



MEDIA SQUARE plc

Interim Statement 2005

## **INTERIM STATEMENT**

For the period ended 30 April 2005

### **Highlights**

- Sales increased fourfold to more than £29 million (2004: £6.6 million)
- Revenue grown by 270 per cent to £18.4 million (2004: £4.9 million)
- EBITDA increased threefold to £2.26 million (2004: £684,000)
- Underlying operating profit improved by 271 per cent to £1.61 million (2004: £435,000) and pre-tax profits of £1.37 million (2004: £406,000)
- Strong operational cash flows have helped to create cash balances of more than £10 million and eliminate net debt
- Maiden dividend announced with 0.12 pence per share being paid in August
- New clients won during the period include Warner Brothers, Mitsubishi, Asda, Mattel, B&Q, Johnston Press, Activision and Mercury Records
- Firm foundations in place to expand the Group significantly over the coming months

## **CHAIRMAN'S STATEMENT**

Interim Results for the period ended 30 April 2005

### **Overview**

For the first half of our 2005 financial year the Board and senior management of the Group have been focused closely on the integration and general management of the enlarged business following the acquisitions made in 2004. The progress in operational performance of Media Square during the last eight months is due to the Group's continued focus of broadening the scope and depth of resources that we have put in place.

Each of the eight principal businesses within the Group is trading profitably and, in some cases, are experiencing considerable acceleration in sales and profitability.

Media Square is now a well financed, fully integrated and rapidly maturing business which the Board believes will be capable of continually improving its competitive performance, with reference both to its peer group and to the market as a whole.

### **Operations**

The Group is organised in two divisions: retail marketing services, which serves the high street and home shopping retail sectors; and marketing communications, which delivers services to a wide range of business sectors.

Our retail marketing services operations were greatly enhanced by the acquisition of Coutts Holdings plc at the end of last year. This division now accounts for some two thirds of our revenues. In addition to retailers, our companies provide services to a wide range of brand owners seeking to secure a stronger presence in retail or to enhance tactical sales opportunities. New clients secured during the first half of the year include: Aldi Stores, Warner Brothers, Mitsubishi Cars, Asda, Mattel, B&Q and Activision.

The Group's marketing communications division encompasses leading businesses in direct marketing, press and public relations, business-to-business branding, online marketing and general below-the-line marketing activities. The division has around 170 employees. New business wins during the period include: Johnston Press, Mercury Records, Benecol and Irwin Mitchell.

It is our continuing strategy to enlarge and grow both of the Group's divisions over the coming months.

## **CHAIRMAN'S STATEMENT**

Interim Results for the period ended 30 April 2005

### **Financial Performance**

We are again very pleased to be able to report solid progress towards our financial objectives. The Group made an operating profit before exceptional items of £1.61 million for the period, which is some four times greater than the comparable period last year and in line with our budget.

Traditionally the first half of the financial year is the quieter half for the majority of our operations and last year we earned one third of our profits in the first half.

Our operating profit margin was lower than we have targeted for the full financial year as a result of the seasonality referred to above, and the higher than forecast direct payroll costs which we have carried during the period of business integration. We expect to see margins move in line with our stated aim of sustaining improving double digit returns during the second half.

With all our operating companies well invested, capital expenditure has been more modest than originally planned with just £473,000 invested so far this year.

As a result of the lower capital expenditure, good operational cashflow, and receipts from the sale of our East London property, cash inflows have been highly positive. We have some £10 million of cash on our balance sheet and a positive net cash position of £5 million. We expect this position to change during the second half as we invest some of our cash resources in order to increase sales.

### **Dividend**

Given the position the Group has now reached the Board considers it appropriate to commence paying a dividend and is pleased to announce an interim dividend of 0.12 pence per ordinary share.

While this dividend level is modest, we believe that it is appropriate given the Group's desire to invest in growing its business during the months and years ahead.

## **CHAIRMAN'S STATEMENT**

Interim Results for the period ended 30 April 2005

### **Acquisitions**

During the half year the Group has acquired several small teams of people to strengthen its operations in photographic services, retail design and experiential marketing. In total, this activity will have seen 15 people join our Group which is now some 700 strong.

Towards the end of 2004 the acquisition opportunities within markets in which we operate appeared to be somewhat over-heated and perhaps over-confident; the result being that very full considerations were being asked for by vendors of businesses. Consequently, we have chosen not to compete where deal structures or costs are in excess of what we consider to be prudent.

More recently the market has begun to experience something of a correction and we are beginning to see many more value opportunities once again. The Group is well positioned to capitalise on this cycle and intends to do so.

