

MEDIA SQUARE plc
Annual Report 2004

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CHAIRMAN'S STATEMENT

For the year ended 31 October 2004

Chairman's statement

This is my first statement as Chairman of Media Square having joined the Group following the acquisition of Coutts Holdings in mid-October last year. 2004 was an exciting time for the Group as a whole; Media Square has more than doubled in size not only in terms of turnover and profitability, but also in terms of our product offering on both the creative and production elements of the business. Last year's focus on the acquisition of strong management teams and leading businesses, with solid asset backing, has helped to create a Group that is well placed for significant future growth, both organically and by acquisition.

During the last two and half years Media Square has determinedly followed a closely defined strategy to build a strong and sustainable business, with intrinsic momentum and a bright future. This strategy has resulted in the creation of a profitable group of businesses with an enviable client list.

Today Media Square consists of eight operating companies in five core locations, employing some 680 people and providing a unique range of services to more than 900 active clients. The business now enjoys average monthly sales of some £5.0 million, against an average of £1.6 million for the whole of last year, and average monthly revenues of £3.4 million.

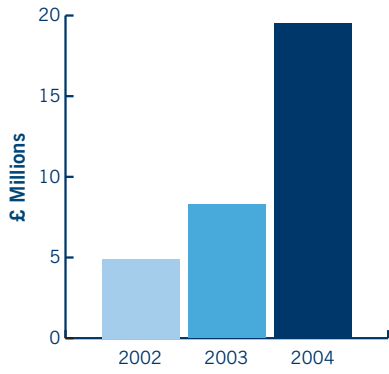
During the year under review, whilst the Group continued to develop its existing businesses, it completed six acquisitions, each of which has added to the profitability, service proposition and reach of the Group. This expansion of the business has been achieved quickly and with a good degree of financial and operational prudence.

Media Square has put together an exceptionally talented and dedicated team and I would, on behalf of the Board, like to thank all our employees for their commitment and hard work throughout the last 12 months. I would also like to offer the thanks of everyone at Media Square to our shareholders for their support and encouragement throughout the last year.

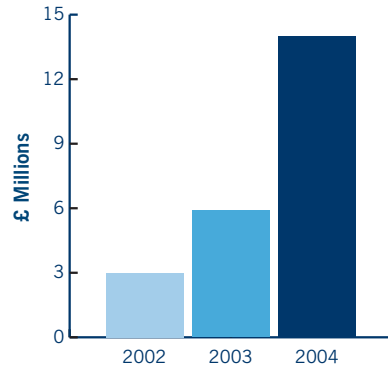
This year has started well with notable new client wins across the Group and our new subsidiary companies are beginning to benefit from becoming part of the Media Square group. The Board views the future with both excitement and confidence and we look forward to reporting on our progress.

Robert Essex
Chairman

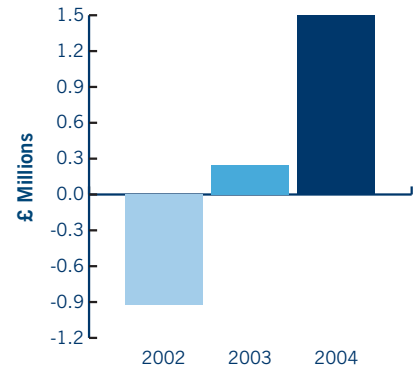
21 February 2005



Record year-on-year sales growth



Revenue increased by 134%



Pre-tax profit exceeds expectations

Business and operational highlights

Sales increased by 134 per cent to £19.5 million.

Revenue increased by 134 per cent to £14.0 million.

Operating profit, before exceptional items, increased five-fold to £1.4 million, from £316,000 in the previous year. **Profit before tax increased almost six-fold to**

£1.5 million, from £256,000 last year. EBITDA increased by 207 per cent to £2.0 million, from £0.7 million in 2003. **Earnings per share increased by 63**

per cent to 1.19 pence. Successful integration of six acquisitions during the course of the year. **Swift reduction in debt and gearing following disposal of non-core assets and businesses acquired with Coutts Holdings plc.**

Positive cash position at the year end. **Enlarged Group achieving average monthly sales in excess of £5.0 million in the first quarter of the current year, a threefold increase from the previous year.**

CHIEF EXECUTIVE'S REVIEW
For the year ended 31 October 2004



“2004 was an exciting time for the Group as a whole; Media Square has more than doubled in size not only in terms of turnover and profitability, but also in terms of our product offering on both the creative and production elements of the business”



Introduction

The year under review saw Media Square complete its transformation into a well resourced and professionally managed Group specialising in the retail marketing services and marketing communications sectors.

Our success can be seen both in our revenue and profits growth, and in the growth of the size and reach of the operating businesses that make up our Group. Perhaps the most important measure of our success is the development of a strong operational management team who share our ambition to build a unique business and to deliver ever improving financial returns.

Financial results

The Group's financial results for the year ending 31 October 2004 demonstrate solid progress towards our objectives. Sales grew by 134 percent to £19.5 million and revenues (sales less bought out costs) grew by 134 per cent to £14.0 million.

The Group's pre-tax profits were £1.5 million representing a margin of 11 per cent on revenue. Though this represents an improvement of seven percentage points on the previous year, it is still below the Company's near term aspirations. Our aim is to consistently improve average operating profit margins to the high teens and to ensure that pre-tax profit margins move steadily ahead.

On an underlying EBITDA basis, the Group improved profits from £0.7 million to £2.0 million during the period. In addition we secured a profit of £3.5 million over net book value on the sale of property held in Coutts Holdings plc. £0.6 million of this gain was accounted for as an exceptional profit in the Group's accounts. The balance of the gain was accounted for as a fair value adjustment on the acquisition of Coutts, thereby reducing the associated goodwill.

Exceptional costs associated with the six acquisitions undertaken during the year and the relocation of existing businesses totalled £0.6 million. The net exceptional charge is only some £17,000 for the year.

Financing

During the year the Group generated £0.7 million of cash from operations, including a strong improvement since our half year figures, which reflected the start-up nature of the acquisition made in late October 2003. In addition, the Group raised some £17.6 million (gross) of new equity. At the year end the Group had positive net cash balances of £4.3 million.

Immediately post the acquisition of Coutts the Group sold its packaging business for £2.9 million and disposed of its freehold interest in Coutts' East London site for £7.0 million. Approximately half the consideration for the property sale was received immediately before Christmas, with the balance being due from Berkeley Homes plc in May 2005. On completion of this payment the Group will have less than £1 million of debt.

During the course of the current year we intend to invest some £3.6 million of capital to improve all aspects of our operations.

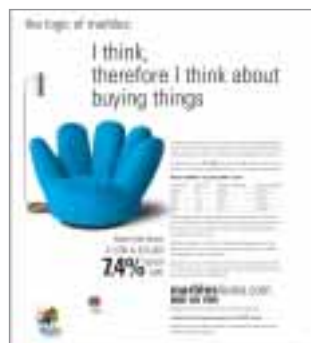
In addition to the above, the Group has a committed revolving credit facility of £7 million with the Royal Bank of Scotland and a term facility which could release an additional £3.5 million of funds against its remaining freehold property interests.

Dividend

The Group has now reached the point of sustained profitability and cash generation and the Directors are comfortable that it is now appropriate to consider the level of a future dividend. It is therefore intended that the Group's maiden dividend will be announced at the time of our interim results in June 2005.



“The year under review saw Media Square complete its transformation into a well resourced and professionally managed group specialising in the retail marketing services and marketing communications sectors”



Business strategy

The Group's strategy is unchanged from the previous period, but continues to be refined as the business grows and matures. At a corporate level we have remained true to our three core business principles. Namely that:

- we aim to significantly expand the size of our business
- we will continue our prudent investment approach and not become debt or earn-out driven
- we will continue to keep a sensible balance between our creative and production businesses

Acquisitions

During the financial year to 31 October 2004, the Group invested £31 million in acquiring a total of six businesses with net assets of £17 million. On an annualised basis this brought more than £47 million of sales, £29 million of revenues and some 400 new employees into the Group.

Early in 2004 we acquired the business and assets of Hudson Advertising & Marketing, a small Leeds-based "off-the-page" advertising agency serving the direct sell and home shopping sectors. This was followed, in March, by the acquisition of Marketplace Design, based in Abingdon. Marketplace is an experiential design business, specialising in retail, corporate and environmental design.

In June IAS Group, based in South Manchester, was acquired. IAS is the UK's seventh largest business-to-business marketing and branding agency. With IAS came access to an international alliance of B2B agencies spanning some 20 countries around the globe.

September saw the Group acquire Clark, McKay & Walpole, the UK's 21st largest direct marketing agency. Based in London, CMW employs around 75 people and has revenues of more than £6 million per annum.

In early October we completed the £23 million acquisition of Coutts Holdings plc, an AIM-listed retail communications group. And finally, also in October, we acquired Arnold

Interactive Limited from HAVAS SA, the French media giant. Now re-branded Ai London, this business specialises in on-line advertising and marketing solutions for major UK brands.

All the acquisitions made during the year have performed, and are performing, in line with our expectations.

Review of operations

Media Square plc has a total of eight operating businesses which are grouped in two principal divisions - Retail Marketing Services and Marketing Communications. Each division features a number of autonomously managed companies delivering services to around 900 clients throughout the UK.

