

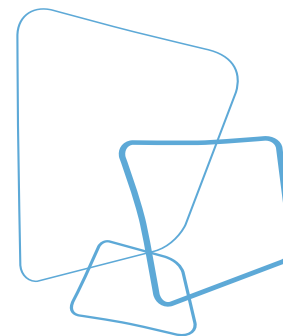
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# Interim Statement

Twelve Months to 31 October 2005



MEDIA SQUARE plc

## Highlights

### To 31 October 2005

- Sales more than trebled to **£61.6 million (2004: £19.4 million)**
- Revenue increased by more than two and a half times to **£37.4 million (2004: £14.0 million)**
- Underlying operating profit improved more than two and a half times to **£3.6 million (2004: £1.4 million)**
- Strong operational cash flows resulted in almost **£4.0 million of net cash at period end (2004: £2.0 million net debt)**
- Conversion of **160% of operating profit into cash**

### Post 31 October 2005

- Substantial expansion of the Group following the acquisition of the Marketing Services Group from Huntsworth plc on 4 November 2005
- Full year dividend to be proposed for 16 month period to 28 February 2006
- Enlargement of the Group to approximately 1,700 employees and around 2,500 customers in seven countries around the world
- Appointment of Kelvin MacKenzie, previously Chief Executive of the Wireless Group plc, as Independent Non Executive Chairman with immediate effect

## Overview

The twelve months ended 31 October 2005 proved to be a period of continued success for the Group: revenues grew by more than 165 per cent to £37.4 million; top-line sales grew by 200 per cent to some £61.6 million; underlying profits climbed by 180% to £3.6 million, compared to the previous year (£1.4 million).

At the period end the Group employed some 650 people, servicing more than 1,000 clients, from eight principal operating subsidiaries in five UK locations. The Group's business was split, approximately, 70 per cent in favour of retail marketing services with the balance of its activities being in marketing communications. This split reflected the Group's strategy of keeping a sensible balance between its production and creative businesses.

In the first half of the period we, in common with the rest of our industry, experienced strong levels of new business performance and increasing confidence among our client base. Unfortunately, this confidence did not continue to build during the second half and the cautious note sounded by many high street retailers had a general dampening effect on the market as a whole. While disappointing, the lower activity levels, later ordering patterns and reduced visibility of the second half, had little material impact on the Group.

Media Square has matured rapidly in the last three years and has grown from a business with few prospects and considerable challenges, to a Group which, post the acquisition of the Marketing Services Group from Huntsworth plc, is one of the largest and best resourced of its type operating in the UK today.

## Operations

The majority of the Group's operations performed well during the twelve month period and all show considerable promise for further development. The Group continues to focus on its larger, more successful businesses and brands, and believes that there is considerable value in the companies which it now owns.

Strong operational management is a feature of Media Square's business and we are pleased with the progress that each of our businesses has made during the twelve month period. Given the background of change and the rapid pace of development in the Group as a whole, the operational management team has, yet again, delivered a creditable performance.

The businesses which have formed part of Media Square for the entire period hold leading positions in: retail marketing solutions; catalogue and home shopping production services; direct marketing; and on-line advertising and marketing. We have enjoyed reasonable growth in all the areas and expect to see strongly improving profit performance over the next one to three years.

## Financial Performance

The Group continued its prudent financial management approach and its avoidance of long term earn-out arrangements. At the period end the Group's financial position was very strong. Cash generation continued to be significantly better than 100 per cent of operating profits. This, together with the selective disposal of some non-core assets, has seen the Group end the period with £3.9 million of net cash, compared to the £2.0 million of net debt that existed a year ago.

Our underlying operating profit margin to revenue (after head office costs) was 10 per cent, the same as the comparable period last year. This performance is in the context of the chosen twelve month strategy of turning around many of the businesses the Group had acquired in previous years, which were originally making little or no contribution to the bottom line. While this margin has yet to reach the levels the Group has targeted, the operating margin is expected to improve steadily as the Group's businesses consolidate their expertise and exploit the benefits of co-operation.

In terms of overall growth and financial development, the Group performed broadly in line with management's expectations. Pre-tax profits were marginally lower than we had hoped, but are reflective of the market conditions in the second half of the year. Exceptional costs of £0.8 million relate to the costs of restructuring and rationalisation of the Group following the acquisitions made in the final quarter of the 2003/04 financial year.

## Dividend

The Group announced its maiden dividend of 0.12 pence per share at the half year stage. We believe that a modest dividend policy, with room for steady growth, will best serve the interests of the Group and its shareholders.

