

Media Square plc Interim Statement 2006



Highlights

**Total sales more than tripled to £99.6 million
(2005: £29.6 million)**

**Revenue increased by 180 per cent to £51.5 million
(2005: £18.4 million)**

**Increase of 77 per cent in underlying EBITDA to £3.9 million
(2005: £2.2 million)**

**Underlying operating profit increased by 62 per cent to £2.6 million
(2005: £1.6 million)**

Significant new business won from a range of blue chip clients

Steady improvement in the Group's operational, geographical and market sector reach





Chief Executive's Statement

“The majority of our overseas businesses have performed better than expected and have achieved very good results.”

Overview

The Group's financial results for the six months to 31 August 2006 were disappointing. Based on the final four months of our previous financial year we had expected to make much better progress at the start of this year. Overall sales and revenues were broadly in line with our expectations, but costs remained too high and profitability was impaired as a result. Despite this the Group has achieved its operational objectives, retained its key operational management teams, and has completed almost all of the restructuring outlined in the preliminary statement in February. Subsequently, Media Square is now in much better shape to continue growing and developing its business.

Operations

The first six months of this year were a period of considerable change for the Group. A large number of the Group's companies were affected by reorganisation or relocation of some kind and several were merged to create larger, more sustainable business units. The Group now consists of 25 operating companies and around 50 reporting units, based in offices across the UK and in Germany, Spain, Dubai, China, Singapore, South Africa and the USA.

Around 75 per cent of the Group's revenue was derived from its UK businesses, with continental Europe accounting for one third of the remainder. The Group expects that this balance will be broadly similar during the second half of the year.

Sector analysis

UK Marketing Communications – the UK remains relatively weak in the marketing communications sector and our businesses have had to cope with more dynamic change during the last six to 12 months. We expect that, overall, this sector will remain fairly flat for the coming 12 to 18 months, although we are confident that progressive margin improvement will lead to better returns than those historically achieved.

UK Marketing Services – a major part of our marketing services business was adversely affected by the ambitious capital and relocation projects undertaken during the first six months of this year. Performance was sharply below what we expected, resulting in much lower than expected profitability. These projects are now all complete and we have experienced significant full year forecast

Chief Executive's Statement

upgrades. The UK catalogue publishing sector remains quite weak as a result of ongoing structural changes at one of our largest customers.

International Advertising and Intelligence – the majority of our overseas businesses have performed better than expected and have achieved very good results compared to their previous financial period. Our businesses in Continental Europe, the USA and the Far East have all made very positive progress, while South Africa has enjoyed a good turnaround in its fortunes. Market research and financial advertising services were both strong performers for the Group.

Online Advertising and Technology – this sector performed much as expected during the period, both in our specialist businesses and among our more traditional companies. Demand for online advertising and marketing increased across the board and shows no signs of slowing in the near future. During the period our specialist online businesses were consolidated into two brands, twenty-six Group and Tangozebra.

Financial Reporting

The Group has adopted three new Financial Reporting Standards (FRS) and reports under them for the first time. The accounting policies and effect of their adoption are detailed in Note 1 of this report. The effects of the resultant adjustments, none of which have a cash impact, are explained in that note. For ease of comparison we have also included a table showing the financial results based on the accounting policies used in the last financial period. The adoption of these standards represents a significant step towards convergence with International Financial Reporting Standards (IFRS), under which the Group will report in the financial year commencing 1 March 2007.

Segmental Analysis

Following the Group's recent expansion, Media Square is now a much more broadly based and complex organisation. The following information is intended to provide an insight into the regions and specialisms that contribute towards the Group's overall make-up.



Chief Executive's Statement

“The Group plans to maintain its historic dividend payment and an interim dividend of 0.12 pence per share is declared.”

Geographic Analysis	Turnover	Revenue	Operating Profit
	£ 000's	£ 000's	£ 000's
	United Kingdom	73,880	39,883
Rest of Europe	10,344	3,968	528
Rest of the World	15,362	7,658	1,363

Sector Analysis	Turnover	Revenue	Operating Profit
	£ 000's	£ 000's	£ 000's
	UK Marketing Communications	41,949	21,846
UK Marketing Services	20,267	10,731	377
International Advertising & Intelligence	29,518	12,239	1,685
Online Advertising & Technology	7,852	6,693	875

Taxation

The tax charge of £238,000 represents a considerably higher effective rate than the 33-35 per cent that the Group anticipates for the full financial year, and future years, due to unrelieved profits outside the UK.

