MEDIA SQUARE PLC

ANNUAL REPORT

FOR THE YEAR ENDED
28 FEBRUARY 2010

COMPANY NUMBER 4006884

Contents

Financial Highlights

Key financial

- Revenue of £47.3 million (2009 restated: £61.2 million) representing a 23% reduction on a like for like basis.
- Headline EBITDA of £0.1 million (2009 restated: £3.7 million).
- Headline operating loss of £0.9 million (2009 restated: profit of £2.3 million).
- Reported operating loss after exceptional items of £19.1 million (2009 restated: profit of £4.5 million) which includes a £15.9 million non-cash write-down of goodwill.
- Underlying net debt of £19.9 million (2009: £13.4 million).
- H2 profitable with a headline operating profit of £0.4 million.
- New 3 year bank facility (to June 2013)

Operational Events

- Structural turnaround complete
- Stable operating platform
- Lloyd Northover Marlow sold
- CST acquired
- New CEO appointed
- 2 new Directors
- Central costs cut
- Agency overheads cut

Chairman's Statement

for the year ended 28 February 2010

Dear Fellow Shareholder,

It gives me great pleasure and, indeed, a considerable sense of relief to report to you that the structural turnaround of Media Square has now been completed Your company is now smaller, simpler and stable, it operates eleven agencies, each of which has a clear professional service proposition The Group is now trading profitably Back in 2007, following numerous acquisitions, the Group had more than forty individual operating units, many of which were loss making and others which were too small and fragile to be long term, viable operations The high level of debt, poor operating margins, high central costs and management complexity at the time necessitated radical action and we started the three year turnaround plan

Results

The twelve month period reported on (March 2009 to February 2010) reflects the challenges of completing the final stage of the turnaround of an already weak business against the backdrop of the credit crunch Revenues dropped by 23% which is mostly a reflection of the general reduction in marketing budgets brought about by the recession, partly underperformance by a number of our agencies which resigned unprofitable accounts and partly the disposal of non-core agencies Operating expenses were reduced by more than £10 million in the year and further cost reductions will be coming into effect in the coming months Overall the headline operating loss for the twelve months was £0 9 million It should be noted that for the first six months of the year we reported a loss of £1 3 million and that the second half showed a significantly improved performance with profit in the six month period of £0 4 million This positive trend reflects the early benefits of the turnaround and it has continued in the current trading period The significant exceptional item of £17 7 million reflects the write-down of goodwill of £15 9 million as well as redundancy and restructuring costs

Dividend

Given the current high level of debt and low Group operating margin, the Board do not recommend the payment of a dividend at this time However, this policy will be kept under review The Board has no current plans to make any significant acquisitions, nor to operate a share buy-back programme Cash flow will be used to reduce debt or to finance small, "tuck-in" purchases which strengthen existing agencies

Structural turnaround is complete

The key objective of the turnaround, which started in September 2007, was to reduce the complexity of the Media Square Group and eliminate loss-making agencies to prepare the ground to improve operating margins and reduce debt The strategy was to focus in on a small number of agencies which had strong creative credentials and good prospects The turnaround was originally planned as a three year project and in practice it has been completed in 32 months It proved to be particularly challenging as it was done against the background of the collapse of Northern Rock in September 2007 and then, far more significantly, the collapse of Lehman Brothers in September 2008 which had a very negative effect on marketing spend for the whole of 2009 For a Group like Media Square which was particularly exposed to the financial services, automotive and retail sectors, the 2009 recession has proved to be very problematic An emergency restructuring had to occur on top of the already planned turnaround

To achieve the strategic objective of simplification some agencies were sold, others were closed and others were merged The Divisional structure was abolished, financial control and reporting systems were improved and central costs have been cut from some £5 million a year in 2007 to £2 million a year now Group headcount has reduced from more than 1,500 to 730 over the three year period

New bank facilities

Over the past three years our clearing bankers (originally Bank of Scotland, now Lloyds Banking Group) have been extremely engaged and supportive I am delighted to report that we have entered into a new three year facility with Lloyds Banking Group which will run until June 2013 which will provide the company with a long term debt capacity of £22 6 million and a short term revolver of £4 million The facility has conventional covenant obligations and in the opinion of the Board will meet the company's needs over the next three years The facility agreement remains conditional on certain resolutions being passed at the 2010 AGM as detailed in note 34 of the financial statements

Chairman's Statement

for the year ended 28 February 2010

Board changes

To reflect the completion of the turnaround a number of changes have been made to the Board During the past year Graeme Burns stood down as Finance Director and was replaced by Bruce Winfield Nigel Bacon stood down as a Non Executive Director and was replaced by Neil Canetty-Clarke As planned I completed my term in an executive position and was replaced by Peter Reid as Chief Executive

On 19 May, we announced the appointment of Tim Lindsay as a Non Executive Director Tim was previously the President of TBWA UK & Ireland, the Chairman of Publicis UK and the CEO of Lowe Howard Spink He has a long and distinguished record in the marketing communications industry and will be a great asset to the Media Square Board

Prospects

Although it is early days, the months of March and April have produced encouraging trading results The focus on the eleven core agencies is proving to be successful and the significant reduction in the cost base is reflected in greatly improved profitability For the two months of March and April the management accounts (unaudited) show cumulative operating profits in excess of budget, compared to the same two months last year where the Group lost more than £600,000

During the turnaround and recession the Media Square agencies have had some success with new business wins but the Board believes that this is now our major opportunity going forward as, with robust operations and management clarity, we should be able to significantly improve our new business record

Shareholders in Media Square have had a lot to put up with in recent years but it is to be hoped that their patience will now be rewarded Margins are still too low and the debt burden remains too high, but we have every prospect of improving both of these over the next few years

Roger Parry
Chairman
18 June 2010

Business review

for the year ended 28 February 2010

Chief Executive Officer's Review

In line with most other marketing communications businesses, 2009 was an exceptionally challenging year for Media Square, with widespread reductions in advertising and marketing budgets Moreover, the timing of the recession was particularly difficult given that the Group was midway through an extensive turnaround programme and thus began the period with a relatively low operating profit margin, weak systems and a number of small non-viable loss-making agencies

Faced with these conditions, the key focus of the Group through the year was to implement a wide range of cost reduction programmes, both at Group level and in the majority of agencies, in order to match operating costs with reduced revenues

The structural turnaround is now complete and the Group now has a much more focused portfolio with agencies across the five disciplines of Advertising, PR, Marketing, Research and Design With the lower overall cost base we are now well placed to benefit from an ongoing recovery in the marketing communications sector

Going forward the long-term strategy of the Group remains unchanged, with a focus on building a small number of marketing communications agencies each of which will have scale, in terms of number of staff, and breadth, in terms of a range of clients This will be achieved by organic growth, carefully targeted tuck-in acquisitions and possibly further consolidation of business units This will position them to build stronger overall economics and return to growth, as well as making them more resilient in the face of client losses or any future economic downturns

Segmental summary

Media Square consists of 11 agencies which have historically been reported in three segments The breakdown of the revenue and headline operating profit by segment is shown below

	Year ended 28 February 2010		Year ended 28 February 2009	
	Revenue	**Headline operating profit/(loss)**	Revenue	Headline operating profit/(loss)
	£m	**£m**	£m	£m
Advertising*	**25.8**	**0.9**	31 7	2 9
Marketing	**10 3**	**0 3**	12 3	0 5
Design	**11 3**	**0 5**	17 8	2 2
Central	**-**	**(2.6)**	-	(3 3)
Other	**(0 1)**	**-**	(0 6)	-
Total	**47 3**	**(0 9)**	61 2	2 3

**Advertising includes Market Research and Public Relations*

The majority of the Group's agencies suffered significant revenue reductions over the course of the year Those with more exposure to the financial services, retail and automotive sectors, suffered the largest reductions, while agencies in the research, digital and direct marketing areas, generally performed more strongly

The Design segment was particularly hard hit with the largest overall decline in revenue of 35% which reflects both the significant cuts in design work generally and also the completion of the major CBS London Underground contract at arken, our point-of-purchase agency, which had produced extremely high revenues in the 2008 and 2009 financial years

Geographical summary

Approximately 75% of the Group's revenue was derived from its UK businesses

Now the structural turnaround has been completed, the majority of the Group's activity is focused in the UK The bulk of our revenues in Asia and the USA are represented by the activities of our advertising agency The Gate and our research business Illuminas Lloyd Northover operates relatively small businesses in Hong Kong and Singapore

During the past year most of the non-UK revenues have been represented by local clients in Asia and America but going forward there will be greater emphasis on serving clients on a multinational basis

Business review

for the year ended 28 February 2010

As can be seen from the figures in the chart, non-UK revenues held up much better than those in the UK market This is partly a reflection of the mix of clients and partly a benefit of currency movements

Year ended February	2010 Revenue £m	2009 Revenue £m
United Kingdom	35 2	49 2
Rest of Europe & World	12 2	12 4
Eliminations	(0 1)	(0 4)
Total	47 3	61 2

Period summary "A game of two halves"

The main focus of the past year has been to reduce costs urgently during a time when revenues were falling fast The benefits of the cost reduction only started to be felt in the second half of the year As can be seen from the table below, operating performance in the second six months was significantly better than in the first half of the year

FY 2010	Revenue £m	Overheads £m	Headline Operating Profit/ (Loss) £m
First Half	23 4	(24 7)	(1 3)
Second Half	23 9	(23.5)	0.4
Variance	+0 5	+1.2	+1 7

The trend seen in the second half has continued into the current trading period

Cost reduction

Faced with the broad-based reduction in client spending, the Group's wide ranging cost reduction programme has had three major elements

- Rationalisation of the Group's property portfolio with a reduction of total space occupied by approximately 42,000sq ft resulting in annual property cost savings of approximately £1 2m

- Significant streamlining of Corporate and Head Office functions including abolition of divisional structure and closure of the Head Office function based in Bollington Resulting savings for FY 2010 exceeded expectations outlined in last years Annual Report FY 2011 central costs are now budgeted at £2 1m and at £1 9m for FY 2012 (original forecasts £2 5m and £2 1m)

- Further headcount and overhead reductions in individual agencies during the year In total this resulted in annualised savings of approximately £8m in the eleven agencies

Many of these cost savings were implemented in the first half of the financial year, with the full benefit of the programme only beginning to be realised over the second half Moving into the current financial year, the Group now has a radically lower overall cost base and stands to benefit disproportionately from a continuing recovery in marketing budgets

Remuneration

Further progress was made over the course of the year in reforming remuneration structures across the Group Steps were made to harmonise cash incentive structures and a significant grant of restricted share units has been made to senior agency managers In total 3 million 10p Ordinary shares were issued and placed into the Employee Benefit Trust to cover potential awards, all of which have challenging performance conditions attached to them

We face an increasingly competitive market for talent and rewarding people through performance linked share schemes helps with recruitment, retention and motivation This award of restricted share units reflects the Board's

Business review

for the year ended 28 February 2010

broader belief that it is critical to the future success of the Group that senior managers have a meaningful stake in the Group and share in the value that they help create

Strategy

Now that the structural turnaround is complete, the key focus of the Group is on delivering operational improvements in order to return individual agencies and the Group to operating margins in line with long-term industry average levels

Achieving this goal requires that agencies in the Group focus on both winning additional clients and increasing spend from existing clients, as well as ensuring that they are delivering their services as efficiently as possible A number of the Group's agencies remain sub-scale, especially following headcount reductions forced by the recession This issue needs to be addressed by new business success, growing existing clients and carefully targeted tuck-in acquisitions

The acquisition of Chick Smith Trott (CST) in January 2010 is one such investment The addition of the agency significantly strengthens the Group's overall advertising proposition and helps the economics of The Gate with whom CST share property and other facilities It also provides a platform to grow in the consumer advertising arena

A second element of the Group's strategy is a further reduction in the overall debt burden over the medium term With the improving outlook for the Group, it is envisaged that this will be achieved primarily from the generation of cash flow from operations, but we may explore issuing new equity

As was announced earlier in the year, the Group had been in discussions to sell two business units The Group currently remains in discussions to complete the sale of twentysix New York and will provide a further update once the outcome of these discussions is known However, given the weak economic environment, the Board has decided that it was not in shareholder's best interests to proceed with the second disposal at this time

New business / Client spending

The key issue faced by the Group during the year was not the loss of individual clients, but significant reductions in many client budgets

Indeed, new business performance remained reasonably strong, with annualised revenue from new business projects and assignments totalling £19m Major new client assignments awarded during the year included Avon, Citroën, EDF Energy, Gatwick Airport, General Mills, Henderson Global Investors, House of Fraser, Kellogg's, Lego and Nestlé

However, this solid new business performance was more than offset by cuts in client spending, especially in the financial services and automotive sectors, and this is reflected in the overall reduction in revenue

Looking forward the opportunity for the Group is to continue to improve its new business record whilst benefiting from a recovery in client marketing budgets over the current financial year and beyond

Current trading and outlook

Following the cost reduction programme put in place in the first half of the year to February 2010 the Group benefited from a stronger performance in the second half of the year This momentum has been built on in the early part of the new financial year with both March and April delivering operating profit materially ahead of budget

As a result the Group remains, in line with many other companies in the sector, cautiously optimistic about the prospects for the year ahead, albeit that visibility remains relatively limited

If the current momentum is maintained the Group would expect to see a return to revenue growth, although margins will likely remain below their full potential and below average industry levels until all agencies have achieved the right scale

P. Reid

Peter Reid
Chief Executive Officer
18 June 2010

Business review

for the year ended 28 February 2010

Chief Financial Officer's Statement

Financial review

For the twelve month period under review, revenue totalled £47 3 million (2009 restated £61 2 million) Headline earnings before interest, taxation, amortisation and depreciation (EBITDA) were £0 1 million (2009 restated £3 7 million) The headline operating loss was £0 9 million (2009 restated profit of £2 3million)

Basis of headline and restatement of 2009 results

The 2010 Income Statement excludes the results of the Group's design and branding operations in Marlow and in Dubai which became discontinued operations over the course of the year

Additionally, in establishing the basis for headline EBITDA and headline operating profit, the following items have been excluded exceptional costs of £17 7 million (2009 restated £2 8 million of exceptional income) and costs of share-based remuneration of £0 5 million (2009 £0 6 million) Included within the exceptional costs was a non-cash item of £15 9 million related to impairment of goodwill carrying values