The Group's aim is to keep a sensible balance between the two divisions and to maximise the opportunities each part of the Group is able to offer to the other.

Marketing Communications

The principal businesses in the Marketing Communications division are: Ai London, BANC, Clark McKay & Walpole and IAS Branding. With the exception of BANC, all the companies in this division were acquired during 2004.

Our marketing communications business came of age with the acquisition of Clark, McKay & Walpole, one of the sector's most respected direct marketing agencies. CMW forms the core of our B2C offer and the management team there aims to expand the reach of the brand during the current year. In B2B communications we own IAS Group, the UK's seventh largest business of its type in the UK and profits in this segment are growing at more than 100 percent per annum.



“We aim to expand significantly the size of our business; to continue our prudent investment approach and not become debt or earn-out driven; and we will continue to keep a sensible balance between our creative and production businesses”



CHIEF EXECUTIVE'S REVIEW

For the year ended 31 October 2004

Ai London (formerly Arnold Interactive - www.ailondon.co.uk) was part of the HAVAS world-wide advertising group. It is a specialist on-line (or digital) marketing and advertising agency that, during its 10 plus year history, has secured more than 50 industry awards. Indeed, it is the only business of its type ever to have been awarded a BAFTA.

Ai London employs a core full-time team of around 30 people and works with a roster of a dozen or so freelance teams. It specialises in the use of digital marketing techniques and technologies, to drive return on marketing investment on behalf of a wide range of UK-based and international businesses. Its current client list includes: Avis, COI, Expedia, Holmes Place, Home Service Group, National Express, Samsung, Telewest and Waitrose.

Since its acquisition by Media Square, Ai London has reversed its loss-making position, improved productivity, secured a major contract with The Post Office and has traded profitably month-on-month.

BANC (www.banc.co.uk) was formed by Media Square during the autumn of 2003 to represent a small group of regional advertising and marketing businesses acquired by the Group over the preceding months. It has offices in London, Oxford and Leeds and employs around 40 people.

BANC's specialisms span major advertising programmes for clients such as Durex and Young's Brewery; to below-the-line and tactical marketing programmes for Kingspan, Arla, Metro, The London Evening Standard and Oxfam. The team's skillset encompasses advertising, branding, sales promotion, marketing collateral, press and public relations, digital marketing and brand planning.

Recent new client wins include the pan-European advertising account for Sacla, the Italian pasta sauces group, and a new product launch for Johnston Press. All BANC offices returned to profitability during the year, producing a positive result overall.

Clark McKay & Walpole (CMW - www.cmw-uk.com) was established in 1995 by Jonathan Clark and Janet McKay, the present chairman and managing director of the business. CMW employs around 75 people at its offices in central London and is currently the 21st largest direct marketing consultancy in the UK.

CMW applies unique consumer insights to devise highly effective creative solutions which, in turn, engage a response. Their work is in the field of direct response, where accountability is key and return-on-investment the ever present driver. CMW's clients include: Arthritis Research Campaign, Beneficial Bank, Carphone Warehouse, Direct Line Life, Flybe, Gartmore, Marbles, Porsche and Renault Retail Group.

An exceptionally well-managed business, CMW produced a small profit for the two months in which it was part of the Group. So far this year it has secured new business wins worth more than £4 million in sales from Staples Office Supplies and Butlins.

IAS Branding (www.iasbranding.co.uk) is the UK's seventh largest Business-to-Business (B2B) advertising and marketing group. Established in 1973, the company is based in South Manchester and employs around 45 people.

Over the last 30 years IAS has developed a unique position in the B2B sector. As well as developing the international affiliate group BBN (Business Branding Network) with members in more than 20 countries around the world, it was the driving force behind the creation of the Association Business Branding Agencies (ABBA), the representative body of the B2B agency sector. IAS's clients include: ABB, Altro Floors, HW Plastics, Michelin and Jefferson Wells.

IAS achieved a pleasing profit for the period that it was part of the Group.



“Media Square benefits from a large team of talented, committed and hugely ambitious people. We have an effective board of directors that has a clear vision of how the business should evolve and we have developed a very strong operational management team”



Retail Marketing Services

Media Square's Retail Marketing Services division employs around 450 people at five principal operating sites in the UK. The division was created through the combination of Media Square's RMG group with the main Coutts Holdings companies acquired in October 2004. The principal operating companies are: Coutts Arken, Coutts Retail Communications, Fourninety and Marketplace Design.

At an operating level, the Group has substantially strengthened its Retail Marketing Services business. This part of the Group now accounts for some 70 per cent of our revenues and is capable of delivering organic growth in excess of 20 per cent per annum. We believe that there is no other quoted entity in the UK with the same focus or resources and that this affords us an excellent opportunity for future growth.

This division is also seeing the benefits of changes within its market place. As retailers continue to struggle for high street space, there has been a noticeable move towards catalogue shopping which can be clearly seen by the rapid growth of Fourninety. Other retailers place greater emphasis on in-store advertising where brand owners are forecast to spend over £1.1 billion on Point of Purchase (POP) advertising in 2005. Coutts and our other subsidiaries within this division are well placed to maximise the benefits of this growth.

Coutts Arken (www.couttsarken.com) specialises in the design and production of an extensive range of products and services for permanent POP and product merchandising solutions in the retail sector. A multiple award-winning business, Coutts Arken's product and service range encompasses creative POP solutions from concept design, through to technical development and prototype, in-house production and logistics management. The company also offers a range of standard off-the-shelf products including advertising poster frames, lightboxes and modular display systems.

Based in Newmarket, Coutts Arken employs around 100 people at its purpose built 70,000 sq ft production facility. Clients include: Morrisons, Rover Cars, Dixons Stores Group, Filofax, AOL and House of Prince.

Since joining Media Square, Coutts Arken has achieved sales and profits ahead of its budgeted levels.

Coutts Retail Communications (CRC - www.crc-uk.com) is the largest single company within the Group. It employs some 160 people at its offices and production centres in Central and East London. The business specialises in the design and development of retail communications programmes for major high street retailers, FMCG and entertainment brands, both in the UK and continental Europe. It is currently the market leader in three-dimensional POP displays and was recently voted Number One in the UK POP league table.



“During the first three months of the new financial year, we have seen sales and revenue grow to almost five times the comparable period last year. We are benefiting from strong trading and sizeable new business wins in all areas”



CRC's clients include: ASDA, Boots plc, Disney, 20th Century Fox, Hallmark, Hutchison 3, HSBC, L'Oreal, Logitech, Procter & Gamble, Mr Kipling Cakes, Penguin Books, Samsung, Sony Playstation, Toys R Us, Universal Pictures and Vitakraft. In addition to its UK based operations, CRC has a sales, development and project management team based in Osnabruck, Germany.

CRC benefits from strong and focused leadership with an exceptional commitment to client service. Recent new business wins, including Nintendo and Wilkinson Sword, should help it deliver its budgeted record growth for the current year.

Fourninety (www.fourninety.com) is one of the UK's leading providers of marketing services solutions for the Retail and Home Shopping markets. With extensive production facilities in both Manchester and Leeds, Fourninety currently employs 170 people. Its specialist services include: design, brand implementation, photography, direct marketing, catalogue and flyer development and production, high end reprographics and asset management.

Major clients of Fourninety include: Argos, ShopDirect Group, Focus DIY, Littlewoods, Silentnight, Matalan, Bentley Motors, Grattan, Freemans, Family Hampers and Craghoppers.

Fourninety's track record within the Group is unsurpassed. It produced significantly better profits for the year under review and has recently secured a £1 million contract for one of the UK's largest home shopping companies.

Marketplace Design (www.discover-more.co.uk) and its sister company Coutts Creative, is one of the UK's foremost multi-disciplinary experiential and brand focused design teams, with offices in Oxfordshire, London and Manchester. The company employs around 50 people and works

with internationally renowned brands like: AOL, Lexus, Toyota, L'Oreal, Hutchison 3, Friends Provident, Honda, Porsche, NFU Mutual and Chrysler.

Marketplace Design's skill base encompasses brand consultancy, retail design, environmental and experiential design, graphics, retail architecture, retail display, brand and customer journeys and visual language development.

Marketplace delivered a useful growth in revenue during the year and continues to grow ahead of expectations.

Management and Board

Media Square benefits from a large team of talented, committed and hugely ambitious people.

At Group level we have an effective Board of Directors that has a clear vision of how the business should evolve. And, most critically, we have developed a very strong operational management team that ensures each of our businesses delivers against its promises. The Group holds formal bi-monthly review meetings with each operating company and the team of operational Managing Directors deserves considerable thanks for their excellent contribution, both this year and last.

During the course of the year Kevin Steeds stepped down from his role as Chairman of the Group. He was replaced in October by Robert Essex who had formerly been Chairman of Coutts Holdings plc. Nigel Bacon joined the board as our non-executive director in March 2004 and has been of considerable support to the executive team.



“We continue to review opportunities for the expansion of the Group both in terms of the reach of our operations and adding further value to our clients’ business. We firmly believe that there are many opportunities to make value enhancing acquisitions”



Current trading

During the first three months of the new financial year, we have seen sales and revenue grow to almost five times the comparable period last year.

While we are benefiting from strong trading and sizable new business wins in all areas, we have yet to secure all the benefits we have targeted from the integration of key operations in the Group. During the current year we plan to rationalise our office accommodation in central London and to relocate Coutts Retail Communications operations. Once these changes are complete we expect to be able to secure further significant reductions to our cost base.