Dividend

Because of our confidence in the business, despite the disappointing first half, the Group plans to maintain its historic dividend payment and an interim dividend of 0.12 pence per share is declared. The Group's first priorities are growing the business and the reduction of debt. Until net debt is at the Group's target level, the Group will not increase its dividend payments.

Cashflow and Net Debt

As expected, our conversion rate of operating profit to operating cashflow fell below 100 per cent for the first time in two years as the seasonal move to a February year end partially unwound. However, this still leaves a conversion rate of better than 200 per cent for the last 22 months. Also, as expected, our net debt balance at the half year has increased from that at February to £28.7 million on an underlying basis.

We have implemented our planned capital investment programme with investment in new premises. Our property consolidation programme allowed us

Chief Executive's Statement

to release surplus freehold property, ensuring a significantly lower net investment flow. Other investments include some bolt-on acquisitions and the purchase of some minority interests. The Group has no additional debt in the form of earn-outs or deferred consideration.

Outlook

The Group's business is now much better organised and arranged than was the case at the start of the period. However, there is still much work to do in developing and improving many aspects of our business. In the short term we do not expect to see any rapid improvements in overall profitability though we are confident that Media Square is on track to deliver margin improvements in the next financial year.

UK Marketing Communications – although the second half of the year is expected to be better for our UK operations, we do not expect them to make up the lost ground from the first half. In direct marketing we have made good progress towards strengthening our business, but in certain areas we still have significant client dependencies which constitute a short-term threat to the business. In sales promotion we are still experiencing pressure from a move away from retained business to more project-driven revenues.

Our design business has exceeded our expectations during the year to date, but expects a slower second half. In corporate communications and experiential marketing we are still part-way through a process of re-engineering our business for future growth. Our regional communications network is now performing much better than in the early part of the year and has benefited from substantial new account wins. The outlook for the sector is fair, but more work is needed for us to regain complete confidence in the UK market.

UK Marketing Services – the issues we faced in the first half are now, substantially, behind us and we are looking forward to a much better second half. Volumes in our point-of-purchase (POP) businesses are growing quickly and we have reversed early sales losses. In spite of a few account losses, net new business gains are strongly ahead of the same period last year. In the catalogue and publishing sector we are still experiencing variable results, but with a particularly strong performance by our photography facilities. The service side of our business remains project driven, but should benefit from both on- and off-line marketing spend growth.



Chief Executive's Statement

“Online Advertising and Technology is one of the areas where the Group has enormous potential for business development in the coming months.”

International Advertising and Intelligence: the two principal businesses in this sector – The Gate Worldwide, our international advertising network, and Illuminas Global, our marketing research businesses – have both performed exceptionally well since their acquisition by Media Square a little over a year ago. We expect them to continue performing ahead of their peers, both inside and outside our Group, during the second half. Both businesses are well equipped for the future and have strong senior management teams.

We have also experienced a better performance from our business in continental Europe, helped to some degree by the recovery in confidence in Germany. Our aim over the coming months is to strengthen the businesses further by progressive improvement of facilities and by scaling up wherever we can do so economically.

Online Advertising and Technology – is one of the areas where the Group has enormous potential for business development in the coming months. We have recently committed significant capital to the international expansion of Tangozebra, our advertising technology business, and we expect to see dramatic sales volume growth during the next 18 months. We are currently serving one billion advertisements per month, giving like-for-like volume growth of more than three times. Our business intelligence and online marketing & advertising businesses in New York and London are performing well overall and have secured many new clients.

Corporate Activity

Shortly after the end of the period under review the Group received an approach from a third party that wished to acquire a large part of the Group's business. The Board rejected the approach and is committed to growing our business and delivering on our promises.

Also after the period end, the Group announced the disposal of Karen Earl Sponsorship Limited (KES) for a consideration of approximately £4 million – of which £3.5 million was received in cash. The price achieved represents a multiple of 28 times historic post-tax profits, over 20 times budgeted post-tax profits and an exceptional profit on disposal of around £1.8 million. The Group chose to dispose of KES as it had two businesses, KES and Redmandarin, which offer the same service, sponsorship consultancy, to clients. The funds received from the disposal will be applied to the reduction of debt.

Chief Executive's Statement

Both of the above developments do point to the fact that there is genuine underlying value in the Group's businesses that is not, currently, reflected in the share price.

We also announced the acquisition of Cremo Advertising & Marketing in Shanghai, China. This was a small, strategic acquisition, designed to strengthen our regional offering for Asia/Pacific and was driven by the needs of existing Group clients.