### **Outlook**

We expect 2005 to be a good year for Media Square as a whole and are confident that we will make material progress towards our stated objectives. The current uncertainty around consumer retail spending is a trend we monitor carefully, but is of manageable proportions given the diversity of our client base and our lack of reliance on the above-the-line advertising market. We believe that below-the-line or tactical communications, which form the majority of our Group's activity, will prove resilient during the second half of the year.

On behalf of the Board and our Shareholders I would like to again extend the Group's thanks to our employees for all their hard work and commitment during the last six months. Media Square is a people business and we're very proud of all that our team has managed to achieve to date.

Robert Essex  
Chairman

23 June 2005

**CONSOLIDATED PROFIT AND LOSS ACCOUNT**

For the six months ended 30 April 2005

	6 months ended 30 April 2005			6 months ended 30 April 2004	Year ended 31 October 2004	
	Note	Pre Exceptional Unaudited £'000	Exceptional Unaudited £'000	Total Unaudited £'000	Total Unaudited £'000	Total Audited £'000
<b>Turnover</b>						
- continuing operations		29,630	-	29,630	6,231	12,607
- acquisitions		-	-	-	409	6,855
		<u>29,630</u>	<u>-</u>	<u>29,630</u>	<u>6,640</u>	<u>19,462</u>
Material cost of sales		<u>(11,202)</u>	<u>-</u>	<u>(11,202)</u>	<u>(1,660)</u>	<u>(5,456)</u>
<b>Revenue</b>		18,428	-	18,428	4,980	14,006
Direct payroll costs		(12,412)	-	(12,412)	(3,226)	(8,732)
<b>Gross profit</b>						
- continuing operations		6,016	-	6,016	1,562	3,419
- acquisitions		-	-	-	192	1,855
		<u>6,016</u>	<u>-</u>	<u>6,016</u>	<u>1,754</u>	<u>5,274</u>
Administrative expenses	2	<u>(4,401)</u>	<u>(124)</u>	<u>(4,525)</u>	<u>(1,319)</u>	<u>(4,500)</u>
<b>Operating profit/(loss)</b>						
- continuing		1,615	(124)	1,491	405	806
- acquisitions		-	-	-	30	(32)
		<u>1,615</u>	<u>(124)</u>	<u>1,491</u>	<u>435</u>	<u>774</u>
Profit on disposal of fixed assets				-	-	573
Profit arising in respect of closure of subsidiary undertaking				-	-	58
Interest payable and other charges				(216)	(51)	(78)
Interest receivable				<u>95</u>	<u>22</u>	<u>187</u>
<b>Profit on ordinary activities before taxation</b>				1,370	406	1,514
Tax on profit on ordinary activities				<u>(442)</u>	<u>-</u>	<u>(230)</u>
<b>Profit on ordinary activities after taxation</b>				<u>928</u>	<u>406</u>	<u>1,284</u>
Dividends	3			-	-	-
Profit transferred to reserves	5			<u>928</u>	<u>406</u>	<u>1,284</u>
<b>Basic earnings per share</b>	4			<u>0.48p</u>	<u>0.53p</u>	<u>1.19p</u>
<b>Diluted earnings per share</b>	4			<u>0.44p</u>	<u>0.52p</u>	<u>1.12p</u>

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

**CONSOLIDATED BALANCE SHEET**

As at 30 April 2005

	Note	Performa Balance Sheet (note 8) Unaudited £'000	At 30 April 2005 Unaudited £'000	At 30 April 2004 Unaudited £'000	At 31 October 2004 Audited £'000
<b>Fixed assets</b>					
Intangible assets					
- positive goodwill		16,578	16,578	3,471	17,158
- negative goodwill		(86)	(86)	-	(118)
Tangible assets		8,650	8,650	1,488	8,796
Investments		8	8	-	255
		<u>25,150</u>	<u>25,150</u>	<u>4,959</u>	<u>26,091</u>
<b>Current assets</b>					
Stocks		1,575	1,575	373	1,819
Debtors		13,290	16,803	3,737	24,413
Cash at bank and in hand		10,081	6,568	616	5,234
		<u>24,946</u>	<u>24,946</u>	<u>4,726</u>	<u>31,466</u>
<b>Creditors: amounts falling due within one year</b>		<u>(16,369)</u>	<u>(16,369)</u>	<u>(3,981)</u>	<u>(23,348)</u>
<b>Net current assets</b>		<u>8,577</u>	<u>8,577</u>	<u>745</u>	<u>8,118</u>
<b>Total assets less current liabilities</b>		<u>33,727</u>	<u>33,727</u>	<u>5,704</u>	<u>34,209</u>
<b>Creditors: amounts falling due after one year</b>		<u>(4,161)</u>	<u>(4,161)</u>	<u>(681)</u>	<u>(5,212)</u>
<b>Provisions for liabilities and charges</b>		<u>(547)</u>	<u>(547)</u>	<u>-</u>	<u>(547)</u>
<b>Net assets</b>		<u><u>29,019</u></u>	<u><u>29,019</u></u>	<u><u>5,023</u></u>	<u><u>28,450</u></u>
<b>Capital and reserves</b>					
Called up share capital		9,828	9,828	3,817	9,681
Shares to be issued		1,654	1,654	-	2,550
Share premium account		18,544	18,544	4,019	18,154
Profit and loss account		(1,007)	(1,007)	(2,813)	(1,935)
<b>Equity shareholders' funds</b>	5	<u><u>29,019</u></u>	<u><u>29,019</u></u>	<u><u>5,023</u></u>	<u><u>28,450</u></u>

