**	230
Of the auditors' remuneration disclosed above, the following was incurred by the holding company itself		
Audit services	**4**	95
Non-audit services - transaction support	**132**	-
Non-audit services - taxation services	**-**	28
Non-audit services - post acquisition transitional services in relation to integration of acquired businesses	**-**	230
Depreciation		
Tangible fixed assets owned	**2,306**	1,588
Tangible fixed assets held under finance leases and hire purchase contracts	**294**	538
Impairment of fixed assets	**381**	-
Amortisation of goodwill	**109**	106
Impairment of goodwill	**56**	168
Hire of plant and machinery	**341**	486
Other operating lease rentals	**4,541**	2,196

During the year the auditors received remuneration of £7,000 (2006 £268,000) in relation to transaction support services which has been charged to cost of investment

4 EXCEPTIONAL ADMINISTRATIVE EXPENSES

Exceptional items in 2007 reflect the continued business restructuring programme following the acquisition of the Marketing Services Group in the previous financial period

This programme has resulted in a restructure of companies within the Group together with a consolidation of the Group's property portfolio Costs associated with the programme include redundancy costs, relocation costs, information technology integration costs, the impairment of redundant assets and the cost of duplicated rental costs during premises relocation This programme is substantially complete as at 28 February 2007

The exceptional items in 2006 related primarily to the business restructuring programme subsequent to the following Group acquisitions

- exceptional costs incurred in the restructuring programme implemented following the acquisition of Coutts Holdings plc, Clark McKay and Walpole Limited and AI London Limited in 2004 The programme resulted in redundancy costs as operations were consolidated In addition costs, principally relating to goodwill impairment, were incurred on the disposal of the London office of the BANC network

- exceptional costs related to the acquisition of the Marketing Services Group of Huntsworth plc in November 2005 The acquisition gave rise to one off costs relating to a business separation programme (from the previous parent company) and a subsequent business restructuring programme These programmes resulted in consultants' costs, redundancy costs, re-branding costs and legal costs

5 NET INTEREST

	Year ended 28 02 2007	16 months ended 28 02 2006 Restated
	£'000	£'000
On bank loans and overdrafts	**3,486**	1,245
On loan notes	**140**	6
Finance charges in respect of finance leases and hire purchase agreements	**73**	135
Loss on interest rate swap	**-**	202
	3,699	1,588
Interest receivable	**(508)**	(441)
Gain on interest rate swap	**(1,019)**	-
	(1,527)	(441)
Net interest payable	**2,172**	1,147

6 DIRECTORS AND EMPLOYEES

Staff costs during the year were as follows

	Year ended 28 02 2007	16 months ended 28 02 2006 Restated
	£'000	£'000
Wages and salaries	**61,768**	43,392
Social security costs	**5,895**	4,549
Pension costs	**1,677**	1,007
	69,340	48,948

The average number of employees of the Group during the year were

	2007 No	2006 No
Production	**702**	532
Administration and sales	**802**	380
	1,504	912

Directors' remuneration
For the year ended 28 February 2007

	Salary/ fees	Benefits in kind	Total Year ended 28 02 2007	Total 16 months ended 28 02 2006	Pension Year ended 28 02 2007	Pension 16 months ended 28 02 2006 Restated
	£'000	£'000	£'000	£'000	£'000	£'000
Executive Directors						
Jeremy Middleton	**380**	**18**	**398**	267	**-**	-
Graeme Burns	**137**	**16**	**153**	200	**88**	37
Robert Essex (i)	**-**	**-**	**-**	251	**-**	6
Non-executive Directors						
Nigel Bacon	**40**	**-**	**40**	28	**-**	-
Kelvin Mackenzie (ii)	**100**	**-**	**100**	10	**-**	-
Michael George (iii)	**29**	**-**	**29**	-	**-**	-
	686	**34**	**720**	756	**88**	43

(i) Robert Essex resigned on 24 October 2005
(ii) Kelvin Mackenzie resigned on 29 March 2007
(iii) Indicates amounts since joining the board of directors
(iv) No director has a service agreement which cannot be terminated by 12 months notice or less

7 SHARE BASED REMUNERATION

The Group has a number of share option schemes for its employees (including directors) Options for each scheme are exercisable at a price fixed at the date of grant, according to the rules applicable to each scheme The vesting period is usually 3 to 5 years The options are settled in equity once exercised

If any options remain unexercised after the latest exercise date, the options expire Options are normally forfeited if the employee leaves the Group before the options vest (with the exception of the save as you earn scheme)

Details of the number of share options and the weighted average exercise price (WAEP) outstanding during the year are as follows -

	2007		2006	
	No	**WAEP pence**	**No**	**WAEP pence**
Outstanding at the beginning of the year	**9,051,941**	**19 13**	5,454,140	15 36
Granted during the year *	**1,239,102**	**19 00**	6,029,942	24 67
Exercised during the year	**(455,735)**	**8 34**	(203,042)	6 79
Forfeited during the year	**(1,399,866)**	**23 35**	(1,987,899)	17 47
Expired during the year	**-**	**-**	(241,200)	25 00
Outstanding at the end of the year	**8,435,442**	**19 00**	9,051,941	19 13
Exercisable at the year end	**3,412,940**	**13 52**	2,748,236	11 23

* Of the options granted in the prior period, 697,506 related to options rolled over from a pre-existing scheme of an acquired company

The share options outstanding at the end of the year have a weighted average remaining contractual life of 3 years (2006 3 9 years) and have the following exercise prices

	Exercise price p	**2007 No**	2006 No
1 August 2006	**4 98**	**-**	235,296
1 August 2007	**9 18**	**-**	134,656
18 December 2007	**6 00**	**312,940**	312,940
10 November 2008	**15 25**	**100,000**	200,000
1 January 2009	**22 50**	**1,365,193**	1,853,665
30 April 2009	**6 75**	**1,000,000**	1,000,000
29 June 2009	**18 00**	**1,000,000**	1,000,000
1 May 2010	**19 00**	**1,132,809**	-
18 May 2010	**18 00**	**1,000,000**	1,000,000
10 February 2011	**26 00**	**-**	115,384
2 September 2011	**24 50**	**2,524,500**	3,200,000
		8,435,442	9,051,941