Net debt and debt facilities

Underlying net debt was £19 9 million (2009 £13 4 million) as at the period end, excluding £6 million (2009 £4 3 million) of restricted cash which is included in the reported net debt of £13 9 million (2009 £9 1 million) This cash represents advanced receipts from clients that may have only short term benefit and in the Board's opinion underlying net debt is a more representative figure of the position at the year end

This figure represents an increase in underlying net debt of £6 5m over the course of the year This increase reflects not only the operating loss for the year and the Group's financing costs, but also the significant exceptional restructuring costs that were required in the face of the recession

The Group's net debt balance represents gross debt of £22 5m (2009 £20 1m) less cash of £8 6m (2009 £11m) held by the Group, £6m (2009 £4 3m) of this cash represents advanced receipts from clients In addition, the Group has a freehold property asset which was valued at £3 25 million in early 2010

A major element of the Group's debt facility was due to expire in April 2011 and thus we are pleased that we have recently agreed to enter into an extension to our overall banking facility with Lloyds Banking Group (subject to certain resolutions being passed at the 2010 AGM as detailed in note 34 of the financial statements) The structure of the facility provides the Group with the flexibility to rebuild operating results and key ratios over the next three years to acceptable industry levels

Balance sheet and cash flow

Balance sheet movements during the periods reflect the trading in the Group together with the disposal of certain assets and the effect of the significant goodwill impairment during the year

On an annual basis the Board reviews the carrying value of the Group's goodwill Following the impact of the recession on the Group's trading the Board felt that certain businesses within the Group could no longer justify their goodwill carrying value resulting in £15 9m of goodwill being written off

This goodwill write-off was the primary reason for the reduction in assets in the period to £60 4 million (2009 £81 8 million) Liabilities increased slightly to £56 4 million (2009 £53 5 million), primarily reflecting the increased net debt, leaving positive net assets of £4 0 million

Capital expenditure was again minimised and kept to approximately 70% of depreciation Looking forward, capital expenditure is expected to remain below the annual depreciation charge for the foreseeable future

Working capital management remains strong with no material movement in the Group's debtor or creditor days

Business review

for the year ended 28 February 2010

Disposals / Discontinued Operations

Over the course of the year the Group conducted a significant restructure of its design and branding business, Lloyd Northover, which resulted in both the Marlow and Dubai offices of the business becoming discontinued businesses The Marlow office was subsequently sold to existing management The loss from discontinued operations for the year of £3 1 million (2009 £2 2 million) reflects a goodwill write-off of £0 9 million as well as the loss on disposal from the sale of the Marlow office and trading losses relating to these discontinued businesses

Financial Risk Management

The Group continues to hold two interest rate hedges that were put in place in 2005 by way of interest rate swaps (one with a value of £18 75m expiring April 2011 and the second with a value of £2 0m reducing quarterly to nil on expiry October 2014) Although for the majority of their lives the swaps helped keep Group interest costs well below those payable if interest had not been hedged, for the past two years it has resulted in materially higher interest costs than would otherwise have been the case As part of the new facility, the Group has agreed to enter into a new interest rate swap to replace the £18 75m existing swap, at a lower interest rate

The Group has some currency risk with 25% of its revenues being generated outside of the UK The Group does not currently enter any currency hedging arrangements

Key Performance Indicators (KPIs)

The Group monitors individual business unit's performance using a number of key performance indicators the most significant of which are

- Revenue per head which is a function of the value created by our staff and the fees charged for work Our target range is from £80,000 to £100,000 per head per annum depending on the type of services provided and the location of the agency

- Operating profit margin which measures overall business efficiency where the agency target is 15% of gross revenue

In the year under review, given the impact of cuts in marketing spending, the majority of agencies in the Group did not meet these target KPIs As a result of the cost cutting efforts, the Group was able to maintain revenue per head at £67,000, but a number of agencies suffered reductions in their operating margins, which translated into a corresponding reduction in the Group's overall operating margin

Taxation

The total tax charge for the year was £0 6 million (2009 credit of £0 3 million) Ordinarily a tax credit would be expected but due to the non-cash goodwill impairment (which is a non-tax deductible expense) and the Group's prudent approach to deferred tax recognition a small tax charge resulted

During the year the Group paid taxes of £43,000 (2009 £10,000)

In future years, the Group expects to have limited tax liabilities since it holds significant deferred tax assets At the end of the financial year, it held on its books a deferred tax asset of £1 5m (2009 £2 0m) However, in addition to this figure, it has unrecognised deferred tax assets of £3 3m

Employee Benefit Trust

On 18 November 2009, the Group created an Employee Benefit Trust to act as a vehicle for managing employee incentive schemes On 20 November 2009 the Group placed 3 million Ordinary shares into the trust to meet its liabilities with regard to a new set of restricted share awards to senior executives In addition, the Group transferred 931,900 shares previously held in Treasury into the Trust At the same time, Directors and senior managers in the Group agreed to cancel 2 9 million existing warrants and share options

Bruce Winfield
Chief Financial Officer
18 June 2010

Corporate information

for the year ended 28 February 2010

Company registration number	4006884
Directors	**Roger Parry,** Non Executive Chairman **Peter Reid,** Chief Executive Officer **Bruce Winfield,** Chief Financial Officer & Chief Operating Officer **Michael George,** Non Executive Director **Neil Canetty-Clarke,** Non Executive Director **Tim Lindsay,** Non Executive Director
Company secretary	Bruce Winfield
Banker	Lloyds Banking Group plc 1st Floor, 48 Chiswell Street London EC1Y 4XX
Solicitors	Browne Jacobson LLP 44 Castle Gate Nottingham NG1 7BJ
Auditor	Grant Thornton UK LLP 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
Registered office	6 York Street London W1U 6PL

Directors' report

for the year ended 28 February 2010

The Directors present their report together with the audited financial statements for the year ended 28 February 2010

Principal activity
The principal activities of the Group are advertising, marketing and design services

Business review
A detailed review of the business is included in the Business Review on pages 4 to 9 of these financial statements which includes an overview of the key performance indicators of the business

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 15 is a key component of the risk management process

Changes in key business objectives which may alter the risks faced by the operating businesses or central function 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 27

Directors
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 2009 and 28 February 2010 were as follows

	Number of Ordinary shares of 10p each	
	2010	2009
Roger Parry	**664,747**	564,747
Peter Reid (appointed 5 November 2009)	**206,667**	-
Bruce Winfield (appointed 24 April 2009)	**149,931**	-
Michael George	**846,665**	840,714
Neil Canetty-Clarke (appointed 24 November 2009)	**-**	-

Directors' report

for the year ended 28 February 2010

Share options

The Company currently has three different mechanisms for share-based payments

- Share Option Schemes
- Warrants
- Restricted Share Scheme

Within share options, there are eight schemes, as follows

- Enterprise Management Incentive (EMI) Scheme
- Unapproved Share Option Scheme
- 2005 Savings-Related Share Option Scheme
- 2005 Company Share Option Plan
- 2006 Savings-Related Share Option Scheme
- 2007 Savings-Related Share Option Scheme
- 2008 Savings-Related Share Option Scheme
- 2009 Savings-Related Share Option Scheme

Three Directors, Roger Parry, Peter Reid and Bruce Winfield have interests in the above share-based payment schemes, as follows

Roger Parry	**At 1 March 2009 No**	**Forfeited in year No**	**At 28 February 2010 No**	**Exercise/ Subscription price pence**	**Option/Subscription period**
2007 Savings-Related Share Option Scheme	4,725	-	4,725	80 0	Nov 2010 – May 2011
2008 Savings-Related Share Option Scheme	7,520	-	7,520	50 0	Nov 2011 – May 2012
Warrants	800,000	(800,000)	-	150 0	Jun 2008 – Jun 2013
Warrants	300,000	(300,000)	-	200 0	Jan 2009 – Jan 2014
Warrants	300,000	(300,000)	-	250 0	Jan 2009 – Jan 2014
Warrants	700,000	(700,000)	-	250 0	Jun 2009 – Jun 2014
Warrants	700,000	(700,000)	-	300 0	Dec 2009 – Dec 2014

Peter Reid	**At 1 March 2009 No**	**Granted/ Issued in Year No**	**At 28 February 2010 No**	**Exercise Price pence**	**Option period**
Unapproved Share Option Scheme	57,000	-	57,000	69 0	Oct 2010 – Oct 2013
2009 Savings-Related Share Option Scheme	31,293	-	31,293	11 6	Nov 2012 – May 2013
2008 Restricted Shares Scheme	40,000	-	40,000	£1 in total	Apr 2011 – May 2011
2007 Restricted Shares Scheme	70,000	-	70,000	£1 in total	Sep 2010 – Oct 2010

Bruce Winfield	**At 1 March 2009 No**	**Granted/ Issued in Year No**	**At 28 February 2010 No**	**Exercise Price pence**	**Option period**
Unapproved Share Option Scheme	5,000	-	5,000	245 0	Sep 2008 – Sep 2011
2009 Savings-Related Share Option Scheme	31,293	-	31,293	11 6	Nov 2012 – May 2013
2008 Savings-Related Share Option Scheme	7,520	-	7,520	50 0	Nov 2011 – May 2012
2007 Restricted Shares Scheme	100,000	-	100,000	£1 in total	Sep 2010 – Oct 2010

During the year the maximum share price was 18 75 pence (period ended 28 February 2009 83 75 pence) and the minimum was 4 0 pence (period ended 28 February 2009 9 5 pence) The share price at 28 February 2010 was 13 pence (28 February 2009 9 5 pence)

Directors' report

for the year ended 28 February 2010

Substantial shareholdings
Apart from the interests of the Directors, the interests in excess of 3% of the issued share capital of which the Company has been notified at 18 June 2010 were as follows

	Ordinary shares of 10p each No	Percentage of Ordinary share capital %
Prime Active Capital PLC	10,290,399	28 45
Promethean Investments Fund LLP	3,531,000	9 76
Hawk Investment Holdings	2,815,000	7 78
Hansa Trust plc	1,300,000	3 59

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 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

Group trade payables at the year end amount to 55 days of average supplies (2009 50 days) The Company trade payables are 45 days (2009 40 days)

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 Group financial statements
The Directors are responsible for preparing the Annual Report and the financial statements in accordance with applicable law and regulations

Company law requires the Directors to prepare financial statements for each financial year Under that law the Directors have elected to prepare Group financial statements in accordance with International Financial Reporting Standards as adopted by the European Union (IFRS) The financial statements are required by law to give a true and fair view of the state of affairs of the Group and 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 judgements and estimates that are reasonable and prudent
- state whether applicable IFRS 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

Directors' report

for the year ended 28 February 2010

The Directors are responsible for keeping adequate accounting records that disclose with reasonable accuracy at any time the financial position of the Group and enable them to ensure that the Group financial statements comply with the Companies Act 2006 They are also responsible for safeguarding the assets of the Group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities

In so far as the Directors are aware

- there is no relevant audit information of which the Group'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 Group'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 offer themselves for reappointment as auditor in accordance with section 489 of the Companies Act 2006

BY ORDER OF THE BOARD
Bruce Winfield
Director
18 June 2010

Corporate governance

for the year ended 28 February 2010

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 regularly 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

Roger Parry, Non Executive Chairman
Roger was appointed as Executive Chairman in July 2007 On 31 December 2009 he moved into the Non Executive Chairman's role He has held a number of senior executive positions in media and marketing companies and has been involved in a number of major business turnarounds Prior to Media Square he was Chairman and Chief Executive of Clear Channel International, Chief Executive of More Group plc, Development Director of Aegis Group plc, and a consultant with McKinsey and Co

Roger is Non Executive Chairman of four quoted companies

Peter Reid, Group Chief Executive
Peter was appointed to the Board on 5th November 2009 and became Group Chief Executive on 1st January 2010 He is also Chairman of our Market Research group, Illuminas Peter joined Media Square in October 2007 as Group Development Director

Before this, Peter was a Senior Manager at the management consultants, McKinsey & Co At McKinsey, Peter focused on media, sports and telecoms sectors, including working with private equity houses on a number of major media turnarounds and leading extensive research into digital and mobile advertising

Prior to McKinsey and business school, Peter worked for Sibson Consulting, where he joined a team of four to establish and grow the London office of an international human capital consulting firm Peter has an MBA from INSEAD and an M A (Hons) in European History & French from the University of Edinburgh

Bruce Winfield, Group Finance Director & Group Chief Operating Officer
Bruce was appointed to the Board on 24 April 2009 Bruce joined Media Square in 2004 and has been the Chief Operating Officer since 2007 He started his career with British Airways He qualified as a certified accountant in 1990 and has a degree in commercial law Prior to joining Media Square Bruce worked in various Finance Director and Managing Director roles within Havas Advertising for a period of ten years Bruce has considerable public company experience which includes being Finance Director of the listed software group ACT plc Prior to ACT Bruce was Finance Director of Sigmex plc

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

Neil Canetty-Clarke, Non Executive Director
Neil joined the Board on 24 November 2009 He is co-founder of www schoolstrader com He graduated from Edinburgh University in 1984 and joined Morgan Grenfell In 1989 he joined LWT and became Group Finance Director of LWT (Holdings) plc in 1992 He has also worked as Group Finance Director of Guardian Media Group plc, CFO of iTouch plc and in senior finance roles at Granada and ITV In 2006, he attended the AMP at Harvard Business School

Neil is Chairman of the Audit Committee

Tim Lindsay, Non Executive Director
Tim joined the Board on 19 May 2010 as a Non Executive Director

Tim has extensive experience in advertising and marketing He was President of TBWA where he was responsible for accounts including Nissan, Mars, Müller and Häagen-Dazs Prior to that he was Chairman of Publicis UK where he looked after Asda, the Army, McVities and L'Oreal From 1993 to 2004 he held various positions at Lowe Worldwide and was responsible for Stella Artois, Heineken, Olympus, Diageo and Tesco From 1991 to 1993 he was Managing Director of Young & Rubicam, responsible for Olympus, Fosters, Smirnoff, Walkers and Pirelli and prior to that he worked at Bartle Bogle Hegarty, and was responsible for Levis

Tim was educated at the Kingswood School Bath, Magdelene College Cambridge and Harvard Business School

Corporate governance
for the year ended 28 February 2010

Relations with shareholders
The Group values the views of its shareholders and recognises their interest 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 matter will be kept under review

Audit Committee
This committee is comprised of Michael George and Neil Canetty-Clarke and its terms of reference include reviewing the findings of the auditors' work and the effectiveness of internal controls