**CONSOLIDATED CASH FLOW STATEMENT**

For the six months ended 30 April 2005

		6 months ended 30 April 2005	6 months ended 30 April 2004	Year ended 31 October 2004
	Note	Unaudited £'000	Unaudited £'000	Audited £'000
<b>Net cash inflow/(outflow) from operating activities</b>	6	2,999	(414)	738
<b>Returns on investments and servicing of finance</b>				
Interest received		95	22	187
Interest paid		(161)	(17)	(9)
Hire purchase interest paid		(55)	(34)	(69)
<b>Net cash (outflow)/inflow from returns on investments and servicing of finance</b>		<u>(121)</u>	<u>(29)</u>	<u>109</u>
<b>Taxation</b>				
UK corporation tax paid		(94)	-	(204)
<b>Capital expenditure and financial investment</b>				
Proceeds from disposals of tangible fixed assets		3,194	5	365
Proceeds from disposals of investments		247	-	2,850
Purchase of tangible fixed assets		(473)	(143)	(767)
Purchase of investments		-	-	(3)
<b>Net cash inflow/(outflow) from capital expenditure and financial investment</b>		<u>2,968</u>	<u>(138)</u>	<u>2,445</u>
<b>Acquisitions and disposals</b>				
Purchase of subsidiary undertakings		(2,185)	(644)	(18,828)
Purchase of businesses		(141)	(519)	(640)
<b>Net cash outflow from acquisitions and disposals</b>		<u>(2,326)</u>	<u>(1,163)</u>	<u>(19,468)</u>
<b>Financing</b>				
Issue of ordinary share capital		4	720	17,640
Share issue costs		-	(31)	(1,182)
Loans advanced		1,791	-	2,760
Repayment of loans		(2,682)	-	(28)
Capital element of hire purchase agreements		(259)	(118)	(312)
<b>Net cash (outflow)/inflow from financing</b>		<u>(1,146)</u>	<u>571</u>	<u>18,878</u>
<b>Increase/(decrease) in cash</b>	7	<u>2,280</u>	<u>(1,173)</u>	<u>2,498</u>

**NOTES TO THE INTERIM STATEMENT**

For the six months ended 30 April 2005

**1 BASIS OF PREPARATION**

The consolidated interim financial statements have been prepared in accordance with applicable accounting standards and under the historical cost convention. The principal accounting policies of the group have remained unchanged from those set out in the group's 2004 annual report and financial statements.

The financial information set out in this interim report does not constitute statutory accounts as defined by section 240 of the Companies Act 1985. The figures for the year ended 31 October 2004 have been extracted from the statutory financial statements which have been filed with the Registrar of Companies. The auditors' report on those financial statements was unqualified and did not contain a statement under section 237(2) of the Companies Act 1985.

**2 EXCEPTIONAL ADMINISTRATIVE EXPENSES**

Operating exceptional items in 2005 and 2004 relate primarily to the business restructuring programme following the Group's acquisitions in 2004. The associated consolidation of operations and offices resulted in redundancy and property related costs.

**3 DIVIDENDS**

An interim dividend of 0.12 pence per ordinary 5 pence share is recommended and will be paid on 4 August 2005, to all shareholders on the register at 8 July 2005. In accordance with Financial Reporting Standard 21 this dividend has not been recognised in the accounts at 30 April 2005.

