

mediasquare

**interim
statement
2009/10.**

Summary

- **Revenue of £24.3 million**
(2008 restated: £32.6 million)
- **Headline EBITDA loss of £1.0 million**
(2008 restated: profit of £2.8 million)
- **Headline operating loss of £1.5 million**
(2008 restated: profit of £2.0 million)
- **Net debt at 31 August 2009 reduced to £15.5 million**
(31 August 2008: £17.1 million)
- **New Chief Executive appointed: Mr Peter Reid**
- **New Non Executive Director appointed:
Mr Neil Canetty-Clarke**

Chairman's statement

for the six months ended 31 August 2009

Overview

2009 has been a particularly challenging year for most marketing communications agencies. Media Square plc ("MSQ" or the "Company") is no exception. In the reported six months (March to August 2009) we have seen the level of spending from our clients significantly reduced when compared to the same period in 2008. While the Company has substantially maintained its client-base, existing clients have been spending less and deferring projects.

Lehman Brothers collapsed in September 2008 just at the time when many companies were considering their marketing budgets for 2009. This event and the subsequent banking crisis undoubtedly had a very significant impact on both consumer confidence and marketing spending particularly over the interim period.

In the six months ended 31 August 2009, Group revenue for the period was £24.3 million, down 25% on last year (2008: £32.6 million). The bulk of this decline represents reduced spending by existing clients who continue to be served by the Group's various agencies. The overall degree of reduction in spend that we have experienced is at the higher end of levels experienced by other marketing communications groups, which reflects the relatively large number of clients we have in automotive and financial services which have been hard-hit sectors.

As highlighted in the Company's announcement on 26 August, the business was loss-making in the first half of the year, and headline EBITDA for the six months was a loss of £1.0 million (2008: profit of £2.8 million).

Operating margin reduced by 12 percentage points, reflecting the drop in revenue which was partly mitigated by a reduction of costs in the period.

Headline operating loss for the period was £1.5 million (2008: £2.0 million profit).

During the 12 months to 31 August 2009 underlying net debt has reduced to £15.5 million (31 August 2008: £17.1 million).

The Board has not declared an interim dividend.

Responding to recession

The credit crunch and economic slump came at a particularly frustrating time for Media Square as we had only just completed the first year of a three-year restructuring programme (commenced September 2007). This initiative followed a number of years of reckless, acquisition-led growth which had led to high debts, weak management controls and low operating margins.

Despite the restructuring, the Company still has relatively high levels of debt and a number of the Media Square agencies are still operating at margins well below industry best practice. The best way to improve margins is to win new business but, in the face of the recession, we recognised that the only prudent response was to initiate a wide range of actions to further reduce our cost base. This was not part of the original restructuring plan but a response to the recent slump. This had a short-term cash cost but will deliver a long-term improvement in economics.

Chairman's statement

for the six months ended 31 August 2009

The major cost reduction actions were mostly completed towards the end of the interim period so had a limited impact in the reported period. The key actions were the:

- Accelerated exit from a number of properties, thus reducing the space available by approximately 40,000 square feet since 2007.
- Merger of a number of agencies to share costs and reduce overheads. We now have 11 main agencies, down from more than 40 in 2007.
- Further reduction in central costs. In 2010 central costs will be about £2m a year compared to £6m a year in 2007.

We have also reduced headcount in a number of agencies and taken other steps such as part-time working arrangements and a reduction in the use of freelance staff.

Reforming remuneration

The agencies that make up Media Square have all been acquired over recent years and thus had a wide range of different remuneration policies. The problem in many cases dates back to when they were acquired by Incepta plc. Many of the agencies had developed relatively high fixed salaries combined with generous short-term annual cash bonuses. This is exactly the wrong approach for a publicly listed agency group and accordingly a radical reformation of remuneration policies has been underway over the course of the turnaround and will be completed in 2010. We need to align the interests of shareholders and senior managers more closely.

Going forward, as highlighted in our 2009 annual report, the Group's Restricted Share Scheme will play a much larger role in remuneration with more tightly managed fixed remuneration costs and a reduced emphasis on cash bonuses. We have also sought to reform other legacy share incentive schemes and, as part of this process, employees have agreed to cancel some 2.9 million stock options and warrants that are currently outstanding and would vest over the coming year.