The Board is currently working with Lazard & Co on a number of interesting projects about which we hope to be able to announce more information during the fourth quarter of the year.

Board Appointment

During the period the Group welcomed Michael George to the board of directors. Michael (33) was previously a fund manager with Electra and has considerable experience in the investment and corporate finance sectors. In the few short months since his appointment, Michael has made a valuable contribution to the development of the Group's plans and strategy.

Our People

Everyone at Media Square and its operating companies has worked tirelessly to help develop and grow our business. The Board wishes to thank all our colleagues for their support and commitment during the last six months.

Jeremy Middleton

Chief Executive

16 November 2006

Consolidated Profit and Loss Account

	6 months ended 31 August 2006			6 months ended	16 months ended	
	Note	Pre-exceptional	Exceptional	Total	Total	Total
		Unaudited	Unaudited	Unaudited	Audited	Unaudited
		£'000	£'000	£'000	£'000	£'000
					Restated	Restated
Turnover		99,586	–	99,586	29,630	126,377
Material cost of sales		(48,077)	–	(48,077)	(11,202)	(53,107)
Revenue		51,509	–	51,509	18,428	73,270
Administrative expenses	3	(48,978)	(1,256)	(50,234)	(16,953)	(70,156)
Operating profit/(loss)		2,531	(1,256)	1,275	1,475	3,114
Interest payable and other charges				(1,857)	(216)	(1,588)
Interest receivable				877	95	441
Profit on ordinary activities before taxation				295	1,354	1,967
Tax on profit on ordinary activities				(238)	(442)	(800)
Profit on ordinary activities after taxation				57	912	1,167
Minority interests				(7)	–	(12)
Profit transferred to reserves				50	912	1,155
Basic earnings per share	5			0.02p	0.47p	0.51p
Diluted earnings per share	5			0.01p	0.43p	0.48p

Consolidated Balance Sheet

	At 31 August 2006	At 30 April 2005	At 28 February 2006
Note	Unaudited	Unaudited	Audited
	£'000	£'000	£'000
		Restated	Restated
Fixed assets			
Intangible assets			
– positive goodwill	75,765	16,578	69,670
– negative goodwill	–	(86)	(32)
Tangible assets	12,284	8,650	12,144
Investments	8	8	8
	88,057	25,150	81,790
Current assets			
Stocks	3,368	1,575	2,423
Debtors	43,791	16,803	46,336
Cash at bank and in hand	15,649	6,568	22,377
	62,808	24,946	71,136
Creditors: amounts falling due within one year	(50,047)	(18,023)	(55,031)
Net current assets	12,761	6,923	16,105
Total assets less current liabilities	100,818	32,073	97,895
Creditors: amounts falling due after one year	(40,716)	(4,161)	(37,129)
Provisions for liabilities and charges	(2,949)	(547)	(3,346)
Net assets	57,153	27,365	57,420
Capital and reserves			
Called up share capital	16,277	9,828	16,264
Shares to be issued	20	–	70
Share premium account	37,426	18,544	37,426
Merger reserve	4,740	–	4,705
Other reserves	158	16	108
Profit and loss account	(1,194)	(1,023)	(909)
Equity shareholders' funds	57,427	27,365	57,664
Minority interests (equity)	(274)	–	(244)
Total equity capital employed	57,153	27,365	57,420

Consolidated Cash Flow Statement

	6 months ended 31 August 2006	6 months ended 30 April 2005	16 months ended 28 February 2006
Note	Unaudited £'000	Unaudited £'000	Audited £'000
		Restated	Restated
Net cash inflow from operating activities	7	111	2,999
Returns on investments and servicing of finance			
Interest received	307	95	441
Interest paid	(1,570)	(161)	(1,203)
Hire purchase interest paid	(37)	(55)	(135)
Net cash outflow from returns on investments and servicing of finance	(1,300)	(121)	(897)
Taxation			
UK corporation tax paid	(370)	(94)	(1,133)
Capital expenditure and financial investment			
Proceeds from disposals of tangible fixed assets	1,249	3,194	6,910
Proceeds from disposals of investments	–	247	247
Purchase of tangible fixed assets	(3,190)	(473)	(1,563)
Net cash (outflow)/inflow from capital expenditure and financial investment	(1,941)	2,968	5,594
Acquisitions and disposals			
Purchase of subsidiary undertakings	(817)	(2,185)	(67,910)
Net cash acquired with subsidiary undertakings	–	–	8,942
Purchase of trade and assets	–	–	(204)
Purchase of businesses	–	(141)	–
Net cash outflow from acquisitions and disposals	(817)	(2,326)	(59,172)
Equity dividends paid	–	–	(236)
Net cash (outflow)/inflow before financing	(4,317)	3,426	(44,238)
Financing			
Issue of ordinary share capital	14	4	30,000
Share issue costs	–	–	(1,665)
Loans advanced	–	1,791	44,141
Fees in relation to bank loans	–	–	(2,045)
Repayment of loans	(1,940)	(2,682)	(7,365)
Capital element of hire purchase agreements	(338)	(259)	(739)
Net cash (outflow)/inflow from financing	(2,264)	(1,146)	62,327
(Decrease)/increase in cash	8	(6,581)	2,280
		18,089	