Remuneration Committee
This committee is comprised of all Non Executive Directors and its terms of reference include reviewing and determining the level of remuneration for Executive Directors and the introduction of appropriate share-based payment schemes

Going concern
The financial statements have been prepared on the basis that the group is a going concern The Directors have prepared cash flow forecasts which support this and, since the year end, the Group has agreed to refinance its borrowings with Lloyds Banking Group (subject to certain resolutions being passed at the 2010 AGM), details of which are supplied in note 34 of the consolidated financial statements These borrowings will be secured and committed until June 2013 Accordingly, the financial statements have been prepared on a going concern basis

Report of the independent auditor

REPORT OF THE INDEPENDENT AUDITOR TO MEDIA SQUARE PLC

We have audited the consolidated financial statements of Media Square plc for the year ended 28 February 2010 which comprise the consolidated income statement, the consolidated statement of comprehensive income and expenses, the consolidated balance sheet, the consolidated statement of changes in equity, the consolidated cash flow statement and the related notes The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRS) as adopted by the European Union

This report is made solely to the Company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006 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 auditor's 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

As explained more fully in the Directors' Responsibilities Statement on pages 10 to 13, the Directors are responsible for the preparation of the Group financial statements and for being satisfied that they give a true and fair view Our responsibility is to audit the Group financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland) Those standards require us to comply with the Auditing Practices Board's (APB's) Ethical Standards for Auditors

SCOPE OF THE AUDIT OF THE FINANCIAL STATEMENTS

A description of the scope of an audit of financial statements is provided on the APB's website at www frc org uk/apb/scope/UKNP

OPINION ON FINANCIAL STATEMENTS

In our opinion the Group consolidated financial statements

- give a true and fair view of the state of the Group's affairs as at 28 February 2010 and of its loss for the year then ended,
- have been properly prepared in accordance with IFRS as adopted by the European Union, and
- have been prepared in accordance with the requirements of the Companies Act 2006

SEPARATE OPINION IN RELATION TO IFRS

As explained in Note 2 to the Group financial statements, the Group in addition to complying with its legal obligation to comply with IFRS as adopted by the European Union, has also complied with IFRS as issued by the International Accounting Standards Board (IASB)

In our opinion the Group financial statements comply with IFRS as issued by the IASB

OPINION ON OTHER MATTER PRESCRIBED BY THE COMPANIES ACT 2006

In our opinion the information given in the Directors' Report for the financial year for which the Group financial statements are prepared is consistent with the Group financial statements

MATTERS ON WHICH WE ARE REQUIRED TO REPORT BY EXCEPTION

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion

- certain disclosures of directors' remuneration specified by law are not made, or
- we have not received all the information and explanations we require for our audit

Report of the independent auditor

OTHER MATTER

We have reported separately on the parent Company financial statements of Media Square plc for the year ended 28 February 2010

Grant Thornton UK LLP

David Miller
Senior Statutory Auditor
for and on behalf of Grant Thornton UK LLP
Statutory Auditor, Chartered Accountants
London
18 June 2010

Consolidated income statement

for the year ended 28 February 2010

	Note	Total 2010 £'000	Total 2009 £'000 Restated
Revenue	3	**47,298**	61,244
Administrative expenses		**(48,183)**	(58,977)
Headline operating (loss)/ profit		**(885)**	2,267
Exceptional items	4	**(17,740)**	2,825
Share-based payments		**(465)**	(586)
Operating (loss)/ profit		**(19,090)**	4,506
Loss on disposal of subsidiary undertakings	30	**-**	(368)
Finance costs	6	**(1,845)**	(1,983)
Finance costs relating to derivative	6	**-**	(1,263)
Loss on sale of an investment	6	**(118)**	-
Finance income	6	**25**	186
Finance income relating to derivative	6	**165**	-
Net finance cost	6	**(1,773)**	(3,060)
(Loss)/ profit from continuing operations before taxation	5	**(20,863)**	1,078
Tax on (loss)/ profit	9	**(626)**	341
(Loss)/ profit from continuing operations		**(21,489)**	1,419
Loss from discontinued operations	10	**(3,079)**	(2,166)
Loss for the year		**(24,568)**	(747)
Attributable to			
Parent Company's shareholders		**(24,568)**	(700)
Minority interests		**-**	(47)
Loss transferred to reserves		**(24,568)**	(747)
Basic loss per share from total operations	11	**(76 21p)**	(2 17p)
Diluted loss per share from total operations	11	**(76 21p)**	(2 17p)
Basic (loss)/earnings per share from continuing operations	11	**(66 66p)**	4 55p
Diluted (loss)/ earnings per share from continuing operations	11	**(66 66p)**	3 81p

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

Consolidated statement of comprehensive income and expense

for the year ended 28 February 2010

	Total 2010 £'000	Total 2009 £'000
Loss for the year	**(24,568)**	(747)
Other comprehensive (expense)/ income:		
Exchange differences on translating foreign operations	**(16)**	707
Other comprehensive (expense)/ income for the year	**(16)**	707
Total comprehensive expense for the year	**(24,584)**	(40)

Consolidated balance sheet

as at 28 February 2010

	Note	2010 £'000	2009 £'000
Non-current assets			
Intangible assets	12	**100**	-
Goodwill	13	**23,670**	40,289
Property, plant and equipment	14	**5,625**	6,018
Financial assets	15	**415**	533
Deferred tax	23	**1,500**	1,966
		31,310	48,806
Current assets			
Inventories	16	**1,022**	1,033
Trade and other receivables	17	**19,322**	20,723
Corporation tax		**127**	280
Cash and cash equivalents	18	**8,634**	11,001
		29,105	33,037
Total assets		**60,415**	81,843
Current liabilities			
Trade and other payables	19	**(31,079)**	(30,090)
Corporation tax		**(35)**	(19)
Borrowings	20	**(3,367)**	(167)
Financial liabilities	21	**(4)**	(5,482)
		(34,485)	(35,758)
Non-current liabilities			
Borrowings	20	**(19,172)**	(14,414)
Financial liabilities	21	**(1,040)**	(1,205)
Provisions for liabilities	22	**(1,749)**	(2,125)
		(21,961)	(17,744)
Total liabilities		**(56,446)**	(53,502)
Net assets		**3,969**	28,341
Shareholders' funds			
Share capital	24	**3,617**	3,317
Share premium account		**37,866**	37,686
Capital redemption reserve		**13,268**	13,268
Merger reserve		**5,078**	5,078
Share-based payment reserve		**714**	800
Investment in own shares		**(1,385)**	(905)
Translation reserve		**211**	227
Retained earnings		**(55,400)**	(31,130)
Total equity shareholders' funds	28	**3,969**	28,341

The financial statements were approved by the Board of Directors on 18 June 2010 and signed on its behalf by

P. Reid

Peter Reid
Director

Bruce Winfield
Director

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

Consolidated statement of change in equity

for the year ended 28 February 2010

	Issued capital £'000	Share premium account £'000	Capital redemption reserve £'000	Merger reserve £'000	Share-based payment reserve £'000	Investment in own shares £'000	Translation reserve £'000	Retained earnings £'000	Total £'000	Minority interest £'000	Total equity £'000
Balance at 29 February 2008	**16,585**	**37,686**	**-**	**5,078**	**394**	**(805)**	**(480)**	**(30,610)**	**27,848**	**(500)**	**27,348**
Exchange gain arising on consolidation	-	-	-	-	-	-	707	-	707	-	707
Net profit recognised directly in other comprehensive income	-	-	-	-	-	-	707	-	707	-	707
Loss for the financial year	-	-	-	-	-	-	-	(700)	(700)	(47)	(747)
Total recognised expense for the year	-	-	-	-	-	-	707	(700)	7	(47)	(40)
Repurchase of deferred 4p shares following consolidation	(13,268)	-	13,268	-	-	-	-	-	-	-	-
Treasury shares bought-back	-	-	-	-	-	(100)	-	-	(100)	-	(100)
Liquidation of minority interest	-	-	-	-	-	-	-	-	-	547	547
Employee share-based compensation	-	-	-	-	586	-	-	-	586	-	586
Share-based compensation vested in the year	-	-	-	-	(180)	-	-	180	-	-	-
Balance at 28 February 2009	**3,317**	**37,686**	**13,268**	**5,078**	**800**	**(905)**	**227**	**(31,130)**	**28,341**	**-**	**28,341**
Exchange loss arising on consolidation	-	-	-	-	-	-	(16)	-	(16)	-	(16)
Net expense recognised directly in other comprehensive income	-	-	-	-	-	-	(16)	-	(16)	-	(16)
Loss for the financial year	-	-	-	-	-	-	-	(24,568)	(24,568)	-	(24,568)
Total recognised expense for the year	-	-	-	-	-	-	(16)	(24,568)	(24,584)	-	(24,584)
Shares issued to employee benefit trust	300	180	-	-	-	(480)	-	-	-	-	-
Purchase of minority interest	-	-	-	-	-	-	-	(255)	(255)	-	(255)
Employee share-based compensation	-	-	-	-	467	-	-	-	467	-	467
Share-based compensation vested in the year	-	-	-	-	(553)	-	-	553	-	-	-
Balance at 28 February 2010	**3,617**	**37,866**	**13,268**	**5,078**	**714**	**(1,385)**	**211**	**(55,400)**	**3,969**	**-**	**3,969**

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

Consolidated cash flow statement

for the year ended 28 February 2010

	Note	2010 £'000	2009 £'000
Cash (outflow)/ inflow from operating activities			
Cash (outflow)/ inflow from operating activities before taxation	25	**(1,070)**	3,691
Corporation tax paid		**(43)**	(10)
Net cash (outflow)/ inflow from operating activities after taxation		**(1,113)**	3,681
Cash inflow/(outflow) from investing activities			
Finance income received		**25**	199
Acquisition of subsidiary undertakings		**(577)**	(97)
Purchase of property, plant and equipment		**(738)**	(980)
Disposal of subsidiary undertakings		**(329)**	5,409
Proceeds from disposals of property, plant and equipment		**1**	146
Net cash on discontinued operations		**-**	(363)
Net cash (outflow)/ inflow from investing activities		**(1,618)**	4,314
Cash inflow/ (outflow) from financing activities			
Purchase of treasury shares		**-**	(100)
Finance cost paid		**(1,611)**	(1,540)
Repayment of borrowings		**(929)**	(6,380)
Drawdown of revolving credit facility		**3,200**	-
Capital element of hire purchase agreements		**(3)**	(158)
Net cash inflow/ (outflow) from financing activities		**657**	(8,178)
Net decrease in cash and cash equivalents		**(2,074)**	(183)
Cash and cash equivalents at beginning of year		**11,001**	9,632
Effect of exchange rate changes on the balance of cash held in foreign subsidiaries		**(293)**	1,552
Cash and cash equivalents at end of year	18	**8,634**	11,001

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

Notes to the consolidated financial statements

for the year ended 28 February 2010

1 GENERAL INFORMATION

Media Square plc and its subsidiaries' principal activities are advertising, marketing and design services

Media Square plc, a Public Limited Company, is incorporated and domiciled in the United Kingdom

The financial statements for the year ended 28 February 2010 (including the comparative for the year ended 28 February 2009) were approved by the Board of Directors on 18 June 2010 Amendments to the financial statements are not permitted after they have been approved

2. ACCOUNTING POLICIES

These consolidated financial statements have been prepared using the required measurement bases specified under International Financial Reporting Standards (IFRS) and in accordance with applicable IFRS as adopted by the European Union and IFRS as issued by the International Accounting Standards Board

Adoption of IAS 1 - Presentation of Financial Statements (revised 2007)

The Group has adopted IAS 1 - Presentation of Financial Statements (revised 2007) which has led to the inclusion of a new primary statement, the consolidated statement of comprehensive income The adoption of this accounting standard has had no further effect on the current or previous year's Group financial statements

The consolidated balance sheet presented in the 29 February 2008 financial statements has not been affected by the adoption of the new standard and as such has not been disclosed in the current year Group financial statements

Adoption of IFRS 2 - Share-based payments (amended)

The Group has adopted IFRS 2 - Share-based payments (amended) during the year and the adoption of this accounting standard has had no effect on the current or previous year's Group financial statements

Prior year restatement

The prior year consolidated income statement, cash flow statement and supporting notes have been restated to separate the results and cash flows of the discontinued Lloyd Northover Marlow and Dubai operations from those of the continuing operations as required under IFRS 5 Non-Current Assets Held for Sale and Discontinued Operations

Overall considerations

The significant accounting policies that have been used in the preparation of these consolidated financial statements are summarised below

The consolidated financial statements have been prepared using the measurement bases specified by IFRS for each type of asset, liability, income and expense The measurement bases are more fully described in the accounting policies below

The accounting estimates and assumptions are consistent with the Group's latest approved budget and 3 year forecast where applicable Judgements are based on the information available at each balance sheet date All estimates are based on the best information available to management

Going concern

The financial statements have been prepared on the basis that the group is a going concern The Directors have prepared cash flow forecasts which support this and, since the year end, the Group has agreed to refinance its borrowings with Lloyds Banking Group (subject to certain resolutions being passed at the 2010 AGM), details of which are supplied in note 34 of the consolidated financial statements These borrowings will be secured and committed until June 2013 Accordingly, the financial statements have been prepared on a going concern basis

Notes to the consolidated financial statements

for the year ended 28 February 2010

Standards and Interpretations not yet applied by Media Square
The following new Standards and Interpretations, which are yet to become mandatory, have not been applied in the Group's 2010 financial statements

Standard or Interpretation		Effective for reporting periods starting on or after
Amendment to IFRS 2	Group Cash-settled Share-based Payment Transactions	1 January 2010
IFRS 3	Business Combinations (revised 2008)	1 July 2009
IFRS 9	Financial Instruments	1 January 2013
IAS 24	Related Party Disclosures (revised 2009))	
IAS 27	Consolidated and Separate Financial Statements (revised 2008)	1 July 2009
Amendment to IAS 39	Financial Instruments Recognition and Measurement - Eligible Hedged Items	1 July 2009
Amendment to IAS 39	Reclassification of Financial Assets Effective Date and Transition	1 July 2009
Amendment to IAS 39 and IFRIC 9	Embedded Derivatives	30 June 2009
IFRIC 17	Distributions of Non-cash Assets to Owners	1 July 2009
IFRIC 18	Transfers of Assets from Customers	1 July 2009
IFRIC 19	Extinguishing Financial Liabilities with Equity Instruments	1 July 2010

Based on Media Square plc's current business model and accounting policies, management does not expect material impacts on the Group's financial statements when the Standards and Interpretations become effective

Significant accounting estimates and judgements
Certain estimates and judgements need to be made by the Directors which affect the results and position of the Group as reported in the financial statements Estimates and judgements are required if, for example, as at the reporting date not all liabilities have been settled and certain assets and liabilities are recorded at fair value which requires a number of estimates and assumptions to be made.