455,735 options were exercised during the year (2006 203,042) The weighted average share price at the date of exercise was 18 91p (2006 25 96p)

7 **SHARE BASED REMUNERATION (CONTINUED)**

The fair values were calculated using the Trinomial Valuation Model The inputs to the model were as follows -

2007

During the year the following options were granted

Date of issue	Number granted	Weighted average share price	Weighted average exercise price	Expected volatility	Expected life	Risk free rate	Expected dividend yield	Weighted average fair value at grant date
	No	pence	pence	%	Years	%	%	pence
20 September 2006	1,239,102	20 00	19 00	25 00	3 6	4 61	1 50	4 90

2006

During the prior period the following options were granted

Date of issue	Number granted	Weighted average share price	Weighted average exercise price	Expected volatility	Expected life	Risk free rate	Expected dividend yield	Weighted average fair value at grant date
	No	pence	pence	%	Years	%	%	pence
10 February 2005	115,384	25 75	26 00	30 00	6 0	4 47	1 50	7 64
7 May 2005	2,017,052	26 25	22 50	25 00	3 7	4 59	1 50	7 62
2 September 2005	3,200,000	24 75	24 50	25 00	6 0	4 14	1 50	6 46

Expected volatility was determined by calculating the historical volatility of the Group's share price over the previous years The expected life used in the model has been adjusted, based on the management's best estimate, for the effects of non-transferability, exercise restrictions and behavioural considerations

The charge to the consolidated profit and loss account for the year in respect of share based payments amounted to £99,000 (2006 £92,000)

8 TAX ON (LOSS)/ PROFIT ON ORDINARY ACTIVITIES

The tax charge is based on the (loss)/ profit for the year and represents

	Year ended 28 02 2007 £'000	16 months ended 28 02 2006 Restated £'000
UK corporation tax		
Current tax on income for the period at 30%	-	628
Adjustments in respect of prior periods	(160)	109
Overseas tax	224	298
Current tax charge for the year	64	1,035
Deferred taxation - current year (see note 20)	502	(245)
Deferred taxation - prior year (see note 20)	301	(64)
Tax on (loss)/profit on ordinary activities	867	726

The tax assessed for the period differs from the standard rate of corporation tax in the UK as follows

(Loss)/ profit on ordinary activities before tax	(2,293)	1,967
(Loss)/ profit on ordinary activities multiplied by standard rate of corporation tax in the UK of 30% (2006 30%)	(688)	590
Effect of		
Expenses not deductible for tax purposes	420	188
Depreciation less than capital allowances	(226)	65
Amortisation and impairment of goodwill	1,233	96
Other short term timing differences	(291)	(35)
Net utilisation of tax losses	(341)	(113)
Higher tax rate on overseas earnings	117	135
Adjustment in tax charge in respect of prior year	(160)	109
Current tax charge for year	64	1,035

Unrelieved tax losses of approximately £9,141,000 (2006 £8,305,000) are available to offset against future taxable profits of certain Group companies

9 (LOSS)/EARNINGS PER SHARE

The calculation of the basic earnings per share is based on the (loss)/profit on ordinary activities after tax and on the weighted average number of ordinary shares in issue during the year

The calculation of the diluted earnings per share is based on the (loss)/profit on ordinary activities after tax and on the weighted average number of ordinary shares and share options in issue during the period In 2007, given the loss incurred in the year, the effect of the share options and retained consideration are anti dilutive and as such no diluted earnings per share figure has been produced

The (loss)/ profits and weighted average number of shares used in the calculations are set out below

	Loss £'000	2007 Weighted average number of shares	Loss per share pence	Profit Restated £'000	2006 Weighted average number of shares	Profit per share Restated pence
Basic (loss)/ earnings per share						
(Loss)/ earnings attributable to ordinary shareholders	**(3,239)**	**325,723,528**	**(0 99)**	1,229	227,427,037	0 54
Dilutive effect of securities						
Share options					7,136,107	
Retained consideration to be settled in shares					8,313,327	
					15,449,434	
Diluted (loss)/earnings per share						
Earnings attributable to ordinary shareholders			**(0 99)**	1,229	242,876,471	0 50

10 PROFIT/(LOSS) FOR THE FINANCIAL YEAR

The parent Company has taken advantage of section 230 of the Companies Act 1985 and has not included its own profit and loss account in these financial statements The parent Company's profit for the year was £2,615,000 (2006 restated loss of £1,519,000)

11 INTANGIBLE FIXED ASSETS

Group	Purchased goodwill £'000	Goodwill on consolidation £'000	Goodwill total £'000	Develop-ment costs £'000	Total £'000
Cost					
At 1 March 2006	734	69,371	70,105	-	70,105
Adjustments re prior year acquisitions (note 30)	-	795	795	-	795
Acquisition of minority interest	-	5,832	5,832	-	5,832
Additions	58	340	398	302	700
Disposal	-	(14,543)	(14,543)	(302)	(14,845)
At 28 February 2007	**792**	**61,795**	**62,587**	**-**	**62,587**
Amortisation					
At 1 March 2006	80	355	435	-	435
Amortisation provided in the year	37	104	141	-	141
Impairment	56	-	56	-	56
At 28 February 2007	**173**	**459**	**632**	**-**	**632**
Net book amount at 28 February 2007	**619**	**61,336**	**61,955**	**-**	**61,955**
Net book amount at 28 February 2006	654	69,016	69,670	-	69,670

As explained in note 1, certain acquisitions give rise to goodwill on consolidation where no annual amortisation charge is recognised as the directors are of the opinion that these businesses have an indefinite economic life

During the year, the directors have completed their assessment of the value of assets acquired from acquisition occurring in the period ended 28 February 2006 As a result, goodwill has been increased by £795,000 as detailed in note 30

