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If you sell, have sold or otherwise transferred all your shares in the Company, you should forward this document, together with the accompanying Form of Proxy, immediately to the purchaser, transferee or the agent through whom the sale or transfer was effected, for onward transmission to the purchaser or transferee. This document should not be distributed, forwarded to or transmitted in or into the United States, Canada, Japan, Australia, the Republic of Ireland or the Republic of South Africa or any other jurisdiction where it would be unlawful to do so.

This document comprises an AIM admission document drawn up in accordance with the AIM Rules in connection with the re-admission to trading of the Existing Ordinary Shares and the admission to trading of the Vendor Placing Shares on AIM. This document does not constitute a prospectus for the purposes of section 85 of the Financial Services and Markets Act 2000. This document contains no offer of transferable securities to the public within the meaning of section 102B of the Financial Services and Markets Act 2000.

The Directors, whose names are set out on page 6 of this document, accept responsibility for the information contained in this document. To the best of the knowledge and belief of the Directors (who have taken all reasonable care to ensure that such is the case), the information contained in this document, for which they are responsible, is in accordance with the facts and does not omit anything likely to affect the import of such information.

The Existing Ordinary Shares are admitted to trading on AIM. If the Acquisition is approved by holders of Existing Ordinary Shares at the Extraordinary General Meeting to be held on 31 October 2005, the dealing facility for the Existing Ordinary Shares will be cancelled with effect from 31 October 2005. Application will be made for the Existing Ordinary Shares to be re-admitted and the Vendor Placing Shares to be admitted to trading on AIM on 1 November 2005 and such admission to AIM is expected to become effective and dealings are expected to commence on 1 November 2005.

AIM is a market designed primarily for emerging or smaller companies to which a higher investment risk tends to be attached than to larger or more established companies. AIM securities are not admitted to the Official List of the UK Listing Authority. A prospective investor should be aware of the potential risks in investing in such companies and should make the decision to invest only after careful consideration and, if appropriate, consultation with an independent financial adviser. The London Stock Exchange has not itself examined or approved the contents of this document. The AIM Rules are less demanding than those of the Official List. It is emphasised that no application is being made for admission of these securities to the Official List. The Existing Ordinary Shares are not dealt in on any other recognised investment exchange and no such other application has been or is being made for the Existing Ordinary Shares or the Vendor Placing Shares to be admitted to trading on any such exchange.

Media Square plc

(Incorporated in England and Wales with registered number 4006884)

Proposed acquisition of the Marketing Services Group of Huntsworth plc Placing of 120,000,000 Vendor Placing Shares at 25 pence per share and Notice of Extraordinary General Meeting

Nominated Adviser and Broker
Collins Stewart Limited

SHARE CAPITAL (Immediately following the Placing)				
Authorised			Issued and fully paid	
Amount	Number		Amount	Number
£23,000,000	460,000,000	Ordinary Shares of 5p each	£16,263,812.65	325,276,253

The Vendor Placing Shares to be issued will, following their issue, rank *pari passu* in all respects with the Existing Ordinary Shares including the right to receive all dividends and other distributions declared, made or paid on the Existing Ordinary Shares.

This document does not constitute an offer to sell or an invitation to subscribe for, or the solicitation of an offer to buy or subscribe for, Ordinary Shares in any jurisdiction where such an offer or solicitation is unlawful and is not for distribution in or into the United States, Canada, Japan, Australia, the Republic of Ireland or the Republic of South Africa. The Ordinary Shares have not been, and will not be registered under the United States Securities Act of 1933 (as amended) or under the applicable securities laws of Canada, Japan, Australia, the Republic of Ireland or the Republic of South Africa and, subject to certain exceptions, may not be offered for sale or subscription, or sold or subscribed, directly or indirectly, within the United States, Canada, Japan, Australia, the Republic of Ireland or the Republic of South Africa or to or by any national, resident or citizen of such countries. The distribution of this document in other jurisdictions may be restricted by law and therefore persons into whose possession this document comes should inform themselves about and observe any such restriction. Any failure to comply with these restrictions may constitute a violation of the securities laws of any such jurisdictions. No person is authorised, in connection with the Placing and Admission, to give any information or make any representation other than as contained in this document and, if given or made, such information or representation must not be relied upon as having been authorised by the Company or Collins Stewart or their respective directors.

Collins Stewart, which is authorised and regulated in the United Kingdom by the Financial Services Authority, is acting as Nominated Adviser and Broker exclusively for the Company. Collins Stewart is acting on behalf of the Company in connection with the Placing and Admission and no one else. Collins Stewart will not be responsible to anyone other than the Company for providing the protections afforded to clients of Collins Stewart or for providing advice in relation to the matters contained in this document. The responsibility of Collins Stewart as Nominated Adviser and Broker are owed solely to the London Stock Exchange and to no one else. Collins Stewart has not authorised the contents of this document.

A notice convening an Extraordinary General Meeting of the Company to be held at the Company's offices at Queens Avenue, Macclesfield, Cheshire, SK10 2BN at 9.00 a.m. on 31 October 2005 is set out at the end of this document. Whether or not you intend to be present at the meeting convened by the notice, Shareholders are requested to complete and return as soon as possible the Form of Proxy accompanying this document in accordance with the instructions set out therein but in any event by no later than 9.00 a.m. on 29 October 2005. Pursuant to Regulation 41 of the Uncertificated Securities Regulations 2001, the time by which a person must be entered on the register of members in order to have the right to attend and vote at the meeting is 48 hours prior to the time fixed for the meeting. Changes to entries on the register of members after that time will be disregarded in determining the right of any person to attend or vote at the meeting. Completion of a Form of Proxy will not preclude a member from attending the EGM and voting in person.

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EXPECTED TIMETABLE

	2005
Announcement of the Acquisition	26 September
Latest time and date for receipt of Forms of Proxy	9.00 a.m. on 29 October
Extraordinary General Meeting	9.00 a.m. on 31 October
Cancellation of dealings for the Existing Ordinary Shares	31 October
Admission becomes effective and dealings recommence in the Existing Ordinary Shares and commence in the Vendor Placing Shares	1 November
Crediting of the Vendor Placing Shares to CREST accounts	1 November
Completion of the Acquisition	2 November
Dispatch of definitive share certificates for the Vendor Placing Shares (where applicable) by	8 November

ACQUISITION AND PLACING STATISTICS

Consideration payable on completion of the Acquisition	£63.0 million
MSG Revenue for the year ended 28 February 2005	£73.1 million
Adjusted MSG EBIT for the year ended 28 February 2005	£10.6 million
Acquisition Finance to be drawn down by Media Square at Completion	£38.75 million
Number of Existing Ordinary Shares	205,276,253
Number of Vendor Placing Shares being placed	120,000,000
Number of Ordinary Shares in issue immediately following Admission	325,276,253
Placing Price	25p
Gross Proceeds of the Placing	£30.0 million
Market capitalisation of the Company immediately following Admission at the Placing Price	£81.3 million
Pro Forma Net Assets of the Enlarged Group	£57.8 million

DEFINITIONS

The following definitions apply throughout this document unless otherwise stated or the context otherwise requires:

“Acquisition”	the proposed acquisition by the Company of Huntsworth’s interest in the subsidiaries which form the Marketing Services Group, pursuant to the Acquisition Agreement
“Acquisition Agreement”	the conditional agreement between Huntsworth and the Company dated 26 September 2005 relating to the acquisition by the Company of the Marketing Services Group, further details of which are set out in paragraph 11.1 of Part VI of this document
“Acquisition Finance”	the borrowing facility of up to £38.75 million provided by HBOS expected to be drawn down on Completion, further details of which are set out in paragraph 11.1 of Part VI of this document
“Additional Facilities”	additional borrowing facilities provided by HBOS of up to £19.6 million available to be drawn down to fund the ongoing financing requirements of the Company, further details of which are set out in paragraph 11.1 of Part VI of this document
“Act”	the Companies Act 1985
“Adjusted MSG EBIT”	MSG’s aggregated earnings before interest and tax for the year ended 28 February 2005, pre-exceptional items and adjusted as set out on page 11 of this document
“Admission”	the re-admission of the Existing Ordinary Shares and the admission of the Vendor Placing Shares to trading on AIM becoming effective in accordance with the AIM Rules
“AIM”	a market operated by the London Stock Exchange
“AIM Rules”	the rules for AIM companies in force at the date of this document issued by the London Stock Exchange
“Amendment Agreement”	the amendment agreement between Huntsworth and the Company dated 12 October 2005, amending certain terms of the Acquisition Agreement
“Articles”	the Company’s articles of association
“Collins Stewart”	Collins Stewart Limited
“Combined Code”	the Combined Code on Corporate Governance dated 23 July 2003
“Company” or “Media Square”	Media Square plc
“Completion”	Completion of the Acquisition
“Consideration”	£63.0 million payable to Huntsworth on Completion, including the repayment of all debt owed by the Marketing Services Group to Huntsworth at Completion
“Court”	the High Court of Justice in England and Wales
“Coutts”	Coutts Holdings Limited, a subsidiary of Media Square
“CREST”	the electronic settlement system operated by CRESTCo Limited, which facilitates the transfer of title to shares in uncertificated form
“Directors” or “Board”	the directors of Media Square, namely Arthur Jeremy Barritt Middleton, Graeme Ian Burns and Nigel Douglas Bacon

“EGM” or “Extraordinary General Meeting”	the extraordinary general meeting of the Company convened for 9.00 a.m. on 31 October 2005, or any adjournment thereof, notice of which is set out at the end of this document
“Enlarged Group”	the Group as enlarged by the acquisition of the Marketing Services Group
“Existing Ordinary Shares”	the 205,276,253 Ordinary Shares in issue at the date of this document
“Form of Proxy”	the form of proxy accompanying this document to be used by Shareholders in respect of the EGM
“FSA”	the Financial Services Authority
“FSMA”	the Financial Services and Markets Act 2000
“Group”	Media Square and its subsidiaries, as at the date of this document
“HBOS”	Halifax Bank of Scotland plc, and its subsidiaries
“Huntsworth”	Huntsworth plc
“Incepta”	Incepta Group plc
“London Stock Exchange”	the London Stock Exchange plc
“MSG” or “Marketing Services Group”	together the companies listed on page 105
“Official List”	the Official List of the UK Listing Authority
“Ordinary Shares”	ordinary shares of 5p each in the capital of the Company
“Placing”	the placing of the Vendor Placing Shares by Collins Stewart, at the Placing Price as described in this document
“Placing Agreement”	the conditional agreement dated 12 October 2005 between the Company and Collins Stewart, details of which are set out in paragraph 11.1 of Part VI of this document
“Placing Price”	the issue price of 25p per Vendor Placing Share
“Pro Forma Net Assets”	the pro forma net assets of the Enlarged Group as illustrated in the Pro Forma Statement of Net Assets set out in Part V of this document
“Resolutions”	the resolutions to be proposed at the EGM, as set out in the notice of EGM at the end of this document
“Shareholders”	holders of Ordinary Shares
“US”	the United States of America, its territories and possessions, any state of the United States and the District of Columbia
“Vendor Placing Shares”	the 120,000,000 new Ordinary Shares to be placed by Collins Stewart pursuant to the Placing Agreement

DIRECTORS, SECRETARY AND ADVISERS

Directors	Nigel Douglas Bacon (<i>Interim Non-Executive Chairman</i>) Arthur Jeremy Barritt Middleton (<i>Chief Executive Officer</i>) Graeme Ian Burns (<i>Group Finance Director</i>)
Company Secretary	Graeme Ian Burns
Registered Office and Directors' address	Queens Avenue Macclesfield Cheshire SK10 2BN
Financial Adviser, Nominated Adviser and Broker	Collins Stewart Limited 88 Wood Street London EC2V 7QR
Corporate Adviser to the Company	Smith & Williamson Corporate Finance Limited 25 Moorgate London EC2R 6AY
Reporting Accountants and Auditors to the Company	Grant Thornton UK LLP Enterprise House 115 Edmund Street Birmingham B3 2HJ
Reporting Accountants on the Marketing Services Group	KPMG LLP 1 Puddle Dock London EC4V 3PD
Solicitors to the Company	Rosenblatt 9-13 St Andrew Street London EC4A 3AF
Solicitors to the Placing	Travers Smith 10 Snow Hill London EC1A 2AL
Registrars	Neville Registrars Limited New Issues Department Neville House 18 Laurel Lane Halesowen West Midlands B63 3BR

PART I

General Information

Introduction

On 26 September 2005, the Company announced that it had agreed, subject to, *inter alia*, Shareholders' approval, to acquire the Marketing Services Group from Huntsworth for a total consideration of £63.0 million, including the repayment of all debt owed by the Marketing Services Group to Huntsworth at Completion. The Acquisition will see the creation of an enlarged business with circa £200 million of pro forma turnover and circa 1,700 employees.