The new Restricted Share Scheme will have a three-year vesting period, with vesting conditional on the achievement of challenging operating margin and profit growth targets by the agency which employs the recipient. We have today issued 3 million 10p ordinary shares into a newly created Employee Benefit Trust (the "Trust") to cover future awards under this plan. We have also transferred all of the Company's 931,900 10p ordinary shares currently held in Treasury into the Trust. This was always part of the restructuring plan.

Improving margins

Ultimately the financial health of Media Square and its equity value are going to be a function of how much revenue our agencies earn and what level of profit margin they achieve on the work. Historically, the Media Square agencies have been relatively poor on both of the above counts as they have suffered a lot from rapid changes of corporate ownership and corporate strategy. They were victims of a buy and build approach without enough emphasis on managerial excellence and organic growth.

Chairman's statement

for the six months ended 31 August 2009

Increasing our revenues is simply a function of providing top-quality client services and having an energetic and effective new business approach. While the Group has continued to enjoy an improved new business record, the level of new business wins remains below desired levels and has not been able to mitigate the effect of client cutbacks. Winning new business and capturing increases in spend by existing clients (as marketing budgets recover) will therefore remain a major priority for the Group and its individual agencies.

Improving profit margins is a function of how efficiently we manage ourselves. Agencies now have the tools in place to monitor their overall level of efficiency (e.g. improved approach to forecasting, client profitability and staff utilisation systems), but many remain sub-scale or have suffered from falling revenue. Looking forward, therefore, on-going efforts will be required to create efficiencies through greater scale, which could include selective merger activity, and identifying efficiencies within agencies' operating models.

Preparing for the future

Media Square has had a very chequered past but we hope that it is now positioned for a far more successful future. The senior management team meet together on a regular basis and are committed to developing the business.

We believe that we are a group of individual creative agencies, each with its own unique character and capabilities. We are not trying to be a one-stop shop but we do believe that somewhere within the Group we will have a solution to most clients' marketing communications needs.

All the individual agency Managing Directors have signed up to achieving goals of double digit operating margins and each agency now has in place its own clear growth strategy. If we can achieve our self-imposed margin goals and enjoy even single figure annual improvements in revenues (we all obviously hope to do much better than this), then we will relatively quickly be able to pay down the Group's debt which will allow us to move into the more normal corporate situation of paying dividends and growing by carefully selected tuck-in acquisitions.

Managing the Group going forward

In June of 2007 I was asked at very short notice to become Executive Chairman of Media Square as the company was in turmoil and needed urgent and radical restructuring. At the time it was explained to shareholders that the unconventional role of Executive Chairman was being created purely to manage the restructuring process, as it was too expensive to bring in a new CEO and a new Chairman. We said at the time that we did not see it as an appropriate long-term management solution.

In June of 2009 we announced in the annual report that, as the restructuring process was coming to an end, I would be standing down as Executive Chairman and moving into a conventional Non-Executive role, and that a new Chief Executive would be appointed.

Chairman's statement

for the six months ended 31 August 2009

During the summer the Board consulted with a number of executive search firms and also with several of our major shareholders. A detailed job description for the new Chief Executive was drawn up and discussed with certain shareholders.

On 5 November we announced that Mr Peter Reid who is currently the Group Development Director was being promoted to the newly created Chief Executive position. Mr Reid joined the Board with immediate effect and will take over as CEO on 1 January 2010.

On 18 November we also announced that Nigel Bacon was stepping down as a Non Executive Director. Nigel has been on the Board since March 2004 and was Chairman at the time the company acquired the Marketing Services Group from Huntsworth plc.

We have announced, the appointment of a new Non Executive Director, Mr Neil Canetty-Clarke who has extensive experience in the media sector. Mr Canetty-Clarke will become Chairman of the Audit Committee. On behalf of the Board and shareholders I would like to welcome him at this exciting time for the company.

The Board is currently engaged in a search for an additional Non Executive Director who will be appointed next year. This will bring us into line with corporate governance best practice.

Once these changes are complete, we will have a well balanced Board, with the right mix of expertise.