The major areas for estimation and judgement within the financial statements are as follows

Revenue recognition
At each reporting period, the Group has a number of advertising, marketing and design projects in progress Management review each project to determine the project's progress and reach a judgement as to the revenue that should be recognised Management base this judgement on the best available project information

Accruals in respect of acquisitions and disposals
On acquisition or disposal of a company or business, all of the costs of acquisition and disposal are not incurred immediately Management must judge what costs will occur and estimate the value of these to ensure that all costs are captured Management assess this by reference to past experience and through reviewing the transactions in detail to determine what costs will be incurred

Provisions
Provisions are made by Group for costs in relation to property costs for onerous leases and dilapidation costs These provisions require judgement as to the level of dilapidations required and the period over which to calculate the onerous lease provision Management assess this by reference to past experience and knowledge of the current status of properties

Other provisions are recognised for legal cases where formal claims have been received by the Group Management assess the risk of these cases to ensure that the cost provided covers the potential exposure to the Group

Notes to the consolidated financial statements

for the year ended 28 February 2010

Impairment of goodwill
Determining whether goodwill is impaired requires an estimation of the value in use of the cash-generating units to which goodwill has been allocated The value in use calculation requires the management to estimate the future cash flows expected to arise from the cash-generating unit and a suitable discount rate in order to calculate present value The key variable in assessing value in use is the forward cash flow forecasts and management review these in detail and perform sensitivity analysis to determine whether an impairment charge should be recorded

Deferred tax assets
In determining the deferred tax asset to be recognised management carefully review the recoverability of these assets on a prudent basis and reach a judgement based on the best available information Management assess whether there are likely to be sufficient available taxable profits for which deferred tax assets can be utilised based on the Group's three year forecast As for impairment reviews, these forecasts are sensitised to ensure that the impact of any changes in key cash flows are reflected in the deferred tax asset recognised Management also assess the period over which deferred tax assets relating to short term timing differences and capital allowances will reverse and ensure that this will occur over the same periods that profits are forecast

Valuation of derivative interest rate swaps
To determine the fair value of interest rate swap derivatives at a reporting period management must consider how future interest rates will change, the forecast repayment period of debt and how these variables will affect the value of the derivative Management obtain a valuation from a professional source and review the output to conclude on the gain or loss to record in the Group financial statements

Estimates and judgements used in the financial statements are based on historical experience and other assumptions that the Board of Directors and management consider reasonable and are consistent with the Group's latest budgeted forecasts where applicable Judgements are based on the information available at each balance sheet date Although these estimates are based on the best information available to management, actual results may ultimately differ from those estimates

Basis of consolidation
Subsidiaries are all entities over which the Group has the power to control the financial and operating policies The Group obtains and exercises control through voting rights The consolidated financial statements of the Group incorporate the financial statements of the parent Company as well as those entities controlled by the Group by full consolidation

Intra-group balances and transactions, and any unrealised gains or losses arising from intra-group transactions, are eliminated in preparing the consolidated financial statements

Business combinations and goodwill
Goodwill arising on consolidation represents the excess of the cost of acquisition over the Group's interest in the fair value of the identifiable assets and liabilities of a subsidiary at the date of acquisition Goodwill is initially recognised as an asset at cost and is subsequently measured at cost less any accumulated impairment losses Negative goodwill is recognised immediately after acquisition in the income statement Goodwill which is recognised as an asset is reviewed for impairment at least annually Any impairment is recognised immediately in profit or loss and is not subsequently reversed

Business combinations completed prior to date of transition to IFRS
The Group has elected not to apply IFRS 3 Business Combinations retrospectively to business combinations prior to the date of transition to IFRS

Accordingly the classification of the combination (acquisition, reverse acquisition or merger) remains unchanged from that used under UK GAAP Assets and liabilities are recognised at date of transition if they would be recognised under IFRS, and are measured using their UK GAAP carrying amount immediately post-acquisition as deemed cost under IFRS, unless IFRS requires fair value measurement Deferred tax and minority interest are adjusted for the impact of any consequential adjustments after taking advantage of the transitional provisions

Notes to the consolidated financial statements

for the year ended 28 February 2010

Intangible assets acquired as part of a business combination
In accordance with IFRS 3 Business Combinations, an intangible asset acquired in a business combination is deemed to have a cost to the Group of its fair value at the acquisition date The fair value of the intangible asset reflects market expectations about the probability that the future economic benefits embodied in the asset will flow to the Group Where an intangible asset might be separable, but only together with a related tangible or intangible asset, the group of assets is recognised as a single asset separately from goodwill where the individual fair values of the assets in the group are not reliably measurable Where the individual fair values of the complementary assets are reliably measurable, the Group recognises them as a single asset provided the individual assets have similar useful lives

Intangible amortisation
Customer contracts are amortised over the shorter of five years or the period that such contracts end

Non-current assets held for sale
Non-current assets and disposal groups classified as held for sale are measured at the lower of carrying amount and fair value less costs to sell

Non-current assets and disposal groups are classified as held for sale if their carrying amount will be recovered through a sale transaction rather than through continuing use This condition is regarded as met only when the sale is highly probable and the asset or disposal group is available for immediate sale in its present condition Management must be committed to the sale which should be expected to qualify for recognition as a completed sale within one year from the date of classification

Impairment
The Group's goodwill, plant and equipment are subject to impairment testing

For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units) As a result, some assets are tested individually for impairment and some are tested at cash-generating unit level Goodwill is allocated to those cash-generating units that are expected to benefit from synergies of the related business combination and represent the lowest level within the Group at which management controls the related cash flows

Goodwill and individual intangible assets or cash-generating units with an indefinite useful life are tested for impairment at least annually All other individual assets or cash-generating units are tested for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable

An impairment loss is recognised for the amount by which the asset's or cash-generating unit's carrying amount exceeds its recoverable amount The recoverable amount is the higher of fair value, reflecting market conditions less costs to sell and value in use, based on an internal discounted cash flow evaluation Impairment losses recognised for cash-generating units, to which goodwill has been allocated, are credited initially to the carrying amount of goodwill Any remaining impairment loss is charged pro rata to the other assets in the cash generating unit With the exception of goodwill, all assets are subsequently reassessed for indications that an impairment loss previously recognised may no longer exist

Property, plant and equipment
Property, plant and equipment are carried at acquisition cost less subsequent depreciation and impairment losses Depreciation is charged on these assets in equal annual instalments over the estimated useful economic life of each asset, taking into account the estimated residual value of each asset which is assessed at least annually 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

Notes to the consolidated financial statements

for the year ended 28 February 2010

Inventories and work in progress
Inventories and work in progress are stated at the lower of cost and net realisable value, after making allowance for obsolete and slow moving items Inventories are accounted for on a first in first out (FIFO) basis

Taxation
The tax charge or credit for the period represents the sum of current tax and deferred tax

Current tax is based on the taxable profit or loss for the year Taxable profit or loss differs from net profit or loss as reported in the income statement as it excludes items of income or expense that are deductible in other years and items that are never deductible The current and deferred tax charges and credits are calculated using tax rates and laws that have been enacted or substantively enacted at the balance sheet date

Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the balance sheet liability method Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised Such assets and liabilities are not recognised if the temporary difference arises from the initial recognition of goodwill or of other assets and liabilities in a transaction (other than in a business combination) that affects neither the tax profit nor the accounting profit

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realised

Deferred tax is charged or credited in the income statement, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity

Provisions for liabilities
Provisions are recognised when present obligations will probably lead to an outflow of economic resources from the Group and they can be reliably estimated A present obligation arises from the presence of a legal or constructive commitment that has resulted from past events

Provisions are measured at the estimated expenditure required to settle the present obligation, based on the most reliable evidence available at balance sheet date and all future estimated cash flows are discounted to arrive at the present value of the provision

Provisions for liabilities include onerous property contracts for which the present value of onerous lease costs is provided for on an estimated basis until the final settlement amount crystallises

Leases
In accordance with IAS 17, the economic ownership of a leased asset is transferred to the lessee if the lessee bears substantially all the risks and rewards related to the ownership of the leased asset The related asset is recognised at the time of inception of the lease at the fair value of the leased asset or, if lower, the present value of the lease payments plus incidental payments, if any, to be borne by the lessee A corresponding amount is recognised as a finance leasing liability, irrespective of whether some of these lease payments are payable up-front at the date of inception of the lease

Subsequent accounting for assets held under finance lease agreements, i e depreciation methods and useful lives, correspond to those applied to comparable acquired assets The corresponding finance leasing liability is reduced by lease payments less finance charges, which are expensed to finance costs Finance charges represent a constant periodic rate of interest on the outstanding balance of the finance lease liability

All other leases are treated as operating leases Payments on operating lease agreements are recognised as an expense on a straight-line basis Associated costs, such as maintenance and insurance, are expensed as incurred The Group does not act as a lessor

Notes to the consolidated financial statements

for the year ended 28 February 2010

Foreign exchange
These financial statements are presented in Sterling which is the presentational currency of the Group

Transactions in foreign currencies are translated at the exchange rate ruling at the date of the transaction Monetary assets and liabilities in foreign currencies are translated at the rates of exchange ruling at the balance sheet date Exchange differences are dealt with through the income statement

The results of overseas subsidiary undertakings are translated at the average exchange rate (being an approximation to the rate at the date of transactions throughout the year) 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 the translation reserve On disposal of a foreign operation the cumulative translation differences are transferred to the income statement as part of the gain or loss on disposal

Segment reporting
In identifying its operating segments, management generally follows the Group's historical segmental structure

The activities undertaken by the Advertising segment include international advertising, public relations and market research consultancy The Marketing segment offers digital marketing, direct marketing, sales promotion and experimental marketing services The Design segment offers packaging design, corporate branding, permanent retail point of sale manufacture, specialist visual identity and photography services

All inter-segmental trading is carried out at arm's length prices

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 its liabilities Dividends and distributions relating to equity instruments are debited direct to equity

Financial assets
Financial assets are divided into loans and receivables, financial assets at fair value through income statement and available for sale financial assets 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 becomes a party to the contractual provisions of the instrument Financial assets other than those categorised as at fair value through income statement are recognised at fair value plus transaction costs Financial assets categorised as at fair value through the income statement are recognised initially at fair value with transaction costs expensed through the income statement

Financial assets at fair value through income statement include financial assets that are either classified as held for trading or are designated by the entity as at fair value through income statement 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 income statement Financial assets originally designated as financial assets at fair value through the income statement 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 receivables and other receivables 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 income statement Discounting, however, is omitted where the effect of discounting is immaterial

For available-for-sale financial assets, gains and losses arising from changes in fair value are recognised directly in equity through the statement of recognised income and expense, until the security is disposed at which time the cumulative gain or loss previously recognised in equity is included in the consolidated income statement for the period If an available-for-sale investment is determined to be impaired, the cumulative loss previously recognised in equity is included in the income statement for the period

Provision against trade receivables is made when there is objective evidence that the Group 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

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

A financial asset is de-recognised only where the contractual rights to the cash flows from the asset expire or the financial asset is transferred and that transfer qualifies for de-recognition A financial asset is transferred if the contractual rights to receive the cash flows of the asset have been transferred or the Group 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 de-recognition if the Group transfers substantially all the risks and rewards of ownership of the asset, or if the Group neither retains nor transfers substantially all the risks and rewards of ownership but does transfer control of that asset

Financial liabilities
The Group's financial liabilities consist of borrowings, a loan note, deferred consideration and trade and other payables

Financial liabilities are obligations to pay cash or other financial assets and are recognised when the Group becomes a party to the contractual provisions of the instrument Financial liabilities categorised as at fair value through the income statement 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 the income statement are re-measured at each reporting date at fair value, with changes in fair value being recognised in the income statement All other financial liabilities are recorded at fair value then amortised cost using the effective interest method, with interest-related charges recognised as an expense in finance cost in the income statement Finance charges, including premiums payable on settlement or redemption and direct issue costs, are charged to the income statement 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 the income statement where they are classified as held-for-trading or designated as at fair value through the income statement on initial recognition

A financial liability is de-recognised only when the obligation is extinguished, that is, when the obligation is discharged or cancelled or expires

Financial instruments - derivatives
All derivatives are recognised at fair value through the income statement The value of the derivative is reassessed and fair valued at each reporting date

The only derivative contract in existence during the period relates to an interest swap on the Group's bank borrowings

Cash and cash equivalents
Cash and cash equivalents include cash at bank and in hand as well as short term highly liquid investments such as bank deposits

Equity
Share capital is determined using the nominal value of shares that have been issued Premiums received on the initial issuing of share capital are credited to share premium account Any transaction costs associated with the issuing of shares are deducted from share premium, net of any related income tax benefits

Investment in own shares represents the costs incurred by the Group to acquire its own shares and the cost of shares held within an employee benefit trust

Notes to the consolidated financial statements

for the year ended 28 February 2010

Retained earnings includes all current and prior period results as disclosed in the income statement

The translation reserve is used to record foreign exchange translation differences that occur as a result of the translation of overseas subsidiary undertakings' financial statements

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

The capital redemption reserve represents the nominal value of shares repurchased and cancelled by the Company

Revenue
Revenue as stated on the face of the income statement 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

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

Revenue is recognised by the Group on the following basis

- Revenue from service projects is recognised by reference to the right to consideration This can be assessed by measuring the ratio of fair value of work done in a period to the total fair value of work required to complete the project
- Retainer revenue is recognised evenly across the time period to which it relates
- Media commission is recognised when the related job has been successfully completed
- Work in progress costs relating to service contracts are carried forward at the lower of cost and net realisable value with no profit recognition

Exceptional items
Exceptional Items are items of either income or cost which are one-off in nature, not of a general nature and arise infrequently in either the Group's or a subsidiary company's business cycle These items by their definition cannot be included within the ongoing administrative expenses shown in the income statement

These costs generally arise from non-recurring events including restructuring and reorganisation following an acquisition or disposal of a subsidiary company, restructuring and reorganisation following a change in the way a business or market operates, restructuring and reorganisation following a change in the leadership of the Board of Directors and strategy, relocation of the business The costs themselves include redundancy costs, relocation and property costs, onerous lease costs, business integration costs, impairment of redundant assets, re-branding costs, consultants' fees and legal fees