Impairment reviews have been undertaken in respect of purchased goodwill and goodwill on consolidation in accordance with the policy set out in note 1 The assumptions generally used in the impairment reviews include a discount rate of 6% (the weighted average cost of capital) and a growth rate of 5% applied to profits over a maximum 20 year period Positive goodwill with a carrying value of £59,781,000 (2006 £67,291,000) has been assumed to have an indefinite useful economic life

In accordance with FRS 23 for acquisitions of foreign operations in previous periods the group has not restated prior years and accordingly has treated goodwill and fair value adjustments arising on that acquisition as assets and liabilities of the entity rather than as assets and liabilities of the foreign operation Therefore, those goodwill and fair value adjustments either are already expressed in the entity's functional currency or are non-monetary foreign currency items, which are reported using the exchange rate at the date of the acquisition

Development costs capitalised in the year are detailed in note 1 Negative goodwill is shown in the table below

Group	Negative goodwill £'000
Cost	
At 1 March 2006 and 28 February 2007	**(118)**
Amortisation	
At 1 March 2006	(86)
Amortisation provided in the year	(32)
At 28 February 2007	**(118)**
Net book amount at 28 February 2007	-
Net book amount at 28 February 2006	(32)

12 **TANGIBLE FIXED ASSETS**

Group	Freehold property £'000	Leasehold improvements £'000	Plant and machinery £'000	Motor vehicles £'000	Fixtures and fittings £'000	Total £'000
Cost						
At 1 March 2006	4,952	2,083	10,505	429	1,954	19,923
Additions	63	2,156	1,648	28	358	4,253
Transfers	450	50	(858)	-	358	-
Disposals	(1,666)	(578)	(1,291)	(272)	(64)	(3,871)
Foreign exchange	-	(64)	(142)	(15)	(77)	(298)
At 28 February 2007	**3,799**	**3,647**	**9,862**	**170**	**2,529**	**20,007**
Depreciation						
At 1 March 2006	63	312	6,106	127	1,171	7,779
Provided in the year	82	406	1,664	90	358	2,600
Impairment	-	-	381	-	-	381
Transfers	436	34	(745)	-	275	-
Disposals	(197)	(43)	(738)	(84)	(25)	(1,087)
Foreign exchange	-	(54)	(103)	(10)	(47)	(214)
At 28 February 2007	**384**	**655**	**6,565**	**123**	**1,732**	**9,459**
Net book amount at 28 February 2007	**3,415**	**2,992**	**3,297**	**47**	**797**	**10,548**
Net book amount at 28 February 2006	4,889	1,771	4,399	302	783	12,144

Included in the above are assets held under finance leases and hire purchase agreements as follows

	Plant and machinery £'000	Motor vehicles £'000	Total £'000
Net book amount at 28 February 2007	**890**	**3**	**893**
Net book amount at 28 February 2006	1,688	152	1,840

TANGIBLE FIXED ASSETS (CONTINUED)

Company	**Plant and machinery £'000**	**Motor vehicles £'000**	**Total £'000**
Cost			
At 1 March 2006	1,106	62	1,168
Additions	20	-	20
Disposals	-	(24)	(24)
At 28 February 2007	**1,126**	**38**	**1,164**
Depreciation			
At 1 March 2006	321	46	367
Provided in the year	140	7	147
Impairment	320	-	320
Disposals	-	(18)	(18)
At 28 February 2007	**781**	**35**	**816**
Net book amount at 28 February 2007	**345**	**3**	**348**
Net book amount at 28 February 2006	785	16	801

Included in the above are assets held under finance leases and hire purchase agreements as follows

	Plant and machinery £'000	**Motor vehicles £'000**	**Total £'000**
Net book amount at 28 February 2007	**193**	**3**	**196**
Net book amount at 28 February 2006	583	16	599

13 FIXED ASSETS INVESTMENTS

	Group Other investments £'000	**Company** Investments in group undertakings £'000
Cost and net book amount		
At 1 March 2006	8	28,565
Share premium on retained consideration settled in shares	-	(372)
Acquisition of minority interest	-	5,882
Transfers to Group companies	-	(1,964)
Disposals	-	(5,674)
Impairments		(37)
At 28 February 2007	**8**	**26,400**

A full list of trading subsidiary undertakings is given in note 37 to these financial statements

14 STOCKS AND WORK IN PROGRESS

Group	2007	2006
	£'000	£'000
Raw materials and consumables	538	416
Work in progress	1,762	1,911
Finished goods	120	96
	2,420	2,423

15 DEBTORS

		Group		Company
	2007	2006	2007	2006
		Restated		Restated
	£'000	£'000	£'000	£'000
Trade debtors	35,528	34,502	-	-
Other debtors	1,046	4,517	260	210
Derivative financial asset	817	-	817	-
Corporation tax	314	-	697	-
Deferred taxation (note 20)	643	1,523	-	87
Amounts owed by subsidiary undertakings	-	-	62,046	118,451
Prepayments and accrued income	5,143	5,868	170	1,405
	43,491	46,410	63,990	120,153

Included in the table above are debtors falling due after more than one year as follows

		Group		Company
	2007	2006	2007	2006
	£'000	£'000	£'000	£'000
Deferred taxation	364	602	-	-
Amounts owed by subsidiary undertakings	-	-	52,474	53,059
	364	602	52,474	53,059

16 CREDITORS AMOUNTS FALLING DUE WITHIN ONE YEAR

		Group		Company
	2007	2006	2007	2006
		Restated		Restated
	£'000	£'000	£'000	£'000
Bank loans and overdrafts (note 17 and 18)	3,607	3,514	3,607	3,514
Trade creditors	20,521	16,871	419	878
Other taxation and social security	4,717	7,656	636	655
Other creditors	1,933	2,443	-	-
Obligations under finance leases and hire purchase agreements	565	620	219	216
Amounts owed to Group undertakings	-	-	-	58,447
Corporation tax	-	209	-	-
Retained consideration	709	608	709	608
Accruals and deferred income	20,649	22,908	3,168	3,834
Financial instrument liability	-	202	-	202
Dividends payable	391	-	391	-
	53,092	55,031	9,149	68,354