Consolidated Statement of Total Recognised Gains and Losses

	6 months ended 31 August 2006 Unaudited £'000	6 months ended 30 April 2005 Unaudited £'000 Restated	16 months ended 28 February 2006 Audited £'000 Restated
Profit for the financial period	50	912	1,155
Currency translation differences on foreign currency net investments	(337)	–	123
Total gains and losses recognised relating to the period	(287)	912	1,278
Prior period adjustments	(310)		
Total losses recognised since the last annual report	(597)		

Notes to the Interim Statement

1. Basis of preparation

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 28 February 2006 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. The consolidated interim financial statements have been prepared in accordance with applicable accounting standards and under the historical cost convention as set out in the Group's 2006 annual report and financial statements with the exception of the adoption of the policies given below.

(a) FRS 20 Share based payments

Further to the introduction of FRS 20, the company's accounting policy relating to share-based payments is set out below.

All share-based payment arrangements are recognised in the consolidated financial statements. The Group operates equity-settled share-based remuneration plans for remuneration of its employees.

All employee services received in exchange for the grant of any share-based remuneration are measured at their fair values. These are indirectly determined by reference to the fair value of the share options awarded. Their value is appraised at the grant date and excludes the impact of any non-market vesting conditions.

All share-based remuneration is ultimately recognised as an expense in profit or loss with a corresponding credit to the share-based payment reserve. If vesting periods or other vesting conditions apply, the expense is allocated over the vesting period, based on the best available estimate of the number of share options expected to vest. Non-market vesting conditions are included in assumptions about the number of options that are expected to become exercisable. Estimates are subsequently revised if there is any indication that the number of share options expected to vest differs from previous estimates. No adjustment is made to the expense recognised in prior periods if fewer share options ultimately are exercised than originally estimated.

Upon exercise of share options, the proceeds received net of any directly attributable transaction costs up to the nominal value of the shares issued are allocated to share capital with any excess being recorded as share premium.

This change in accounting policy has resulted in a decrease in the profit before taxation of £16,429 for the 6 months ended 30 April 2005 and £91,988 for the 16 month period ended 28 February 2006 respectively. This change has not resulted in any increase or decrease in net assets.

These movements are illustrated within Table 1 on page 13.

(b) FRS 25 Financial Instruments: Disclosure and Presentation

With the introduction of FRS 25 there has been a change to the treatment of financial instruments.

Financial liabilities and equity instruments are classified according to the substance of the contractual arrangement entered into. An equity instrument is any contract that evidences a residual interest in the assets of the entity after deducting all of its financial liabilities.

Where the contractual obligations of financial instruments (including share capital) are equivalent to a similar debt instrument, those financial instruments are classed as financial liabilities.

Notes to the Interim Statement

Financial liabilities are presented as such in the balance sheet. Finance costs and gains or losses relating to financial liabilities are included in the profit and loss account. Finance costs are calculated so as to produce a constant rate of return on the outstanding liability.

Where the contractual terms of share capital do not have any terms meeting the definition of a financial liability then this is classed as equity instrument. Dividends and distributions relating to equity instruments are debited direct to equity.

This change in accounting policy has resulted in the reclassification from equity to debt of "shares to be issued," as disclosed within as at 30 April 2005 and 28 February 2006, where the shares to be issued relate to future consideration for acquisition where the shares to be issued are variable but the consideration fixed. Equity shareholders funds have decreased by £1,654,000 in the 6 months ended 30 April 2005 and decreased by £1,011,000 in the 16 month period ended 28 February 2006, with a corresponding increase in creditors within the balance sheet.

These movements are illustrated within Table 1 overleaf.