The Acquisition is to be partially funded by way of a Placing to institutional and other investors of 120 million Vendor Placing Shares at a Placing Price of 25p per Vendor Placing Share, raising £30.0 million. In addition the Company has secured a new acquisition finance facility of up to £38.75 million provided by HBOS to fund the balance of the consideration for and transaction costs of the Acquisition. Further details of the Placing and the Acquisition Finance are set out below and in paragraph 11.1 of Part VI of this document.

The Acquisition constitutes a reverse takeover under the AIM Rules by virtue of its size and is therefore subject to the prior approval of Shareholders at the Extraordinary General Meeting, notice of which is set out at the end of this document. Trading in the Existing Ordinary Shares on AIM was suspended following the Company's announcement of the proposed Acquisition on 26 September 2005. In accordance with the AIM Rules, the Directors expect this suspension to be lifted following the publication of this document.

If the Acquisition is approved by Shareholders at the EGM, the dealing facility for the Existing Ordinary Shares will be cancelled. Application will then be made by the Company for the Existing Ordinary Shares to be re-admitted and the Vendor Placing Shares to be admitted to trading on AIM. Trading in such shares on AIM is expected to commence on 1 November 2005.

The purpose of this document is to provide Shareholders with information on the Acquisition and to explain why the Directors consider it to be in the best interests of the Company and its Shareholders as a whole and why they recommend that Shareholders vote in favour of the Resolutions to be proposed at the Extraordinary General Meeting.

Reasons for the Acquisition

The Directors believe that the Acquisition represents a unique opportunity for Media Square Shareholders and for the employees of both Media Square and the Marketing Services Group. The Enlarged Group will be the fifth largest UK-based quoted marketing communications and marketing services business. The Directors believe that the Acquisition will help to transform Media Square from a predominantly UK-based group with turnover of circa £60 million into an international business with pro forma turnover of circa £200 million, more than 2,300 clients, some 1,700 employees and operations spanning Europe, the Far East, Africa and the US.

The Directors recognise the challenges associated with increasing the size of the business by such an extent, but believe that the Enlarged Group will have the necessary depth of management and personnel to successfully integrate Media Square and the Marketing Services Group and capitalise upon the exceptional opportunities available. The Directors believe that being capable of offering the full range of services to clients, whether it be the requirement for market research and design or advertising, or specialist financial communication and on-line marketing in more than one territory, will provide the Enlarged Group with a significant business advantage and an opportunity to accelerate revenue growth.

Information on Media Square

History

Media Square was established in 2000 and listed on AIM in September of that year. The present management team took control of the Company in October 2002 and, along with their fellow employees, have grown the business more than ten-fold during the last three years. During this

time, the Company’s market capitalisation has risen some 22 times and the Company’s consolidated net assets have grown from £0.8 million, as at 31 October 2002, to £29.0 million, as at 30 April 2005. Since October 2002, Shareholders have enjoyed a total shareholder return in excess of 230 per cent.

During the last two full financial years, Media Square increased turnover by 298 per cent., revenues by 356 per cent. and gross profit by 292 per cent., reflecting a combination of organic growth and growth through acquisition. For the half year to 30 April 2005 Media Square achieved turnover of £29.6 million, revenues of £18.4 million and gross profit of £6.0 million. Turnover for the half year to 30 April 2005 was 52 per cent. greater than the whole of the 2004 financial year, as the Company benefited from both organic growth and the acquisitions made during 2004.

Since the start of 2003, Media Square has acquired a total of 14 different businesses, each serving the marketing services and marketing communications sectors. A number of these businesses were experiencing difficulties prior to their acquisition, but have subsequently been turned around to provide a positive contribution to the Group. The most recent acquisition was Symbian Print Intelligence Limited, a print management company, which was acquired in July 2005, and the largest transaction was the £22.0 million takeover of Coutts in October 2004.

The Business

Media Square’s current business is broadly split into two principal areas of activity, Retail Marketing Services and Marketing Communications. Retail Marketing Services encompasses the design and production of a wide range of marketing collateral for high street and home shopping retailers, plus the design and manufacture of point-of-purchase displays and other tactical marketing support materials for retailers and for brands at retail. The Marketing Communications division offers clients a wide range of services including: marketing consultancy, direct marketing, on-line advertising and marketing, press and public relations, advertising and sales promotion.

Media Square is a market leader in retail marketing services, is within the top three UK regional advertising agencies and occupies a top ten position in the UK design group and business-to-business marketing sectors. It has around 1,000 clients and maintains offices and production facilities in London, Newmarket, Oxford, Manchester and Leeds.

The Group’s client list includes: Argos Retail Group, Aldi Stores, B&Q Stores, Buena Vista Home Entertainment, Durex SSL, Focus/Wickes, Hutchison 3, Friends Provident, Johnson & Johnson, Johnson Press, Lexus, L’Oreal, Manor Bakeries, Mitsubishi, Oxfam, The Post Office, Toys ‘r’ Us, Procter & Gamble, Samsung, Shop Direct Group, Telewest, Universal International Pictures, Warner Brothers and 20th Century Fox.

Employees

Media Square currently employs some 660 people, of whom approximately 98 per cent. are engaged directly in the operating divisions. The average number of officers and employees of Media Square employed in the ten months ended 31 August 2005, by activity, was as follows:

Production	465
Administration and Sales	190
Total	<u>655</u>

Further financial information on Media Square is set out in Part III of this document.

Information on the Marketing Services Group

The Marketing Services Group is comprised of 16 businesses (consisting of 42 individual subsidiaries), with core specialties in the advertising, marketing services and brand design industries. It employs some 1,000 people, and includes companies such as Dynamo, one of the largest independent promotional marketing companies in the UK, with clients such as Sainsbury’s and Citigate SMARTS, with its regional office network in the UK providing corporate and

consumer public relations to clients such as the NHS. Whilst the majority of the Marketing Services Group's employees and revenues are based in, and derived from, the UK, the Marketing Services Group also has operations in Germany, the US, South Africa, Singapore, Hong Kong and China. Huntsworth acquired the majority of the businesses as a result of its merger with Incepta, in April 2005. Incepta assembled these businesses over a seven year period and there are no outstanding earnouts resulting from these acquisitions. The Marketing Service Group provides services to clients including Coca Cola, Unilever, Sainsbury's, Royal Bank of Scotland and Shell.

At Completion, Media Square will acquire 100 per cent. ownership (directly or indirectly) of all of the companies which constitute the Marketing Services Group, except for five companies in which certain existing minority interests will be retained as set out in paragraph 10.2 of Part VI of this document.

A list of the key operating businesses that comprise the Marketing Services Group, and their locations, is set out below.

<i>Name of MSG business</i>	<i>Details</i>
Citigate Publishing (UK)	Citigate Publishing was established in 1988 to conceive, launch and produce corporate publications within corporate communication programmes for a variety of audiences including employees, customers, shareholders and opinion formers.
Citigate SEA (Germany)	Established in 1970, Citigate SEA is a top 20 advertising agency providing integrated corporate communications, primarily specialising in financial and corporate advertising in Germany from offices in Dusseldorf, Berlin and Bonn.
Citigate SMARTS (UK)	Citigate SMARTS is a UK regional network providing corporate and consumer public relations, creative advertising, branding and design, direct marketing, digital marketing, planning and research and promotional marketing. It has offices in Manchester, Birmingham, Glasgow, Edinburgh, Belfast and Dublin.
Citigate South Africa (South Africa)	Citigate South Africa provides through-the-line communication solutions: design, branding and packaging, annual reports, promotional marketing and public relations. It has offices in Johannesburg, Durban and Cape Town.
Dynamo (UK)	A start up in 1990, Dynamo was acquired by Incepta on 1 October 2000 as a strategic move to create a UK marketing services offering to take advantage of the shift in global marketing spend below the line. It has a focus on retail implementation and encompasses expertise in promotional marketing, experiential marketing, media buying, premium sourcing and print buying.
Finex (UK)	Finex was established in 1991 to offer response driven marketing communications to high growth sectors of the economy. It was acquired by Incepta from management on 1 April 2000.
HS Advertising (Germany)	HS Advertising is primarily a business-to-business advertising agency based in Frankfurt, Germany.
Holmes & Marchant (UK)	Holmes & Marchant was established in 1967, focusing on integrated structural and graphic packaging design and corporate identity to a European client base.

<p>Incepta Marketing Intelligence (“IMI”) (UK, US, Hong Kong and China)</p>	<p>IMI was created by the merger of Citigate DVL Smith and Hauck Research Services on 1 March 2004. It offers strategic and tactical advice for business success based on consumer and market understanding. Services provided by IMI include brand strategy, web and new media expertise, communications, retail and point of purchase and integrated marketing intelligence.</p>
<p>Incepta Online (UK)</p>	<p>Incepta Online includes the businesses Tangozebra, JKD Communications, Citigate Hudson and Citigate MarchCom and the companies Incepta Online Limited, DMD Digital Marketing Direct Limited and Digital Advertising and Marketing Limited. Together, the Incepta Online group of companies provides customers with online advertising and digital marketing solutions, database solutions and assistance in applying technology to investor relations, corporate, financial and media communications.</p>
<p>Karen Earl (UK)</p>	<p>Established in 1984, Karen Earl advises major brands on regional, national and international sponsorships, and is also involved in community, arts, broadcast and entertainment work. It was acquired by Incepta in September 2001.</p>
<p>Lloyd Northover (UK and Hong Kong)</p>	<p>Lloyd Northover was founded in 1975 as a company devoted to creating vivid brands and clear communications for companies, organisations and public services. The company has offices in London and Hong Kong.</p>
<p>Redmandarin (UK and Singapore)</p>	<p>Redmandarin is a consultancy specialising in advising on sponsorship strategy, from developing a strategy to evaluating and measuring the return on investment. The business was created to give strategic advice on sponsorship matters to blue chip clients looking to improve the efficiency and effectiveness of their sponsorship programmes. It was acquired by Incepta on 14 September 2003.</p>
<p>Silver Bullet (UK)</p>	<p>Silver Bullet was established on 1 May 2004 in order to provide Incepta with a second leading direct marketing business. This allowed Incepta to maintain Finex’s client base while recruiting further talent to build the franchise.</p>
<p>Su Yeang Design (Singapore and China)</p>	<p>Su Yeang Design is based in Singapore and was founded in 1983. It specialises in creating, developing and implementing effective corporate, product and retail brand identities in the Asia Pacific region.</p>
<p>The Gate Worldwide (UK, US, Singapore and Hong Kong)</p>	<p>Formerly known as Citigate Albert Frank, The Gate Worldwide is an international full service brand communications and advertising agency that has developed a broad client base in financial services, business to business and consumer lifestyle. It offers brand strategy, advertising, media planning and buying, design, new media and 24 hour inhouse studio and production services. The Gate Worldwide has offices in London, New York and Hong Kong.</p>

The recent trading record of the Marketing Services Group, which has been extracted from the Accountants' Report on the Marketing Services Group in Part IV of this document is summarised as follows:

Financial year ended 28 February 2005

	<i>£m</i>
Turnover	140.8
Revenue	73.1
Adjusted MSG EBIT ⁽¹⁾	10.6
Operating profit ⁽²⁾	8.5
Profit before taxation ⁽²⁾	<u>8.2</u>

(1) Adjusted MSG EBIT shown above represents MSG's historical aggregated EBIT, pre-exceptional items and adjusted to add back general management charges historically levied by its former parent of £2.2m as detailed in Note 6.1 of the Accountants' Report set out in Part IV of this document. Specific management charges historically incurred for particular services accounted for centrally by Incepta or Huntsworth have not been adjusted for and so have been charged in reaching the above Adjusted MSG EBIT.