The bank loans and overdrafts are secured by a fixed and floating charge over the parent and subsidiary undertakings' assets and a fixed charge on trade debtors and the cash at bank Finance leases and hire purchase agreements are secured on the specific fixed assets to which they relate

17 CREDITORS AMOUNTS FALLING DUE AFTER MORE THAN ONE YEAR

		Group		Company
	2007	2006 Restated	2007	2006 Restated
	£'000	£'000	£'000	£'000
Bank loans (notes 16 and 18)	29,236	35,869	29,236	35,869
Loan notes	5,212	-	5,212	-
Other Creditors	47	-	-	-
Obligations under finance leases and hire purchase agreements	255	832	20	238
Amounts owed to Group undertakings	-	-	1,026	4,060
Retained consideration	-	428	-	428
	34,750	37,129	35,494	40,595

As at 28 February 2007, bank loans amounted to £34,500,000 consisting of three term loan facilities (A, B and C) Facility A amounted to £12,625,000, repayable in stepped quarterly instalments between January 2006 and April 2010 and subject to an interest rate of 2 25% above LIBOR Subsequently, Facility A was reduced to £2,625,000 on 30 March 2007 when a £10,000,000 repayment was made Continuing quarterly instalments will reduce the balance to zero on 31 October 2007 Facility B amounted to £18,750,000 repayable in full in April 2011 and is subject to an interest rate of 2 75% above LIBOR Facility C amounted to £3,125,000 repayable in equal quarterly instalments between January 2006 and July 2014 with a balancing payment of £275,000 in October 2014 and is subject to an interest rate of 1 75% above LIBOR Interest rate swaps have been entered into in respect of these facilities (see note 28)

Loan arrangement costs in respect of these facilities amounting to £2,045,000 have been deducted from the gross proceeds of the bank loans and are being amortised over the expected periods of the facilities as part of the finance costs

As at 28 February 2007 the loan notes had a face value of £5,072,000 The loan notes pays interest at 2 50% per annum on the face value, payable on redemption The loan notes are repayable in full three years from the date of issue The loan notes are guaranteed by the Group's bankers at a cost of 2 75% per annum The guarantee is secured by a fixed and floating charge over the parent and subsidiary undertakings' assets and a fixed charge on trade debtors and the cash at bank

18 BORROWINGS

Borrowings are repayable as follows

		Group		Company
	2007	2006	2007	2006
	£'000	£'000	£'000	£'000
Within one year				
Bank loans and overdrafts	3,607	3,514	3,607	3,514
Obligations under finance leases and hire purchase agreements	565	620	219	216
After one and within two years				
Bank loans	3,983	3,514	3,983	3,514
Obligations under finance leases and hire purchase agreements	228	624	20	220
After two and within five years				
Bank loans	24,028	10,607	24,028	10,607
Obligations under finance leases and hire purchase agreements	27	208	-	18
Loan notes	5,212	-	5,212	-
After five years				
Bank loans	1,225	21,748	1,225	21,748
	38,875	40,835	38,294	39,837

19 PROVISIONS FOR LIABILITIES

Group	Property provisions £'000	Other provisions £'000	Total £'000
At 28 February 2006	2,480	866	3,346
Additions	627	192	819
Utilised in the year	(1,230)	(453)	(1,683)
Released in the year	(159)	-	(159)
At 28 February 2007	**1,718**	**605**	**2,323**

The property provisions shown above relate to onerous property contracts and will be released over the terms of the leases in question The dates of crystallisation of other provisions is currently estimated to be within 2 years of the date of this report

Other provisions include a variety of non property items including legal provisions, holiday pay provision and obsolete lease asset provisions

Company	Deferred taxation £'000
At 28 February 2006	-
Provided in the year	198
At 28 February 2007 (note 20)	**198**

20 DEFERRED TAXATION

The following timing differences have arisen at 28 February 2007

	Group 2007 £'000	2006 Restated £'000	Company 2007 £'000	2006 Restated £'000
(Deferred)/ accelerated capital allowances	**(16)**	(316)	**21**	29
Available tax losses	**(491)**	(571)	**(53)**	(37)
Other timing differences	**(136)**	(636)	**230**	(79)
Deferred tax (asset)/ liability	**(643)**	(1,523)	**198**	(87)

	Group £'000	Company £'000
At 1 March 2006 (restated)	**(1,523)**	**(87)**
Provided in the year	**803**	**285**
On disposal	**77**	**-**
At 28 February 2007	**(643)**	**198**

Full provision has been made in the current period for a deferred tax liability arising on interest rate swaps entered into in respect of the Group's loan facilities

On a prudent basis no provision has been made for deferred tax assets arising from overseas and certain UK trading losses where there is uncertainty as to the timing and level of future profits Trading losses not provided for amount to £7,504,000 (2006 £5,834,000) Management will carefully review the opportunities for the recoverability of these tax losses and will reassess the need to recognise the related asset at subsequent balance sheet dates

21 **SHARE CAPITAL**

	2007	2006
	£'000	£'000
Authorised		
460,000,000 (2006 460,000,000) Ordinary shares of 5p each	**23,000**	23,000
Allotted, called up and fully paid		
328,006,131 (2006 325,276,253) Ordinary shares of 5p each	**16,400**	16,264

During the year the following shares were issued

On 1 March 2006, as part of the acquisition of MSQ Holdings Limited (formerly Coutts Holdings plc), 235,296 ordinary shares of 5p each were issued at a price of 18 75p per share, resulting in a share premium of £32,353, which was credited against merger reserve in the group accounts and against investments in the Company

On 30 June 2006, as part of the acquisition of MSQ Holdings Limited (formerly Coutts Holdings plc), 23,969 ordinary shares of 5p each were issued at a price of 18 75p per share, resulting in a share premium of £3,296, which was credited against merger reserve in the group accounts and against investments in the Company