Current trading

The second half of our current financial year has started well with the first two months (September and October) showing profitable trading, this reflects the significant reduction in operating costs. Revenues, however, are still below those of last year, for the same period, which reflects the client cutbacks we have seen throughout 2009. On current performance the Group is well positioned to show a significantly better performance in the second half of the year.

The Board are in discussions about the possible disposal of two non-core, profitable, business units. If the sales go through, the proceeds plus cash from operations in the second half should lead to a reduction in Group debt by the financial year end (February 2010). We are also in discussions about the acquisition of a small agency to strengthen one of our existing businesses.

Finally, on a personal note, I would again like to take the opportunity to thank all the staff at Media Square, our Bank – now Lloyds Banking Group – and our brokers, Collins Stewart, for their enduring support and hard work in the on-going development of Media Square.

Roger Parry

Executive Chairman

24 November 2009

Consolidated income statement

for the six months ended 31 August 2009

		6 months ended 31 August 2009	6 months ended 31 August 2008 Restated	Year ended 28 February 2009
	Note	£'000 Unaudited	£'000 Unaudited	£'000 Audited
Turnover		44,921	64,194	121,264
Revenue	3	24,324	32,631	64,007
Administrative expenses		(25,855)	(30,599)	(61,746)
Headline operating (loss)/profit	3	(1,531)	2,032	2,261
Exceptional items	4	(552)	-	2,209
Share based payments		(234)	(295)	(586)
Operating (loss)/profit	3	(2,317)	1,737	3,884
Loss on disposal of subsidiary undertakings		-	-	(368)
Finance costs		(911)	(1,084)	(1,983)
Finance costs relating to derivative		-	-	(1,263)
Finance income		15	121	186
Finance income relating to derivative		24	218	-
Net finance cost		(872)	(745)	(3,060)
(Loss)/ profit from continuing operations before tax		(3,189)	992	456
Tax on loss/ (profit)		302	(284)	398
(Loss)/ profit from continuing operations		(2,887)	708	854
Loss from discontinued operations		-	(372)	(1,601)
(Loss)/profit for the period		(2,887)	336	(747)
Attributable to:				
Parent company's shareholders		(2,887)	374	(700)
Minority interests		-	(38)	(47)
(Loss)/profit transferred to reserves		(2,887)	336	(747)
Basic (loss)/earnings per share from total operations	5	(8.96p)	1.16p	(2.17p)
Diluted (loss)/earnings per share from total operations	5	(8.96p)	0.98p	(2.17p)

Consolidated statement of comprehensive income

for the six months ended 31 August 2009

	6 months ended 31 August 2009	6 months ended 31 August 2008 Restated	Year ended 28 February 2009
	£'000 Unaudited	£'000 Unaudited	£'000 Audited
(Loss)/profit for the period	(2,887)	336	(747)
Other comprehensive income:			
Exchange differences on translating foreign operations	144	58	707
Other comprehensive income for the period	144	58	707
Total comprehensive (expense)/income for the period	(2,743)	394	(40)

Consolidated statement of financial position

as at 31 August 2009

	Note	At 31 August 2009 £'000 Unaudited	At 31 August 2008 £'000 Unaudited	At 28 February 2009 £'000 Audited
Non-current assets				
Goodwill		40,289	40,256	40,289
Property, plant and equipment		5,743	6,788	6,018
Financial assets		533	284	533
Trade and other receivables		-	150	-
Deferred tax		2,303	1,387	1,966
		48,868	48,865	48,806
Current assets				
Inventories		1,308	2,195	1,033
Trade and other receivables		17,767	28,423	20,723
Corporation tax		183	-	280
Cash and cash equivalents		9,152	5,032	11,001
		28,410	35,650	33,037
Total assets		77,278	84,515	81,843
Current liabilities				
Trade and other payables		(28,100)	(32,614)	(30,090)
Corporation tax		-	(70)	(19)
Borrowings	7	(1,167)	(154)	(167)
Financial liabilities	7	(5)	(5,485)	(5,482)
		(29,272)	(38,323)	(35,758)
Non-current liabilities				
Borrowings	7	(19,805)	(16,473)	(14,414)
Financial liabilities		(1,182)	(12)	(1,205)
Provisions for liabilities		(1,187)	(1,770)	(2,125)
		(22,174)	(18,255)	(17,744)
Total liabilities		(51,446)	(56,578)	(53,502)
Net assets		25,832	27,937	28,341
Shareholders' funds				
Share capital		3,317	3,317	3,317
Share premium account		37,686	37,686	37,686
Capital redemption reserve		13,268	13,268	13,268
Merger reserve		5,078	5,078	5,078
Share based payment reserve		1,034	689	800
Investment in own shares		(905)	(905)	(905)
Translation reserve		371	(422)	227
Retained earnings		(34,017)	(30,236)	(31,130)
Equity shareholders' funds		25,832	28,475	28,341
Minority interests		-	(538)	-
Total equity		25,832	27,937	28,341