(2) Pre-exceptional items

The Directors believe that there are significant further operational improvements capable of being achieved over the next two to three years.

The Acquisition brings with it a number of entrepreneurial and successful individuals in the marketing services business. The Directors believe that the Enlarged Group can provide an environment in which these individuals can flourish because Media Square is a business which understands and is fully focused on the marketing services sector and is able to incentivise such key employees with a view to maximising their performance and Shareholder value.

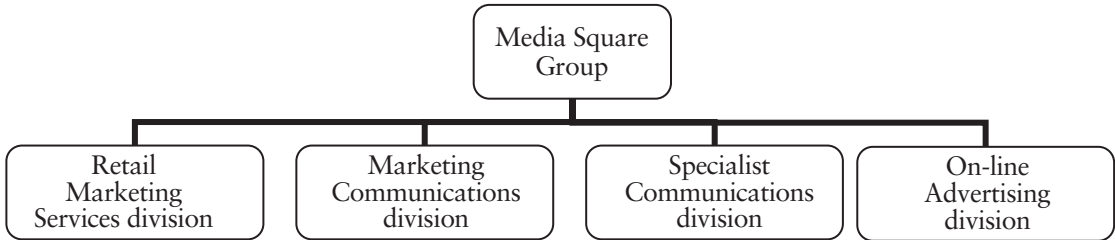
The employees of the Marketing Services Group have had to cope with relatively difficult corporate and market conditions over the last two years and the Directors believe that some of the businesses have suffered from under-investment.

The Marketing Services Group employs some 1,000 people, all of whom are engaged directly in what will become trading subsidiaries of Media Square.

Strategy of the Enlarged Group

During the last two years, Media Square has developed into a successful and well organised retail marketing services and marketing communications company with two distinct divisions, more than 1,000 clients and leading positions in a number of sectors. The transformation of the Group, from a loss-making business, to one of the most well financed in the UK marketing services sector, was completed in 2004.

From a corporate perspective, the Directors expect that the Enlarged Group will be positioned as the leading small cap marketing services group in the UK. The Directors believe that this will leave the Enlarged Group well placed to challenge for growth through both client and new business acquisition. The Directors intend that, operationally, the Enlarged Group will be reorganised into four principal divisions:



The Directors believe that, following the Acquisition, there is an opportunity to re-incentivise and re-invigorate the brands and employees of the Marketing Services Group.

Summary Terms of the Acquisition Agreement

Under the Acquisition Agreement, the Company has conditionally agreed to pay Huntsworth a total consideration of £63.0 million for its interest in the Marketing Services Group, £30.0 million to be satisfied by the allotment of the Vendor Placing Shares and the balance from the Acquisition Finance. Of the £63.0 million, an amount of £8.0 million shall be held in escrow pending final determination of the completion accounts. In addition, if the adjusted net assets of the Marketing Services Group are less than £8.28 million on Completion, Huntsworth shall pay to the Company an amount equal to the difference.

The Acquisition is conditional, *inter alia*, on:

- (i) the approval of the Resolutions by Media Square's Shareholders to be proposed at the EGM;
- (ii) the Acquisition Finance and the Additional Facilities becoming unconditional in all respects;
- (iii) the approval of the disposal of the Marketing Services Group by Huntsworth's shareholders; and
- (iv) the Placing Agreement becoming unconditional in all respects.

Further details of these arrangements under the Acquisition Agreement are set out in paragraph 11.1(O) of Part VI of this document.

Details of the Placing

The Company has entered into a Placing Agreement with Collins Stewart pursuant to which, *inter alia*, Collins Stewart has agreed to procure places for the Vendor Placing Shares at the Placing Price to raise £30.0 million. The Placing Price represents a premium of 6.4 per cent. to the closing middle-market price of an Existing Ordinary Share on 23 September 2005, the last day of dealings prior to the suspension of trading in the Company's Existing Ordinary Shares on AIM.

The Placing, which has been fully underwritten by Collins Stewart, is conditional, *inter alia*, upon the passing of the Resolutions at the EGM. Shareholders have no right of pre-emption in respect of the Vendor Placing Shares and accordingly the Vendor Placing Shares are not being made available to the holders of the Existing Ordinary Shares except to the extent that they are included as places procured by Collins Stewart.

The Vendor Placing Shares will be credited as fully paid and will rank *pari passu* in all respect with the Existing Ordinary Shares, including the right to receive all dividends and other distributions declared, made or paid on the Existing Ordinary Shares. A summary of the principal terms of the Placing Agreement is set out in paragraph 11.1(M) of Part VI of this document.

Following the introduction of the Prospectus Rules on 1 July 2005 and the consequential increases in costs and time required for AIM companies to raise new equity capital on a pre-emptive basis, the Directors have been advised that the Placing is the most cost effective and expeditious method of raising new equity capital.

Summary of the Acquisition Finance and Additional Facilities

Under a facility agreement dated 12 October 2005, a summary of which is set out in paragraph 11.1(N) of Part VI of this document, HBOS has conditionally agreed to make available to the Company a sterling term facility in an aggregate amount of £48.35 million and a multicurrency revolving facility in the amount of £10 million. The sterling term facility is divided into Tranche A (£20 million), Tranche B (£24.75 million) and Tranche C (£3.6 million). The Consideration for and the costs of the Acquisition will be partly met by the Acquisition Finance, comprised of Tranche A and up to £18.75 million of Tranche B to be drawn down on Completion. Up to £6 million of the remainder has been arranged to provide the Company with additional finance, in relation to potential further acquisitions. Tranche C is to be used to refinance an existing loan held by Media Square. The revolving facility is to be used to provide the Enlarged Group with working capital.

Tranche A is repayable over 5 years, Tranche B is repayable in a single bullet payment in 2011 and Tranche C is repayable over 9 years. The interest payable on amounts drawn in respect of Tranche A is 2.25 per cent. per annum over LIBOR, Tranche B is 2.75 per cent. per annum over LIBOR and Tranche C is 1.75 per cent. per annum over LIBOR, in each case plus Mandatory Costs (as detailed in the facility agreement), if any.

Financial Effects of the Acquisition

The Acquisition is expected to substantially increase the revenues of the Enlarged Group and the Directors believe that the historically steady revenues of the Marketing Services Group should help smooth any seasonal trends in the future revenues of the Enlarged Group. The Directors believe that margin improvement opportunities will exist in the Enlarged Group.

The Directors believe that the Acquisition, taking into account the full effects of the Placing, will be earnings enhancing⁽¹⁾.

An unaudited pro forma statement of consolidated net assets of the Enlarged Group, prepared for illustrative purposes only, showing the impact of the Acquisition and the Placing is set out in Part V of this document.

Current Trading and Prospects

Media Square

Media Square has enjoyed considerable growth and development in its business during the last two and a half years. It achieved its internal targets for the half year to 30 April 2005.

Since the acquisition of Coutts Holdings plc last year, Media Square has experienced a change in seasonal trends and the balance of its profitability has skewed markedly to the first and last quarters of the financial year. This change is principally due to the large value of retail marketing services work, the majority of which is focused on pre-Christmas tactical displays and promotions. There are clearly material risks to profitability which are associated with periods of such intense activity.

The Marketing Services Group

Historically, the Marketing Services Group has had a consistent revenue stream. However, the uncertainty caused by the merger between Huntsworth and Incepta has had a negative effect on trading at the start of its current financial year. Improvements in trading have been seen in recent months and, following due diligence, the Directors of Media Square have concluded that internal forecasts for the current year are challenging, but achievable.

Enlarged Group

The Directors of Media Square believe that the Enlarged Group will occupy a leading position in the UK and overseas marketing communications and marketing services sector. As the fifth largest UK-based quoted group of its type, the Enlarged Group will be well positioned to compete for rapid growth.

Further financial information on Media Square and the Marketing Services Group is set out in Parts III and IV of this document.

Dividend Policy

On 23 June 2005, the Board declared the Company's maiden dividend of 0.12 pence per share in respect of the six-month period ended 30 April 2005. For the foreseeable future, the Board intends to continue with a policy of modest dividend payments and retaining the majority of earnings to fund the development and growth of the Enlarged Group.

(1) This statement should not be interpreted to mean the future earnings per share of Media Square, following completion of the Acquisition and the Placing, would necessarily match or exceed the historical earnings per share of Media Square. For these purposes earnings per share is measured before goodwill amortisation and exceptional items.

The Enlarged Group Board

The Enlarged Group Board will consist of the following Directors:

Nigel Bacon BSc FCA, 47, Interim Non-Executive Chairman

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. From the mid 1980s to the mid 1990s Nigel specialised in corporate business recovery becoming a partner in the firm of Robson Rhodes. 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 Limited, the UK's largest independent recruitment company.

Jeremy Middleton, 44, Chief Executive

Jeremy entered the marketing communications sector in 1981 and founded Equanim Group Limited in the late 1990s. Equanim was acquired by Media Square plc in June 2002 and Jeremy joined the Media Square Board as an executive director. In October 2002, Jeremy led the restructuring of Media Square's Board and, as Group Operations Director, took charge of the restructuring and development strategy of the Group. Jeremy was appointed Chief Executive of Media Square in June 2004, following the successful implementation of the turnaround programme.

Graeme Burns CA, 38, Finance Director

Graeme is a qualified chartered accountant and, prior to joining Equanim Group Limited in September 2000, held senior commercial positions and finance positions with two international groups, Interchange and Namibian Minerals Corporation. When Equanim was acquired by Media Square, Graeme joined the Media Square Board as Commercial Director. He was appointed Group Finance Director in October 2002 and, working with Jeremy Middleton, has had a significant role in turning round and building the Media Square Group.

The Group intends to strengthen the Board, as soon as is practical, through the appointment of several new executive Directors and is currently searching for additional independent non-executive directors, including an independent non-executive chairman.

Dealings and Settlement

The proposed Acquisition will constitute a reverse takeover under the AIM Rules, and is therefore dependent on the approval of Shareholders being sought at the EGM, details of which are set out below.

Trading in the Existing Ordinary Shares on AIM was suspended following the Company's announcement of the proposed Acquisition on 26 September 2005. In accordance with the AIM Rules, the Directors expect this suspension to be lifted following the publication of this document.

If the Acquisition is approved by holders of the Existing Ordinary Shares at the EGM, the dealing facility for the Existing Ordinary Shares will be cancelled. Application will be made by the Company for the Existing Ordinary Shares to be re-admitted and the Vendor Placing Shares to be admitted to trading on AIM. Trading in such shares on AIM is expected to commence on 1 November 2005.

Completion of the Acquisition will take effect upon payment of the Consideration to Huntsworth which is expected to take place no more than three business days following Admission.

It is expected that share certificates representing the Vendor Placing Shares will be dispatched by the Company's Registrars no later than 8 November 2005 to purchasers who do not wish to receive such shares in uncertificated form and Vendor Placing Shares will be delivered through CREST to purchasers who wish to acquire such shares in uncertificated form on 1 November 2005.

Extraordinary General Meeting

At the end of this document, Shareholders will find a notice convening an Extraordinary General Meeting of the Company, which is to be held at 9.00 a.m. on 31 October 2005 at the Company's offices at Queens Avenue, Macclesfield, Cheshire, SK10 2BN. The Resolutions to be proposed at the EGM will be as follows:

- (a) to approve the Acquisition;
- (b) to increase the authorised share capital of the Company from £15,000,000 to £23,000,000 by the creation of 160,000,000 Ordinary Shares; and
- (c) to grant authority to the Directors of the Company pursuant to section 80 of the Act to allot relevant securities for the purposes of the Placing.

Taxation

Information regarding United Kingdom taxation is set out in paragraph 13 of Part VI of this document. If Shareholders are in any doubt as to their tax position, they should contact their professional adviser immediately.

Financial Calendar

The Company's current year end for accounting purposes is 31 October. As a result of the Acquisition, and conditional on Admission, the Company intends to change its financial year end to February, with an exact date to be specified at a later date. All of the companies comprising the Marketing Services Group have a financial year end of 28 February (or 31 December in the case of Holmes & Marchant). The primary purpose of this change of financial year end is to bring all the operating companies of the Enlarged Group onto a consistent year end basis.