(c) FRS 26 Financial Instruments: Measurement

The Group has decided to adopt early FRS 26 for the year commencing 1 March 2006. The effect of the adoption of this standard has been the recognition of derivative instruments at fair value in the financial statements. The instruments are interest rate swaps with the following details:

The interest swaps have been recorded at fair values. The values of the instruments were calculated based on

Start date	End date	Rate swapped from	Rate swapped to	Underlying loan value
2 Nov 2005	29 Oct 2010	3 month GBP LIBOR	4.76%	£20,000,000
2 Nov 2005	29 April 2011	3 month GBP LIBOR	4.78%	£18,750,000
2 Nov 2005	31 Oct 2014	3 month GBP LIBOR	4.78%	£3,600,000

valuations prepared by the counter party.

This change in accounting policy has resulted in a charge of £202,000 for the 16 month period ended 28 February 2006 and no change for the 6 month period to 30 April 2005 in the profit and loss account. The change has reduced net assets at 28 February 2006 by £202,000 and has no effect on net assets at 30 April 2005.

These movements are illustrated within Table 1 overleaf.

Notes to the Interim Statement

Table 1

Effect of new FRS Accounting Policies on the Profit and Loss account, Balance Sheet and Net Debt for the 6 months ended 31 August 2006, 16 months ended 28 February 2006 and 6 months ended 30 April 2005

	6 months ended 31 August 2006 Unaudited £'000	6 months ended 30 April 2005 Unaudited £'000 Restated	16 months ended 28 February 2006 Audited £'000 Restated
Profit and Loss Account			
Reported underlying EBITDA	3,868	2,215	8,563
Add back FRS20 adjustment	50	16	92
Pre FRS 20 adjusted underlying EBITDA	3,918	2,231	8,655
Depreciation and amortisation	(1,337)	(616)	(2,232)
Pre FRS 20 adjusted underlying operating profit	2,581	1,615	6,423
Reported interest payable	(1,857)	(216)	(1,588)
Reported interest receivable	877	95	441
Add back FRS 26 adjustment	(570)	–	202
Adjusted underlying profit on ordinary activities before taxation and before new FRSs	1,031	1,494	5,478
	At 31 August 2006 Unaudited £'000	At 30 April 2005 Unaudited £'000 Restated	At 28 February 2006 Audited £'000 Restated
Balance Sheet			
Reported net assets	57,153	27,365	57,420
FRS 25 adjustment	1,011	1,654	1,011
FRS 26 adjustment	(368)	–	202
Adjusted net assets before new FRSs	57,796	29,019	58,633
Net Debt			
Reported net debt	(29,740)	(122)	(19,469)
FRS 25 adjustment	1,011	1,654	1,011
Pre FRS adjusted net debt	(28,729)	1,532	(18,458)

Note that 'underlying profit' represents profit before taking account of exceptional administrative expenses.

Notes to the Interim Statement

2. Segmental analysis

Geographical (by origin)	Turnover		Profit before taxation		Net assets	
	6 months ended	16 months ended	6 months ended	16 months ended	31 August	28 February
	31 August 2006	28 February 2006	31 August 2006	28 February 2006	2006	2006
	£'000	£'000	£'000	£'000	£'000	£'000
United Kingdom	73,880	109,138	2,435	7,328	28,071	29,254
Rest of Europe	10,344	5,943	528	389	3,931	3,801
Rest of the World	15,362	11,296	1,363	729	7,170	7,201
	99,586	126,377	4,326	8,446	39,172	40,256
Central costs			(1,795)	(2,115)	17,981	17,164
			2,531	6,331	57,153	57,420
Exceptional costs			(1,256)	(3,217)		
Net interest (payable)/receivable			(980)	(1,147)		
Profit before taxation			295	1,967		

No comparative figures have been provided for the six months ended 30 April 2005 as the Group substantially derived its results from one principal activity and one geographical location in that reporting period.