Impairment of goodwill is included within exceptional costs as it is not expected to occur in the normal course of business

Also included in this category is the release of accruals and provisions that were made in previous accounting periods in relation to transaction costs and other provisions that have now proved to be surplus in relation to the actual costs and liabilities incurred or now expected to arise

Employee benefits
The Group operates defined contribution pension schemes Contributions payable to the schemes are charged to the income statement in the year to which they relate These contributions are invested separately from the Group's assets

Short-term employee benefits, including holiday entitlement are included in current pension and other employee obligations at the undiscounted amount that the Group expects to pay as a result of the unused entitlement

Notes to the consolidated financial statements

for the year ended 28 February 2010

Share-based employee remuneration
Media Square plc makes awards of share-based payments to the employees of the Company and its subsidiary companies As part of the remuneration of its employees the associated non-cash expense is charged over the vesting period of the share-based payment within the income statement 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-based payments 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 the income statement 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-based payments, any 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

Notes to the consolidated financial statements

for the year ended 28 February 2010

3. SEGMENTAL ANALYSIS

Year ended 28 February 2010	Advertising	Marketing	Design	Unallocated	Eliminations	Total
	£'000	£'000	£'000	£'000	£'000	£'000
Revenue						
From external customers	25,720	10,331	11,247	-	-	47,298
From other segments	45	20	31	-	(96)	-
Segment revenues	25,765	10,351	11,278	-	(96)	47,298
Headline operating profit/ (loss)	935	318	463	(2,601)	-	(885)
Exceptional items	(9,719)	(682)	(6,630)	(709)	-	(17,740)
Share-based payments	-	-	-	(465)	-	(465)
Operating loss	(8,784)	(364)	(6,167)	(3,775)	-	(19,090)
Net finance costs						(1,773)
Loss before tax						(20,863)
Taxation						(626)
Loss after tax						(21,489)
Segmental assets	40,040	8,786	10,751	838	-	60,415
Other segment information						
Capital expenditure	207	115	354	62	-	738
Depreciation	492	202	224	101	-	1,019
Goodwill impairment	9,893	600	5,450	-	-	15,943

The unallocated operating loss, exceptional items, share-based payments and segmental assets relate to central costs

The depreciation charge and goodwill impairment disclosed relates to continuing operations only and as such does not agree to the figures disclosed in notes 13 and 14 of the financial statements

Notes to the consolidated financial statements

for the year ended 28 February 2010

3. SEGMENTAL ANALYSIS *continued*

Year ended 28 February 2009	Advertising £'000 Restated	Marketing £'000 Restated	Design £'000 Restated	Unallocated £'000 Restated	Eliminations £'000 Restated	Total £'000 Restated
Revenue						
from external customers	31,484	12,339	17,421	-	-	61,244
from other segments	176	15	362	-	(553)	-
Segment revenues	31,660	12,354	17,783	-	(553)	61,244
Headline operating profit/ (loss)	2,899	508	2,180	(3,320)	-	2,267
Exceptional items	(20)	(345)	(951)	4,141	-	2,825
Share-based payments	-	-	-	(586)	-	(586)
Operating profit/ (loss)	2,879	163	1,229	235	-	4,506
Loss on disposal of subsidiary undertakings						(368)
Net finance costs						(3,060)
Profit before tax						1,078
Taxation						341
Profit after tax						1,419
Segmental assets	48,023	10,310	19,054	4,456	-	81,843
Other segment information						
Capital expenditure	377	239	268	22	-	906
Depreciation	591	295	421	113	-	1,420
Impairment of property, plant & equipment	-	30	223	-	-	253

The unallocated operating loss relates to central costs of £3 7m and foreign exchange gains of £0 4m The unallocated exceptional items, share-based payments and segmental assets relate to central costs

The capital expenditure and depreciation charge disclosed relates to continuing operations only and as such does not agree to the figures disclosed in note 14 of the financial statements

The Group's revenue from external customers and its geographic allocation of total assets may be summarised as follows

	Year ended 28 February 2010		Year end 28 February 2009	
	Revenues £'000	**Non-current assets £'000**	Revenues £'000 Restated	Non-current assets £'000 Restated
United Kingdom	**35,196**	**24,737**	49,247	36,856
Rest of World	**12,227**	**6,573**	12,408	11,950
Eliminations	**(125)**	**-**	(411)	-
Total	**47,298**	**31,310**	61,244	48,806

Notes to the consolidated financial statements

for the year ended 28 February 2010

4 EXCEPTIONAL ITEMS

	2010 £'000	2009 £'000 Restated
Restructuring and reorganisation costs	(1,416)	(887)
Property related provisions, costs and impairments	(740)	(878)
Release of transaction cost accruals	-	1,138
Release of acquisition provisions	359	3,452
Goodwill impairment	(15,943)	-
	(17,740)	2,825

The provision released in the year was recorded as a fair value adjustment on the acquisition of a subsidiary It has been released in the period as the events for which it was made have not materialised

The goodwill impairment charge above relates to continuing operations only and as such does not agree to the figures disclosed in note 13 of the financial statements

5 (LOSS)/ PROFIT FROM CONTINUING OPERATIONS BEFORE TAXATION

The (loss)/ profit on continuing operations is stated after charging

	2010 £'000	2009 £'000 Restated
Auditors' remuneration		
Audit of consolidated group and parent company	110	161
Non-audit services - audit of subsidary undertakings	45	50
Non-audit services - ad hoc advice	13	-
Non-audit services - taxation services	-	10
Non-audit services - transaction support	-	1
Depreciation		
Property, plant & equipment owned	975	1,379
Property, plant & equipment held under finance leases and hire purchase contracts	44	41
Loss on disposal of property, plant & equipment	18	16
Impairment of property, plant & equipment	-	253
Share-based payment charge	465	586
Hire of plant and machinery	255	306
Other operating lease rentals	2,660	3,127

6 FINANCE INCOME AND FINANCE COSTS

	2010 £'000	2009 £'000
Finance cost for borrowings at amortised cost	1,845	1,970
Loss on sale of an investment (note 15)	118	-
Finance cost for finance lease arrangements	-	13
Loss on interest rate swap	-	1,263
Finance costs	1,963	3,246
Finance income on financial assets carried at amortised cost	(25)	(186)
Gain on interest rate swap	(165)	-
Finance income	(190)	(186)

Notes to the consolidated financial statements

for the year ended 28 February 2010

7 DIRECTORS AND EMPLOYEES

Staff costs dunng the year were as follows

	2010 £'000	2009 £'000 Restated
Wages and salanes	**32,192**	37,851
Share-based payments	**465**	586
Socıal secunty costs	**3,070**	3,602
Pensıon costs	**591**	941
	36,318	42,980

The average number of employees ın the Group dunng the year were

	2010 No	2009 No Restated
Productıon	**454**	533
Admınıstratıon and sales	**315**	373
	769	906

Dırectors' remuneratıon
For the year ended 28 February 2010

	Salary/ fees £'000	Benefits ın kınd £'000	Compen satıon for loss of office £'000	Total year ended 28 02 2010 £'000	Total year ended 28 02 2009 £'000	Pensıon year ended 28 02 2010 £'000	Pensıon year ended 28 02 2009 £'000
Executıve Dırectors							
Roger Parry (ı)	**209**	**10**	**188**	**407**	260	**-**	-
Peter Reıd (ıı)	**55**	**2**	**-**	**57**	-	**3**	-
Bruce Winfield (ııı)	**161**	**8**	**-**	**169**	-	**6**	-
Graeme Burns (iv)	**71**	**6**	**27**	**104**	214	**10**	30
Non Executıve Dırectors							
Roger Parry (v)	**8**	**-**	**-**	**8**	-	**-**	-
Nıgel Bacon (vı)	**19**	**-**	**13**	**32**	40	**-**	-
Mıchael George	**25**	**-**	**-**	**25**	40	**-**	-
Neıl Canetty-Clarke (vıı)	**7**	**-**	**-**	**7**	-	**-**	-
	555	**26**	**228**	**809**	554	**19**	30

(ı) Roger Parry resıgned as Executıve Chaırman on 31 December 2009
(ıı) Peter Reıd was appoınted to the Board on 5 November 2009 and as the Group Chıef Executıve on 1 January 2010
(ııı) Bruce Wınfield was appoınted as the Group Fınance Dırector on 24 Aprıl 2009
(ıv) Graeme Burns resıgned on 30 June 2009
(v) Roger Parry was appoınted Non Executıve Chaırmen on 1 January 2010
(vı) Nıgel Bacon resıgned on 18 November 2009
(vıı) Neıl Canetty-Clarke was appoınted on 24 November 2009

Share-based payment charge

	2010 £'000	2009 £'000
Roger Parry	**28**	154
Peter Reıd	**21**	20
Bruce Winfield	**15**	15
	64	189

8 SHARE-BASED REMUNERATION

The Group has 3 different methods of share-based remuneration

- Share options
- Warrants
- Restricted Share Scheme

8 1 Share Options

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 -

	2010		2009	
	No	**WAEP pence**	No	WAEP pence
Outstanding at the beginning of the year	**1,206,265**	**101 15**	951,856	142 70
Granted during the year	**1,179,735**	**11 60**	582,800	50 00
Forfeited during the year	**(288,134)**	**72 05**	(271,666)	113 97
Expired during the year	**(180,500)**	**117.67**	(56,725)	212 29
Outstanding at the end of the year	**1,917,366**	**48.74**	1,206,265	101 15
Exercisable at the year end	**228,771**	**209 61**	409,744	173 05

The share options outstanding at the end of the year have a weighted average remaining contractual life of 3 years (2009 2 years) and have the following exercise prices

	Exercise price pence	**2010 No.**	2009 No
30 April 2009	67 50	-	100,000
29 June 2009	180 00	-	80,500
1 May 2010	190 00	**29,027**	29,715
18 May 2010	180 00	**100,000**	100,000
1 May 2011	80 00	**88,823**	173,870
2 September 2011	245 00	**99,744**	129,244
1 October 2013	69 00	**100,000**	100,000
1 May 2012	50 00	**366,976**	492,936
1 May 2013	11 60	**1,132,796**	-
		1,917,366	1,206,265

Nil options were exercised during the year (2009 nil)

8 **SHARE-BASED REMUNERATION** *continued*

The fair values of the share options were calculated using the Trinomial Valuation Model The inputs to the model were as follows

2010

During the current year the following options were granted

Date of issue	Number granted No.	Weighted average share price pence	Weighted average exercise price pence	Expected volatility %	Expected life years	Risk free rate %	Expected dividend yield %	Weighted average fair value at grant date pence
3 August 2009	1,179,735	16 00	11.60	55 00	3 75	3.15	1 50	7.80

2009

During the prior period the following options were granted

Date of issue	Number granted No	Weighted average share price pence	Weighted average exercise price pence	Expected volatility %	Expected life years	Risk free rate %	Expected dividend yield %	Weighted average fair value at grant date pence
5 August 2008	582,800	60 00	50 00	45 00	3 74	4 71	1 50	25 00

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

8 2 Warrants

The 2,800,000 warrants in existence during the year were all due to Roger Parry On resignation as an Executive Director of the Group, Roger Parry forfeited all his rights to these options

Date of issue	Number issued No	Subscription price pence	Subscription Period start	Subscription Period end	Share price at date of issue pence
2 July 2007	800,000	150 00	30 June 2008	30 June 2013	117 50
2 July 2007	300,000	200 00	30 January 2009	30 January 2014	117 50
30 August 2007	300,000	250 00	30 January 2009	30 January 2014	87 50
30 August 2007	700,000	250 00	30 June 2009	30 June 2014	87 50
30 August 2007	700,000	300 00	30 December 2009	30 December 2014	87 50
	2,800,000				

During the current year no warrants were issued (2009 nil)

8 3 Restricted Share Scheme (RSS)

During the current year no restricted shares were issued (2009 1,135,000)

Notes to the consolidated financial statements

for the year ended 28 February 2010

9 TAX ON (LOSS)/ PROFIT ON ORDINARY ACTIVITIES

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

	2010 £'000	2009 £'000 Restated
UK Corporation tax		
Current tax on income for the period at 28% (2009 28 2%)	**143**	57
Adjustments in respect of prior years	**1**	60
Overseas tax	**184**	(85)
Current tax charge for the year	**328**	32
Deferred taxation - current year (see note 23)	**236**	(330)
Deferred taxation - prior year (see note 23)	**62**	(43)
Tax on (loss)/ profit on continuing operations	**626**	(341)

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

	2010 £'000	2009 £'000 Restated
(Loss)/ profit on continuing operations before tax	**(20,863)**	1,078
(Loss)/ profit on continuing operations multiplied by standard rate of corporation tax in the UK of 28% (2009 28 2%)	**(5,842)**	304
Effect of		
Expenses not deductible for tax purposes	**137**	115
Impairment of goodwill and loss on disposal of subsidiaries	**4,464**	-
Non-taxable items	**-**	(1,451)
Non utilisation of tax losses	**1,139**	613
Temporary differences not recognised	**613**	-
Higher tax rate on overseas earnings	**53**	95
Changes of tax rate applicable to deferred tax balances	**-**	4
Adjustment in respect of prior year – current tax	**-**	22
Effect of temporary differences	**62**	(43)
Tax on (loss)/ profit on continuing operations	**626**	(341)

UK Corporation tax is calculated at 28% (2009 28 2%) of the assessable profit for the year Taxation for other jurisdictions is calculated at the rates prevailing in the respective jurisdictions

Unrelieved tax losses of approximately £11,376,000 (2009 restated £6,596,000) are available to offset against future taxable profits of certain Group companies

Notes to the consolidated financial statements

for the year ended 28 February 2010

10 DISCONTINUED OPERATIONS

Dunng the year the Group disposed of Lloyd Northover Marlow and closed Lloyd Northover Dubai following significant losses being incurred

The results of the discontinued operations are analysed as follows

	2010 £'000	2009 £'000 Restated
Gain/ (loss) on impairment of CRC assets held for sale	-	1,130
Trading loss for German and South African operations	-	(847)
Loss on impairment of assets of German and South African operations	-	(977)
Minority interest on South African operations	-	(547)
Translation movements relating to German and South African operations transferred from reserves	-	(360)
Trading loss for Marlow and Dubai operations	(1,480)	(565)
Loss on disposal of assets of Marlow operations	(1,599)	-
Loss from discontinued operations	**(3,079)**	(2,166)