New business wins have been the strongest feature of the start to the current calendar year. Clark McKay & Walpole secured the Staples Office Supplies and Butlins Holidays accounts in January. Coutts Retail Communications won the launch of Nintendo DS and the new Bridget Jones DVD. Coutts Arken secured a major contract with Gizmondo. Fourninety won the largest ever allocation of work from Littlewoods Catalogue business, as well as being appointed by Shearings Holidays. BANC won the launch of Durex's new product range and a major launch project from Johnston Press plc. And Marketplace Design and Coutts Creative secured a major roll-out for AOL and a seven figure order from Lexus cars.

Future plans

We continue to review opportunities for the expansion of the group both in terms of the reach of our operations and adding further value to our clients' businesses. We firmly believe that there are many more opportunities to make value enhancing acquisitions that, in turn, will drive the benefits we are able to deliver to shareholders.

We are very grateful indeed for the support and encouragement that we've received from our shareholders during the last year and I look forward to updating you on our progress for 2005.

Jeremy Middleton
Chief Executive

21 February 2004

CORPORATE INFORMATION

For the year ended 31 October 2004

Company registration number: 4006884

Registered office: Queens Avenue
Macclesfield
Cheshire
SK10 2BN

Directors: Robert Essex, Chairman
Jeremy Middleton, Chief Executive
Graeme Burns, Group Finance Director
Nigel Bacon, Non-Executive Director

Company secretary: Graeme Burns

Bankers: Royal Bank of Scotland plc
27 Great Underbank
Stockport
Cheshire
SK1 1LN

Solicitors: Browne Jacobson
44 Castle Gate
Nottingham
NG1 7BJ

Auditors: Grant Thornton UK LLP
Registered Auditors
Chartered Accountants
Enterprise House
115 Edmund Street
Birmingham
B3 2HJ

Nominated advisers: Collins Stewart Limited
88 Wood Street
London
EC2V 7QR

Brokers: Collins Stewart Limited
88 Wood Street
London
EC2V 7QR

Registrars: Neville Registrars Limited
18 Laurel Lane
Halesowen
West Midlands
B63 3DA

DIRECTORS' REPORT

For the year ended 31 October 2004

The directors present their report together with the audited financial statements for the year ended 31 October 2004.

Principal activity

The principal activity of the group is that of marketing communications and marketing services.

Business review

A detailed review of the business is included in the Chairman's statement and Chief Executive's review which appear on pages 1 to 15 of these financial statements.

There was a profit for the year after taxation amounting to £1,284,000 (2003: £256,000). The directors do not recommend the payment of a dividend.

Directors and their interests

The directors of the Company, all of whom were directors for the whole year unless indicated otherwise and their interests in the shares of the Company as at 1 November 2003 (or date of appointment if later) and 31 October 2004 were as follows:

		Number of ordinary shares of 5p each	
		2004	2003
Robert Essex	(appointed 8 October 2004)	* 6,344,237	-
Jeremy Middleton		10,574,672	10,485,783
Nigel Bacon	(appointed 12 March 2004)	-	-
Graeme Burns		1,499,310	1,443,755
John Nixon	(resigned 12 March 2004)	-	-
Kevin Steeds	(resigned 8 June 2004)	520,834	987,500

* includes non-beneficial interests of 3,205,317 shares.

Share options

The Company has two option schemes, an unapproved share option scheme and an approved Enterprise Management Incentive (EMI) scheme. The interests of the directors are shown below:

Enterprise Management Incentive (EMI) Scheme

Director	At 1 November 2003 Number	Granted in year Number	At 31 October 2004 Number	Exercise price Pence	Option period
Graeme Burns	-	540,000	540,000	18	May 2005 - May 2010

Unapproved Share Option Scheme

Director	At 1 November 2003 Number	Granted in year Number	At 31 October 2004 Number	Exercise price Pence	Option period
Kevin Steeds	1,000,000	-	1,000,000	6.75	May 2004 - April 2009
Graeme Burns	-	460,000	460,000	18	May 2005 - May 2010

DIRECTORS' REPORT

For the year ended 31 October 2004

During the year the maximum share price was 24.25 pence (2003 :13.75 pence) and the minimum was 13.87 pence (2003 : 6.7 pence).

The share price at 31 October 2004 was 20.5 pence.

Share capital

Changes in share capital are outlined in note 19 to the financial statements.

Substantial shareholdings

Apart from the interests of the directors the only interests in excess of 3% of the issued share capital of which the Company has been notified at 21 February 2005 were as follows:

	Ordinary shares of 5p each Number	Percentage of Ordinary share capital %
Framlington Investment Management Limited	19,450,362	10.04
Pertemps Group Limited	11,362,391	5.87
Electra Kingsway VCT plc	11,357,143	5.87
Legal and General Group plc	7,849,877	4.05
Artemis Investment Management Limited	6,833,332	3.52

Payment to suppliers

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

Trade creditors at the year end amounted to 60 days (2003: 56 days) invoicing by suppliers.

Directors' responsibilities for the financial statements

Company law in the United Kingdom requires the directors to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the Company and the Group and of the profit or loss of the Group for that year. In preparing those financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently
- make judgements and estimates that are reasonable and prudent
- state whether applicable 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 Group will continue in business

The directors are responsible for keeping proper accounting records, for safeguarding the assets of the Group and for taking reasonable steps for the prevention and detection of fraud and other irregularities.

DIRECTORS' REPORT

For the year ended 31 October 2004

Auditors

On 1 July 2004, the Grant Thornton partnership transferred its business to a limited liability partnership, Grant Thornton UK LLP. Under section 26(5) of the Companies Act 1989, the directors consented to extend the audit appointment to Grant Thornton UK LLP from 1 July 2004.

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

BY ORDER OF THE BOARD

Graeme Burns
Company Secretary

21 February 2005

CORPORATE GOVERNANCE

For the year ended 31 October 2004

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

Directors

The Board is responsible for approving Group policy and strategy. It met a number of times during the financial year 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:

Robert Essex (Chairman), Robert joined the Company as Chairman at the time of Media Square's acquisition of Coutts Holdings plc in October 2004. Robert joined Coutts in 1983 and was, most recently, Chairman and Chief Executive of that Company. Robert has over 20 years experience of the promotional, marketing and POP sectors.

Jeremy Middleton (Chief Executive), entered the marketing communications sector in 1981. He has knowledge and experience of all major marketing disciplines and his client experience includes working with major public companies both in the UK and internationally. He established Equanim Group in the late 1990s and led the Company's development and growth. He joined the Media Square Board, on its acquisition of Equanim in 2002, initially as Group Operations Director, and was appointed Chief Executive in June 2004.

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

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

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

Internal control

The Board is responsible for maintaining a strong system of internal control to safeguard shareholders' investment 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.

CORPORATE GOVERNANCE

For the year ended 31 October 2004

The directors are responsible for the Group's system of financial control and of 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 considered the need for an internal audit function but has decided that the size of the Group does not justify it at present.

Going concern

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

International Financial Reporting Standards (IFRS)

The Company recognises that there is a requirement to prepare its financial statements under IFRS for the financial year ending 31 October 2007. The Board intends to keep this matter under review and monitor its impact in the period to the transition date.

REPORT OF THE INDEPENDENT AUDITORS

For the year ended 31 October 2004

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

We have audited the financial statements of Media Square plc for the year ended 31 October 2004 which comprise the consolidated profit and loss account, the balance sheets, the consolidated cash flow statement and notes 1 to 31. These financial statements have been prepared under the accounting policies set out therein.

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

Respective responsibilities of directors and auditors

The directors' responsibilities for preparing the Annual Report and the financial statements in accordance with United Kingdom law and accounting standards are set out in the statement of directors' responsibilities. Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and United Kingdom auditing standards.

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

We read other information contained in the Annual Report and consider whether it is consistent with the audited financial statements. This other information comprises only the Chairman's Statement, the Chief Executive's Review, the Directors' Report and the Corporate Governance Statement. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. Our responsibilities do not extend to any other information.

Basis of opinion

We conducted our audit in accordance with United Kingdom auditing standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Group's circumstances, consistently applied and adequately disclosed. We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

Opinion

In our opinion the financial statements give a true and fair view of the state of the affairs of the Company and the Group as at 31 October 2004 and of the profit of the Group for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

GRANT THORNTON UK LLP
REGISTERED AUDITORS
CHARTERED ACCOUNTANTS
BIRMINGHAM

21 February 2005

The maintenance and integrity of the Media Square plc website is the responsibility of the directors: the work carried out by the auditors does not involve consideration of these matters and, accordingly, the auditors accept no responsibility for any changes that may have occurred to the financial statements since they were initially presented on the website. Legislation in the United Kingdom governing the preparation and dissemination of the financial statements may differ from legislation in other jurisdictions.