Consolidated statement of change in equity

for the six months ended 31 August 2009

	Issued capital £'000	Share premium account £'000	Capital redem- ption reserve £'000	Merger reserve £'000	Share based payment reserve £'000	Invest- ment in own shares £'000	Trans- lation 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 equity	-	-	-	-	-	-	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	-	-	-	-	-	-	-	-
Share buy-backs	-	-	-	-	-	(100)	-	-	(100)	-	(100)
Liquidation of minority interest	-	-	-	-	-	-	-	-	-	547	547
Employee shared 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 gain arising on consolidation	-	-	-	-	-	-	144	-	144	-	144
Net profit recognised directly in equity	-	-	-	-	-	-	144	-	144	-	144
Loss for the period	-	-	-	-	-	-	-	(2,887)	(2,887)	-	(2,887)
Total recognised loss for the period	-	-	-	-	-	-	144	(2,887)	(2,743)	-	(2,743)
Employee shared based compensation	-	-	-	-	234	-	-	-	234	-	234
Balance at 31 August 2009	3,317	37,686	13,268	5,078	1,034	(905)	371	(34,017)	25,832	-	25,832

Consolidated cash flow statement

for the six months ended 31 August 2009

	Note	6 months ended 31 August 2009 £'000 Unaudited	6 months ended 31 August 2008 £'000 Unaudited	Year ended 28 February 2009 £'000 Audited
Cash (outflow)/inflow from operating activities				
Cash (outflow)/ inflow from operating activities before tax	8	(666)	(4,276)	3,691
Corporation tax received/ (paid)		9	52	(10)
Net cash (outflow)/ inflow from operating activities after tax		(657)	(4,224)	3,681
Cash (outflow)/ inflow from investing activities				
Finance income received		15	134	199
Acquisition of subsidiary undertakings		(99)	(81)	(97)
Purchase of property, plant and equipment		(346)	(609)	(980)
Disposal of subsidiary undertakings		33	5,469	5,409
Proceeds from disposals of property, plant and equipment		1	16	146
Net cash reclassified as asset held for resale		-	-	(363)
Net cash impaired due to closure of subsidiary		-	(313)	-
Net cash (outflow)/inflow from investing activities		(396)	4,616	4,314
Cash inflow/ (outflow) from financing activities				
Purchase of treasury shares		-	(100)	(100)
Finance cost paid		(778)	(832)	(1,540)
Repayment of borrowings		(190)	(4,190)	(6,380)
Drawdown of revolver facility		1,000	-	-
Capital element of hire purchase agreements		(2)	(97)	(158)
Net cash inflow/(outflow) from financing activities		30	(5,219)	(8,178)
Net decrease in cash and cash equivalents		(1,023)	(4,827)	(183)
Cash and cash equivalents at beginning of period		11,001	9,632	9,632
Effect of exchange rate changes on the balance of cash held in foreign subsidiaries		(826)	227	1,552
Cash and cash equivalents at end of period		9,152	5,032	11,001

Notes to the consolidated financial statements

for the six months ended 31 August 2009

1. General Information

Media Square plc and its subsidiaries' principal activities are marketing communications and marketing services.

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

The financial information set out in the interim report does not constitute statutory accounts as defined in Section 434 of the Companies Act 2006. The Group's statutory financial statements for the year ended 28 February 2009, prepared under International Financial Reporting Standards (IFRS), have been filed with the Registrar of Companies. The auditor's report on those financial statements was unqualified and did not contain a statement under Section 237(2) of the Companies Act 1985.