On 12 September 2006, as a result of an exercise of options under the Enterprise Management Incentive Scheme (EMI), 100,000 ordinary shares of 5p each were issued at a price of £15 25p per share, resulting in a share premium of £10,025

On 6 February 2007, as part of the acquisition of MSQ Holdings Limited (formerly Coutts Holdings plc), 96,470 ordinary shares of 5p each were issued at a price of 18 75p per share, resulting in a share premium of £13,265, which was credited against merger reserve in the group accounts and against investments in the Company

On 6 February 2007, as part of the acquisition of Symbian Print Intelligence Limited, 2,274,143 ordinary shares of 5p each were issued at a price of 19 26p per share, resulting in a share premium of £324,292, which was credited against merger reserve in the group accounts and against investments in the Company

A summary of the share options in existence at 28 February 2007 is shown overleaf

21 SHARE CAPITAL (CONTINUED)

Share options

Exercise date	At 1 March 2006 No of shares	Granted in period No of shares	Exercised in period No of shares	Lapsed in period No of shares	At 28 February 2007 No of shares	Exercise price Pence per share
Unapproved Share Option Scheme						
Dec 2002 - Dec 2007	312,940	-	-	-	312,940	6 00
May 2004 - Apr 2009	1,000,000	-	-	-	1,000,000	6 75
May 2005 - May 2010	460,000	-	-	-	460,000	18 00
Feb 2008 - Feb 2011	115,384	-	-	(115,384)	-	26 00
Enterprise Management Incentive (EMI) Scheme						
Nov 2005 - Nov 2008	200,000	-	(100,000)	-	100,000	15 25
May 2005 - May 2010	540,000	-	-	-	540,000	18 00
Jun 2006 - Jun 2009	1,000,000	-	-	-	1,000,000	18 00
1996 Savings-Related Share Option Scheme (rolled over from original Coutts Holdings plc scheme)						
May 2005 - Aug 2006	235,296	-	(235,296)	-	-	4 98
May 2005 - Aug 2007	134,656	-	(120,439)	(14,217)	-	9 18
2005 Savings-Related Share Option Scheme						
Jul 2008 - Jan 2009	1,853 665	-	-	(488,472)	1,365,193	22 50
2005 Company Share option Plan						
Sep 2008 - Sep 2011	3,200,000	-	-	(675,500)	2,524,500	24 50
2006 Savings-Related Share Option Scheme						
Nov 2009 – May 2010	-	1,239,102	-	(106,293)	1,132,809	19 00
	9,051,941	**1,239,102**	**(455,735)**	**(1,399,866)**	**8,435,442**	-

22 DIVIDEND

During the year the Company proposed an interim dividend of 0 12 pence per share (2006 0 12 pence) amounting to £391,000 (2006 £236,000) which was paid 16 March 2007

The Board has decided to suspend the payment of a dividend in the short-term in favour of undertaking a programme of share buy-backs which the Directors believe will deliver greater shareholder returns (the final dividend in 2006 was 0 13 pence per share amounting £423,000)

23 RESERVES

Group	Shares to be issued £'000	Share premium account £'000	Merger reserve £'000	Share based payments reserve £'000	Profit and loss account £'000
At 1 March 2006 as previously reported	1,081	37,426	4,705	-	(599)
Prior year adjustment (note 36)	(1,011)	-	-	92	(220)
At 1 March 2006 as restated	70	37,426	4,705	92	(819)
Loss for the year	-	-	-	-	(3,239)
Dividends	-	-	-	-	(814)
Exchange loss arising on consolidation	-	-	-	-	(295)
Shares issued in year	(70)	10	373	-	-
Share based payments vested in the year	-	-	-	(48)	48
Share based payments for the year	-	-	-	99	-
At 28 February 2007	**-**	**37,436**	**5,078**	**143**	**(5,119)**

Company					
At 1 March 2006 as previously reported	1,081	37,426	-	-	2,264
Prior year adjustment (note 36)	(1,011)	-	-	92	(220)
At 1 March 2006 as restated	70	37,426	-	92	2,044
Retained profit for the year	-	-	-	-	2,615
Dividends	-	-	-	-	(814)
Shares issued in year	(70)	10	-	-	-
Share based payments vested in the year*	-	-	-	(48)	48
Share based payments for the year	-	-	-	99	-
At 28 February 2007	**-**	**37,436**	**-**	**143**	**3,893**

The merger reserve represents the difference between the issue price and the nominal value of shares issued as consideration for the acquisition of a subsidiary undertaking when the Company has taken advantage of merger relief Relief has been taken in respect of the shares issued relating to the acquisitions of Coutts Holdings plc, Clark McKay and Walpole Ltd and Symbian Print Intelligence Limited

Shares to be issued represented consideration shares with respect to the acquisition of Coutts Holdings plc

* Represents merger relief in respect of purchase consideration settled in shares

24 RECONCILIATION OF MOVEMENTS IN SHAREHOLDERS' FUNDS

Group	2007 Restated £'000	2007 Restated £'000	2006 Restated £'000
(Loss)/profit for the financial year		(3,239)	1,229
Dividends		(814)	(236)
Exchange (loss)/ profit arising on consolidation		(295)	123
Share based payments		99	92
Issue of ordinary share capital		136	30,560
Share premium arising from issue of shares		383	-
Movement on shares to be issued		(70)	(2,480)
Net (decrease)/increase in shareholders' funds		(3,800)	29,288
Shareholders' funds at 1 March 2006 as previously reported	58,877		28,450
Prior year adjustment (note 36)	(1,139)		-
Shareholders' funds at 1 March 2006 as restated		57,738	28,450
Shareholders' funds at 28 February 2007		53,938	57,738