CONSOLIDATED PROFIT AND LOSS ACCOUNT

For the year ended 31 October 2004

	Note	Pre- exceptional 2004 £'000	Exceptional 2004 £'000	Total 2004 £'000	2003 £'000
Turnover					
- continuing operations	2	12,607	-	12,607	4,372
- acquisitions	2	6,855	-	6,855	3,961
		<u>19,462</u>	<u>-</u>	<u>19,462</u>	<u>8,333</u>
Material cost of sales	3	(5,456)	-	(5,456)	(2,358)
Revenue		14,006	-	14,006	5,975
Direct payroll costs		(8,732)	-	(8,732)	(3,849)
Gross profit					
- continuing operations		3,419	-	3,419	881
- acquisitions		1,855	-	1,855	1,245
		<u>5,274</u>	<u>-</u>	<u>5,274</u>	<u>2,126</u>
Administrative expenses	3	(3,852)	(648)	(4,500)	(1,779)
Operating profit/(loss)					
- continuing		1,012	(206)	806	139
- acquisitions		410	(442)	(32)	208
		<u>1,422</u>	<u>(648)</u>	<u>774</u>	<u>347</u>
Profit on disposal of fixed assets				573	-
Profit/(loss) arising in respect of closure of subsidiary undertaking	3			58	(11)
Interest payable and other charges	4			(78)	(85)
Interest receivable				187	5
Profit on ordinary activities before taxation	2			1,514	256
Tax on profit on ordinary activities	6			(230)	-
Profit on ordinary activities after taxation				1,284	256
Dividends				-	-
Profit transferred to reserves	20			1,284	256
Basic earnings per share	7			1.19p	0.73p
Diluted earnings per share	7			1.12p	0.71p

There were no recognised gains or losses other than the profit for the financial year.

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

CONSOLIDATED BALANCE SHEET

For the year ended 31 October 2004

	Note	2004 £'000	2003 £'000
Fixed assets			
Intangible assets	9		
- positive goodwill		17,158	2,702
- negative goodwill		(118)	-
Tangible assets	10	8,796	1,362
Investments	11	255	-
		<u>26,091</u>	<u>4,064</u>
Current assets			
Stocks	12	1,819	178
Debtors	13	24,413	2,333
Cash at bank and in hand		5,234	1,790
		<u>31,466</u>	<u>4,301</u>
Creditors: amounts falling due within one year	14	<u>(23,348)</u>	<u>(3,695)</u>
Net current assets		<u>8,118</u>	<u>606</u>
Total assets less current liabilities		34,209	4,670
Creditors: amounts falling due after one year	15	(5,212)	(742)
Provisions for liabilities and charges	17	(547)	-
Net assets		<u>28,450</u>	<u>3,928</u>
Capital and reserves			
Called up share capital	19	9,681	3,517
Shares to be issued	20	2,550	-
Share premium account	20	18,154	3,630
Profit and loss account	20	(1,935)	(3,219)
Equity shareholders' funds	21	<u>28,450</u>	<u>3,928</u>

The financial statements were approved by the Board of Directors on 21 February 2005 and signed on its behalf by:

Jeremy Middleton
Director

Graeme Burns
Director

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

COMPANY BALANCE SHEET

For the year ended 31 October 2004

	Note	2004 £'000	2003 £'000
Fixed assets			
Tangible assets	10	728	758
Investments	11	27,736	1,214
		<u>28,464</u>	<u>1,972</u>
Current assets			
Debtors	13	14,327	1,811
Cash at bank and in hand		7,324	1,580
		<u>21,651</u>	<u>3,391</u>
Creditors: amounts falling due within one year	14	<u>(15,788)</u>	<u>(1,162)</u>
Net current assets		<u>5,863</u>	<u>2,229</u>
Total assets less current liabilities		34,327	4,201
Creditors: amounts falling due after one year	15	(3,135)	(669)
Provision for liabilities and charges	17	(71)	-
Net assets		<u>31,121</u>	<u>3,532</u>
Capital and reserves			
Called up share capital	19	9,681	3,517
Shares to be issued	20	2,550	-
Share premium account	20	15,091	3,630
Profit and loss account	20	3,799	(3,615)
Equity shareholders' funds		<u>31,121</u>	<u>3,532</u>

The financial statements were approved by the Board of Directors on 21 February 2005 and signed on its behalf by:

Jeremy Middleton
Director

Graeme Burns
Director

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

CONSOLIDATED CASH FLOW STATEMENT

For the year ended 31 October 2004

	Note	2004 £'000	2003 £'000
Net cash inflow from operating activities	22	<u>738</u>	<u>135</u>
Returns on investments and servicing of finance			
Interest received		187	5
Interest paid		(9)	(40)
Hire purchase interest paid		(69)	(45)
Net cash inflow/(outflow) from returns on investments and servicing of finance		<u>109</u>	<u>(80)</u>
Taxation			
UK corporation tax paid		<u>(204)</u>	<u>-</u>
Capital expenditure and financial investment			
Disposal of tangible fixed assets		365	-
Disposal of investments		2,850	-
Purchase of tangible fixed assets		(767)	(190)
Purchase of investments		<u>(3)</u>	<u>-</u>
Net cash inflow/(outflow) from capital expenditure and financial investment		<u>2,445</u>	<u>(190)</u>
Acquisitions and disposals			
Purchase of subsidiary undertakings	27	(18,828)	154
Purchases of trade and assets		<u>(640)</u>	<u>(223)</u>
Net cash outflow from acquisitions and disposals		<u>(19,468)</u>	<u>(69)</u>
Financing			
Issue of ordinary share capital		17,640	2,759
Share issue costs		(1,182)	(169)
Loans advanced		2,760	295
Repayment of loans		(28)	(421)
Capital element of hire purchase agreements		<u>(312)</u>	<u>(142)</u>
Net cash inflow from financing		<u>18,878</u>	<u>2,322</u>
Increase in cash	23	<u>2,498</u>	<u>2,118</u>

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

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 October 2004

1. PRINCIPAL ACCOUNTING POLICIES

Basis of preparation

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

The principal accounting policies of the Group are set out below and remain unchanged from 2003 except for goodwill which is explained below and the introduction of policies to cover foreign exchange and retained consideration.

Basis of consolidation

The Group financial statements consolidate those of the Company and of its subsidiary undertakings drawn up to 31 October 2004. Acquisitions of subsidiaries are dealt with by the acquisition method of accounting.

Goodwill and intangible assets

Goodwill arising from the acquisition of subsidiary undertakings, representing the difference between the purchase consideration given together with the costs of acquisition and fair value of net assets acquired, has been capitalised in accordance with the requirements of FRS10.

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

Where the directors are of the opinion that intangible assets of the Group have an indefinite economic life given the acquired business' historic ability to sustain long term profitability, their position within their market sector and the Group's commitment to continue to invest in the long-term development of that business then, in accordance with FRS 10 and 11, the carrying value of those intangible assets will be reviewed annually for impairment on the basis stipulated in FRS 11 and adjusted to the recoverable amount should this be required. This policy departs from the requirement of companies' legislation to amortise goodwill over a finite period in order to give a true and fair view, for the reasons outlined above. The impact of the departure from the Companies Act was to not charge amortisation of goodwill of £66,000.

Where the directors are of the opinion that intangible assets of the Group do not have an indefinite economic life then those intangible assets will be amortised on a straight line basis over its useful economic life which is estimated to be 20 years. Purchased goodwill is capitalised and is amortised on a straight line basis over its useful economic life which is estimated to be 20 years.

When applicable the company takes advantage of merger relief 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.

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

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 October 2004

Tangible fixed assets and depreciation

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

Freehold property	2%
Leasehold improvements	period of the lease
Plant and machinery	6.7% to 33% per annum
Motor vehicles	25% per annum
Fixtures and fittings	10% to 25% per annum

Leased assets

Assets held under finance leases and hire purchase contracts are capitalised in the balance sheet and depreciated over their expected useful lives. The interest element of leasing payments represent 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. Profits or losses arising from disposals of fixed asset investments are treated as part of the result from ordinary activities.

Stocks and work in progress

Stocks and work in progress are stated at the lower of cost and net realisable value, after making allowance for obsolete and slow moving items.

Deferred taxation

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

Financial instruments

Income and expenditure arising on financial instruments is recognised on the accruals basis, and credited or charged to the profit and loss account in the financial period to which it relates.

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.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 October 2004

Turnover and revenue recognition

Turnover is the total amount receivable by the group for goods supplied and services provided, excluding VAT and trade discounts.

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

Pension costs

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

Foreign exchange

The results of overseas subsidiaries are translated at the average exchange rates during the year and the balance sheets of such undertakings are translated at the year end exchange rates. Exchange differences arising on the re-translation of opening net assets of overseas subsidiaries are taken to reserves.

2. TURNOVER AND PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION

The total turnover of the Group for the year has been derived from its principal activity. The activities of the Group are undertaken in the United Kingdom with the exception of the trade of Coutts Germany GmbH which operates in Europe and had turnover of £13,200.

Revenue as stated on the face of the profit and loss account is turnover less third party direct costs, thereby giving the revenues attributable to the company for value added work undertaken.