Following this change being effected, the Company currently intends to publish a second set of interim financial results in respect of the six months ending 31 October 2005 by the end of January 2006. Further, the Company expects to publish, in June 2006, audited accounts for the Enlarged Group, in respect of the 16 month period ending February 2006. These results will consolidate the results of the Marketing Services Group for the four month period from Completion of the Acquisition until the revised year end of the Company.

Corporate Governance

The Directors intend, where practicable and having regard to the current stage of development and size of the Company, to comply with the Combined Code.

The Combined Code recommends that non-executive directors should comprise at least half of the Board, that a company of Media Square's size should have at least two independent non-executive directors, that there should be an independent non-executive chairman and one of the independent non-executive directors should be appointed the senior independent director. The Company has only one non-executive director and intends to appoint additional independent non-executive directors, including an independent, non-executive chairman, once suitable candidates have been identified. The size of the current Board was reduced after the former executive chairman, Robert Essex, left the board, as announced on 26 September 2005.

The Board will establish an Audit Committee and a Remuneration Committee, each with formally delegated duties and responsibilities.

The Audit Committee will receive and review reports from the management and the Company's auditors relating to annual and interim accounts and the internal controls in place throughout the Enlarged Group. The Audit Committee will have unrestricted access to the Enlarged Group's auditors.

The Remuneration Committee will review the scale and structure of the executive directors' remuneration and the terms of their service contracts. The remuneration and terms of appointment of the non-executive directors is set by the Board. The Remuneration Committee will also approve the issue of share options under the Media Square Option Scheme and the 2005 SRS Option Scheme.

Recommendations and Voting Intentions

The Directors, who have received financial advice from Collins Stewart in relation to the Acquisition, believe that the Acquisition is in the best interests of the Company and its Shareholders as a whole. In providing advice to the Directors, Collins Stewart has taken into account the Directors' commercial assessment of the Acquisition.

Accordingly, the Directors unanimously recommend that Shareholders vote in favour of the Resolutions, as they intend to do in respect of their own beneficial holdings, which amount in aggregate to 12,073,983 Existing Ordinary Shares, representing approximately 5.9 per cent. of the current issued share capital of the Company.

Actions to be taken

Shareholders will find enclosed with this document a Form of Proxy. Whether or not Shareholders intend to be present at the EGM, they are asked to complete the Form of Proxy in accordance with the instructions printed on it so as to be received by the Company's registrars, Neville Registrars Limited, as soon as possible but in any event not later than 9.00 a.m. on 29 October 2005. Completion and return of the Form of Proxy will not preclude Shareholders from attending and voting at the meeting, should they so wish.

Further Information

Attention is drawn to the further information set out in Parts II to VI of this document which contains further information on Media Square, the Marketing Services Group and the Enlarged Group. In particular, Shareholders and prospective investors are advised to consider carefully Part II of this document entitled "Risk Factors".

PART II

Risk Factors

An investment in the Enlarged Group may be subject to a number of risks particular to the Enlarged Group over and above the risks associated with an investment in a quoted company generally. Any prospective investors should consider carefully all of the information set out in this document and the risks attaching to an investment in the Enlarged Group, including, in particular, the risks described below, before making any investment decision. The information below does not purport to be an exhaustive list.

AIM

Application is to be made for the Existing Ordinary Shares to be re-admitted and for the Vendor Placing Shares to be admitted to trading on AIM. AIM is a market designed primarily for emerging or smaller companies. The rules of this market are less demanding than those of the Official List. The London Stock Exchange has not itself examined or approved the contents of this document. The future success of AIM and liquidity in the market for Ordinary Shares cannot be guaranteed. In particular, the market for Ordinary Shares may be, or may become, relatively illiquid and therefore such Ordinary Shares may be or may become difficult to sell.

Share price volatility and liquidity

The share price of emerging companies can be highly volatile and shareholdings illiquid. The price at which the Ordinary Shares are traded and the price which investors may realise for their Ordinary Shares will be influenced by a large number of factors, some specific to the Company and its operations and some which may affect companies trading on AIM generally. These factors could include the performance of the Company, large purchases or sales of the Ordinary Shares, legislative changes and general economic, political or regulatory conditions. Prospective investors should be aware that the value of an investment in the Company may go down as well as up and that the market price of the Ordinary Shares may not reflect the underlying value of the Enlarged Group. Investors may therefore realise less than, or lose all of, their investment.

Future raising of additional funds

The Enlarged Group's capital requirements will depend on numerous factors, including its ability to maintain and expand its penetration of the markets in which it operates. The Enlarged Group cannot predict accurately the timing and amount of its capital requirements. If its capital requirements vary materially from its plans, the Enlarged Group may require further financing sooner than anticipated. Market conditions may prevent additional funds from being raised which could restrict the development of the Enlarged Group.

Appropriate personnel

Media Square and the Marketing Services Group are and will continue to be dependent on certain personnel for their continued success. Although the Enlarged Group has arrangements in place with its key personnel to secure their services, the retention of their services cannot be guaranteed. The Company does operate a flexible policy of keyman insurance policies on the lives of certain of the Directors and other members of staff of Media Square and intends to offer a similar policy to the staff of the Marketing Services Group where both available and appropriate. The loss of the services of any executive officers or other key employees could have a material adverse effect on the Enlarged Group which has long term and strong relationships with many of its clients, built by key personnel. The reputations of key personnel attract new clients and the future success of the Enlarged Group is thus dependent on key personnel maintaining relationships with existing clients and continuing to attract new clients. The loss of clients through the breakdown of relationships or the departure of key personnel could have a material adverse effect on the Enlarged Group's businesses.

Debt burden following the Acquisition

Following the Acquisition, the Enlarged Group will have increased levels of debt. Whilst the Directors believe that the resultant level of debt will be sustainable, the greater demand on the Enlarged Group's cash resources, resulting from increased interest payments, may adversely impact the Enlarged Group's prospects and reduce its financial flexibility.

Merger integration issues

Unforeseen difficulties in the integration of the Marketing Services Group following the Acquisition may result in increased expense, increased demands on management time, loss of customers and a decline in profitability. For these reasons, Media Square may not realise all of the anticipated benefits of the Acquisition, either in a timely manner, or at all, and this may result in a material adverse impact on the Enlarged Group.

The Enlarged Group operates in a highly competitive industry

The Enlarged Group may face significant competition, both actual and potential, including competition from global competitors which may have access to larger capital resources. Competition in the industry is based upon the range and quality of services offered, geographical reach, reputation, and client relationships. There is no assurance that the Enlarged Group will be able to compete successfully in such a market place. In addition, the Enlarged Group is exposed to general economic trends, including the level of retail consumer spending, a slowdown in which would likely adversely affect the Enlarged Group's business.

Fluctuations of revenues, expenses and operating results

The Enlarged Group's revenues, expenses and operating results could vary significantly from period to period as a result of a variety of factors, some of which are outside the Enlarged Group's control. These factors include general economic conditions, conditions specific to the market, seasonal trends in revenues, capital expenditure and other costs, and the introduction of new products or services by the Enlarged Group or its competitors. In response to a changing competitive environment, members of the Enlarged Group may elect from time to time to make certain pricing, service or marketing decisions that could have a material adverse effect on its revenues, results of operations and financial condition.

Currency rate risk

Fluctuations in exchange rates between currencies in which members of the Enlarged Group operate relative to pounds sterling may cause fluctuations in its financial results. The Enlarged Group cannot predict the effect of exchange rate fluctuations upon future operating results and there can be no assurance that exchange rate fluctuations will not have a material adverse effect on its businesses, operating results or financial condition.

Failure of information systems

The Enlarged Group's ability to maintain financial controls and provide a high-quality service to its clients depends, in part, on the efficient and uninterrupted operation of its management information systems, including its computer systems. The Enlarged Group's computer systems are vulnerable to damage or interruption from floods, fires, power loss, telecommunications failures and similar events. These systems may also be subject to sabotage, vandalism and similar misconduct. Any damage to or failure of the systems could result in interruptions to the Enlarged Group's financial controls and customer service. Such interruption could have a material adverse effect on the Enlarged Group's business, results of operations and/or financial condition.

International Financial Reporting Standards ("IFRS")

It will be mandatory for AIM companies to adopt IFRS for accounting periods commencing on or after 1 January 2007. The adoption of IFRS may have a material impact on the reported results, balance sheets and cash flow statements of the Enlarged Group.

PART IIIa

Media Square's Interim Financial Statements

MEDIA SQUARE PLC

Interim Results for the period ended 30 April 2005

Chairman's Statement

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.

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.

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 Audited £'000
Turnover					
– continuing operations		29,630	—	29,630	12,607
– acquisitions		—	—	—	6,855
		<u>29,630</u>	<u>—</u>	<u>29,630</u>	<u>19,462</u>
Material cost of sales		(11,202)	—	(11,202)	(5,456)
Revenue		18,428	—	18,428	14,006
Direct payroll costs		(12,412)	—	(12,412)	(8,732)
Gross profit		6,016	—	6,016	3,419
– continuing operations		—	—	—	1,855
– acquisitions		<u>6,016</u>	<u>—</u>	<u>6,016</u>	<u>5,274</u>
Administrative expenses	2	(4,401)	(124)	(4,525)	(4,500)
Operating profit/(loss)		1,615	(124)	1,491	806
– continuing		—	—	—	(32)
– acquisitions		<u>1,615</u>	<u>(124)</u>	<u>1,491</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)	(78)
Interest receivable				95	187
Profit on ordinary activities before taxation				1,370	1,514
Tax on profit on ordinary activities				(442)	(230)
Profit on ordinary activities after taxation				928	1,284
Dividends	3			—	—
Profit transferred to reserves				928	1,284
Basic earnings per share	4			0.48p	1.19p
Diluted earnings per share	4			0.44p	1.12p

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

Consolidated Balance Sheet

For the six months ended 30 April 2005

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

Consolidated Cash Flow Statement

For the six months ended 30 April 2005

		<i>6 months ended 30 April 2005 Unaudited £'000</i>	<i>6 months ended 30 April 2004 Unaudited £'000</i>	<i>Year ended 31 October 2004 Audited £'000</i>
Net cash inflow/(outflow) from operating activities	6	2,999	(414)	738
Returns on investments and servicing of finance				
Interest received		95	22	187
Interest paid		(161)	(17)	(9)
Hire purchase interest paid		(55)	(34)	(69)
Net cash (outflow)/inflow from returns on investments and servicing of finance		<u>(121)</u>	<u>(29)</u>	<u>109</u>
Taxation				
UK corporation tax paid		(94)	—	(204)
Capital expenditure and financial investment				
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)
Net cash inflow/(outflow) from capital expenditure and financial investment		<u>2,968</u>	<u>(138)</u>	<u>2,445</u>
Acquisitions and disposals				
Purchase of subsidiary undertakings		(2,185)	(644)	(18,828)
Purchase of businesses		(141)	(519)	(640)
Net cash outflow from acquisitions and disposals		<u>(2,326)</u>	<u>(1,163)</u>	<u>(19,468)</u>
Financing				
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)
Net cash (outflow)/inflow from financing		<u>(1,146)</u>	<u>571</u>	<u>18,878</u>
Increase/(decrease) in cash	7	<u><u>2,280</u></u>	<u><u>(1,173)</u></u>	<u><u>2,498</u></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 6 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:

	<i>Profit £'000</i>	<i>Weighted average number of shares</i>	<i>Profit per share (pence)</i>
Basic earnings per share			
Six months ended 30 April 2005	928	194,581,368	0.48
Six months ended 30 April 2004	406	76,116,395	0.53
Year ended 31 October 2004	1,284	108,346,460	1.19
Diluted earnings per share			
Six months ended 30 April 2005	928	211,940,266	0.44
Six months ended 30 April 2004	406	77,670,535	0.52
Year ended 31 October 2004	1,284	114,297,919	1.12

5. Reconciliation of movements in shareholders' funds

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

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

	<i>6 months ended 30 April 2005 Unaudited £'000</i>	<i>6 months ended 30 April 2004 Unaudited £'000</i>	<i>Year ended 31 October 2004 Audited £'000</i>
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	(2,969)	124	2,859
Net cash inflow/(outflow) from operating activities	<u>2,999</u>	<u>(414)</u>	<u>738</u>

7. Reconciliation of net cash flow to movement in net (debt)/funds

	<i>6 months ended 30 April 2005 Unaudited £'000</i>	<i>6 months ended 30 April 2004 Unaudited £'000</i>	<i>Year ended 31 October 2004 Audited £'000</i>
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	259	117	312
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	—	(150)	(150)
Movement in net funds/(debt) in the period	3,579	(1,350)	(2,881)
Net (debt)/funds at beginning of period	(2,047)	834	834
Net funds/(debt) at end of period	<u>1,532</u>	<u>(516)</u>	<u>(2,047)</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.