It is expected that a final dividend for the 16 month financial period ending 28 February 2006 will be proposed when the Group makes its Preliminary Report in June 2006.

## Acquisitions

During the period under review the Group completed the acquisition of Symbian Print Intelligence Limited, a small but dynamic print management business. The Symbian team has performed very well during the two and half months that it has been under Group ownership. We expect to see significant growth in this area of our Group during the next twelve months.

Immediately post the period end, the Group completed the acquisition of the Marketing Services Group from Huntsworth plc. This was a very significant transaction for the Group and consumed a considerable amount of the Group's resources during the period from May 2005 onwards. In its last full twelve month trading period, the Marketing Services Group had sales of £140 million, revenues of £73 million and operating profits of some £10 million. The Marketing Services Group employs some 1,100 people and has operations in more than seven countries around the world.

The net purchase price of the Marketing Services Group was some £55 million, plus costs and working capital. The purchase price represents some 75 per cent of historic revenues and a multiple of 5.5 times historic operating profits. New equity of £30 million (gross) and banking facilities of up to £45 million were secured to enable the purchase to be concluded in a prudent manner.

## Outlook

The remaining period of the 16 month financial year will include four months trading of the Marketing Services Group. This will have a positive impact on the Group's overall financial performance for the entire financial year. Based on current performance, the results for the financial period to 28 February 2006 are likely to be in line with management's expectations.

The Group now has two principal challenges. The first is the successful completion of the transition of the Marketing Services Group from its former ownership and the second is the finalisation of the integration of the Marketing Services Group businesses into the Media Square Group.

To date, the Group is very satisfied with the progress that has been made in both the transition and integration of the Marketing Services Group. Highlights include:

- senior management in all the Group's businesses have indicated a strong desire to succeed under our new, streamlined structure
- a new, Group-wide financial management system has been successfully implemented
- two small, loss-making business units have been closed
- a new and fully resourced corporate office has been opened in London
- integration plans have been implemented in all the Group's major businesses
- re-branding of all the businesses bearing the old Citigate or Incepta names is well underway
- overall financial performance of the acquired businesses is continuing to improve
- management and employee communication programmes have been successfully introduced and are being very well-received
- all the Group's businesses in Germany have been streamlined under a single management team at Citigate SEA in Düsseldorf
- a Group-wide new business development programme is now up and running
- a head office procurement function has been established to drive down operating costs and maximise revenue retention.

Until our short-term objectives have been achieved, it is unlikely that the Group will undertake any further acquisitions of scale. However, once the Group is confident that its businesses are performing, and will perform in line with its expectations, the Group will seek to continue to develop the scale and breadth of its communications offering quite significantly.

## Group Management

While the Group has achieved a considerable amount to date, we still have a large amount of work ahead of us. The Board is currently working on well advanced plans to strengthen the executive team and to further streamline the management of the Group's business.

We expect to be able to provide more information on what we have achieved and our future plans when we issue a pre-close trading update in March 2006.

In the meantime, the Board would like to thank all its employees, partners and shareholders for their continued support and encouragement throughout the last twelve months.

## Board Appointment

We are very pleased to be able to announce the appointment of Kelvin MacKenzie as the Independent Non Executive Chairman of Media Square plc with immediate effect.

In a career spanning 40 years, including 12 years as Editor of The Sun, Kelvin has worked across most sectors of the media, from local journalism to running publicly-quoted communications groups. Kelvin is one of the media industry's most prominent figures. As Chief Executive of The Wireless Group plc he took over an ailing national radio station and transformed it into one of the UK's largest regional radio groups. The Wireless Group was sold to Ulster TV for £98.2 million in 2005.

Kelvin's industry experience and general management expertise will be of considerable value to the Group as it moves forward.