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

	2004 £'000	2003 £'000
Auditors' remuneration:		
Audit services	90	23
Non-audit services - taxation services	10	11
Depreciation:		
Tangible fixed assets owned	319	186
Tangible fixed assets held under finance leases and hire purchase contracts	172	51
Amortisation of goodwill	150	87
Reversal of goodwill	-	(120)
Hire of plant and machinery	51	118
Other operating lease rentals	454	255

During the year the auditors also received remuneration of £227,570 (2003 : £9,300) which has been charged to the following:

	2004 £'000	2003 £'000
Cost of investment	206	-
Share premium	12	9
Profit & loss account	10	-
	228	9

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 October 2004

3. COST OF SALES AND ADMINISTRATIVE EXPENSES

	2004 £'000	2003 £'000
Cost of sales		
- continuing operations	9,188	3,491
- acquisitions	5,000	2,716
	<u>14,188</u>	<u>6,207</u>
Disclosed as:		
Material cost of sales	5,456	2,358
Direct payroll costs	8,732	3,849
	<u>14,188</u>	<u>6,207</u>
Administrative expenses		
- continuing operations	2,407	742
- acquisitions	1,445	1,037
	<u>3,852</u>	<u>1,779</u>
Exceptional administrative expenses		
- continuing operations	206	31
- acquisitions	442	-
	<u>648</u>	<u>31</u>

Exceptional administrative expenses

Exceptional items in 2004 relate primarily to the business restructuring programme following the Group's acquisitions. The associated consolidation of operations and offices resulted in redundancy and property related costs.

Operating Exceptional items in 2003 relate primarily to business restructuring following the acquisition of Blakedew 394 Limited and the trade and assets of Le Fevre Communications Limited. The associated consolidation of divisions and offices and the restructuring programme resulted in redundancy and related costs.

Profit/(loss) on closure of subsidiary undertaking relates to legacy costs and the release of provisions in relation to a subsidiary undertaking closed in 2002.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 October 2004

4. NET INTEREST

	2004 £'000	2003 £'000
On bank loans and overdrafts	9	21
On loan notes	-	19
Finance charges in respect of finance leases and hire purchase agreements	<u>69</u>	<u>45</u>
	78	85
Interest receivable	<u>(187)</u>	<u>(5)</u>
Net interest (receivable)/payable	<u>(109)</u>	<u>80</u>

5. DIRECTORS AND EMPLOYEES

Staff costs during the year were as follows:

	2004 £'000	2003 £'000
Wages and salaries	7,749	3,197
Social security costs	773	316
Pension costs	<u>124</u>	<u>21</u>
	8,646	3,534

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

	2004 No	2003 No
Production	138	51
Administration and sales	<u>90</u>	<u>58</u>
	228	109

Directors' remuneration

	Salary/ fees £'000	Benefits in kind £'000	Pension £'000	Bonus £'000	Total 2004 £'000	Total 2003 £'000
Executive Directors						
Jeremy Middleton	143	-	-	-	143	100
Graeme Burns	90	6	-	5	101	83
Robert Essex *	9	1	1	2	13	-
Non-executive Directors						
Kevin Steeds (i)	35	-	-	-	35	47
John Nixon (i)	5	-	-	-	5	12
John Butcher (i)	-	-	-	-	-	1
Nigel Bacon*	<u>8</u>	<u>-</u>	<u>-</u>	<u>-</u>	8	-
	<u>290</u>	<u>7</u>	<u>1</u>	<u>7</u>	305	243

* indicates amounts since joining the board of directors

(i) indicates amounts up to departure from board of directors.

Service agreements:

No Director has a service agreement which cannot be terminated by 12 months notice or less.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 October 2004

6. TAX ON PROFIT ON ORDINARY ACTIVITIES

The tax charge is based on the profit for the period and represents:

	2004 £'000	2003 £'000
UK Corporation tax at 30%	234	-
Deferred taxation	(4)	-
Tax on profit on ordinary activities	<u>230</u>	<u>-</u>
The tax assessed for the period differs from the standard rate of corporation tax in the UK as follows:		
Profit on ordinary activities before tax	<u>1,514</u>	<u>256</u>
Profit on ordinary activities multiplied by standard rate of corporation tax in the UK of 30%	454	77
Effect of:		
Expenses not deductible for tax purposes	470	5
Depreciation less than capital allowances	(450)	(44)
Loss on closure of subsidiary undertaking	(17)	3
Amortisation of goodwill	45	32
Tax deductible fair value adjustments on acquisition	-	(38)
Net utilisation of tax losses	(218)	(35)
Effect of gain	60	-
Current tax charge for period	<u>230</u>	<u>-</u>

Unrelieved tax losses of approximately £3,240,000 (2003 : £707,000) are available to offset against future taxable profits of certain Group companies.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 October 2004

7. EARNINGS PER SHARE

The calculation of the basic earnings per share is based on the profit on ordinary activities after tax and on the weighted average number of ordinary shares in issue during the period.

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.

The profits and weighted average number of shares used in the calculations are set out below:

	Profit £'000	2004 Weighted average number of shares	Profit per share pence	Profit £'000	2003 Weighted average number of shares	Profit per share pence
Basic earnings per share						
Earnings attributable to ordinary shareholders	1,284	108,346,460	<u>1.19</u>	256	35,267,712	<u>0.73</u>
Dilutive effect of securities		5,951,459		-	861,912	
Diluted earnings per share						
Earnings attributable to ordinary shareholders	<u>1,284</u>	<u>114,297,919</u>	<u>1.12</u>	<u>256</u>	<u>36,129,624</u>	<u>0.71</u>

8. PROFIT FOR THE FINANCIAL YEAR

The parent Company has taken advantage of section 230 of the Companies Act 1985 and has not included its own profit and loss account in these financial statements. The parent Company's profit for the year was £7,414,000 (2003 : £55,362).

9. INTANGIBLE FIXED ASSETS

Group	Purchased goodwill £'000	Goodwill on consolidation £'000	Negative goodwill £'000	Total £'000
Cost				
At 1 November 2003	739	2,072	-	2,811
Additions	88	14,518	(118)	14,488
At 31 October 2004	<u>827</u>	<u>16,590</u>	<u>(118)</u>	<u>17,299</u>
Amortisation				
At 1 November 2003	2	107	-	109
Amortisation provided in the year	40	110	-	150
At 31 October 2004	<u>42</u>	<u>217</u>	<u>-</u>	<u>259</u>
Net book amount at 31 October 2004	<u>785</u>	<u>16,373</u>	<u>(118)</u>	<u>17,040</u>
Net book amount at 31 October 2003	<u>737</u>	<u>1,965</u>	<u>-</u>	<u>2,702</u>

As explained in note 1, the current year additions to consolidated goodwill has not been amortised as the directors are of the opinion that it has an indefinite economic life.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 October 2004

10. TANGIBLE FIXED ASSETS

Group	Freehold property £'000	Leasehold improvements £'000	Plant and machinery £'000	Motor vehicles £'000	Fixtures and fittings £'000	Total £'000
Cost						
At 1 November 2003	-	32	1,653	135	82	1,902
On acquisition	11,237	293	3,918	280	3,435	19,163
Additions	-	178	350	20	364	912
Transfers	-	25	(31)	35	(34)	(5)
Disposals	(6,405)	-	(434)	(50)	(2)	(6,891)
At 31 October 2004	<u>4,832</u>	<u>528</u>	<u>5,456</u>	<u>420</u>	<u>3,845</u>	<u>15,081</u>
Depreciation						
At 1 November 2003	-	2	448	39	51	540
On acquisition	-	193	2,672	143	2,634	5,642
Provided in the year	5	21	361	62	42	491
Transfers	-	11	(32)	35	(19)	(5)
Disposals	-	-	(338)	(43)	(2)	(383)
At 31 October 2004	<u>5</u>	<u>227</u>	<u>3,111</u>	<u>236</u>	<u>2,706</u>	<u>6,285</u>
Net book amount at 31 October 2004	<u>4,827</u>	<u>301</u>	<u>2,345</u>	<u>184</u>	<u>1,139</u>	<u>8,796</u>
Net book amount at 31 October 2003	<u>-</u>	<u>30</u>	<u>1,205</u>	<u>96</u>	<u>31</u>	<u>1,362</u>

Included in the above are assets held under hire purchase agreements as follows:

	Plant and machinery £'000	Motor vehicles £'000	Total £'000
Net book amount at 31 October 2004	<u>1,760</u>	<u>144</u>	<u>1,904</u>
Net book amount at 31 October 2003	<u>772</u>	<u>77</u>	<u>849</u>

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 October 2004

TANGIBLE FIXED ASSETS (CONTINUED)

Company	Freehold property £'000	Plant and machinery £'000	Motor vehicles £'000	Total £'000
Cost				
At 1 November 2003	-	791	-	791
Additions	-	38	-	38
Transfers	4,380	101	20	4,501
Disposals	(4,380)	(101)	-	(4,481)
At 31 October 2004	<u>-</u>	<u>829</u>	<u>20</u>	<u>849</u>
Depreciation				
At 1 November 2003	-	33	-	33
Provided in the year	-	78	-	78
Transfers	787	6	10	803
Disposals	(787)	(6)	-	(793)
At 31 October 2004	<u>-</u>	<u>111</u>	<u>10</u>	<u>121</u>
Net book amount at 31 October 2004	<u>-</u>	<u>718</u>	<u>10</u>	<u>728</u>
Net book amount at 31 October 2003	<u>-</u>	<u>758</u>	<u>-</u>	<u>758</u>

Included in the above are assets held under hire purchase agreements as follows:

	Plant and machinery £'000
Net book amount at 31 October 2004	<u>686</u>
Net book amount at 31 October 2003	<u>729</u>

11. FIXED ASSETS INVESTMENTS

	Group £'000	Company £'000
Cost and net book amount		
At 1 November 2003	-	1,214
On acquisition	252	-
Additions	3	26,527
Transfers to Group undertakings	-	(5)
At 31 October 2004	<u>255</u>	<u>27,736</u>

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 October 2004

FIXED ASSETS INVESTMENTS (CONTINUED)

The Company either directly or indirectly owns 100% of the issued share capital of the following trading subsidiary undertakings, which are all registered in England and Wales unless otherwise stated:

Subsidiary undertaking	Principal activity
Ai London Limited (formerly Arnold Interactive Limited)*	Marketing communications
Banc Group Limited*	Marketing communications
Clark McKay & Walpole Limited *	Marketing communications
Coutts Holding Limited*	Holding and management company
Coutts Germany GmbH (registered in Germany)	Marketing services
Coutts Arken Display Limited	Marketing services
Coutts Retail Communications Limited	Marketing services
Fourninety Limited	Marketing services
IAS Group Limited	Holding and management company
IAS Marketing and Communications plc	Marketing communications
Marketplace Design Limited	Marketing services

* directly held by Media Square Plc.