PART IIIb

Media Square's financial statements for the year ended 31 October 2004 are set out below. Media Square's financial statements for the two years ended 31 October 2003 and 31 October 2002 may be viewed on the company's website www.mediasquare.co.uk

Media Square's Audited Financial Statements for the year ended 31 October 2004

MEDIA SQUARE PLC

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

Chief Executive's Review

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 per cent. 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.

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 ("CMW"), 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, CMW 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 CMW, 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 per cent. per annum.

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.

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.

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.

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

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 27 to 32 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:

	<i>Number of ordinary shares of 5p each</i>	
	<i>2004</i>	<i>2003</i>
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

<i>Director</i>	<i>At</i>	<i>Granted in year</i>	<i>At</i>	<i>Exercise price</i>	<i>Option period</i>
	<i>1 November 2003</i>		<i>31 October 2004</i>		
	<i>Number</i>	<i>Number</i>	<i>Number</i>	<i>Pence</i>	
Graeme Burns	—	540,000	540,000	18	May 2005 – May 2010

Unapproved Share Option Scheme

<i>Director</i>	<i>At</i>	<i>Granted in year</i>	<i>At</i>	<i>Exercise price</i>	<i>Option period</i>
	<i>1 November 2003</i>		<i>31 October 2004</i>		
	<i>Number</i>	<i>Number</i>	<i>Number</i>	<i>Pence</i>	
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

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 per cent. of the issued share capital of which the Company has been notified at 21 February 2005 were as follows:

	<i>Ordinary shares of 5p each Number</i>	<i>Percentage of ordinary share capital %</i>
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 & 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

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.

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 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			<u>1,284</u>	<u>256</u>
Basic earnings per share	7			<u>1.19p</u>	<u>0.73p</u>
Diluted earnings per share	7			<u>1.12p</u>	<u>0.71p</u>

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

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		<u>34,209</u>	<u>4,670</u>
Creditors: amounts falling due after one year	15	(5,212)	(742)
Provisions for liabilities and charges	17	(547)	—
Net assets		<u><u>28,450</u></u>	<u><u>3,928</u></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><u>28,450</u></u>	<u><u>3,928</u></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

Company Balance Sheet

For the year ended 31 October 2004

	<i>Note</i>	<i>2004</i> <i>£'000</i>	<i>2003</i> <i>£'000</i>
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><u>31,121</u></u>	<u><u>3,532</u></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><u>31,121</u></u>	<u><u>3,532</u></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

	<i>Note</i>	<i>2004</i> £'000	<i>2003</i> £'000
Net cash inflow from operating activities	22	738	135
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		(204)	—
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		(3)	—
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		(640)	(223)
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		(312)	(142)
Net cash inflow from financing		<u>18,878</u>	<u>2,322</u>
Increase in cash	23	<u><u>2,498</u></u>	<u><u>2,118</u></u>

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 FRS 10.

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.

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 per cent.
Leasehold improvements	period of the lease
Plant and machinery	6.7 per cent. to 33 per cent. per annum
Motor vehicles	25 per cent. per annum
Fixtures and fittings	10 per cent. to 25 per cent. 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.

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 subsidiary 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 retranslation of opening net assets of overseas subsidiary 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
	<u>454</u>	<u>255</u>

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	—
	<u>228</u>	<u>9</u>

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>
	2004 £'000	2003 £'000
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>
	2004 £'000	2003 £'000
Administrative expenses		
– continuing operations	2,407	742
– acquisitions	1,445	1,037
	<u>3,852</u>	<u>1,779</u>

3. Cost of sales and administrative expenses (continued)

	2004 £'000	2003 £'000
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 349 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.

Loss on closure of subsidiary undertaking relates to legacy costs and the release of provisions in relation to a subsidiary undertaking liquidated in 2002.

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	69	45
	<u>78</u>	<u>85</u>
Interest receivable	(187)	(5)
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	124	21
	<u>8,646</u>	<u>3,534</u>

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

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

Directors' remuneration

	<i>Salary/ fees £'000</i>	<i>Benefits in kind £'000</i>	<i>Pension £'000</i>	<i>Bonus £'000</i>	<i>Total 2004 £'000</i>	<i>Total 2003 £'000</i>
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*	8	—	—	—	8	—
	<u>290</u>	<u>7</u>	<u>1</u>	<u>7</u>	<u>305</u>	<u>243</u>

* 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.

6. Tax on Profit on ordinary activities

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

	<i>2004 £'000</i>	<i>2003 £'000</i>
UK Corporation tax at 30 per cent.	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 per cent.	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.

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:

	2004			2003		
	<i>Profit</i>	<i>Weighted average number of shares</i>	<i>Profit per share pence</i>	<i>Profit</i>	<i>Weighted average number of shares</i>	<i>Profit per share pence</i>
	<i>£'000</i>			<i>£'000</i>		
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

	<i>Purchased goodwill</i>	<i>Goodwill on consolidation</i>	<i>Negative goodwill</i>	<i>Total</i>
	<i>£'000</i>	<i>£'000</i>	<i>£'000</i>	<i>£'000</i>
Cost				
At 1 November 2003	739	2,072	—	2,811
Additions	<u>88</u>	<u>14,518</u>	<u>(118)</u>	<u>14,488</u>
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	<u>40</u>	<u>110</u>	<u>—</u>	<u>150</u>
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.

10. Tangible fixed assets

Group

	<i>Freehold property</i>	<i>Leasehold improve-ments</i>	<i>Plant and machinery</i>	<i>Motor vehicles</i>	<i>Fixtures and fittings</i>	<i>Total</i>
	£'000	£'000	£'000	£'000	£'000	£'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:

	<i>Plant and machinery</i>	<i>Motor vehicles</i>	<i>Total</i>
	£'000	£'000	£'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>

Company

	<i>Freehold property</i>	<i>Plant and machinery</i>	<i>Motor vehicles</i>	<i>Total</i>
	£'000	£'000	£'000	£'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>

10. Tangible fixed assets (continued)

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

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

11. Fixed assets investments

	<i>Group £'000</i>	<i>Company £'000</i>
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>

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

<i>Subsidiary undertaking</i>	<i>Principal activity</i>
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

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

13. Debtors

	<i>Group</i>		<i>Company</i>	
	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>

14. Creditors: amounts falling due within one year

	<i>Group</i>		<i>Company</i>	
	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 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

	<i>Group</i>		<i>Company</i>	
	2004 £'000	2003 £'000	2004 £'000	2003 £'000
Bank loans (note 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>

16. Borrowings

Borrowings are repayable as follows:

	<i>Group</i>		<i>Company</i>	
	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

	<i>Group</i>		<i>Company</i>	
	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:

	<i>Group</i>		<i>Company</i>	
	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.

19. Share capital

	2004 £'000	2003 £'000
<i>Authorised</i>		
300,000,000 (2003: 90,000,000) Ordinary shares of 5p each	<u>15,000</u>	<u>4,500</u>
<i>Allotted, called up and fully paid</i>		
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

	<i>At 1 November 2003 No. of shares</i>	<i>Granted in year No. of shares</i>	<i>Lapsed in year No. of shares</i>	<i>At 31 October 2004 No. of shares</i>	<i>Exercise price Pence per share</i>	<i>Exercise dates</i>
<i>Unapproved share option scheme</i>						
	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
<i>EMI option scheme</i>						
	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>		

20. Share premium account and reserves

	<i>Shares to be issued £'000</i>	<i>Share premium account £'000</i>	<i>Profit and loss account £'000</i>
<i>Group</i>			
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>
<i>Company</i>			
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

	<i>2004 £'000</i>	<i>2003 £'000</i>
<i>Group</i>		
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>

22. Net cash inflow from operating activities

	<i>2004 £'000</i>	<i>2003 £'000</i>
<i>Group</i>		
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

	2004 £'000	2003 £'000
<i>Group</i>		
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	78	2,386
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	(2,881)	2,462
Net funds/(debt) at 1 November 2003	834	(1,628)
Net (debt)/funds at 31 October 2004	(2,047)	834

24. Analysis of changes in net funds/(debt)

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

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 per cent. (2003: 100 per cent.) of the borrowings were at fixed rates.

The interest rate exposure of the financial liabilities of the Group as at 31 October 2004 was:

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

25. Financial instruments (continued)

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

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 per cent. (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.

27. Acquisitions (continued)

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

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

	<i>Marketplace Holdings Limited £'000</i>	<i>IAS Clark McKay Group Limited £'000</i>	<i>& Walpole Limited £'000</i>	<i>A I London Limited £'000</i>	<i>Coutts Holdings plc £'000</i>	<i>Total £'000</i>
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	<u>174</u>	<u>306</u>	<u>682</u>	<u>801</u>	<u>14,719</u>	<u>16,682</u>
Goodwill	<u>(718)</u>	<u>(295)</u>	<u>(4,991)</u>	<u>118</u>	<u>(8,514)</u>	<u>(14,400)</u>

27. Acquisitions (continued)

Fair value adjustments were made as follows:

	<i>Marketplace Holdings Limited £'000</i>	<i>IAS Clark McKay Group Limited £'000</i>	<i>& Walpole Limited £'000</i>	<i>A I London Limited £'000</i>	<i>Coutts Holdings plc £'000</i>	<i>Total £'000</i>
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:

	<i>£'000</i>
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:

	<i>£'000</i>
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>

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.

27. Acquisitions (continued)

The assets acquired through the above were as follows:

	£'000
Tangible fixed assets	10
Provision for professional and other costs	(10)
Net assets acquired	<u>—</u>
Satisfied by:	
Cash	35
Professional costs	53
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	1,044	117
	<u>5,447</u>	<u>1,572</u>

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:

	2004		2003	
	<i>Land and buildings</i>	<i>Other</i>	<i>Land and buildings</i>	<i>Other</i>
	£'000	£'000	£'000	£'000
Group				
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.

PART IV

Accountants' Report on the Marketing Services Group



1 Puddle Dock
London
EC4V 3PD
United Kingdom

The Directors
Media Square PLC
Queens Avenue
Macclesfield
Cheshire SK10 2BN

12 October 2005

Dear Sirs

The Marketing Services Group (the “Companies” or “MSG”)

We report on the financial information set out on pages 62 to 81. This financial information has been prepared for inclusion in the document to be dated 13 October 2005 of Media Square PLC on the basis of the accounting policies set out in paragraph 6.2. This report is required by paragraph (a) of Schedule 2 of the AIM Rules and is given for the purpose of complying with that and for no other purpose.

Responsibilities

The Directors of the Company are responsible for preparing the financial information on the basis of preparation set out in note 6.1 to the financial information and in accordance with UK accounting standards.

It is our responsibility to form an opinion on the financial information and to report our opinion to you.

Basis of opinion

We conducted our work in accordance with the Standards for Investment Reporting issued by the Auditing Practices Board in the United Kingdom. Our work included an assessment of evidence relevant to the amounts and disclosures in the financial information. It also included an assessment of the significant estimates and judgements made by those responsible for the preparation of the financial information and whether the accounting policies are appropriate to the entity's circumstances, consistently applied and adequately disclosed.

We planned and performed our work 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 information is free from material misstatement whether caused by fraud or other irregularity or error.

Opinion

In our opinion, the financial information gives, for the purposes of the AIM admission document dated 13 October 2005, a true and fair view of the state of affairs of the Marketing Services Group companies as at the dates stated and of their profits, cash flows and recognised gains and losses for the periods then ended in accordance with the basis of preparation set out in note 6.1 and in accordance with UK accounting standards as described in note 6.2.