Jeremy Middleton  
Chief Executive

25 January 2006

Media Square plc  
**CONSOLIDATED PROFIT AND LOSS ACCOUNT**

For the twelve months ended 31 October 2005

	Note	12 months ended 31 October 2005			Year ended 31 October 2004
		Pre Exceptional Unaudited £'000	Exceptional Unaudited £'000	Total Unaudited £'000	Total Audited £'000
<b>Turnover</b>					
- continuing operations		59,919	-	59,919	12,607
- acquisitions		<u>1,659</u>	-	<u>1,659</u>	<u>6,855</u>
		61,578	-	61,578	19,462
Material cost of sales		<u>(24,117)</u>	-	<u>(24,117)</u>	<u>(5,456)</u>
<b>Revenue</b>		37,461	-	37,461	14,006
Direct payroll costs		<u>(24,608)</u>	-	<u>(24,608)</u>	<u>(8,732)</u>
<b>Gross profit</b>					
- continuing operations		12,761	-	12,761	3,419
- acquisitions		<u>92</u>	-	<u>92</u>	<u>1,855</u>
		12,853	-	12,853	5,274
Administrative expenses	2	<u>(9,281)</u>	<u>(832)</u>	<u>(10,113)</u>	<u>(4,500)</u>
<b>Operating profit/(loss)</b>					
- continuing		3,532	(832)	2,700	806
- acquisitions		<u>40</u>	-	<u>40</u>	<u>(32)</u>
		3,572	(832)	2,740	774
Profit on disposal of fixed assets				-	573
Profit arising in respect of closure of subsidiary undertaking				-	58
Interest payable and other charges				(392)	(78)
Interest receivable				<u>287</u>	<u>187</u>
<b>Profit on ordinary activities before taxation</b>				2,635	1,514
Tax on profit on ordinary activities				<u>(743)</u>	<u>(230)</u>
<b>Profit on ordinary activities after taxation</b>				1,892	1,284
Dividends	3			<u>(236)</u>	-
Profit transferred to reserves	5			<u>1,656</u>	<u>1,284</u>
Basic earnings per share	4			<u>0.96p</u>	<u>1.19p</u>
Diluted earnings per share	4			<u>0.89p</u>	<u>1.12p</u>

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

Media Square plc  
**CONSOLIDATED PROFIT AND LOSS ACCOUNT**

For the twelve months ended 31 October 2005

NOTE OF HISTORICAL COST PROFIT AND LOSSES

	12 months ended 31 October 2005	Year ended 31 October 2004
	Unaudited £'000	Audited £'000
<b>Profit on ordinary activities before taxation</b>	2,635	1,514
<b>Difference between historical cost depreciation charge and depreciation charge based on revalued amounts</b>	34	-
<b>Historical cost profit on ordinary activities before taxation</b>	<u>2,669</u>	<u>1,514</u>
<b>Historical cost profit transferred to reserves</b>	<u>1,690</u>	<u>1,284</u>

Media Square plc  
**CONSOLIDATED BALANCE SHEET**

At 31 October 2005

	At 31 October 2005 Unaudited £'000	At 31 October 2004 Audited £'000
<b>Fixed assets</b>		
Intangible assets		
- positive goodwill	19,283	17,158
- negative goodwill	(54)	(118)
Tangible assets	8,469	8,796
Investments	8	255
	<u>27,706</u>	<u>26,091</u>
<b>Current assets</b>		
Stocks	1,102	1,819
Debtors	16,598	24,413
Cash at bank and in hand	8,740	5,234
	<u>26,440</u>	<u>31,466</u>
<b>Creditors: amounts falling due within one year</b>	<u>(19,315)</u>	<u>(23,348)</u>
<b>Net current assets</b>	<u>7,125</u>	<u>8,118</u>
<b>Total assets less current liabilities</b>	<b>34,831</b>	<b>34,209</b>
<b>Creditors: amounts falling due after one year</b>	<b>(3,516)</b>	<b>(5,212)</b>
<b>Provisions for liabilities and charges</b>	<b>(528)</b>	<b>(547)</b>
<b>Net assets</b>	<u><b>30,787</b></u>	<u><b>28,450</b></u>
<b>Capital and reserves</b>		
Called up share capital	10,264	9,681
Shares to be issued	1,011	2,550
Share premium account	19,791	18,154
Profit and loss account	(279)	(1,935)
<b>Equity shareholders' funds</b>	<u><b>30,787</b></u>	<u><b>28,450</b></u>

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Media Square plc  
**CONSOLIDATED CASH FLOW STATEMENT**