12. STOCKS AND WORK IN PROGRESS

Group	2004 £'000	2003 £'000
Raw materials and consumables	487	13
Work in progress	1,197	165
Finished goods	135	-
	<u>1,819</u>	<u>178</u>

13. DEBTORS

	Group		Company	
	2004 £'000	2003 £'000	2004 £'000	2003 £'000
Trade debtors	14,372	1,706	-	-
Other debtors	909	241	4	10
Other taxation and social security	-	-	662	-
Deferred taxation (note 18)	991	-	-	-
Amounts owed by subsidiary undertakings	-	-	6,628	1,795
Prepayments and accrued income	8,141	386	7,033	6
	<u>24,413</u>	<u>2,333</u>	<u>14,327</u>	<u>1,811</u>

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 October 2004

14. CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR

	Group		Company	
	2004 £'000	2003 £'000	2004 £'000	2003 £'000
Bank loans and overdrafts	1,388	-	126	-
Trade creditors	7,710	720	629	120
Other taxation and social security	2,154	463	-	52
Other creditors	1,200	405	651	20
Obligations under finance leases and hire				
Purchase contracts	531	214	186	169
Amounts owed to group undertakings	-	-	9,613	-
Loan notes	150	-	150	-
Corporation tax	674	-	305	-
Deferred consideration	803	-	803	-
Accruals and deferred income	8,738	1,893	3,325	801
	<u>23,348</u>	<u>3,695</u>	<u>15,788</u>	<u>1,162</u>

The bank loans and overdrafts are secured by a fixed and floating charge over the parent and subsidiary undertakings' assets and a fixed charge on trade debtors and the cash at bank.

15. CREDITORS: AMOUNTS FALLING DUE AFTER MORE THAN ONE YEAR

	Group		Company	
	2004 £'000	2003 £'000	2004 £'000	2003 £'000
Bank loans (notes 14 and 16)	4,012	-	2,634	-
Obligations under finance leases and hire purchase contracts	1,200	742	501	669
	<u>5,212</u>	<u>742</u>	<u>3,135</u>	<u>669</u>

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 October 2004

16. BORROWINGS

Borrowings are repayable as follows:

	Group		Company	
	2004 £'000	2003 £'000	2004 £'000	2003 £'000
Within one year				
Bank loans and overdrafts	1,388	-	126	-
Obligations under finance leases and hire purchase contracts	531	214	186	169
Loan notes	150	-	150	-
After one and within two years				
Bank loans	583	-	276	-
Obligations under finance leases and hire purchase contracts	503	221	200	180
After two and within five years				
Bank loans	1,551	-	828	-
Obligations under finance leases and hire purchase contracts	697	521	301	489
After five years				
Bank loans	1,878	-	1,530	-
	<u>7,281</u>	<u>956</u>	<u>3,597</u>	<u>838</u>

17. PROVISIONS FOR LIABILITIES AND CHARGES

	Group		Company	
	2004 £'000	2003 £'000	2004 £'000	2003 £'000
Provision for liabilities and professional costs arising from closure of a foreign subsidiary	547	-	-	-
Deferred taxation	-	-	71	-
	<u>547</u>	<u>-</u>	<u>71</u>	<u>-</u>

18. DEFERRED TAXATION

The following timing differences have arisen at 31 October 2004:

	Group		Company	
	2004 £'000	2003 £'000	2004 £'000	2003 £'000
(Deferred)/accelerated capital allowances	(200)	108	-	(185)
Available tax losses	(751)	(215)	-	-
ACA	-	-	77	79
Other timing differences	(40)	-	(6)	-
Deferred tax (asset)/liability	<u>(991)</u>	<u>(107)</u>	<u>71</u>	<u>(106)</u>

Full provision has been made for the deferred tax asset in the current year, although no provision was made in the year ended 31 October 2003, therefore no deferred tax movement is shown. The above losses will become recoverable from future profits of certain trading activities.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 October 2004

19. SHARE CAPITAL

	2004 £'000	2003 £'000
Authorised 300,000,000 (2003 : 90,000,000) Ordinary shares of 5p each	<u>15,000</u>	<u>4,500</u>
Allotted, called up and fully paid 193,623,354 (2003 : 70,347,164) Ordinary shares of 5p each	<u>9,681</u>	<u>3,517</u>

During the year the following shares were issued :

On 7 November 2003, 6,000,000 ordinary shares of 5p each were issued for cash at a price of 12p per share, resulting in a share premium of £420,000.

On 4 May 2004, 27,944,449 ordinary shares of 5p each were issued for cash at a price of 18p per share, resulting in a share premium of £3,632,778.

On 10 May 2004, 31,055,551 ordinary shares of 5p each were issued for cash at a price of 18p per share, resulting in a share premium of £4,037,221.

On 9 October 2004, 36,000,000 ordinary shares of 5p each were issued for cash at a price of 17.5p per share, resulting in a share premium of £4,500,000.

During October 2004, as part of the purchase of Coutts Holdings plc, 22,276,190 ordinary shares of 5p each were issued in exchange for Coutts shares and options at a price of 18.75p per share, resulting in a share premium of £3,063,000.

Share options

At 1 November 2003 No. of shares	Granted in year No. of shares	Lapsed in year No. of shares	At 31 October 2004 No. of shares	Exercise price Pence per share	Exercise dates
Unapproved share option scheme					
241,200	-	-	241,200	25.00	Mar 2001 to Sep 2005
312,940	-	-	312,940	6.00	Dec 2002 - Dec 2007
1,000,000	-	-	1,000,000	6.75	May 2004 - April 2009
100,000	-	-	100,000	15.25	Nov 2005 - Nov 2008
-	460,000	-	460,000	18.00	May 2005 - May 2010
-	1,500,000	-	1,500,000	18.00	Jun 2006 - Jun 2009
EMI option scheme					
500,000	-	(200,000)	300,000	15.25	Nov 2005 - Nov 2008
-	540,000	-	540,000	18.00	May 2005 - May 2010
-	1,000,000	-	1,000,000	18.00	Jun 2006 - Jun 2009
<u>2,154,540</u>	<u>3,500,000</u>	<u>(200,000)</u>	<u>5,454,140</u>		

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 October 2004

20. SHARE PREMIUM ACCOUNT AND RESERVES

Group	Shares to be issued £'000	Share premium account £'000	Profit and loss account £'000
At 1 November 2003	-	3,630	(3,219)
Retained profit for the year	-	-	1,284
Premium in respect of shares issued (net of professional fees)	-	14,524	-
Shares to be issued with respect to acquisition of Clark McKay & Walpole Limited	2,120	-	-
Shares to be issued with respect to acquisition of Coutts Holdings plc	430	-	-
At 31 October 2004	<u>2,550</u>	<u>18,154</u>	<u>(1,935)</u>
Company			
At 1 November 2003	-	3,630	(3,615)
Retained profit for the year	-	-	7,414
Premium in respect of shares issued (net of professional fees)	-	11,461	-
Shares to be issued with respect to acquisition of Clark McKay & Walpole Limited	2,120	-	-
Shares to be issued with respect to acquisition of Coutts Holdings plc	430	-	-
At 31 October 2004	<u>2,550</u>	<u>15,091</u>	<u>3,799</u>

Shares to be issued represent deferred consideration in respect of the acquisition of Clark McKay & Walpole Limited, subject to that Company achieving certain performance criteria and consideration shares with respect to the acquisition of Coutts Holdings plc.

Share premium is shown net of professional fees of £1,128,000.