Declaration

For the purposes of Paragraph (a) of Schedule 2 of the AIM Rules we are responsible for this report as part of the AIM admission document and declare that we have taken all reasonable care to ensure that such is the case, the information contained in this report is, to the best of our knowledge and belief, in accordance with the facts and contains no omissions likely to affect its import. This declaration is included in the AIM admission document in compliance with Schedule 2 of the AIM Rules.

1. Aggregated profit and loss account

For the years ended 28 February

	Note	2005			2004			2003		
		Before exceptional items (note 6.10) £'000	Exceptional items (note 6.10) £'000	Total £'000	Before exceptional items (note 6.10) £'000	Exceptional items (note 6.10) £'000	Total £'000	Before exceptional items (note 6.10) £'000	Exceptional items (note 6.10) £'000	Total £'000
Turnover	6.3	140,787	—	140,787	137,560	—	137,560	135,927	—	135,927
Material cost of sales		(67,676)	—	(67,676)	(63,648)	—	(63,648)	(62,555)	—	(62,555)
Revenue		73,111	—	73,111	73,912	—	73,912	73,372	—	73,372
Direct Costs		(43,443)	(1,078)	(44,521)	(42,482)	(545)	(43,027)	(42,141)	(734)	(42,875)
Gross Profit	6.3	29,668	(1,078)	28,590	31,430	(545)	30,885	31,231	(734)	30,497
Administrative expenses (including goodwill)		(21,532)	(906)	(22,438)	(19,673)	(460)	(20,133)	(18,780)	(3,991)	(22,771)
Other operating income	6.5	329	—	329	466	—	466	335	—	335
Operating profit		8,465	(1,984)	6,481	12,223	(1,005)	11,218	12,786	(4,725)	8,061
Interest payable and other charges	6.7	(499)	—	(499)	(704)	—	(704)	(1,482)	—	(1,482)
Interest receivable	6.8	243	—	243	433	—	433	564	—	564
Profit on ordinary activities before taxation	6.3, 6.9	8,209	(1,984)	6,225	11,952	(1,005)	10,947	11,868	(4,725)	7,143
Tax on profit on ordinary activities	6.11	(2,465)	238	(2,227)	(4,245)	275	(3,970)	(812)	199	(613)
Profit on ordinary activities after taxation		5,744	(1,746)	3,998	7,707	(730)	6,977	11,056	(4,526)	6,530
Minority interests	6.19	(287)	—	(287)	41	—	41	30	—	30
Profit attributable to group shareholders		5,457	(1,746)	3,711	7,748	(730)	7,018	11,086	(4,526)	6,560
Dividends	6.12	(2,755)	—	(2,755)	(4,780)	—	(4,780)	(5,241)	—	(5,241)
Retained profit for the financial year		2,702	(1,746)	956	2,968	(730)	2,238	5,845	(4,526)	1,319

There is no difference between the result reported above and the historical cost result.

2. Aggregated balance sheet

As at 28 February

	<i>Note</i>	2005 £000	2004 £000	2003 £000
Fixed assets				
Intangible assets	6.13	28,143	28,903	30,290
Tangible assets	6.14	3,814	3,943	4,579
		<u>31,957</u>	<u>32,846</u>	<u>34,869</u>
Current assets				
Work in progress		1,196	995	970
Debtors	6.15	37,599	37,869	38,320
Cash at bank and in hand		2,274	2,092	1,618
		<u>41,069</u>	<u>40,956</u>	<u>40,908</u>
Creditors: amounts falling due within one year	6.16	<u>(34,322)</u>	<u>(33,159)</u>	<u>(23,894)</u>
Net current assets		<u>6,747</u>	<u>7,797</u>	<u>17,014</u>
Total assets less current liabilities		38,704	40,643	51,883
Creditors: amounts falling due after more than one year	6.17	(1,844)	(3,524)	(11,717)
Provisions for liabilities and charges	6.18	<u>(1,860)</u>	<u>(2,709)</u>	<u>(3,742)</u>
Net assets		<u><u>35,000</u></u>	<u><u>34,410</u></u>	<u><u>36,424</u></u>
Capital and reserves				
Aggregated equity shareholders' funds		34,713	34,277	36,263
Minority interests (equity)	6.19	<u>287</u>	<u>133</u>	<u>161</u>
Total aggregated equity capital employed		<u><u>35,000</u></u>	<u><u>34,410</u></u>	<u><u>36,424</u></u>

3. Aggregated cash flow statement

For the years ended 28 February

	Note	2005 £'000	2004 £'000	2003 £'000
Cash inflow from operating activities		4,506	13,225	14,706
Returns on investments and servicing of finance	6.20	(387)	(270)	(918)
Taxation	6.20	(219)	(412)	(4,159)
Capital expenditure and financial investment	6.20	(1,530)	(1,406)	(2,041)
Acquisitions	6.20	(556)	(2,012)	(130)
Equity dividends paid		(2,755)	(4,780)	(5,241)
Net cash (outflow)/inflow before financing		<u>(941)</u>	<u>4,345</u>	<u>2,217</u>
Financing	6.20	1,080	(3,781)	(3,321)
Increase/(decrease) in cash in the period		<u><u>139</u></u>	<u><u>564</u></u>	<u><u>(1,104)</u></u>
Reconciliation of operating profit to cash flow from operating activities				
Operating profit		6,481	11,218	8,061
Goodwill amortisation/impairment		1,324	733	3,044
Depreciation		1,835	2,022	1,995
Net (profit)/loss on disposal of tangible fixed assets		(37)	(46)	38
Other non-cash items		(29)	74	440
(Increase)/decrease in work in progress		(199)	14	1,453
(Increase)/decrease in debtors		(4,086)	(9,155)	7,012
(Decrease)/increase in creditors		(783)	8,365	(7,337)
Net cash inflow from operating activities		<u><u>4,506</u></u>	<u><u>13,225</u></u>	<u><u>14,706</u></u>
Reconciliation of net cash flow to movement in net debt				
Increase/(decrease) in cash in the year		139	564	(1,104)
Cash (outflow)/inflow from (increase)/decrease in debt	6.20	<u>(1,080)</u>	<u>3,781</u>	<u>14,440</u>
Movement in net debt/(funds) resulting from cash flows	6.21	(941)	4,345	13,336
Net movement in Investment by				
Incepta/Huntsworth		(835)	(124)	(659)
Inception of finance leases		(84)	—	(119)
Effect of foreign exchange	6.21	<u>(241)</u>	<u>(2,476)</u>	<u>1,684</u>
Movement in net debt/(funds)		<u>(2,101)</u>	<u>1,745</u>	<u>14,242</u>
Opening net debt/(funds)	6.21	<u>1,209</u>	<u>(536)</u>	<u>(14,778)</u>
Closing net debt/(funds)	6.21	<u><u>(892)</u></u>	<u><u>1,209</u></u>	<u><u>(536)</u></u>

4. Statement of total recognised gains and losses

For the years ended 28 February

	2005 £'000	2004 £'000	2003 £'000
Profit attributable to group shareholders	3,711	7,018	6,560
Exchange differences on foreign currency net investments	242	(3,596)	2,495
Total recognised gains and losses	<u>3,953</u>	<u>3,422</u>	<u>9,055</u>

5. Reconciliations of movements in aggregated shareholders' funds

For the years ended 28 February

	2005 £'000	2004 £'000	2003 £'000
Profit attributable to group shareholders	3,711	7,018	6,560
Dividends	(2,755)	(4,780)	(5,241)
	<u>956</u>	<u>2,238</u>	<u>1,319</u>
Exchange differences on foreign currency net investments	242	(3,596)	2,495
Net movement in investment by Incepta/Huntsworth	(762)	(628)	10,100
Net change to aggregated equity shareholders' funds	<u>436</u>	<u>(1,986)</u>	<u>13,914</u>
Opening equity aggregated shareholders' funds	34,277	36,263	22,349
Closing equity aggregated shareholders' funds	<u>34,713</u>	<u>34,277</u>	<u>36,263</u>

6. Notes

6.1 *Basis of preparation and aggregation*

The Marketing Services Group companies are subsidiaries and businesses of Huntsworth PLC. They are primarily marketing services businesses. All but one of them is a subsidiary or business of Incepta Group plc, which was acquired by Huntsworth PLC on 30 April 2005.

No aggregated financial statements for the Marketing Services Group have been prepared previously. This financial information represents the aggregation of financial statements or group consolidation packs for each of the companies and businesses comprising the Marketing Services Group, to which appropriate adjustments have been applied in order to produce these aggregated financial statements. Goodwill arising on consolidation in the balance sheets of Huntsworth PLC or Incepta Group plc in respect of the acquisition of these companies has not been reflected in this aggregation. Goodwill arising as a result of the acquisition of companies or businesses by the Marketing Services Group itself is reflected in this aggregation.

The principles set out below have been applied in preparing the aggregated financial statements for each of the three years ended 28 February 2005.

- (i) The aggregated financial statements have been prepared as if the businesses comprising the Marketing Services Group had been a group. Businesses acquired or disposed of to third parties during the periods presented have been accounted for using acquisition accounting from or to the date control passed.
- (ii) All significant transactions between the businesses within the Marketing Services Group have been eliminated.
- (iii) The Marketing Services Group was charged £1,291,000, £462,000, and £2,167,000 of administrative costs relating to Incepta Group plc or Huntsworth PLC's centrally incurred costs in 2003, 2004 and 2005 respectively. These costs have been included in the financial information. Subsequent to the acquisition by Media Square, the Marketing Services Group will bear a proportion of Media Square's administrative costs allocated to it.
- (iv) Certain costs principally in respect of people that will be transferred with the Marketing Services Group but which were previously incurred by Incepta Group have not been included in this financial information. They totalled £495,000, £326,000, and £672,000 in 2003, 2004 and 2005 respectively.
- (v) Aggregated equity shareholders funds represent the net investments by Incepta/Huntsworth in the Marketing Services Group. Inter-company balances owed by the Marketing Services Group to Incepta/Huntsworth have been netted, presented in debtors and creditors within and after more than one year and treated as debt.
- (vi) The tax charge attributable to the Marketing Services Group reflects the benefits of group relief received for which, in certain tax jurisdictions, no payment has been made to the surrendering company. Subsequent to the acquisition by Media Square the tax charge for the Marketing Services Group will change depending on the availability of group relief in the Media Square group.

6.2 *Accounting policies*

The following accounting policies have been applied consistently in dealing with items which are considered material in relation to the financial statements.

Basis of accounting and presentation of the financial statements

The financial statements have been prepared in accordance with applicable accounting standards and under the historical cost accounting rules. Where goodwill is treated as having indefinite economic life, the financial statements depart from the requirement of companies' legislation to amortise goodwill over a finite period, in order to give a true and fair view.

Geographical segmental information is disclosed in note 6.3. A more detailed analysis by individual country is considered to be commercially sensitive and is not provided.

6.2 Accounting policies (continued)

Changes in presentation of financial information

In November 2003, the Accounting Standards Board (ASB) issued *Amendment to FRS 5 'Reporting the substance of transactions: revenue recognition'* ('the Amendment'). The Amendment includes specific guidance in respect of the presentation of revenue as principal or agent. The directors have considered the various factors set out in the Amendment and determined that, in dealing with external media and production services suppliers, the Marketing Services Group companies are effectively acting as intermediaries for their clients. In order to comply with the requirements of the Amendment, the presentation of the profit and loss account has been changed to show memorandum information on turnover and to identify the amounts the company has earned as principal as revenue. This change in presentation has no impact on operating profit in the current year or prior years.

Turnover, revenue recognition and material cost of sales

Turnover comprises the gross amounts billed to clients in respect of commission based income together with the total of other fees earned.

Revenue

Revenue comprises fees and commissions earned in respect of turnover, less material cost of sales associated with that revenue. Revenue is recognised when services are performed, in accordance with the terms of arrangements reached with each client. Turnover and revenue are stated exclusive of VAT, sales taxes and trade discounts.

Marketing Services

Revenue is derived from retainers and fees for services provided. Revenue is recognised when the service is performed in accordance with the contract and the stage of completion.