The interim report was approved by the Board on 23 November 2009.

2. Basis of preparation

This consolidated financial information for the six months ended 31 August 2009 has been prepared in accordance with IAS 34, "Interim Financial Reporting" as adopted by the European Union. The half-yearly consolidated financial report should be read in conjunction with the annual financial statements for the year ended 28 February 2009, which have been prepared in accordance with IFRS as adopted by the European Union.

This interim financial information has been prepared using the accounting policies set out in the Group's 2009 statutory accounts.

Copies of the interim results for the six months ended 31 August 2009 are being sent to all shareholders. A copy can also be found on the Company's website at www.mediasquare.co.uk.

Going concern

The interim report has been prepared on the basis that the Group is a going concern as the Directors have prepared cash flow forecasts which support this and the Group's loan finance funding is secured and committed until April 2011 and October 2014.

Prior year restatement of income statement

The income statement for the six months ended 31 August 2008 has been restated to separate income statement and cash flows of the discontinued South African operations from those of the continuing operations as required under IFRS 5 Non Current Assets Held for Sale and Discontinued Operations.

Notes to the consolidated financial statements

for the six months ended 31 August 2009

3. Segmental analysis

6 months ended 31 August 2009	Advertising £'000	Marketing £'000	Design £'000	Unallocated £'000	Eliminations £'000	Total £'000
Revenue						
from external customers	12,713	5,127	6,484	-	-	24,324
from other segments	75	5	-	-	(80)	-
Segment revenues	12,788	5,132	6,484	-	(80)	24,324
Headline operating profit/ (loss)	229	(86)	(149)	(1,525)	-	(1,531)

The unallocated operating loss relates to central costs.

6 months ended 31 August 2008	Advertising £'000	Marketing £'000	Design £'000	Unallocated £'000	Eliminations £'000	Total £'000
Revenue						
from external customers	16,099	6,399	10,133	-	-	32,631
from other segments	81	9	82	-	(172)	-
Segment revenues	16,180	6,408	10,215	-	(172)	32,631
Headline operating profit/ (loss)	2,174	273	1,194	(1,609)	-	2,032

The unallocated operating loss relates to central costs of £1.8m and foreign exchange gains of £0.2m.

Year ended 28 February 2009	Advertising £'000	Marketing £'000	Design £'000	Unallocated £'000	Eliminations £'000	Total £'000
Revenue						
from external customers	31,484	12,339	20,184	-	-	64,007
from other segments	176	15	362	-	(553)	-
Segment revenues	31,660	12,354	20,546	-	(553)	64,007
Headline operating profit/ (loss)	2,899	508	2,174	(3,320)	-	2,261

The unallocated operating loss relates to central costs of £3.7m and foreign exchange gains of £0.4m.

A reconciliation of segment headline operating (loss)/ profit to (loss)/ profit from continuing operations before tax is provided below:

	6 months ended 31 August 2009 £'000	6 months ended 31 August 2008 £'000	Year ended 28 February 2009 £'000
Segment headline operating (loss)/ profit	(1,531)	2,032	2,261
Exceptional items	(552)	-	2,209
Share based payments	(234)	(295)	(586)
Operating (loss)/ profit	(2,317)	1,737	3,884
Loss on disposal of subsidiary undertakings	-	-	(368)
Net finance costs	(872)	(745)	(3,060)
(Loss)/ profit from continuing operations before tax	(3,189)	992	456

Notes to the consolidated financial statements

for the six months ended 31 August 2009

4. Exceptional items

	6 months ended 31 August 2009 £'000	6 months ended 31 August 2008 £'000	Year ended 28 February 2009 £'000
Restructuring and reorganisation costs	(710)	-	(999)
Property related provisions, costs and impairments	-	-	(1,382)
Release of transaction cost accruals	-	-	1,138
Release of acquisition provisions	158	-	3,452
	(552)	-	2,209

5. (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 (loss)/ earnings per share is based on the (loss)/ profit on ordinary activities after tax and on the weighted average number of Ordinary shares and share options in issue during the period. Given the loss incurred in the six months ended 31 August 2009, the loss incurred on the discontinued operations in the six month period to 31 August 2008 and the loss incurred from the total and discontinued operations in the year to 28 February 2009 the effect of the share options and retained consideration are anti-dilutive and as such no diluted earnings per share figure has been produced.