25 NET CASH INFLOW FROM OPERATING ACTIVITIES

Group	Year ended 28 02 2007 £'000	16 months ended 28 02 2006 Restated £'000
Operating profit	3,771	3,114
Depreciation	2,600	2,126
Profit on disposal of tangible fixed assets	-	(92)
Goodwill amortisation	109	106
Impairment of tangible assets	381	-
Impairment of goodwill	56	168
Share based payment	99	92
(Increase)/ decrease in stocks and work in progress	(198)	1,784
(Increase)/ decrease in debtors	(3,154)	5,525
Decrease in creditors	(344)	(1,217)
Net cash inflow from operating activities	3,320	11,606

MEDIA SQUARE PLC

NOTES TO THE FINANCIAL STATEMENTS

As at 28 February 2007

26 RECONCILIATION OF NET CASH FLOW TO MOVEMENT IN NET DEBT

Group	Year ended 28 02.2007 Restated £'000	16 months ended 28 02 2006 Restated £'000
Increase in cash in the period	**3,107**	18,089
Exchange differences	**(268)**	-
Bank loans advanced	**-**	(44,141)
Fees paid in relation to bank loans	**-**	2,045
Bank loans repaid	**6,880**	7,215
Loan notes repaid		150
Cash outflow from finance leases and hire purchase agreements	**707**	739
Change in net debt resulting from cash flows	**10,426**	(15,903)
Inception of finance leases and hire purchase agreements	**(75)**	(342)
Movement in retained consideration treated as debt	**357**	(1,011)
Amortisation of loan fees	**(340)**	(48)
Loan note interest accrued	**(140)**	-
Net debt acquired	**-**	(118)
Loan notes advanced	**(5,072)**	-
Movement in net debt in the year	**5,156**	(17,422)
Net debt at 28 February 2006	**(19,469)**	(2,047)
Net debt at 28 February 2007	**(14,313)**	(19,469)

27 ANALYSIS OF CHANGES IN NET DEBT

	At 1 March 2006 Restated £'000	Cash flows £'000	Disposals £'000	Non cash trans-actions £'000	At 28 February 2007 £'000
Cash at bank and in hand	22,377	3,257	(150)	(268)	**25,216**
Bank loans	(39,383)	6,880	-	(340)	**(32,843)**
Loan notes	-	-	-	(5,212)	**(5,212)**
Retained consideration treated as a loan	(1,011)	-	-	357	**(654)**
Finance leases and hire purchase agreements	(1,452)	678	29	(75)	**(820)**
	(19,469)	10,815	(121)	(5,538)	**(14,313)**

28 FINANCIAL INSTRUMENTS

The Group uses financial instruments comprising cash and short term deposits, bank loans, finance leases, consideration for acquisition and various items such as trade debtors and trade creditors that arise directly from its operations

Short-term debtors and creditors

The Group enters into day to day sales and purchase transactions resulting in trade payables and receivables Such transactions are carried at the initial recognition amount until they reach maturity Provision for impairment is made on a specific basis only and due to the short term nature of the transactions no subsequent remeasurement is undertaken

Interest rate risk

The Group finances its operations through bank and other borrowings The Group exposure to interest rate fluctuations on its borrowings is managed by the use of both fixed and floating facilities The Group hedges all of its interest rate exposure on all of its bank loans by way of interest rate swaps The Group assigns each interest rate swap against a debt Amounts to be paid or received under swap agreements are recognised over the terms of the agreements as adjustments to interest expense At the year end 100% (2006 100%) of the borrowings were at fixed rates The interest rate exposure of the financial liabilities of the Group as at 28 February 2007 was

	Interest rate		
	Fixed £'000	Floating £'000	Total £'000
2007	**34,739**	**-**	**34,739**
2006	42,832	-	42,832

	Fixed rate financial liabilities	
	Weighted average fixed interest rate %	Weighted average period for which rate is fixed in years
2007	**7 2**	**4 1**
2006	7 2	5 0

The profile takes into account interest rate swaps, details of which are as follows

Start date	End date	Rate swapped from	Rate swapped to	Underlying loan value
2 Nov 2005	29 Oct 2010	3 month GBP LIBOR	4 76%	£20,000,000
2 Nov 2005	29 April 2011	3 month GBP LIBOR	4 78%	£18,750,000
2 Nov 2005	31 Oct 2014	3 month GBP LIBOR	4 78%	£3,600,000

The floating rate borrowings bear interest at rates based on the prevailing bank rate

All borrowings are denominated in sterling

28 FINANCIAL INSTRUMENTS (CONTINUED)

Credit risk

The Group trades with only recognised creditworthy third parties The carrying value of trade receivables is shown in note 15 It is Group policy that all customers who wish to trade on credit terms are subject to credit vetting procedures In addition, receivable balances are monitored on an ongoing basis with the result that the Group's exposure to bad debts is not significant Certain Group subsidiaries utilise credit insurance policies to further mitigate the risks in this area

Due to the number of trading subsidiary entities in the Group, along with their geographic spread, the credit risk exposure of the Group is not thought to be significant Projects which lead to individually significant balances are subject to Board approval as part of the take on process and are kept under regular scrutiny

Foreign currency risk

The Group's exposure to foreign currency risk relates primarily to short term loans that are denominated in currencies other than Sterling made to, or received from subsidiaries

Foreign currency swaps have been taken out at a Group level to mitigate the risk of currency exchange rate movements

The Group uses foreign currency swaps from time to time to manage foreign currency transactions between Group companies At the year end the Group have four open forward currency swaps in place The contracts were entered into on 20 February 2007 and matured between 7 and 21 March 2007 The contracts cover swaps from UK Sterling to US Dollars, the Euro and Hong Kong Dollars and have a total sterling value of £6,600,000 (2006 £nil)

Liquidity risk

The Group seeks to manage financial risk by ensuring sufficient liquidity is available to meet foreseeable needs and to invest cash assets safely and profitably

The Group has an acquisition finance overdraft and revolving credit facility amounting to £44,500,000 (2006 £57,380,000) at 28 February 2007 of which £9,665,000 (2006 £13,772,000) remained undrawn