**4 EARNINGS PER SHARE**

The calculation of the basic and diluted 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 profit and weighted average number of shares used in the calculations are set out below:

	Profit £'000	Weighted average number of shares	Profit per share pence
Basic earning per share			
Six months ended 30 April 2005	<u>928</u>	<u>194,581,368</u>	<u>0.48</u>
Six months ended 30 April 2004	<u>406</u>	<u>76,116,395</u>	<u>0.53</u>
Year ended 31 October 2004	<u>1,284</u>	<u>108,346,460</u>	<u>1.19</u>

	Profit £'000	Weighted average number of shares	Profit per share pence
Diluted earning per share			
Six months ended 30 April 2005	<u>928</u>	<u>211,940,266</u>	<u>0.44</u>
Six months ended 30 April 2004	<u>406</u>	<u>77,670,535</u>	<u>0.52</u>
Year ended 31 October 2004	<u>1,284</u>	<u>114,297,919</u>	<u>1.12</u>

**NOTES TO THE INTERIM STATEMENT (CONTINUED)**

For the six months ended 30 April 2005

**5 RECONCILIATION OF MOVEMENTS IN SHAREHOLDERS' FUNDS**

	6 months ended 30 April 2005 Unaudited £'000	6 months ended 30 April 2004 Unaudited £'000	Year ended 31 October 2004 Audited £'000
Profit for the financial period	928	406	1,284
Issue of ordinary share capital	537	689	20,688
Shares to be issued	<u>(896)</u>	-	<u>2,550</u>
Net increase in shareholders' funds	569	1,095	24,522
Shareholders' funds at beginning of period	<u>28,450</u>	<u>3,928</u>	<u>3,928</u>
Shareholders' funds at end of period	<u><u>29,019</u></u>	<u><u>5,023</u></u>	<u><u>28,450</u></u>

**6 NET CASH INFLOW/(OUTFLOW) FROM OPERATING ACTIVITIES**

	6 months ended 30 April 2005 Unaudited £'000	6 months ended 30 April 2004 Unaudited £'000	Year ended 31 October 2004 Audited £'000
Operating profit	1,491	435	774
Depreciation	572	178	491
Profit on disposal of fixed assets	(11)	(1)	-
Goodwill amortisation and impairment	44	71	150
Decrease/(increase) in stock	244	(109)	(551)
Decrease/(increase) in debtors	3,628	(1,112)	(2,985)
(Decrease)/increase in creditors	<u>(2,969)</u>	<u>124</u>	<u>2,859</u>
Net cash inflow/(outflow) from operating activities	<u><u>2,999</u></u>	<u><u>(414)</u></u>	<u><u>738</u></u>

**NOTES TO THE INTERIM STATEMENT (CONTINUED)**

For the six months ended 30 April 2005

**7 RECONCILIATION OF NET CASH FLOW TO MOVEMENT IN NET (DEBT)/FUNDS**

	6 months ended 30 April 2005 Unaudited £'000	6 months ended 30 April 2004 Unaudited £'000	Year ended 31 October 2004 Audited £'000
Increase/(decrease) in cash in the period	2,280	(1,173)	2,498
Repayment of loan notes	150	-	-
Bank loans advanced	(1,791)	-	(2,760)
Bank loans repaid	2,682	-	28
Cash outflow from finance leases and hire purchase agreements	<u>259</u>	<u>117</u>	<u>312</u>
Change in net funds/ (debt) resulting from cash flows	3,580	(1,056)	78
Inception of finance leases and hire purchase agreements	-	(20)	(145)
Net debt acquired	(1)	(124)	(2,664)
Loan notes advanced on acquisition	<u>-</u>	<u>(150)</u>	<u>(150)</u>
Movement in net funds/(debt) in the period	3,579	(1,350)	(2,881)
Net (debt)/funds at beginning of period	<u>(2,047)</u>	<u>834</u>	<u>834</u>
Net funds/(debt) at end of period	<u><u>1,532</u></u>	<u><u>(516)</u></u>	<u><u>(2,047)</u></u>

**8 PROFORMA BALANCE SHEET**

On 4 May 2005, under the terms of an agreement dated 19 October 2004, Media Square plc received £3,513,000 from Berkeley Homes plc, being the final instalment of the proceeds from the disposal of the Group's East London site.

Due to the exceptional size of this receipt a proforma balance sheet has been prepared to reflect the impact of this transaction. This financial information has been adjusted to reflect the effect of this transaction as if it had occurred on 30 April 2005.

The proforma balance sheet is prepared for illustrative purposes only and, because of its nature, may not give a true picture of the financial position of the group.



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