Six months ended 31 August 2006	UK	UK	International	Online	Total
	Marketing Services	Marketing Communications	Advertising and Intelligence	Advertising and Technology	
By market sectors	£'000	£'000	£'000	£'000	£'000
Turnover	20,267	41,949	29,518	7,852	99,586
Revenue	10,731	21,846	12,239	6,693	51,509
Operating profit before central costs	377	1,389	1,685	875	4,326
Central costs					(1,795)
Pre-exceptional operating profit					2,531
Exceptional costs					(1,256)
Operating profit					1,275

Notes to the Interim Statement

16 months ended 28 February 2006

By market sectors	UK Marketing Services £'000	UK Marketing Communications and Intelligence £'000	International Advertising and Technology £'000	Online Advertising Technology £'000	Total £'000
Turnover	54,001	41,057	20,074	11,245	126,377
Revenue	30,835	24,057	9,177	9,201	73,270
Operating profit before central costs	3,633	2,273	1,184	1,356	8,446
Central costs					(2,115)
Exceptional costs					(3,217)
Operating profit					3,114

3. Exceptional Administrative expenses

Exceptional items in the six months ended August 2006 relate primarily to the business restructuring programme following the Group's acquisition of the Marketing Services Group (MSG) in November 2005 together with the relocation of a number of the businesses within the Marketing Services Division. These programmes resulted in redundancy costs as operations were consolidated in addition to one-off costs arising from the rationalisation of the property portfolio.

4. Dividends

An interim dividend of 0.12 pence per share is declared. In accordance with FRS 21 this dividend has not been recognised in the accounts at 31 August 2006.

5. 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
Basic earnings per share			
Six months ended 31 August 2006	50	325,508,247	0.02p
Six months ended 30 April 2005 (Restated)	912	194,581,368	0.47p
Period ended 28 February 2006 (Restated)	1,155	227,427,037	0.51p
Diluted earnings per share			
Six months ended 31 August 2006	50	338,809,037	0.01p
Six months ended 30 April 2005 (Restated)	912	211,940,266	0.43p
Period ended 28 February 2006 (Restated)	1,155	242,876,471	0.48p

Notes to the Interim Statement

6. Reconciliation of movements in shareholders' funds

	6 months ended 31 August 2006 Unaudited £'000	6 months ended 30 April 2005 Unaudited £'000 Restated	16 months ended 28 February 2006 Audited £'000 Restated
Profit for the financial period	50	912	1,155
Dividends	–	–	(236)
Issue of ordinary share capital	–	537	30,560
Shares to be issued	–	(430)	1,109
Foreign exchange	(337)	–	123
Merger reserve	–	–	–
Movement on shares to be issued	–	–	(1,469)
FRS 20 adjustment (note 1)	50	16	92
Net (decrease)/increase in shareholders' funds	(237)	1,035	31,334
Shareholders' funds at beginning of period	57,664	26,330	26,330
Shareholders' funds at end of period	57,427	27,365	57,664

7. Net cash inflow from operating activities

	6 months ended 31 August 2006 Unaudited £'000	6 months ended 30 April 2005 Unaudited £'000 Restated	16 months ended 28 February 2006 Audited £'000 Restated
Operating profit	1,275	1,475	3,114
Depreciation	1,299	572	2,126
Profit on disposal of fixed assets	(6)	(11)	(92)
Exceptional profit on disposal of fixed assets	140	–	–
Goodwill amortisation	38	44	106
Impairment of goodwill	–	–	168
FRS 20 adjustment (note 1)	50	16	92
(Increase)/decrease in stock	(945)	244	1,784
Decrease in debtors	3,514	3,628	5,525
Decrease in creditors	(5,254)	(2,969)	(1,217)
Net cash inflow from operating activities	111	2,999	11,606

Notes to the Interim Statement

8. Reconciliation of net cash flow to movement in net debt

	6 months ended 31 August 2006 Unaudited £'000	6 months ended 30 April 2005 Unaudited £'000 Restated	16 months ended 28 February 2006 Audited £'000 Restated
(Decrease)/increase in cash in the period	(6,581)	2,280	18,089
Effects of exchange rate changes on the balance of cash held in foreign currencies	(148)	–	–
Loan notes advanced	(5,572)	–	–
Repayment of loan notes	–	150	150
Interest accumulated on loan notes	(68)	–	–
Bank loans advanced	–	(1,791)	(44,141)
Bank loans repaid	1,940	2,682	7,215
Fees paid in relation to bank loans	–	–	2,045
Cash outflow from finance leases and hire purchase agreements	338	259	739
Change in net debt resulting from cash flows	(10,091)	3,580	(15,903)
Inception of finance leases and hire purchase agreements	–	–	(342)
Movement in shares to be issued	–	466	1,109
Amortisation of loan fees	(180)	–	(48)
Net debt acquired	–	(1)	(118)
Movement in net debt in the period	(10,271)	4,045	(15,302)
Net debt at beginning of period	(19,469)	(4,167)	(4,167)
Net debt at end of period	(29,740)	(122)	(19,469)



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