For the twelve months ended 31 October 2005

	12 months ended 31 October 2005 Unaudited £'000	Year ended 31 October 2004 Audited £'000
<b>Net cash inflow from operating activities</b>	6	738
<b>Returns on investments and servicing of finance</b>		
Interest received	287	187
Interest paid	(296)	(9)
Hire purchase interest paid	(96)	(69)
Dividends paid	(236)	-
<b>Net cash (outflow)/inflow from returns on investments and servicing of finance</b>	<u>(341)</u>	<u>109</u>
<b>Taxation</b>		
UK corporation tax paid	(989)	(204)
<b>Capital expenditure and financial investment</b>		
Proceeds from disposals of tangible fixed assets	6,762	365
Proceeds from disposals of investments	247	2,850
Purchase of tangible fixed assets	(650)	(767)
Purchase of investments	-	(3)
<b>Net cash inflow from capital expenditure and financial investment</b>	<u>6,359</u>	<u>2,445</u>
<b>Acquisitions and disposals</b>		
Purchase of subsidiary undertakings	(3,358)	(18,828)
Purchase of businesses	(183)	(640)
<b>Net cash outflow from acquisitions and disposals</b>	<u>(3,541)</u>	<u>(19,468)</u>
<b>Financing</b>		
Issue of ordinary share capital	14	17,640
Share issue costs	19	(1,182)
Loans advanced	1,791	2,760
Repayment of loans	(2,861)	(28)
Capital element of hire purchase agreements	(532)	(312)
<b>Net cash (outflow)/inflow from financing</b>	<u>(1,569)</u>	<u>18,878</u>
<b>Increase in cash</b>	7	<u>2,498</u>

Media Square plc  
**NOTES TO THE INTERIM STATEMENT**

For the twelve months ended 31 October 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 was paid on 4 August 2005, to all shareholders on the register at 6 July 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
<b>Basic earnings per share</b>			
Twelve months ended 31 October 2005	<u>1,892</u>	<u>196,243,733</u>	<u>0.96</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
<b>Diluted earnings per share</b>			
Twelve months ended 31 October 2005	<u>1,892</u>	<u>212,339,537</u>	<u>0.89</u>
Year ended 31 October 2004	<u>1,284</u>	<u>114,297,919</u>	<u>1.12</u>

Media Square plc  
**NOTES TO THE INTERIM STATEMENT (CONTINUED)**

For the twelve months ended 31 October 2005

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

	12 months ended 31 October 2005 Unaudited £'000	Year ended 31 October 2004 Audited £'000
Profit for the financial period	1,656	1,284
Issue of ordinary share capital	2,220	20,688
Shares to be issued	(1,539)	2,550
Net increase in shareholders' funds	<u>2,337</u>	<u>24,522</u>
Shareholders' funds at beginning of period	<u>28,450</u>	<u>3,928</u>
Shareholders' funds at end of period	<u><u>30,787</u></u>	<u><u>28,450</u></u>

**6 NET CASH INFLOW FROM OPERATING ACTIVITIES**

	12 months ended 31 October 2005 Unaudited £'000	Year ended 31 October 2004 Audited £'000
Operating profit	2,740	774
Depreciation	1,182	491
Profit on disposal of fixed assets	123	-
Goodwill amortisation and impairment	86	150
Decrease/(increase) in stock	723	(551)
Decrease/(increase) in debtors	184	(2,985)
Decrease/(increase) in creditors	(505)	2,859
Net cash inflow from operating activities	<u><u>4,533</u></u>	<u><u>738</u></u>

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

For the twelve months ended 31 October 2005

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

	<b>12 months ended</b>	Year ended
	<b>31 October 2005</b>	31 October 2004
	<b>Unaudited</b>	Audited
	<b>£'000</b>	£'000
Increase in cash in the period	4,452	2,498
Repayment of loan notes	150	-
Bank loans advanced	(1,791)	(2,760)
Bank loans repaid	2,861	28
Cash outflow from finance leases and hire purchase agreements	532	312
Change in net funds resulting from cash flows	6,204	78
Inception of finance leases and hire purchase agreements	(271)	(145)
Net debt acquired	(1)	(2,664)
Loan notes advanced on acquisition	-	(150)
Movement in net funds/(debt) in the period	5,932	(2,881)
Net (debt)/funds at beginning of period	(2,047)	834
Net funds/(debt) at end of period	<u>3,885</u>	<u>(2,047)</u>

**About Media Square plc**

Media Square was listed on AIM in September 2000 with the present management taking control of the Board in October 2002. The business has grown more than ten-fold during the last three years through a combination of organic growth and acquiring 14 businesses since the beginning of 2003.

Following the acquisition of the Marketing Services Group from Huntsworth plc in November 2005 for a net purchase price of £55m, Media Square's largest acquisition to date, the company has pro-forma turnover of over £200m, approximately 1,700 employees, and 2,500 clients with operations spanning Europe, the Far East, Africa and America.

The business currently operates in four principal areas, namely retail marketing services; marketing communications; specialist communications and on-line advertising. Today, Media Square is one of the largest and fastest growing media services companies listed in the UK.