29 MAJOR NON-CASH TRANSACTIONS

During the period the Group entered into finance lease and hire purchase arrangements in respect of assets with a total capital value at the inception of the leases of £75,000 (16 months ended 28 February 2006 £342,000)

Loan notes in respect of acquisitions were issued to the value of £5,572,000 (16 months ended 28 February 2006 £Nil) During the year £500,000 of these loans were cancelled

30 ACQUISITIONS

Acquisitions of subsidiaries

On 7 July 2006 the Group acquired all of the ordinary shares of Retail Planning Innovations Limited for a consideration before professional fees of £300,000 Goodwill arising on the acquisition of £340,000 has been capitalised The business and assets of the acquired company were immediately hived up to another trading subsidiary, Lloyd Northover Ltd It is not possible to quantify accurately the operating results of the acquired business post acquisition as it was subsumed within the total company results of Lloyd Northover Ltd

The acquisitions of businesses during the year have been accounted for by the acquisition method of accounting

The book and fair value of assets and liabilities acquired were as follows

	£000
Fixed assets	
Tangible	1
	1
Current assets	
Debtors	35
Taxation	19
Bank and cash	75
	129
Creditors amounts due within one year	
Trade creditors	(74)
Other creditors	(53)
Accruals	(2)
	(129)
Creditors amounts falling due in more than one year	
Deferred taxation	(1)
Net assets acquired	-
Satisfied by	
Cash	300
Professional costs	40
	340
Net assets acquired	-
Goodwill	340

30 ACQUISITIONS (CONTINUED)

The directors have now completed their enquiries regarding the acquisitions that occurred in the period ending 28 February 2006 and have made the following adjustments with regard to the fair value of assets and liabilities acquired

	Marketing services group £'000
Net assets acquired as reported in the 2006 accounts	15,295
Revisions to net assets acquired	
Accrued costs	(948)
Taxation	(40)
Revised net assets acquired	14,307
Acquisition costs as reported in the 2006 accounts	(65,860)
Reduction in acquisition costs	193
Revised cost of acquisition	(65,667)
Net assets acquired	14,307
Revised goodwill	(51,360)
Goodwill as reported in the 2006 accounts	(50,565)
Increase to goodwill	**(795)**

Acquisitions of trade and assets

On 13 November 2006, the Group acquired the trade and certain of the trading assets of Cremo Limited for a consideration before professional fees of £40,000 Goodwill arising on the acquisition of £58,000 has been capitalised It is not possible to quantify accurately the operating results of the acquired business as it was subsumed within the total company results of a trading subsidiary, Media Square Consulting Services (Shanghai) Co Limited

The book and fair value of the assets acquired through the above were as follows

	£'000
Tangible fixed assets and net assets acquired	1
Satisfied by	
Cash	40
Professional costs	19
Total consideration	59
Net assets acquired	(1)
Goodwill arising on acquisition	58

31 DISPOSAL OF SUBSIDIARY UNDERTAKINGS

During the year, the Group disposed of its interest in a number of companies within the Marketing Services Group Group profits include £249,000 earned by these companies up until their date of disposal on 9 November 2006 for Karen Earl Sponsorship Ltd and 28 February 2007 for Finex Communications Group plc and Digital Advertising and Marketing Ltd (trading as Tangozebra)

	2007 Marketing Services Group £000
Net assets disposed of	
Goodwill	14,543
Tangible fixed assets	1,132
Investments	47
Stocks	160
Debtors	6,123
Deferred tax asset	78
Cash at bank in hand	545
Creditors	(3,295)
Bank overdrafts	(395)
Loans and finance leases	(29)
Taxation payable	(307)
Minority shareholder's interests	(268)
	18,334
Goodwill impairment on disposal of subsidiary undertakings	(3,780)
Consideration	14,554
Satisfied by	
Cash	14,750
Loan notes	500
Transaction costs	(1,396)
Debt assumption	600
Retained consideration	100
	14,554

These companies contributed £12,000 in net operating cash flow during the year, paid £1,020,000 in respect of net returns on investments and servicing of finance, paid £66,000 on taxation, paid £744,000 for capital expenditure and financial investment, and received £1,114,000 from financing activities

32 CAPITAL COMMITMENTS

The Group and Company had no capital commitments at 28 February 2007 and 28 February 2006

33 CONTINGENT LIABILITIES

The Company has guaranteed subsidiary undertaking borrowings associated with hire purchase agreements, as detailed below

	2007 £	2006 £
Hire purchase agreements	582	998

The Group had no other contingent liabilities at 28 February 2007 and 28 February 2006

34 LEASING COMMITMENTS

Operating lease payments amounting to £5,997,000 (2006 £4,109,000) are due within one year The leases to which these amounts relate expire as follows

	2007		2006	
Group	Land and buildings £'000	Other £'000	Land and buildings £'000	Other £'000
Within one year	904	185	1,048	141
Between one and five years	1,762	438	2,292	379
In five years or more	2,684	24	415	59
	5,350	647	3,755	579

35 TRANSACTIONS WITH RELATED PARTIES

The following transactions were undertaken with related parties

i Jeremy Middleton is a director of Oast Partners Limited, during the year the Group made purchases amounting to £12,000 (2006 £52,000) from this company £32,500 of director's fees have been paid to Oast Partners in the year The director's fees have now ceased as Jeremy Middleton is an employee of the Company

ii Sales amounting to £nil (2006 £74,000) relating to services provided by Pertemps Group Limited

The Company has taken advantage of the exemption in Financial Reporting Standard 8 "Related Party Disclosures" and has not disclosed transactions with Group undertakings

There are no other related party transactions

36 PRIOR YEAR ADJUSTMENTS

The following table illustrates the effect of the prior year adjustments on the financial statements for the period ended 28 February 2006