Lloyd Northover Marlow and Dubai operations

The results for Lloyd Northover Marlow and Dubai operations were as follows

	2010 £'000	2009 £'000
Revenue	**1,296**	2,763
Administrative expenses	**(1,758)**	(2,769)
Headline operating loss	**(462)**	(6)
Exceptional expenses	**(1,161)**	(616)
Operating loss	**(1,623)**	(622)
Net finance cost	-	-
Loss before taxation	**(1,623)**	(622)
Tax on loss	**143**	57
Loss for the period	**(1,480)**	(565)

Notes to the consolidated financial statements

for the year ended 28 February 2010

The net assets of Lloyd Northover Marlow at the date of disposal and the subsequent loss on disposal were as follows

	Lloyd Northover Marlow £'000
Net assets disposed of·	
Goodwill	718
Property, plant and equipment	29
Trade and other receivables	829
Trade and other payables	(247)
Deferred Tax Asset	168
Net assets	1,497
Loss on disposal	(1,599)
Consideration	**(102)**
Satisfied by	
Deferred consideration	114
Transaction costs and accruals	(216)
	(102)

11 (LOSS)/ EARNINGS PER SHARE

The calculation of the basic (loss)/ 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 profit on ordinary activities after tax and on the weighted average number of Ordinary shares and share options in issue during the period

In the current year, a loss was generated from total, continued and discontinued operations (2009 loss from discontinued and total operations) As the effect of share options on the loss per share is anti dilutive no diluted earnings per share figure has been produced

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

	2010			2009		
Basic (loss)/ earnings per share	**Loss £'000**	**Weighted average number of shares**	**Loss per share pence**	(Loss)/ profit £'000	Weighted average number of shares	(Loss)/ earnings per share pence
Basic loss per share from total operations						
Loss attributable to ordinary shareholders	**(24,568)**	**32,238,713**	**(76 21p)**	(700)	32,244,916	(2 17p)
Basic (loss)/ earnings per share on continuing operations						
(Loss)/ earnings attributable to ordinary shareholders	**(21,489)**	**32,238,713**	**(66 66p)**	1,466	32,244,916	4 55p
Basic loss per share on discontinued operations						
Loss attributable to ordinary shareholders	**(3,079)**	**32,238,713**	**(9 55p)**	(2,166)	32,244,916	(6 72p)

Notes to the consolidated financial statements

for the year ended 28 February 2010

11 (LOSS)/ EARNINGS PER SHARE (CONTINUED)

	2009		
Diluted earnings per share	Profit £'000	Weighted average number of shares	Earnings per share pence
Diluted earnings per share on continuing operations			
Earnings attributable to ordinary shareholders	1,466	38,430,041	3 81p

12 INTANGIBLE ASSETS

	Customer relationships £'000	Total £'000
Cost		
At 28 February 2009	-	-
Additions	100	100
At 28 February 2010	**100**	**100**
Amortisation		
At 28 February 2009	-	-
Charge for the year	-	-
At 28 February 2010	**-**	**-**
Net book amount at 28 February 2010	**100**	**100**
Net book amount at 28 February 2009	-	-

Customer contracts acquired as part of the acquisition of Chick Smith Trott Limited (note 29) will be amortised over the shorter of 5 years or the ending of such contracts

No amortisation has been charged on the intangible asset in the current year as the acquisition giving rise to it occurred on 14 January 2010 and as such the current year charge is insignificant

Notes to the consolidated financial statements

for the year ended 28 February 2010

13. GOODWILL

	Purchased goodwill £'000	Goodwill on consolidation £'000	Total £'000
Cost			
At 29 February 2008	706	57,817	58,523
Foreign exchange	32	-	32
Transferred to discontinued operations	-	(964)	(964)
At 28 February 2009	738	56,853	57,591
Additions (note 29)	-	268	268
Disposals (note 10)	-	(718)	(718)
At 28 February 2010	**738**	**56,403**	**57,141**
Impairment			
At 29 February 2008 and 28 February 2009	648	16,654	17,302
Impairment	-	16,169	16,169
At 28 February 2010	**648**	**32,823**	**33,471**
Net book amount at 28 February 2010	**90**	**23,580**	**23,670**
Net book amount at 28 February 2009	90	40,199	40,289

Goodwill acquired through business combinations is allocated to groups of cash generating units ('CGUs') for impairment as follows

	2010 £'000	2009 £'000
Advertising	**17,284**	26,908
Marketing	**4,105**	4,705
Design	**2,281**	8,676
	23,670	40,289

The recoverable amount of goodwill for all CGUs is determined based on a value in use calculation using discounted cash flow forecasts Assumptions of future cash flows are based on forecasts for the initial 5 year period (based on 2010 budgets and estimates using historical trends) followed by a long term average growth rate of 2 25% (which is based on management's best estimate of future average growth across the Group's CGUs) over a maximum 20 year total period All cash flow forecasts are discounted at a rate of 9% (the Group's weighted average cost of capital) which takes into account the Group's interest rate swap

During the current year an impairment loss of £16 2 million (2009 £Nil) has been recognised within the consolidated financial statements which has arisen primarily due to the Global recession's impact on a number of the Group's key markets Whilst management have taken corrective action to address this in the current year, the forecast cash flows of the operations, when sensitised, do not support £40 3 million carrying value of goodwill Management has sensitised the current operating cash flow forecasts and determined, based on a conservative performance for the Group, that a £16 2 million impairment charge is required The goodwill impairment has been allocated to reportable segments as follows

	2010 £'000	2009 £'000
Advertising	**9,893**	-
Marketing	**600**	-
Design	**5,676**	-
	16,169	-

Notes to the consolidated financial statements

for the year ended 28 February 2010

14 PROPERTY, PLANT AND EQUIPMENT

	Freehold property	Short leasehold property	Plant & machinery	Motor vehicles	Fixtures & fittings	Total
	£'000	£'000	£'000	£'000	£'000	£'000
Cost						
At 29 February 2008	3,758	2,060	5,215	130	1,158	12,321
Additions	-	132	751	-	97	980
Disposals	(13)	(353)	(800)	(49)	(536)	(1,751)
Foreign exchange	-	98	366	5	198	667
At 28 February 2009	3,745	1,937	5,532	86	917	12,217
Additions	-	251	336	-	160	747
Disposals	-	(82)	(119)	(26)	(222)	(449)
Foreign exchange	-	(20)	(56)	(1)	(28)	(105)
At 28 February 2010	**3,745**	**2,086**	**5,693**	**59**	**827**	**12,410**
Depreciation						
At 29 February 2008	436	473	3,517	117	509	5,052
Provided in the year	65	319	905	10	257	1,556
Impairment	-	158	40	-	55	253
Disposals	(11)	(220)	(511)	(47)	(380)	(1,169)
Foreign exchange	-	61	281	4	161	507
At 28 February 2009	490	791	4,232	84	602	6,199
Provided in the year	64	253	598	3	144	1,062
Disposals	-	(58)	(93)	(27)	(219)	(397)
Foreign exchange	-	(13)	(43)	(1)	(22)	(79)
At 28 February 2010	**554**	**973**	**4,694**	**59**	**505**	**6,785**
Net book value at 28 February 2010	**3,191**	**1,113**	**999**	**-**	**322**	**5,625**
Net book value at 28 February 2009	3,255	1,146	1,300	2	315	6,018

All depreciation and impairment charges on continuing operations are included in note 5

Notes to the consolidated financial statements

for the year ended 28 February 2010

15 FINANCIAL ASSETS

	2010 £'000	2009 £'000
Available for sale financial assets	**407**	525
Other investments	**8**	8
	415	533

Available for sale financial assets at 28 February 2010 represent 1,080,000 Ordinary shares in Rivington Street Holdings plc (2009 shares in IQ Holdings plc) which the Group received in consideration for its shareholding in IQ Holdings plc The £118,000 movement in the year represents the loss made on the sale of shares in IQ Holdings plc to Rivington Street Holdings plc and has been disclosed as loss on sale of an investment within the income statement

16 INVENTORIES

	2010 £'000	2009 £'000
Raw materials and consumables	**251**	445
Work in progress	**715**	588
Finished goods	**56**	-
	1,022	1,033

17 TRADE AND OTHER RECEIVABLES

Current	2010 £'000	2009 £'000
Trade receivables	**15,659**	16,183
Other receivables	**507**	1,025
Prepayments and accrued income	**2,681**	3,045
Deferred consideration	**475**	470
	19,322	20,723

The carrying values are considered to be a reasonable approximation of fair value The effect of discounting trade and other receivables has been assessed and is deemed to be immaterial to the Group's results

All trade and other receivables have been reviewed for indicators of impairment During the year certain trade receivables were found to be impaired and a provision of £28,000 (2009 £128,000) has been recorded accordingly

In addition, some of the unimpaired trade receivables are past due as at the reporting date The age of trade receivables past due but not impaired are as follows

	2010 £'000	2009 £'000
Not overdue	**10,159**	10,423
Not more than 3 months	**5,231**	5,404
More than 3 months but not more than 6 months	**269**	296
More than 6 months but not more than 1 year	**-**	16
More than 1 year	**-**	44
	15,659	16,183

Notes to the consolidated financial statements

for the year ended 28 February 2010

18 CASH AND CASH EQUIVALENTS

Cash and cash equivalents include the following components

	2010 £'000	2009 £'000
Current accounts	8,377	10,728
Deposit	257	273
	8,634	11,001

Included within cash and cash equivalents is £6 0 million of cash held for use on specific projects (2009 £4 3 million) and the use of this cash is therefore restricted to use on those projects only

19 TRADE AND OTHER PAYABLES

	2010 £'000	2009 £'000
Trade payables	8,732	8,013
Other taxation and social security	1,979	1,960
Other payables	2,401	2,049
Deferred consideration	93	100
Accruals and deferred income	17,874	17,968
	31,079	30,090

The carrying values are considered to be a reasonable approximation of fair value The effect of discounting trade and other payables has been assessed and is deemed to be immaterial to the Group's results

20 BORROWINGS

	2010 £'000	2009 £'000
Bank borrowings	22,539	14,581
Comprising		
- current borrowings	3,367	167
- non-current borrowings	19,172	14,414

The estimated fair values are as follows

	2010 £'000	2009 £'000
Bank borrowings	22,539	14,581

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 receivables and the cash at bank

Fair values of long term financial liabilities have been determined by calculating their present values at the balance sheet date, using fixed effective market interest rates available to the Group No fair value charges have been included in the income statement for the period as financial liabilities are carried at amortised cost in the balance sheet

As at 28 February 2010, bank loans amounted to £22,860,500 consisting of two term loan facilities (B and C) and a drawdown of the revolving loan facility of £3,200,000 Facility B amounted to £17,675,000 repayable in full in April 2011 and is subject to an interest rate of 3 75% above LIBOR Facility C amounted to £1,985,000 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 2 75% above LIBOR On 5th March 2009, following the redemption of the loan notes, with a face value of £5,084,000, term loan facility B was increased by £5,475,000 to £18,225,000 On 30th October 2009, term loan facility B was reduced by £549,500 to £17,675,000 Interest rate swaps have been entered into in respect of these facilities, these are further explained in note 27

Notes to the consolidated financial statements

for the year ended 28 February 2010

20 BORROWINGS (CONTINUED)

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 The balance remaining as at 28 February 2010 was £321,000

The future contractual payments (capital and interest) as at 28 February 2010 are as follows

	2010 £'000	2009 £'000
In one year or less or on demand		
Loan note (note 20)	-	5,475
Bank borrowings	5,344	1,640
In more than one year but not more than two years		
Bank borrowings	18,421	1,615
In more than two years but not more than five years		
Bank borrowings	1,373	14,282
More than 5 years		
Bank borrowings	-	481
	25,138	23,493

21 FINANCIAL LIABILITIES

Current	2010 £'000	2009 £'000
Obligations under finance lease and hire purchase agreements	4	7
Loan notes	-	5,475
	4	5,482

Non-current	2010 £'000	2009 £'000
Derivative financial liability	1,040	1,205
	1,040	1,205

The only derivative contract in existence during the period relates to an interest rate swap on the Group's bank borrowings The derivative is recognised at fair value through the income statement and is recorded in the income statement under finance costs and within the balance sheet under non current assets or liabilities The value of the derivative is reassessed and fair valued at each reporting date

Notes to the consolidated financial statements

for the year ended 28 February 2010

22 PROVISIONS FOR LIABILITIES

	Property provisions £'000	Other provisions £'000	Total £'000
At 28 February 2009	1,706	419	2,125
Additions	1,139	-	1,139
Utilised in the year	(1,096)	(18)	(1,114)
Released in the year	-	(359)	(359)
Foreign exchange movement	-	(42)	(42)
At 28 February 2010	**1,749**	**-**	**1,749**

Property provisions
The property provisions shown include £1,496,000 related to onerous property contracts and will be utilised over the terms of the leases in question Also included are £253,000 of property dilapidation provisions which will be utilised at the end of the leases to which they relate

Other provisions
Other provisions relate to legal claims which are now time barred and as such have been released in the year

23 DEFERRED TAXATION
Deferred tax is calculated in full on temporary differences under the liability method using a tax rate of 28% (2009 28%) or the local tax rate that will apply on reversal Deferred tax assets and liabilities have been offset as they relate to income taxes levied by the same taxation authority, and there is a legally enforceable right of offset and the Group intends to settle the balances net

Deferred tax assets and liabilities are attributable to the following

	Assets		Liabilities		Net	
	2010 £'000	2009 £'000	**2010 £'000**	2009 £'000	**2010 £'000**	2009 £'000
Available tax losses	**464**	281	**-**	-	**464**	281
Property revaluation	**-**	-	**(422)**	(432)	**(422)**	(432)
Interest rate swap	**291**	354	**-**	-	**291**	354
Share-based payments	**79**	224	**-**	-	**79**	224
Capital allowances below/ (in excess of) depreciation	**743**	1,203	**(7)**	(9)	**736**	1,194
Other temporary differences	**352**	345	**-**	-	**352**	345
	1,929	2,407	**(429)**	(441)	**1,500**	1,966

There are no unprovided deferred tax liabilities in the Group

Deferred tax relating to temporary differences at 28 February 2010 which will reverse after the effective date above is measured at the tax rate of 28% (2009 28%) for the UK as these are the tax rates that will apply on reversal