Specialist Advertising

Revenue is in the form of commissions on media placements and fees for creative and production services provided. Revenue is recognised as the services are performed.

Material cost of sales

Material cost of sales includes amounts payable to external suppliers where they are retained at the Marketing Services Group companies' discretion to perform part of a specific client project or service where the Marketing Services Group companies have full exposure to the benefits and risks of the contract with the client. It also includes any rechargeable media and production costs. These comprise media payments and third party production costs for those services that the Marketing Services Group companies arrange for their clients in their capacity as intermediaries. The Marketing Services Group companies contract directly with suppliers and are responsible for their payment, recharging their clients for all costs incurred. Although they bear the credit risk in respect of these activities, the arrangements with clients are such that, in effect, they act as an intermediary on behalf of their clients. Where the Marketing Services Group companies act as an intermediary, costs incurred with external suppliers are excluded from revenue.

Foreign Currencies

In the financial statements of individual group undertakings, transactions in foreign currencies are recorded in the local currency using the rate of exchange ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated using the rate of exchange ruling at the balance sheet date and the gains or losses on translation are included in the profit and loss account.

In the financial information, the results of overseas subsidiary undertakings are translated at the average rates during the year and the balance sheets of these undertakings are translated at the year end exchange rates. Exchange differences arising on the re-translation at year end rates of opening net assets and results for the year of overseas subsidiary undertakings and of long term funding of investments in overseas subsidiary undertakings are dealt with through reserves. All other exchange differences are dealt with in the profit and loss account.

6.2 Accounting policies (continued)

Leases

When the Marketing Services Group companies enter into a lease which entails taking substantially all the risks and rewards of ownership of an asset, the lease is treated as a 'finance lease'. The asset is recorded in the balance sheet as a tangible fixed asset and is depreciated over the estimated useful life or the term of the lease, whichever is shorter. Future instalments under such leases, net of finance, are included within creditors. Rentals payable are apportioned between the finance element, which is charged to the profit and loss account, and the capital element which reduces the outstanding obligation for future instalments.

All other leases are accounted for as 'operating leases' and the rental charges are charged to the profit and loss account on a straight line basis over the life of the lease.

Fixed assets

Depreciation is provided to write off the cost less the estimated residual value of tangible fixed assets by equal instalments over their estimated useful economic lives as follows:

Short leasehold property	– Life of lease
Fixtures, fittings, vehicles and equipment	– 20 per cent. to 35 per cent. per annum

Goodwill and intangible assets

Goodwill arising on acquisitions of businesses and associated undertakings is calculated as the excess of the fair value of the consideration given and costs of acquisition over the fair value of the separable net assets acquired. Goodwill arising on acquisition up to and including 28 February 1998 was written off against aggregated equity shareholders funds immediately on acquisition.

In accordance with FRS 10: 'Goodwill and intangible assets', goodwill arising on acquisitions on or after 1 March 1998 is capitalised as an intangible fixed asset and amortised over its estimated useful economic life. Each acquisition is assessed with reference to its durability, ability to sustain long commitment to develop and enhance its value across its network of offices worldwide. The directors are of the opinion that the intangible assets of the Marketing Services Group have economic lives ranging from 10 years to indefinite

In accordance with FRS 10 and FRS 11: 'Impairment of fixed assets and goodwill', the carrying values of intangible assets are reviewed annually for impairment on the basis stipulated in FRS 11 and adjusted to the recoverable amount if required.

Where goodwill is treated as having indefinite economic life, the financial statements depart 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. Capitalised goodwill regarded as having indefinite useful economic life amounted to £23.4 million as at 28 February 2005 (2004: £23.6 million, 2003: £24.0 million). If this goodwill were to be amortised over a period of 20 years, the operating profit for the year ended 28 February 2005 would have decreased by £1.2 million (2004: £1.2 million; 2003: £1.1million).

Work in progress

Work in progress comprises third party costs incurred on behalf of clients and is stated at the lower of cost and estimated net realisable value.

Pensions

The Marketing Services Group companies principally operate defined contribution money purchase pension schemes and make contributions to individual employees' personal pension schemes. The Marketing Services Group companies' contributions are charged against profits in the year in which contributions are due.

Tax

The charge for tax is based on the results for each year and takes into account deferred tax. Deferred tax is recognised without discounting in respect of all timing differences between the treatment of certain items for tax and accounting purposes which have arisen and not reversed by the balance sheet date, except as otherwise required by FRS 19.

6.3 Segmental information

Class of business

	<i>Revenue</i>			<i>Gross profit</i>			<i>Profit on ordinary activities before taxation</i>		
	2005	2004	2003	2005	2004	2003	2005	2004	2003
	£000	£000	£000	£000	£000	£000	£000	£000	£000
Marketing services	53,940	51,577	49,729	22,446	21,999	21,124	6,199	8,347	8,875
Specialist advertising	19,222	22,361	23,644	7,273	9,457	10,108	2,832	4,609	4,448
Intra-group trading	(51)	(26)	(1)	(51)	(26)	(1)	—	—	—
	<u>73,111</u>	<u>73,912</u>	<u>73,372</u>	<u>29,668</u>	<u>31,430</u>	<u>31,231</u>	<u>9,031</u>	<u>12,956</u>	<u>13,323</u>
Goodwill amortisation							(566)	(733)	(537)
Net interest payable							(256)	(271)	(918)
Exceptional items (note 6.10)							8,209	11,952	11,868
– restructuring costs							(1,226)	(1,005)	(2,218)
– goodwill impairment							(758)	—	(2,507)
							<u>6,225</u>	<u>10,947</u>	<u>7,143</u>

	<i>Exceptional restructuring costs</i>			<i>Net assets</i>		
	2005	2004	2003	2005	2004	2003
	£000	£000	£000	£000	£000	£000
Marketing services	(815)	(730)	(1182)	14,358	14,802	17,274
Specialist advertising	(411)	(275)	(1036)	20,642	19,608	19,150
	<u>(1,226)</u>	<u>(1,005)</u>	<u>(2,218)</u>	<u>35,000</u>	<u>34,410</u>	<u>36,424</u>

Geographical segments

	<i>Revenue</i>			<i>Gross profit</i>			<i>Profit on ordinary activities before taxation</i>		
	2005	2004	2003	2005	2004	2003	2005	2004	2003
	£000	£000	£000	£000	£000	£000	£000	£000	£000
UK	52,359	49,903	49,878	21,695	21,212	20,494	6,339	8,067	8,021
Rest of world	20,803	24,035	23,495	8,024	10,244	10,738	2,692	4,889	5,302
Intra-group trading	(51)	(26)	(1)	(51)	(26)	(1)	—	—	—
	<u>73,111</u>	<u>73,912</u>	<u>73,372</u>	<u>29,668</u>	<u>31,430</u>	<u>31,231</u>	<u>9,031</u>	<u>12,956</u>	<u>13,323</u>
Goodwill amortisation							(566)	(733)	(537)
Net interest payable							(256)	(271)	(918)
Exceptional items (note 6.10)							8,209	11,952	11,868
– restructuring costs							(1,226)	(1,005)	(2,218)
– goodwill impairment							(758)	—	(2,507)
							<u>6,225</u>	<u>10,947</u>	<u>7,143</u>

6.3 Segmental information (continued)

	Turnover by destination			Exceptional restructuring costs			Net assets		
	2005	2004	2003	2005	2004	2003	2005	2004	2003
	£000	£000	£000	£000	£000	£000	£000	£000	£000
UK	84,683	85,883	92,338	(617)	(741)	(710)	6,192	7,070	6,532
Rest of world	58,001	54,747	44,995	(609)	(264)	(1,508)	28,808	27,340	29,892
Intra group trading	(1,897)	(3,070)	(1,406)	—	—	—	—	—	—
	<u>140,787</u>	<u>137,560</u>	<u>135,927</u>	<u>(1,226)</u>	<u>(1,005)</u>	<u>(2,218)</u>	<u>35,000</u>	<u>34,410</u>	<u>36,424</u>

6.4 Analysis of the results of acquisitions

	2005	2004	2004	2004	2003
	Continuing operations	Continuing operations	Acquisitions	Total	Continuing operations
	£000	£000	£000	£000	£000
Turnover	140,787	135,449	2,111	137,560	135,927
Material cost of sales	(67,676)	(62,839)	(809)	(63,648)	(62,555)
Revenue	<u>73,111</u>	<u>72,610</u>	<u>1,302</u>	<u>73,912</u>	<u>73,372</u>
Operating profit	6,481	11,093	125	11,218	8,061
Interest payable and other charges	(256)	(266)	(5)	(271)	(918)
Profit on ordinary activities before taxation	<u>6,225</u>	<u>10,827</u>	<u>120</u>	<u>10,947</u>	<u>7,143</u>

Details of acquisitions are provided in note 6.22.

6.5 Other operating income

Other operating income of £329,000 (2004: £466,000; 2003: £335,000) principally consists of rental income from office space which has been sub-let.

6.6 Employee numbers and remuneration

The average number of persons employed by the group (including directors) during the year, analysed by class of business, was as follows:

	2005	2004	2003
Marketing services	787	741	731
Specialist advertising	261	269	296
	<u>1,048</u>	<u>1,010</u>	<u>1,027</u>

The aggregate payroll costs of these persons were as follows:

	2005	2004	2003
	£000	£000	£000
Wages and salaries	39,255	37,939	38,104
Social security costs	4,098	4,057	3,631
Other pension costs	1,168	1,031	1,140
	<u>44,521</u>	<u>43,027</u>	<u>42,875</u>

6.7 Interest Payable

	2005 £000	2004 £000	2003 £000
On bank loans and overdrafts	3	5	9
In respect of finance leases	12	10	16
To Incepta Group	484	689	1,457
	<u>499</u>	<u>704</u>	<u>1,482</u>

6.8 Interest Receivable

	2005 £000	2004 £000	2003 £000
On bank deposits	65	97	89
From Incepta Group	178	336	475
	<u>243</u>	<u>433</u>	<u>564</u>

6.9 Profit on ordinary activities before tax

Profit on ordinary activities before tax is stated after charging/(crediting):

	2005 £000	2004 £000	2003 £000
Staff costs (note 6.6)	44,521	43,027	42,875
Depreciation of tangible fixed assets:			
– owned assets	1,821	2,008	1,958
– assets held under finance leases	14	14	37
Net (profit)/loss on disposal of tangible fixed assets	(37)	(46)	38
Rent and other operating lease rentals	4,172	4,274	4,131
Exchange losses/(gains)	4	18	(15)
Goodwill amortisation	566	733	537

Auditors remuneration is borne by Incepta group plc and recharged to the Marketing Services Group as part of the administrative cost recharges detailed in note 6.23.

6.10 Exceptional items

	2005 £000	2004 £000	2003 £000
Restructuring costs			
– redundancy	1,078	545	734
– property	148	378	1,737
– other	—	82	(253)
	<u>1,226</u>	<u>1,005</u>	<u>2,218</u>
Goodwill impairment	758	—	2,507
	<u>1,984</u>	<u>1,005</u>	<u>4,725</u>

Exceptional restructuring costs in the three years ended 28 February 2005 relate to a number of restructuring cost reduction programmes initiated during those years.

Goodwill relates to the write down of the carrying value of goodwill held on the aggregated balance sheet following the directors' annual impairment review.

6.11 Tax on profit on ordinary activities

	2005 £000	2004 £000	2003 £000
UK corporation tax			
Current tax on income for the year	1,604	2,111	2,435
Adjustments in respect of prior years	(77)	53	(59)
	<u>1,527</u>	<u>2,164</u>	<u>2,376</u>
Foreign tax			
Current tax on income for the year	679	1,678	(553)
Adjustments in respect of prior years	(62)	89	(1,362)
	<u>617</u>	<u>1,767</u>	<u>(1,915)</u>
Total current tax charge	2,144	3,931	461
Deferred tax (see note 6.18)			
Origination and reversal of timing differences	83	39	152
Tax on profit on ordinary activities	<u>2,227</u>	<u>3,970</u>	<u>613</u>

Included in the above is a tax credit on exceptional items amounting to £238,000 (2004: £275,000; 2003: £199,000).