Consolidated Profit and Loss Account for the period ended 28 February 2006

Group	As previously reported	Prior Year Adjustments					Restated
		FRS 20	FRS 25	FRS26	Rebate	Total	
	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Turnover	126,377	-	-	-	(509)	**(509)**	125,868
Cost of sales	(53,107)	-	-	-	509	**509**	(52,598)
Revenue	73,270	-	-	-	-	-	73,270
Administration expenses	(66,847)	(92)	-	-	-	**(92)**	(66,939)
Exceptional expenses	(3,217)	-	-	-	-	-	(3,217)
Operating profit	3,206	(92)	-	-	-	**(92)**	3,114
Interest	(945)	-	-	(202)	-	**(202)**	(1,147)
Profit before taxation	2,261	(92)	-	(202)	-	**(294)**	1,967
Taxation	(800)	13	-	61	-	**74**	(726)
Profit after taxation	**1,461**	**(79)**	-	**(141)**	-	**(220)**	**1,241**

The effects of FRS 20, 25 and 26 on the current year profit and loss account of the group are as follows

	FRS 20	FRS 25	FRS26	Rebate
Profit after taxation	**(69)**	-	**714**	-

36 **PRIOR YEAR ADJUSTMENTS (CONTINUED)**

Consolidated Balance Sheet as at 28 February 2006

Group	**As previously reported**	**Prior Year Adjustments**					
		FRS 20	**FRS 25**	**FRS26**	**Rebate**	**Total**	**Restated**
	£'000	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**
Tangible fixed assets	12,144	-	-	-	-	-	12,144
Intangible fixed assets	69,638	-	-	-	-	-	69,638
Investments	8	-	-	-	-	-	8
						-	
Current assets	71,136	13	-	61	-	74	71,210
Creditors within 1 year	(54,246)	-	(583)	(202)	-	(785)	(55,031)
Creditors due after 1 year	(36,701)	-	(428)	-	-	(428)	(37,129)
Provisions	(3,346)	-	-	-	-	-	(3,346)
Net assets	**58,633**	**13**	**(1,011)**	**(141)**	**-**	**(1,139)**	**57,494**
Share capital	16,264	-	-	-	-	-	16,264
Shares to be issued	1,081	-	(1,011)	-	-	(1,011)	70
Share premium	37,426	-	-	-	-	-	37,426
Merger reserve	4,705	-	-	-	-	-	4,705
Share based payment reserve	-	92	-	-	-	92	92
Profit and Loss account	(599)	(79)	-	(141)	-	(220)	(819)
Shareholders' funds	58,877	13	(1,011)	(141)	-	(1,139)	57,738
Minority interest (equity)	(244)	-	-	-	-	-	(244)
Total equity capital employed	**58,633**	**13**	**(1,011)**	**(141)**	**-**	**(1,139)**	**57,494**

36 **PRIOR YEAR ADJUSTMENTS (CONTINUED)**

Balance Sheet as at 28 February 2006

Company

	As previously reported	Prior Year Adjustments				Restated
		FRS 20	FRS 25	FRS26	Total	
	£'000	£'000	£'000	£'000	£'000	£'000
Tangible fixed assets	801	-	-	-	-	801
Investments	28,565	-	-	-	-	28,565
Current assets	135,405	13	-	61	74	135,479
Creditors due within 1 year	(67,569)	-	(583)	(202)	(785)	(68,354)
Creditors due after 1 year	(40,167)	-	(428)	-	(428)	(40,595)
Net assets	**57,035**	**13**	**(1,011)**	**(141)**	**(1,139)**	**55,896**
Share capital	16,264	-	-	-	-	16,264
Shares to be issued	1,081	-	(1,011)	-	(1,011)	70
Share premium	37,426	-	-	-	-	37,426
Share based payment reserve	-	92	-	-	92	92
Profit and loss account	2,264	(79)	-	(141)	(220)	2,044
Total equity capital employed	**57,035**	**13**	**(1,011)**	**(141)**	**(1,139)**	**55,896**

37 SUBSIDIARY UNDERTAKINGS

The Company either directly or indirectly holds an interest in the following trading subsidiary undertakings

Subsidiary undertaking	Principal activity	Country of incorporation	% equity holding
Ai London Limited*	P	UK	100%
Arken P O P Limited	P	UK	100%
Beetroot Publishing Limited	P	UK	100%
Boning SEA Werbeagentur GmbH	P	Germany	70%
Catalyst Marketing Limited	P	UK	100%
Clark McKay and Walpole Limited*	P	UK	100%
Coutts Germany GmbH	P	Germany	100%
Coutts Retail Communications Limited	P	UK	100%
Dynamo Marketing Limited	P	UK	100%
Dynamo Africa Marketing Services (Pty) Limited	P	South Africa	74 9%
Fourninety Limited	P	UK	100%
Hoffmann Schalt SEA Werbeagentur GmbH	P	Germany	100%
Holmes and Marchant International Limited	P	UK	100%
IAS Smarts Plc	P	UK	100%
Illuminas Limited	P	UK	100%
Illuminas LLC	P	United States	100%
Lloyd Northover Limited	P	UK	100%
Media Square Consulting Services (Shanghai) Co Limited	P	China	100%
MSQ Asia Limited	P	Hong Kong	100%
MSQ Holdings Limited *	H	UK	100%
MSQ Services Limited	H	UK	100%
Orange Design Pte Limited	P	Singapore	100%
Redmandarin Limited	P	UK	100%
SEA Connect GmbH	P	Germany	70%
SEA GmbH	P	Germany	100%
Su Yeang Design Pte Limited	P	Singapore	90%
Symbian Print Intelligence Limited*	P	UK	100%
Theatre Brand Experience Limited	P	UK	100%
Theatre Cast & Crew Limited	P	UK	100%
Twentysix London Limited	P	UK	100%
Twentysix New York Inc	P	United States	100%
The Gate Worldwide Limited	P	Hong Kong	90%
The Gate Worldwide Limited	P	UK	100%
The Gate Worldwide LLC	P	United States	100%
The Gate Worldwide (S) Pte Limited	P	Singapore	100%

* indicates directly held by Media Square Plc
P indicates principal activity is that of marketing communications and services
H indicates principal activity is that of a holding or management company