Notes to the consolidated financial statements

for the year ended 28 February 2010

The movement on the net deferred tax asset is as shown below -

	Assets		Liabilities		Net	
	2010	2009	**2010**	2009	**2010**	2009
	£'000	£'000	**£'000**	£'000	**£'000**	£'000
At 1 March 2009	**2,407**	2,059	**(441)**	(466)	**1,966**	1,593
(Written off) / provided in the year	**(310)**	348	**12**	25	**(298)**	373
On disposal	**(168)**	-	-	-	**(168)**	-
At 28 February 2010	**1,929**	2,407	**(429)**	(441)	**1,500**	1,966

On a prudent basis no provision has been made for deferred tax assets arising from overseas and certain UK trading losses and certain other timing differences where there is uncertainty as to the timing and level of future profits Trading losses not provided for amount to £9,719,000 (2009 £5,591,000) and other timing differences of £2,189,000 Management will carefully review the opportunities for the recoverability of these tax losses / other timing differences and will reassess the ability to recognise the related asset at subsequent balance sheet dates

24 SHARE CAPITAL

	2010	2009
	£'000	£'000
Authorised		
50,000,000 Ordinary shares of 10p each (2009 50,000,000 Ordinary shares of 10p each)	**5,000**	5,000
500,000,000 Deferred shares of 4p each (2009 500,000,000 Deferred shares of 4p each)	**20,000**	20,000
Allotted, called up and fully paid		
36,170,613 Ordinary shares of 10p each (2009 33,170,613 Ordinary shares of 10p each)	**3,617**	3,317

On 20 November 2009 3,000,000 10p Ordinary shares were issued into a newly created employee benefit trust at a price of 16p The value of the Ordinary shares issued to the employee benefit trust is held within investment in own shares within the consolidated financial statements and has led to a £300,000 and £180,000 increase in ordinary share capital and the share premium account respectively No shares were issued to the employee benefit trust in previous years In addition, on 23 November 2009 the Group transferred 931,900 shares previously held in Treasury into the Trust

The authorised Deferred share capital has the following rights

- The holders of the Deferred shares shall have no right to receive any distribution or dividend or otherwise to participate in the profits of the Company,
- If the Company is wound up the holders of the Deferred shares shall be entitled to receive the sum of 4 pence per share but only to the extent that the assets available for distribution to the holders of the Ordinary shares exceed £10,000,000 per Ordinary share,
- The holders of the Deferred shares shall have no right to receive notice of or attend, speak or vote at general meetings of the Company

Notes to the consolidated financial statements

for the year ended 28 February 2010

Share options

A summary of the share options in existence at 28 February 2010 is shown below

Exercise date	At 1 March 2009 No of Shares	Granted in period No of shares	Exercised in period No of shares	Lapsed in period No. of shares	At 28 February 2010 No of shares	Exercise price Pence per share
Unapproved Share Option Scheme						
Oct 2003 - Apr 2009	100,000	-	-	(100,000)	-	67 50
May 2005 - May 2010	46,000	-	-	-	46,000	180 00
Oct 2010 - Oct 2013	57,000	-	-	-	57,000	69 00
Enterprise Management Incentive (EMI) Scheme						
May 2005 - May 2010	54,000	-	-	-	54,000	180 00
Jun 2006 - Jun 2009	80,500	-	-	(80,500)	-	180 00
2005 Savings-Related Share Option Scheme						
Nov 2009 - May 2010	29,715	-	-	(688)	29,027	190 00
Nov 2010 - May 2011	173,870	-	-	(85,047)	88,823	80 00
Nov 2011 - May 2012	492,936	-	-	(125,960)	366,976	50 00
Nov 2012 - May 2013	-	1,179,735	-	(46,939)	1,132,796	11 60
2005 Company Share Option Plan						
Sep 2008 - Sep 2011	129,244	-	-	(29,500)	99,744	245 00
Oct 2010 - Sep 2013	43,000	-	-	-	43,000	69 00
	1,206,265	**1,179,735**	-	**(468,634)**	**1,917,366**	

Restricted Share Scheme (RSS)

A summary of the restricted shares in existence at 28 February 2010 is shown below

Exercise date	At 1 March 2009 No. of shares	Awarded in period No of shares	Exercised in period No. of shares	Lapsed in period No of shares	At 28 February 2010 No of Shares	Exercise price pence per award
Sep 2010	1,077,000	-	-	-	1,077,000	100 00
Dec 2010	290,000	-	-	(140,000)	150,000	100 00
May 2011	760,000	-	-	(75,000)	685,000	100 00
Feb 2012	330,000	-	-	(40,000)	290,000	100 00
	2,457,000	-	-	**(255,000)**	**2,202,000**	

Notes to the consolidated financial statements

for the year ended 28 February 2010

25 NET CASH (OUTFLOW)/ INFLOW FROM OPERATING ACTIVITIES

	2010 £'000	2009 £'000 Restated
Operating (loss)/ profit	**(19,090)**	4,506
Operating loss from discontinued operations	**(1,623)**	(1,480)
Depreciation	**1,062**	1,556
Loss/ (profit) on disposal of property, plant & equipment	**18**	(19)
Impairment of property, plant & equipment	**-**	253
Impairment of goodwill	**16,169**	-
Release of excess acquisition/disposal accruals	**-**	(628)
Share-based payment	**465**	586
(Increase)/ decrease in inventories	**(90)**	671
Decrease in receivables	**957**	8,055
Increase/ (decrease) in payables	**1,062**	(9,809)
Net cash (outflow)/ inflow from operating activities	**(1,070)**	3,691

26 ANALYSIS OF CHANGES IN NET DEBT

	At 28 February 2009 £'000	Cash flows £'000	Non Cash Transactions £'000	**At 28 February 2010 £'000**
Cash and cash equivalents	11,001	(2,074)	(293)	**8,634**
Borrowings	(14,581)	(7,745)	(213)	**(22,539)**
Loan notes	(5,475)	5,475		**-**
Obligations under finance lease and hire purchase agreements	(7)	3	-	**(4)**
Net debt	(9,062)	(4,341)	(506)	**(13,909)**

Included within cash and cash equivalents is £6 0 million of cash held for use on specific projects (2009 £4 3 million) and the use of this cash is therefore restricted to use on those projects only

Further details of the debt obligations are shown in note 20 and 21

27 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 receivables and trade payables that arise directly from its operations

Trade receivables and payables

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 re-measurement is undertaken

Interest rate risk

The Group finances its operations through bank loans and other borrowings The Group's exposure to interest rate fluctuations on its borrowings is managed by the use of both fixed and floating facilities The Group hedges its interest rate exposure on 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 91% (2009 100%) of the borrowings were at fixed rates The interest rate exposure of the financial liabilities of the Group as at 28 February 2010 was

	Interest rate		
	Fixed £'000	Floating £'000	Total £'000
2010	**20,735**	**2,126**	**22,861**
2009	15,115	-	15,115

	Fixed rate financial liabilities	
	Weighted average fixed interest rate %	Weighted average period for which rate is fixed in years
2010	**7.4**	**1.5**
2009	7.4	2 6

Whilst the interest rates on loans are at variable rates as detailed in note 20, interest rate swaps have been entered into to fix the rate payable on the loans at a weighted average fixed interest rate of 7 4% (2009 7 4%)

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 April 2011	3 month GBP LIBOR	4 78%	£18,750,000
2 Nov 2005	31 Oct 2014	3 month GBP LIBOR	4 78%	£1,985,000

The floating rate borrowings bear interest at rates based on the prevailing bank rate All borrowings are denominated in Sterling

Interest rate sensitivity

Due to the use of interest rate swaps, interest on 91% of bank loans is at fixed rates A sensitivity analysis has been carried out on 9% of the bank loans which are at a floating rate and has been assessed and deemed to be immaterial to the Group's results

Notes to the consolidated financial statements

for the year ended 28 February 2010

Credit risk
The Group trades with only recognised creditworthy third parties The carrying value of trade receivables is shown in note 17 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 considered 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 sensitivity
If Sterling had strengthened against the US Dollar by 10% then this would have had the following impact

	2010 £'000		2009 £'000	
	US$	Total	US$	Total
Net result for the year	19	19	26	26

If Sterling had weakened against the US Dollar by 10% then this would have had the following impact

	2010 £'000		2009 £'000	
	US$	Total	US$	Total
Net result for the year	(24)	(24)	(31)	(31)

Exposures to foreign exchange rates vary during the year depending on the volume of overseas transactions Nonetheless, the analysis above is considered to be representative of Media Square plc's exposure to currency risk

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 £26,660,500 (2009 £30,615,000) at 28 February 2010 of which £22,860,500 (2009 £15,115,000) was drawn, £470,000 (2009 £5,935,000) was allocated against guarantees issued by the Group's bankers, and £3,330,000 (2009 £9,565,000) remained undrawn and available

Notes to the consolidated financial statements

for the year ended 28 February 2010

Financial assets and liabilities
The IAS 39 categories of financial assets included in the balance sheet and the headings in which they are included are as follows

	2010 £'000	2009 £'000
Non-financial assets	**2,681**	3,045
Loans and receivables	**25,283**	28,687
Available for sale financial assets	**407**	525
Total assets	**28,371**	32,257

The financial assets are included in the balance sheet in the following headings

Non-current assets		
Financial assets	**415**	533
Trade and other receivables	**-**	-
Current assets		
Trade and other receivables	**19,322**	20,723
Cash and cash equivalents	**8,634**	11,001
	28,371	32,257

The IAS 39 categories of financial liabilities included in the balance sheet and the headings in which they are included are as follows

	2010 £'000	2009 £'000
Non-financial liabilities	**4**	7
Financial liabilities at fair value through the income statement	**1,040**	1,205
Financial liabilities measured at amortised cost	**53,618**	50,146
Total liabilities	**54,662**	51,358

The financial liabilities are included in the balance sheet in the following headings

Current liabilities		
Trade and other payables	**31,079**	30,090
Borrowings	**3,367**	167
Financial liabilities	**4**	5,482
Non-current liabilities		
Borrowings	**19,172**	14,414
Financial liabilities	**1,040**	1,205
	54,662	51,358

Notes to the consolidated financial statements

for the year ended 28 February 2010

28 CAPITAL MANAGEMENT POLICIES AND PROCEDURES
Media Square plc's capital management objectives are

- To ensure the Group has adequate resources to support the plans of the business
- To ensure the Group's ability to continue as a going concern and
- To provide a return to shareholders

The Group monitors capital on the basis of the carrying amount of equity Capital for the reporting periods under review is summarised as follows

	2010 £'000	2009 £'000
Total equity	**3,969**	28,341
Capital	**3,969**	28,341

Media Square plc manages the capital structure and makes adjustments to it in response to changes in economic conditions and the risk characteristics of the underlying assets In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares or sell assets to reduce debt

29 BUSINESS COMBINATIONS
On 14 January 2010 the Group acquired all of the Ordinary shares of Chick Smith Trott Limited for a consideration before professional fees of £430,000

The fair value of assets and liabilities acquired were as follows

	Chick Smith Trott £'000
Net assets acquired	
Intangible assets	100
Vendors contribution to working capital on sale	375
Other net liabilities acquired	(221)
Net assets acquired	**254**
Satisfied by·	
Cash	(430)
Professional costs	(92)
	(522)
Net assets acquired	254
Goodwill	(268)

A review to assess whether any intangible assets were acquired as part of the transaction has been carried out £100,000 worth of assets have been deemed to be intangible due to the customer relationships acquired The remainder of the balance has been allocated to goodwill as it relates to synergy savings achieved post acquisition and the established workforce acquired

Notes to the consolidated financial statements

for the year ended 28 February 2010

30 DISPOSAL OF SUBSIDIARY UNDERTAKINGS

	2010 £'000	2009 £'000
Loss on subsidiary undertakings disposed of in the year	-	368
	-	368

During the year, the Group disposed of its interest in Lloyd Northover Marlow and the loss on disposal of this entity is shown under discontinued operations as disclosed in note 10 of the consolidated financial statements

31 CAPITAL COMMITMENTS

The Group had no capital commitments at 28 February 2010 and 28 February 2009

32 LEASING COMMITMENTS

The Group's future minimum operating lease payments are as follows

	Within 1 year £'000	1 to 5 years £'000	More than 5 years £'000	Total £'000
28 February 2010	**2,810**	**8,723**	**2,157**	**13,690**
28 February 2009	3,438	9,846	3,358	16,642

Operating lease agreements do not contain any contingent rent clauses None of the operating lease agreements contain renewal or purchase options or escalation clauses or any restrictions regarding dividends, further leasing or additional debt

33 TRANSACTIONS WITH RELATED PARTIES

Transactions between the Company and its subsidiaries, which are related parties, have been eliminated on consolidation and are not disclosed in this note

There were no other related party transactions for the year ended 28 February 2010

34 POST BALANCE SHEET REFINANCING

The Group has agreed to enter into a new banking facilities agreement with Lloyds Banking Group (LBG)

The new facility runs until June 2013 and has a limit of Facility limit of £26,600,000 comprising senior term loan facility of £9,110,000 with an interest rate of 3% plus LIBOR payable quarterly, property loan facility of £1,890,000 with an interest rate of 3% plus LIBOR payable quarterly (mortgaged on the Group's freehold commercial property), mezzanine loan facility of £11,600,000 with interest rate of 7% plus LIBOR, 1 5% plus LIBOR payable quarterly and 5 5% capitalized into the loan, and a revolving credit facility of £4,000,000 with interest rate of 3% plus LIBOR

The facility agreement legal documentation will be signed shortly after the date of these financial statements and will be contingent on the following

- Subject to shareholder approval, LBG will be granted warrants pursuant to which LBG may acquire 10% of the Company's fully diluted issued share capital at an exercise price of 10p, exerciseable on or before 27 July 2020

- all current members of the Board being elected or re-elected at the 2010 Annual General Meeting

Notes to the consolidated financial statements

for the year ended 28 February 2010

35 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
Arken P O P Limited	P	UK	100%
Chick Smith Trott Limited	P	UK	100%
Clark McKay and Walpole Limited	P	UK	100%
Fourninety Limited	P	UK	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 Brand Communications 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%
Holmes and Marchant Pte Limited	P	Singapore	100%
Lloyd Northover Yeang Pte Limited	P	Singapore	100%
Symmetry Marketing 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	100%
The Gate Worldwide Limited	P	UK	100%
The Gate Worldwide LLC	P	United States	100%
The Gate Worldwide (S) Pte Limited	P	Singapore	100%
Wax Communications Limited	P	UK	100%