21. RECONCILIATION OF MOVEMENTS IN SHAREHOLDERS' FUNDS

Group	2004 £'000	2003 £'000
Profit for the financial year	1,284	256
Issue of ordinary share capital	20,688	2,906
Shares to be issued	2,550	-
Net increase in shareholders' funds	24,522	3,162
Shareholders' funds at 1 November 2003	3,928	766
Shareholders' funds at 31 October 2004	<u>28,450</u>	<u>3,928</u>

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 October 2004

22. NET CASH INFLOW FROM OPERATING ACTIVITIES

Group	2004 £'000	2003 £'000
Operating profit	774	347
Depreciation	491	237
Goodwill amortisation	150	87
Increase in stocks and work in progress	(551)	(64)
Increase in debtors	(2,985)	(457)
Increase/(decrease) in creditors	2,859	(15)
Net cash inflow from operating activities	<u>738</u>	<u>135</u>

23. RECONCILIATION OF NET CASH FLOW TO MOVEMENT IN NET (DEBT)/FUNDS

Group	2004 £'000	2003 £'000
Increase in cash in the year	2,498	2,118
Repayment of debt	-	138
Loan notes advanced	-	(125)
Bank loans advanced	(2,760)	(170)
Bank loans repaid	28	283
Cash outflow from finance leases and hire purchase agreements	312	142
Change in net debt resulting from cash flows	<u>78</u>	<u>2,386</u>
Inception of finance leases and hire purchase agreements	(145)	(113)
Net debt acquired	(2,664)	(127)
Shares for debt capitalisation	-	316
Loan notes advanced on acquisition	(150)	-
Movement in net debt in the year	<u>(2,881)</u>	<u>2,462</u>
Net funds/(debt) at 1 November 2003	834	(1,628)
Net (debt)/funds at 31 October 2004	<u>(2,047)</u>	<u>834</u>

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 October 2004

24. ANALYSIS OF CHANGES IN NET FUNDS/(DEBT)

	At 1 November 2003 £'000	Cash flows £'000	Acquisitions £'000	Non cash transactions £'000	At 31 October 2004 £'000
Cash at bank and in hand	1,790	3,444	-	-	5,234
Bank overdraft	-	(946)	-	-	(946)
	<u>1,790</u>	<u>2,498</u>	<u>-</u>	<u>-</u>	<u>4,288</u>
Bank loans	-	(2,732)	(1,722)	-	(4,454)
Other debt	-	-	-	(150)	(150)
Hire purchase	(956)	312	(942)	(145)	(1,731)
	<u>834</u>	<u>78</u>	<u>(2,664)</u>	<u>(295)</u>	<u>(2,047)</u>

25. FINANCIAL INSTRUMENTS

The Group uses financial instruments comprising cash and short term deposits and various forms of borrowings. It does not enter into derivative transactions such as interest rate swaps, forward rate agreements or forward currency contracts.

Short-term debtors and creditors

Short-term debtors and creditors have been excluded from all the following disclosures.

Interest rate risk

The Group finances its operations through bank and other borrowings. The Group exposure to interest rate fluctuations on its borrowings is managed by the use of both fixed and floating facilities. At the year end 18% (2003 : 100%) of the borrowings were at fixed rates. The interest rate exposure of the financial liabilities of the Group as at 31 October 2004 was:

	Fixed £'000	Interest rate Floating £'000	Total £'000
2004	<u>1,294</u>	<u>5,987</u>	<u>7,281</u>
2003	<u>956</u>	<u>-</u>	<u>956</u>

	Weighted average fixed interest rate %	Weighted average period for which rate is fixed in years
2004	<u>6</u>	<u>3</u>
2003	<u>7</u>	<u>4</u>

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 October 2004

FINANCIAL INSTRUMENTS (CONTINUED)

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

All borrowings are denominated in sterling.

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 policy throughout the year has been to ensure continuity of funding. At the year end 26% (2003 : none) of the Group borrowings are due to mature in more than five years.

The Group has an overdraft and revolving credit facility amounting to £7,000,000 (2003 : £600,000) at 31 October 2004.

26. MAJOR NON-CASH TRANSACTIONS

During the year the Group entered into finance lease and hire purchase arrangements in respect of assets with a total capital value at the inception of the leases of £145,000 (2003 : £113,000).

Equity for debt capitalisation also took place to the value of £Nil (2003 : £316,000).

Loan notes with respect to acquisitions were issued to the value of £150,000 (2003 : £Nil).

27. ACQUISITIONS

Acquisitions of subsidiaries

On 11 March 2004 the Group acquired all of the ordinary shares in Marketplace Holdings Limited for a consideration before professional costs of £750,000. Goodwill arising on the acquisition of £718,000 has been capitalised. The loss before tax for the period from acquisition to 31 October 2004 was £4,000.

On 28 June 2004 the Group acquired all of the ordinary shares in IAS Group Limited for a consideration before professional costs of £500,000. Goodwill arising on the acquisition of £295,000 has been capitalised. The profit before tax for the period from acquisition to 31 October 2004 was £91,000.

On 31 August 2004 the Group acquired all of the ordinary shares in Clark McKay & Walpole Limited for a consideration before professional costs of £5,548,000. Goodwill arising on the acquisition of £4,991,000 has been capitalised. The profit before tax for the period from acquisition to 31 October 2004 was £16,000.

On 31 August 2004 the Group acquired all of the ordinary shares in Ai London Limited (formerly Arnold Interactive Limited) for a consideration before professional costs of £600,000. Negative goodwill arising on the acquisition of £118,000 has been capitalised. The profit before tax for the period from acquisition to 31 October 2004 was £49,000.

On 8 October 2004 the Group's offer for the entire issued share capital of Coutts Holdings plc became unconditional. The consideration before professional costs was £21,973,000. Goodwill arising on the acquisition of £8,514,000 has been capitalised. The loss after operating exceptional items and before taxation from acquisition to 31 October 2004 was £201,000.

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

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 October 2004

ACQUISITIONS (CONTINUED)

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

	Marketplace Holdings Limited £'000	IAS Group Limited £'000	Clark McKay & Walpole Limited £'000	AI London Limited £'000	Coutts Holdings plc £'000	Total £'000
Investments	-	5	-	-	247	252
Fixed assets						
Tangible	133	60	135	36	13,157	13,521
	<u>133</u>	<u>65</u>	<u>135</u>	<u>36</u>	<u>13,404</u>	<u>13,773</u>
Current assets						
Subsidiary held for resale	-	-	-	-	2,850	2,850
Stocks and work in progress	65	48	173	-	800	1,086
Debtors	391	607	1,207	1,900	8,112	12,217
Bank and cash	523	217	2,261	1	196	3,198
	<u>979</u>	<u>872</u>	<u>3,641</u>	<u>1,901</u>	<u>11,958</u>	<u>19,351</u>
Creditors						
Corporation tax	-	(12)	318	-	(529)	(223)
Bank overdraft	425	-	-	-	817	1,242
Loans	-	-	-	-	315	315
Trade creditors	120	235	597	1	2,868	3,821
Other creditors	63	85	715	(17)	-	846
Hire purchase and similar liabilities	54	-	-	-	206	260
Accruals	206	323	1,464	1,152	3,662	6,807
	<u>868</u>	<u>631</u>	<u>3,094</u>	<u>1,136</u>	<u>7,339</u>	<u>13,068</u>
Creditors: amounts falling due in more than one year	(70)	-	-	-	(2,019)	(2,089)
Provisions	-	-	-	-	(547)	(547)
Deferred taxation	-	-	-	-	(738)	(738)
Net assets acquired	<u>174</u>	<u>306</u>	<u>682</u>	<u>801</u>	<u>14,719</u>	<u>16,682</u>
Satisfied by:						
Cash	(600)	(500)	(2,926)	(300)	(15,228)	(19,554)
Deferred consideration	-	-	(502)	(300)	(2,139)	(2,941)
Loan notes	(150)	-	-	-	-	(150)
Shares and share options	-	-	(2,120)	-	(4,606)	(6,726)
Professional costs	(142)	(101)	(125)	(83)	(1,260)	(1,711)
	<u>(892)</u>	<u>(601)</u>	<u>(5,673)</u>	<u>(683)</u>	<u>(23,233)</u>	<u>(31,082)</u>
Net assets acquired	174	306	682	801	14,719	16,682
Goodwill	<u>(718)</u>	<u>(295)</u>	<u>(4,991)</u>	<u>118</u>	<u>(8,514)</u>	<u>(14,400)</u>

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 October 2004

ACQUISITIONS (CONTINUED)

Fair value adjustments were made as follows:

	Marketplace Holdings Limited £'000	IAS Group Limited £'000	Clark McKay & Walpole Limited £'000	Ai London Limited £'000	Coutts Holdings plc £'000	Total £'000
Net assets upon completion	214	385	760	775	11,231	13,365
Alignment of overhead absorption in work in progress	(37)	(17)	(2)	(88)	-	(144)
Debtor and creditor provisions	(18)	(2)	(28)	(150)	(77)	(275)
Accrued costs	(86)	(36)	(102)	(379)	(1,331)	(1,934)
Taxation	101	3	54	739	627	1,524
Revaluation of fixed assets	-	-	-	-	4,905	4,905
Impairment of fixed assets	-	(27)	-	(96)	(636)	(759)
Net assets acquired	<u>174</u>	<u>306</u>	<u>682</u>	<u>801</u>	<u>14,719</u>	<u>16,682</u>

The directors have not completed all of their acquisition enquiries and consequently the book values of the assets and liabilities acquired are considered to be their provisional values. These fair values will be finalised in the 2005 Financial Statements.

The subsidiary undertakings acquired during the year made the following contributions to and utilisations of, Group cash flow:

	£'000
Net cash outflow from operating activities	(1,268)
Returns on investment and servicing of finance	(98)
Taxation	(204)
Capital expenditure and financial investment	(150)
Decrease in cash	<u>(1,720)</u>

Analysis of net outflow of cash in respect of the purchase of the subsidiary undertakings:

	£'000
Cash at bank and in hand acquired	3,198
Bank overdrafts acquired	(1,242)
Professional costs	(1,217)
Consideration	(19,554)
	<u>(18,815)</u>

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 October 2004

ACQUISITIONS (CONTINUED)

Acquisitions of trade and assets

On 2 February 2004 the Company acquired the trade and certain of the trading assets of Hudson Advertising and Marketing Limited for a consideration before professional fees of £35,000. Goodwill arising on the acquisition has been capitalised. It is not possible to quantify accurately the operating results of the acquired business as it was subsumed within the total Company results of a trading subsidiary, Fourninety Limited.