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

	6 months ended 31 August 2009			6 months ended 31 August 2008			Year ended 28 February 2009		
Basic earnings/(loss) per share	Loss £'000	Weighted average number of shares	Loss per share pence	Profit/ (Loss) £'000	Weighted average number of shares	Earnings/ (loss) per share pence	(Loss)/ profit £'000	Weighted average number of shares	(Loss)/ earnings per share pence
Basic (loss)/earnings per share from total operations									
(Loss)/earnings attributable to ordinary shareholders	(2,887)	32,238,713	(8.96p)	374	32,247,172	1.16p	(700)	32,244,916	(2.17p)
Basic (loss)/earnings per share on continuing operations									
(Loss)/earnings attributable to ordinary shareholders	(2,887)	32,238,713	(8.96p)	746	32,247,172	2.31p	901	32,244,916	2.79p
Basic loss per share on discontinued operations									
Loss attributable to ordinary shareholders	-	32,238,713	-	(372)	32,247,172	(1.15p)	(1,601)	32,244,916	(4.97p)
Diluted earnings per share				Profit £'000	Weighted average number of shares	Earnings per share pence	Profit £'000	Weighted average number of shares	Earnings per share pence
Diluted earnings per share from total operations									
Earnings attributable to ordinary shareholders				374	38,216,676	0.98p	-	-	-
Diluted earnings per share on continuing operations									
Earnings attributable to ordinary shareholders				746	38,216,676	1.95p	901	38,430,041	2.34p

Notes to the consolidated financial statements

for the six months ended 31 August 2009

6. Dividend

The Board of Directors does not recommend the payment of a dividend.

7. Borrowings and financial liabilities

	At 31 August 2009 £'000	At 31 August 2008 £'000	At 28 February 2009 £'000
Borrowings (current)	(1,167)	(154)	(167)
Financial liabilities (current)	(5)	(5,485)	(5,482)
	(1,172)	(5,639)	(5,649)
Borrowings (non-current)	(19,805)	(16,473)	(14,414)
	(20,977)	(22,112)	(20,063)

Included within current financial liabilities at 31 August 2008 and 28 February 2009 was a loan note carried at £5,427,000 and £5,475,000 respectively. The loan notes were redeemed in full on 4 March 2009 and the guarantees thereon issued by the Group's bankers were wholly discharged. On 5 March 2009, following the redemption of the loan notes, term loan facility B was increased by £5,475,000.

At 31 August 2009 the Group had drawn £1,000,000 of its revolving credit facility which was repaid on 4 September 2009. At 31 August 2009 £8,565,000 of the revolving credit facility remained undrawn and available

8. Net cash inflow/(outflow) from operating activities

	6 months ended 31 August 2009 £'000	6 months ended 31 August 2008 £'000	Year ended 28 February 2009 £'000
Operating (loss)/profit	(2,317)	1,737	3,884
Operating loss from discontinued operations	-	(708)	(858)
Depreciation	549	831	1,556
(Loss)/gain on disposal of property, plant & equipment	13	(3)	(19)
Impairment of property, plant & equipment	-	-	253
Release of excess acquisition accruals	-	-	(628)
Share based payments	234	295	586
(Increase)/ decrease in stocks and work in progress	(315)	(508)	671
Decrease in receivables	2,373	20	8,055
Decrease in payables	(1,203)	(5,940)	(9,809)
Net cash (outflow)/inflow from operating activities	(666)	(4,276)	3,691

9. Analysis of changes in net debt

	At 28 February 2009 £'000	Cash flows £'000	Non-Cash Transactions £'000	At 31 August 2009 £'000
Cash at bank	11,001	(1,023)	(826)	9,152
Borrowings	(14,581)	(6,285)	(106)	(20,972)
Loan notes	(5,475)	5,475	-	-
Obligations under finance lease and hire purchase agreements	(7)	2	-	(5)
Net debt	(9,062)	(1,831)	(932)	(11,825)

Included within cash and cash equivalents is £3.7 million of cash held for use on specific projects (28 Feb 2009: £4.3m) and the use of this cash is therefore restricted to use on those projects only.

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