* indicates directly held by Media Square Plc
P indicates principal activity is that of advertising/PR, design and marketing
H indicates principal activity is that of a holding or management company

MEDIA SQUARE PLC

COMPANY STATUTORY FINANCIAL STATEMENTS UNDER UK GAAP

FOR THE YEAR ENDED
28 FEBRUARY 2010

COMPANY NUMBER 4006884

Contents

Company statement of directors' responsibility

The Directors are responsible for preparing the Company only financial statements ("financial statements") in accordance with applicable law and regulations

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 the profit or loss of the Company 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 adequate 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 2006 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 auditor is 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

GrantThornton

Report of the independent auditor

REPORT OF THE INDEPENDENT AUDITOR'S TO MEDIA SQUARE PLC

We have audited the parent Company financial statements of Media Square plc for the year ended 28 February 2010 which comprise the parent Company balance sheet and the related notes The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice)

This report is made solely to the Company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006 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 auditor's 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

As explained more fully in the Directors' Responsibilities Statement, the Directors are responsible for the preparation of the parent Company financial statements and for being satisfied that they give a true and fair view Our responsibility is to audit the parent Company financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland) Those standards require us to comply with the Auditing Practices Board's (APB's) Ethical Standards for Auditors

SCOPE OF THE AUDIT OF THE FINANCIAL STATEMENTS

A description of the scope of an audit of financial statements is provided on the APB's website at www frc org uk/apb/scope/UKNP

OPINION ON FINANCIAL STATEMENTS

In our opinion the parent Company financial statements

- give a true and fair view of the state of the Company's affairs as at 28 February 2010
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice, and
- have been prepared in accordance with the requirements of the Companies Act 2006

OPINION ON OTHER MATTER PRESCRIBED BY THE COMPANIES ACT 2006

In our opinion the information given in the Directors' Report for the financial year for which the financial statements are prepared is consistent with the parent Company financial statements

MATTERS ON WHICH WE ARE REQUIRED TO REPORT BY EXCEPTION

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion

- adequate accounting records have not been kept by the parent Company, or returns adequate for our audit have not been received from branches not visited by us, or
- the parent Company financial statements are not in agreement with the accounting records and returns, or
- certain disclosures of Directors' remuneration specified by law are not made, or
- we have not received all the information and explanations we require for our audit

OTHER MATTER

We have reported separately on the Group financial statements of Media Square plc for the year ended 28 February 2010

Grant Thornton UK LLP

David Miller
Senior Statutory Auditor
for and on behalf of Grant Thornton UK LLP
Statutory Auditor, Chartered Accountants
London
18 June 2010

Company balance sheet

as at 28 February 2010

	Note	2010 £'000	2009 £'000
Fixed assets			
Tangible assets	4	**88**	83
Investments	5	**54,654**	77,222
		54,742	77,305
Current assets			
Debtors amounts owing within one year	6	**2,204**	2,733
Debtors amounts owing after one year	6	**-**	100
Cash at bank and in hand		**-**	4,131
		2,204	6,964
Creditors amounts falling due within one year	7	**(5,885)**	(10,245)
Net current liabilities		**(3,681)**	(3,281)
Total assets less current liabilities		**51,061**	74,024
Creditors amounts falling due after one year	8	**(20,212)**	(15,618)
Net assets		**30,849**	58,406
Capital and reserves			
Issued share capital	11	**3,617**	3,317
Share premium account	12	**37,866**	37,686
Capital redemption reserve	12	**13,268**	13,268
Share-based payment reserve	12	**714**	800
Investment in own shares	12	**(1,385)**	(905)
Profit and loss account	12	**(23,231)**	4,240
Equity shareholders' funds		**30,849**	58,406

The financial statements were approved by the Board of Directors on 18 June 2010 and signed on its behalf by

P. Reid

Peter Reid
Director

Bruce Winfield
Director

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

Notes to the company financial statements

for the year ended 28 February 2010

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

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 rates generally applicable are

Plant and machinery	6 7% to 33% per annum
Motor vehicles	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 612 of the Companies Act 2006 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

The Company has made loans to subsidiaries that, in substance, form part of the Company's net investment in those subsidiaries Settlement is neither planned nor likely in the foreseeable future Whilst these loans are repayable at the discretion of the parent, no such request is expected on those loans treated as long term in nature and included as part of the investments Such loans which fall under this definition have been reclassified to fixed asset investments

Investments and long-term loans to subsidiaries are impaired where the net assets of subsidiaries owned fall below the carrying value of the investment and the shortfall is not forecast to reverse within the foreseeable future

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 the 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

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 Company after deducting all of it liabilities Dividends and distributions relating to equity instruments are debited direct to equity

Notes to the company financial statements

for the year ended 28 February 2010

Financial assets
Financial assets are divided into the following categories loans and receivables and financial assets at fair value through profit or loss 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 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

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

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

A financial asset is de-recognised only where the contractual rights to the cash flows from the asset expire or the financial asset is transferred and that transfer qualifies for de-recognition A financial asset is transferred if the contractual rights to receive the cash flows of the asset have been transferred or the 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 de-recognition if the Company transfers substantially all the risks and rewards of ownership of the asset, or if the 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 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 de-recognised only when the obligation is extinguished, that is, when the obligation is discharged or cancelled or expires

Notes to the company financial statements

for the year ended 28 February 2010

Financial instruments - derivatives
All derivatives are recognised at fair value through profit or loss The value of the derivative is reassessed and fair valued at each reporting date

During the year the Company had an interest swap in place which is separately identified in the balance sheet

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

Pension costs
The Company 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 Company's assets

Share-based employee remuneration
Media Square plc makes awards of share-based payments to the employees of the Company and its subsidiary companies As part of the remuneration of its employees the associated non-cash expense is charged over the vesting period of the share-based payment within the income statement of the parent All share-based payment arrangements are recognised in the consolidated financial statements The Company operates equity-settled share-based remuneration plans for remuneration of its employees and those of its subsidiary companies

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-based payments 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 the income statement 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-based payments, any 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

Investment in own shares
Investment in own shares represents the costs incurred by the Company to acquire its own shares

Notes to the company financial statements

for the year ended 28 February 2010

1 LOSS FOR THE FINANCIAL YEAR

The Company has taken advantage of section 408 of the Companies Act 2006 and has not included its own profit and loss account in these financial statements The Company's loss for the year was £28,024,000 (2009 loss of £48,000)

2 DIRECTORS AND EMPLOYEES

Staff costs during the year were as follows

	2010 £'000	2009 £'000
Wages and salaries	1,425	1,772
Share-based payments	465	586
Social security costs	171	207
Pension costs	46	67
	2,107	2,632

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

	2010 No.	2009 No
Directors	4	4
Administration and support	16	19
	20	23

Directors' remuneration
For the year ended 28 February 2010

	Salary/ fees £'000	Benefits in kind £'000	Compensation for loss of office £'000	Total year ended 28 02 2010 £'000	Total year ended 28 02 2009 £'000	Pension year ended 28 02 2010 £'000	Pension year ended 28 02 2009 £'000
Executive Directors							
Roger Parry (i)	209	10	188	407	260	-	-
Peter Reid (ii)	55	2	-	57	-	3	-
Bruce Winfield (iii)	161	8	-	169	-	6	-
Graeme Burns (iv)	71	6	27	104	214	10	30
Non Executive Directors							
Roger Parry (v)	8	-	-	8	-	-	-
Nigel Bacon (vi)	19	-	13	32	40	-	-
Michael George	25	-	-	25	40	-	-
Neil Canetty-Clarke (vii)	7	-	-	7	-	-	-
	555	26	228	809	554	19	30

(i) Roger Parry resigned as Executive Chairman on 31 December 2009
(ii) Peter Reid was appointed to the Board on 5 November 2009 and as the Group Chief Executive on 1 January 2010
(iii) Bruce Winfield was appointed as the Group Finance Director on 24 April 2009
(iv) Graeme Burns resigned on 30 June 2009
(v) Roger Parry was appointed Non Executive Chairman on 1 January 2010
(vi) Nigel Bacon resigned on 18 November 2009
(vii) Neil Canetty-Clarke was appointed on 24 November 2009

Share-based payment charge

	2010 £'000	2009 £'000
Roger Parry	28	154
Peter Reid	21	20
Bruce Winfield	15	15
	64	189

Notes to the company financial statements

for the year ended 28 February 2010

3 SHARE-BASED REMUNERATION

All details on share options, warrants and restricted stock schemes are included in note 8 of the Group financial statements

4 TANGIBLE FIXED ASSETS

	Leasehold improvements £'000	Plant and machinery £'000	Motor vehicles £'000	Total £'000
Cost				
At 1 March 2009	-	416	38	454
Additions	58	4	-	62
Disposals	-	(2)	(17)	(19)
At 28 February 2010	**58**	**418**	**21**	**497**
Depreciation				
At 1 March 2009	-	333	38	371
Provided in the year	8	48	-	56
Disposals	-	(1)	(17)	(18)
At 28 February 2010	**8**	**380**	**21**	**409**
Net book value at 28 February 2010	**50**	**38**	**-**	**88**
Net book value at 28 February 2009	-	83	-	83

The net book value of assets held under hire purchase agreements and finance leases is nil (2009 nil)

5 FIXED ASSETS INVESTMENTS

	2010 £'000	2009 £'000
Investments in Group undertakings	**36,258**	36,258
Amounts owed by subsidiary undertakings	**43,396**	40,964
Impairment	**(25,000)**	-
	54,654	77,222

During the current year an impairment loss of £25 million (2009 £nil) has been recognised within the Company financial statements which has arisen primarily due to the Global recession's impact on a number of the trading subsidiaries key markets Whilst management have taken corrective action to address this in the current year, the forecast cash flows of the subsidiaries, when sensitised, do not support the £79 7 million carrying value of investments Management has sensitised the current operating cash flow forecasts and determined, based on a conservative performance for the trading subsidiaries, that a £25 million impairment charge is required

A full list of trading subsidiary undertakings is given in note 14 to these financial statements

Notes to the company financial statements

for the year ended 28 February 2010

6 DEBTORS

	2010 £'000	2009 £'000
Other debtors	110	352
Corporation tax	436	350
Deferred tax (note 10)	486	676
Amounts owed by subsidiary undertakings	560	929
Retained consideration	475	470
Prepayments and accrued income	137	56
	2,204	2,833

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

	2010 £'000	2009 £'000
Retained consideration	-	100
	-	100

7 CREDITORS AMOUNTS FALLING DUE WITHIN ONE YEAR

	2010 £'000	2009 £'000
Bank overdrafts	1,083	2,890
Bank loans (note 8 and 9)	3,367	167
Loan notes (note 9)	-	5,475
Trade creditors	86	161
Other taxation and social security	12	51
Other creditors	104	199
Amounts owed to group undertakings	57	-
Retained consideration	93	100
Accruals and deferred income	1,083	1,202
	5,885	10,245

The bank loans and overdrafts are secured by a fixed and floating charge over the parent and its 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

Notes to the company financial statements

for the year ended 28 February 2010

8 CREDITORS AMOUNTS FALLING DUE AFTER ONE YEAR

	2010 £'000	2009 £'000
Bank loans (note 9)	19,172	14,413
Derivative financial liability	1,040	1,205
	20,212	15,618

As at 28 February 2010, bank loans amounted to £22,860,500 consisting of two term loan facilities (B and C) and a drawdown of the revolving loan facility of £3,200,000 Facility B amounted to £17,675,000 repayable in full in April 2011 and is subject to an interest rate of 3 75% above LIBOR Facility C amounted to £1,985,000 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 2 75% above LIBOR On 5 March 2009, following the redemption of the loan notes, with a face value of £5,084,000, term loan facility B was increased by £5,475,000 to £18,225,000 On 30 October 2009, term loan facility B was reduced by £549,500 to £17,675,000 Interest rate swaps have been entered into in respect of these facilities

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

9 BORROWINGS

Borrowings are repayable as follows

	2010 £'000	2009 £'000
Within one year		
Bank overdrafts	1,083	2,890
Bank loans and overdrafts	3,367	167
Loan notes	-	5,475
After one and within two years		
Bank loans	18,000	158
After two and within five years		
Bank loans	1,172	14,255
	23,622	22,945

10 DEFERRED TAXATION

The following timing differences have arisen at 28 February 2010

	2010 £'000	2009 £'000
Accelerated capital allowances	(95)	(143)
Other timing differences	(391)	(533)
Deferred tax asset	(486)	(676)

The movement on the deferred tax asset is as shown below

	£'000
At 1 March 2009	(676)
Provided in the year	190
At 28 February 2010	(486)

Notes to the company financial statements

for the year ended 28 February 2010

11 SHARE CAPITAL

All details on share capital are included in note 24 of the Group financial statements

12 RESERVES

	Share premium account £'000	Capital redemption reserve £'000	Share-based payments reserve £'000	Investment in own shares £'000	Profit and loss account £'000
At 28 February 2009	37,686	13,268	800	(905)	4,240
Loss for the year	-	-	-	-	(28,024)
Shares issued to Employee Benefit Trust	180	-	-	(480)	-
Share-based payments vested in the year	-	-	(553)	-	553
Share-based payments for the year	-	-	467	-	-
At 28 February 2010	**37,866**	**13,268**	**714**	**(1,385)**	**(23,231)**

13 DERIVATIVES

The only derivative contract in existence during the period relates to an interest rate swap on the Company's bank borrowings The derivative is recognised at fair value through profit or loss and is recorded in the profit and loss account under finance costs and within the balance sheet under current assets or liabilities The value of the derivative is reassessed and fair valued at each reporting date

14 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
Arken P O P Limited	P	UK	100%
Chick Smith Trott Limited	P	UK	100%
Clark McKay and Walpole Limited	P	UK	100%
Fourninety Limited	P	UK	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 Brand Communications 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%
Holmes and Marchant Pte Limited	P	Singapore	100%
Lloyd Northover Yeang Pte Limited	P	Singapore	100%
Symmetry Marketing 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	100%
The Gate Worldwide Limited	P	UK	100%
The Gate Worldwide LLC	P	United States	100%
The Gate Worldwide (S) Pte Limited	P	Singapore	100%
Wax Communications Limited	P	UK	100%

* indicates directly held by Media Square Plc
P indicates principal activity is that of advertising/PR, design and marketing
H indicates principal activity is that of a holding or management company