The assets acquired through the above were as follows:

	£'000
Tangible fixed assets	10
Provision for professional and other costs	<u>(10)</u>
Net assets acquired	<u>-</u>
Satisfied by :	
Cash	35
Professional costs	<u>53</u>
Total consideration	88
Net assets acquired	-
Goodwill arising on acquisition	<u>88</u>

28. CAPITAL COMMITMENTS

The Group and Company had no capital commitments at 31 October 2004 and 31 October 2003.

29. CONTINGENT LIABILITIES

The Group and Company had no contingent liabilities at 31 October 2004 and 31 October 2003.

The Company has guaranteed subsidiary undertaking borrowings associated with bank overdrafts and hire purchase agreements and invoice discounting facilities, as detailed below:

	2004	2003
	£'000	£'000
Bank overdrafts	4,403	1,455
Hire purchase agreements	<u>1,044</u>	<u>117</u>
	<u>5,447</u>	<u>1,572</u>

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 October 2004

30. LEASING COMMITMENTS

Operating lease payments amounting to £953,258 (2003 : £351,112) are due within one year. The leases to which these amounts relate expire as follows:

Group	2004		2003	
	Land and buildings £'000	Other £'000	Land and buildings £'000	Other £'000
Within one year	43	55	131	4
Between one and five years	346	225	81	21
In five years or more	284	-	114	-
	<u>673</u>	<u>280</u>	<u>326</u>	<u>25</u>

31. TRANSACTIONS WITH RELATED PARTIES

The following transactions were undertaken with related parties:

- (i) Sales amounting to £123,000 (2003 : £182,000) relating to services were supplied to Pertemps Group Limited. Purchases amounting to £1,007,000 (2003: £153,000) relating to services were supplied by Pertemps Group Limited. Nigel Bacon is presently a director of Pertemps Group Limited. At 31 October 2004, £269,000 (2003 : £56,000 owed by Pertemps) was owed to Pertemps Group Limited.
- (ii) Jeremy Middleton is a director of Oast Partners Limited, during the year the Group made purchases amounting to £20,000 (2003 : £670) from this Company, excluding directors' fees which have been disclosed in note 5.

Jeremy Middleton is a trustee of the Oast Partners Pension Scheme, which during the year was paid £71,000 (2003 : £71,000) in property rent.
- (iii) In October 2004 the Group sold the entire share capital of Coutts Packaging Limited to Cherrybeck Limited for £2.85 million. Robert Essex is a minority shareholder in Cherrybeck Limited.

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

There are no other related party transactions.

NOTICE OF ANNUAL GENERAL MEETING

For the year ended 31 October 2004

Notice is hereby given that the fifth Annual General Meeting of the Company will be held at 14 Welbeck Street, London W1G 9XU on Monday 11 April 2005 at 11am for the transaction of the following business:

ORDINARY BUSINESS

1. To receive and adopt the directors' report and financial statements for the year ended 31 October 2004.
2. To elect Robert Essex as a Director in accordance with the Company's Articles of Association.
3. To re-elect Graeme Burns as a Director in accordance with the Company's Articles of Association.
4. To re-appoint Grant Thornton UK LLP as Auditors of the Company to hold office until the next General Meeting at which accounts are laid and to authorise the directors to fix their remuneration.

SPECIAL BUSINESS

To consider and, if thought fit, pass the following resolutions of which resolution 5 is an ordinary resolution and resolutions 6 and 7 are special resolutions.

5. That in substitution for all existing authorities to the extent unused, the directors be and are hereby generally and unconditionally authorised for the purposes of section 80 of the Companies Act 1985 ("the Act") to exercise all the powers of the Company to allot relevant securities up to an aggregate nominal amount of £4,060,000, provided that this authority shall expire eighteen months from the date of this resolution and that the Company may before such expiry make an offer or agreement which would or might require relevant securities to be allotted after such expiry and the directors may allot relevant securities in pursuance of such offer or agreement, notwithstanding that the authority conferred hereby has expired. In this resolution the expression "relevant securities" and references to the allotment of any relevant securities shall bear the same respective meanings as in section 80 of the Act.

Explanation of Resolution 5

Resolution 5 which will be proposed as an ordinary resolution, would give the directors authority to allot shares up to a maximum nominal amount of £4,060,000. The existing authority would be revoked and this authority would expire after eighteen months from the date of this resolution.

6. That subject to the passing of resolution 5, the directors be empowered pursuant to section 95 of the Companies Act 1985 ("the Act"), to allot equity securities (within the meaning of the Act) of the Company for cash pursuant to the general authority conferred on them by resolution 7 as if section 89(1) of the Act did not apply to any such allotment provided that this power shall be limited to:

(a) the allotment of equity securities in connection with an offer of securities (whether by way of a rights issue, open offer or otherwise), open for acceptance for a period fixed by the directors, to holders of ordinary shares on the register on any fixed record date in proportion to their holdings of ordinary shares, subject to such exclusions or other such arrangements as the directors may deem necessary or expedient in relation to fractional entitlements or legal or practical problems arising under the laws of, or the requirements of, any regulatory body or any stock exchange in any territory;

(b) the allotment (otherwise than pursuant to paragraph (a) above) of securities up to an aggregate amount of £484,945; and

(c) a period of eighteen months from the date of this resolution.

Explanation of Resolution 6

Resolution 6 which will be proposed as a special resolution, would renew the power of the directors to allot shares for cash as though the rights of pre-emption conferred by section 89 (1) of the Act did not apply:

(a) in respect of the whole of the authorised but unissued share capital in connection with an offer to existing shareholders (to allow the directors to take action to overcome certain practical difficulties which could arise in the case of such offer), and

(b) up to a nominal amount of £484,945, being 5% of the current issued share capital of the Company (to give the directors some flexibility in financing business opportunities as they arise). This power would expire after eighteen months from the date of this resolution.

NOTICE OF ANNUAL GENERAL MEETING

For the year ended 31 October 2004

SPECIAL BUSINESS (CONTINUED)

7. That the Company be and is hereby granted general and unconditional authority (pursuant to section 166 of the Companies Act 1985 to make market purchases (as defined in section 163 of the Act) of any of its own ordinary shares of 5p each on such terms and in such manner as the board of directors' of the Company may from time to time determine provided that:

(a) the maximum number of shares authorised to be purchased is 19,397,832, ordinary shares of 5p each, being 10% of the current issued share capital of the Company; (b) the maximum price which may be paid for a share is an amount equal to not more than 105 percent of the average of the middle market quotations for the shares taken from the London Stock Exchange Daily Official List for five business days before the day on which the purchase is made; (c) the minimum price which may be paid for a share is 5p exclusive of any attributable expenses payable by the Company; and (d) the authority conferred by this resolution shall expire eighteen months from the date of this resolution, except that the Company may, before such expiry, enter into a contract for the purchase of its own shares which may be completed by or executed wholly or partly after the expiration of this authority.

Explanation of Resolution 7

In certain circumstances it may be advantageous for the Company to purchase its own shares. Resolution 7, which will be proposed as a special resolution, seeks authority from shareholders to do so, such authority to expire eighteen months after the date of this resolution.

The Directors intend to exercise this power only if and when, in the light of market conditions prevailing at the time, they believe that the effect of such purchases will be to increase earnings per share and is in the best interests of share holders generally. Other investment opportunities, appropriate gearing levels and the overall position of the Company will be taken into account before deciding upon this course of action. Any shares purchased in this way will be cancelled and the number of shares in issue will be accordingly reduced.

This resolution specifies the maximum number of shares which may be acquired, being 10% of the Company's current issued share capital, and the maximum and minimum prices at which they may be bought.

The board unanimously recommends shareholders to vote in favour of Resolutions 1 to 7 above.

By Order of the Board

Graeme Burns
Company Secretary

21 February 2005

Registered Office

Queens Avenue
Macclesfield
Cheshire
SK10 2BN

NOTES TO THE NOTICE OF ANNUAL GENERAL MEETING

1. A member entitled to attend and vote at the meeting is entitled to appoint one or more proxies to attend and, on a poll, to vote on his behalf. A proxy need not be a member of the Company. If such an appointment is made, delete the words "the Chairman of the Meeting" and insert the name of the person appointed by proxy in the space provided. Return of a proxy form will not preclude a member from attending and voting at the meeting in person should he decide to do so.
2. In the case of a Corporation, the proxy form must be executed under its seal or under the hand of an officer, attorney or other person authorised to sign the same on its behalf.
3. To be valid, forms of proxy should be completed and returned (together with the power of attorney or other authority, if any, under which they are signed or a notarially certified copy of such power or authority) so as to reach the office of the Company's Registrars, Neville Registrars Limited, 18 Laurel Lane, Halesowen, West Midlands B63 3DA, not less than 48 hours before the start of the Meeting.

Media Square plc
Queens Avenue
Macclesfield
Cheshire
SK10 2BN

Tel: 01625 442888
Web: www.mediasquare.co.uk