The total current tax charges for the three years are different from the standard rates of corporation tax in the UK of 30 per cent. (2004 – 30 per cent.; 2003 – 30 per cent.). The differences are explained below.

	2005 £000	2004 £000	2003 £000
Current tax reconciliation			
Profit on ordinary activities before tax	6,225	10,947	7,143
Current tax charge at 30 per cent.	1,868	3,284	2,143
Effect of:			
Goodwill & expenses not deductible for tax purposes	444	199	(709)
Depreciation less than capital allowances	19	31	14
Utilisation of tax losses	(86)	(73)	(5)
Tax credits in respect of overseas losses	(241)	(182)	430
Differences in tax rates on overseas earnings	279	530	9
Adjustments to tax charge in respect of previous years	(139)	142	(1,421)
Total current tax charge/(credit)	<u>2,144</u>	<u>3,931</u>	<u>461</u>

Factors that may affect future tax charges are disclosed in note 6.18.

6.12 Dividends

	2005 £000	2004 £000	2003 £000
Dividends paid	2,755	4,780	5,241
	<u>2,755</u>	<u>4,780</u>	<u>5,241</u>

Dividends paid in each of the three years are those paid to Incepta Group and other Incepta Group companies that do not form part of the Marketing Services Group.

6.13 Intangible fixed assets

	<i>Goodwill</i> £'000
Cost	
At 1 March 2003	31,367
Goodwill arising on acquisitions in the year (note 6.22)	499
Net adjustments to goodwill arising on prior year acquisitions	(112)
Foreign exchange	(1,151)
At 29 February 2004 and 1 March 2004	<u>30,603</u>
Impairment	(758)
Net adjustments to goodwill arising on prior year adjustments	55
Foreign exchange	541
At 28 February 2005	<u>30,441</u>
Amortisation	
At 1 March 2003	1,077
Charge for the year	733
Foreign exchange	(110)
At 29 February 2004 and 1 March 2004	<u>1,700</u>
Charge for the year	566
Foreign exchange	32
At 28 February 2005	<u>2,298</u>
Net book value	
At 28 February 2005	<u>28,143</u>
At 29 February 2004	<u>28,903</u>
At 28 February 2003	<u>30,290</u>

The net adjustment to goodwill in the year ended 28 February 2005 arising on prior year acquisitions comprised an increase in consideration payable.

The net adjustment to goodwill in the year ended 29 February 2004 arising on prior year acquisitions comprised a decrease in consideration payable.

The directors' impairment review of goodwill in the year ended 28 February 2005 used a discount rate of 7.0 per cent. in the net present value calculation of the carrying value (2004 – 7.75 per cent.; 2003 – 7.5 per cent.).

6.14 Tangible fixed assets

	<i>Short leasehold property</i> £'000	<i>Fixtures, fittings, vehicles and equipment</i> £'000	<i>Total</i> £'000
Cost			
At 1 March 2003	1,724	13,970	15,694
Acquisitions	—	25	25
Transfer from Incepta/Huntsworth	73	89	162
Additions	235	1,175	1,410
Disposals	(60)	(798)	(858)
Foreign exchange	(60)	(473)	(533)
At 29 February 2004 and 1 March 2004	<u>1,912</u>	<u>13,988</u>	<u>15,900</u>
Additions	310	1,537	1,847
Disposals	(1)	(1,296)	(1,297)
Foreign exchange	(11)	40	29
At 28 February 2005	<u>2,210</u>	<u>14,269</u>	<u>16,479</u>
Depreciation			
At 1 March 2003	755	10,360	11,115
Transfer from Incepta/Huntsworth	—	47	47
Charge for year	201	1,821	2,022
Disposals	(49)	(736)	(785)
Foreign exchange	(38)	(404)	(442)
At 29 February 2004 and 1 March 2004	<u>869</u>	<u>11,088</u>	<u>11,957</u>
Charge for the year	227	1,608	1,835
Disposals	—	(1,101)	(1,101)
Foreign exchange	(6)	(20)	(26)
At 28 February 2005	<u>1,090</u>	<u>11,575</u>	<u>12,665</u>
Net book value			
At 28 February 2005	<u>1,120</u>	<u>2,694</u>	<u>3,814</u>
At 29 February 2004	<u>1,043</u>	<u>2,900</u>	<u>3,943</u>
At 28 February 2003	<u>969</u>	<u>3,610</u>	<u>4,579</u>

The net book value of assets at 28 February 2005 includes an amount of £152,000 in respect of assets held under finance leases (2004 – £94,000; 2003 – £124,000).

6.15 Debtors

	2005 £'000	2004 £'000	2003 £'000
Amounts falling due within one year			
Trade debtors	26,576	23,193	20,418
Amounts owed by Incepta/Huntsworth	—	2,587	9,493
Corporation tax	90	1,899	4,288
Deferred tax asset (note 6.18)	272	342	280
Other debtors	6,535	6,552	891
Prepayments and accrued income	4,126	3,296	2,950
	<u>37,599</u>	<u>37,869</u>	<u>38,320</u>

6.16 *Creditors: amounts falling due within one year*

	2005 £'000	2004 £'000	2003 £'000
Trade creditors	9,750	9,146	8,230
Obligations under finance leases	5	15	41
Corporation tax	4,396	4,184	3,214
Amounts owed to Incepta/Huntsworth	1,392	—	—
Other creditors	8,258	9,214	1,456
Other taxes and social security	1,730	2,033	1,644
Accruals and deferred income	8,756	8,567	9,309
Consideration for acquisitions	35	—	—
	<u>34,322</u>	<u>33,159</u>	<u>23,894</u>

6.17 *Creditors: amounts falling due after more than one year*

	2005 £'000	2004 £'000	2003 £'000
Finance leases	127	81	105
Other creditors	75	69	111
Amounts owed to Incepta/Huntsworth	<u>1,642</u>	<u>3,374</u>	<u>11,501</u>
	<u>1,844</u>	<u>3,524</u>	<u>11,717</u>

6.18 *Provisions for liabilities and charges*

	<i>Cash contingent consideration for acquisitions</i> £'000	<i>Deferred tax</i> £'000	<i>Other</i> £'000	<i>Total</i> £'000
At 1 March 2003	1,619	1,353	770	3,742
Charged to profit and loss account	—	101	—	101
Paid during the year	(1,093)	—	(40)	(1,133)
Net movement in estimated contingent consideration payable for acquisitions in prior years	(112)	—	—	(112)
Estimated contingent consideration payable				
For current year acquisitions	<u>111</u>	<u>—</u>	<u>—</u>	<u>111</u>
At 29 February 2004 and 1 March 2004	525	1,454	730	2,709
Charged/(credited) to profit and loss account	—	13	(283)	(270)
Paid during the year	(534)	—	(65)	(599)
Net movement in estimated contingent consideration payable for acquisitions in prior years	55	—	—	55
Transferred to creditors: amounts falling due within one year	<u>(35)</u>	<u>—</u>	<u>—</u>	<u>(35)</u>
At 28 February 2005	<u>11</u>	<u>1,467</u>	<u>382</u>	<u>1,860</u>

Cash consideration for acquisitions

Acquisitions made by the Incepta Group typically included an earn-out arrangement whereby the consideration payable includes a deferred element that is contingent on the future financial performance of the acquired entity. No material contingent consideration will become payable unless the acquired entity delivers greater revenues or profits during the earn-out period than prior to acquisition.

6.18 Provisions for liabilities and charges (continued)

Maturity of contingent consideration for acquisitions

	<i>Cash</i> £'000
In one to two years	11
	<u>11</u>

In addition to the above amounts, creditors falling due within one year includes consideration for acquisitions of £35,000 (2004: £nil; 2003: £nil) respectively in respect of completed earn-out period for which consideration has become due but has not yet been settled.

Details of each acquisition made during the three year period ended 28 February 2005 are set out in note 6.22.

The maximum potential contingent cash consideration payable under all earn-out arrangements ongoing as at 28 February 2005 is £225,000.

Deferred tax

The elements of deferred tax are as follows:

	2005 £'000	2004 £'000	2003 £'000
Difference between accumulated depreciation/amortisation and tax depreciation	<u>(1,195)</u>	<u>(1,112)</u>	<u>(1,073)</u>
Undiscounted net deferred tax liability	<u>(1,195)</u>	<u>(1,112)</u>	<u>(1,073)</u>
The net deferred tax liability comprises:			
Deferred tax asset (see note 6.15)	272	342	280
Deferred tax liability	<u>(1,467)</u>	<u>(1,454)</u>	<u>(1,353)</u>
	<u>(1,195)</u>	<u>(1,112)</u>	<u>(1,073)</u>

The movements on deferred tax are as follows:

	<i>Asset</i> £'000	<i>Liability</i> £'000
At 1 March 2003	280	(1,353)
Credit/(debit) to profit and loss account	<u>62</u>	<u>(101)</u>
At 29 February 2004 and 1 March 2004	342	(1,454)
(Debit)/credit to profit and loss account	<u>(70)</u>	<u>(13)</u>
At 28 February 2005	<u>272</u>	<u>(1,467)</u>

At 28 February 2005, in addition to the deferred tax balance recognised above, the Incepta Group had potential deferred tax assets of £249,000 (2004: £258,000; 2003: £304,000) in relation to allowable tax losses. These assets have not been recognised in the financial statements as, in the opinion of the directors there is insufficient evidence that they will be recoverable.

6.19 Minority interests

	£'000
At 1 March 2003	161
Minority interests' share of results for the year	(41)
Minority interests' share of exchange differences on foreign currency net investments	<u>13</u>
At 29 February 2004 and 1 March 2004	<u>133</u>
Minority interests' share of results for the year	287
Minority interests' share of exchange differences on foreign currency net investments	15
Dividend paid to minority interest	<u>(148)</u>
At 28 February 2005	<u>287</u>

6.20 Analysis of cash flows

	2005 £000	2004 £000	2003 £000
Returns on investment and servicing of finance			
Interest received	81	96	85
Interest paid	(4)	(4)	(5)
Interest paid to Incepta/Huntsworth	(304)	(352)	(982)
Interest element of finance lease payments	(12)	(10)	(16)
Dividends paid to minority interests	(148)	—	—
	<u>(387)</u>	<u>(270)</u>	<u>(918)</u>
Taxation			
UK tax paid	(1,893)	(2,199)	(3,125)
Overseas tax refunded/(paid)	1,674	1,787	(1,034)
	<u>(219)</u>	<u>(412)</u>	<u>(4,159)</u>
Capital expenditure and financial investment			
Purchase of tangible fixed assets	(1,763)	(1,525)	(2,378)
Disposal of tangible fixed assets	233	119	337
	<u>(1,530)</u>	<u>(1,406)</u>	<u>(2,041)</u>
Acquisitions			
Purchase of subsidiary undertakings	(456)	(351)	(155)
Purchase of businesses	(100)	(1,720)	(35)
Net cash acquired with subsidiary undertakings and businesses	—	59	—
Proceeds from sale of minority interest	—	—	60
	<u>(556)</u>	<u>(2,012)</u>	<u>(130)</u>
Financing			
Issue of shares	—	—	11,119
Movement in debt:			
Capital element of finance lease payments	(48)	(46)	(104)
Movement on balance owed to/from Incepta/Huntsworth	1,128	(3,735)	(14,336)
	<u>1,080</u>	<u>(3,781)</u>	<u>(14,440)</u>
	<u>1,080</u>	<u>(3,781)</u>	<u>(3,321)</u>

Acquisitions

During the year ended 28 February 2005 the cash flow in respect of acquisitions includes outflows of £456,000 (2004: £351,000; 2003: £155,000) within purchase of subsidiary undertakings and £100,000 (2004: £1,387,000; 2003: £11,000) within purchase of businesses relating to acquisitions made during prior years.

Acquisitions accounted for £nil (2004: £16,000; 2003: £nil) of cash flow from operating activities, £nil (2004: £nil; 2003: £nil) of taxation and £nil (2004: £6,000; 2003: £nil) of capital expenditure in the year. In 2004, these amounts represent the cash flows of all acquisitions except The19/20 Partnership, as their cash flows are not separately identifiable from the cash flows of continuing operations.

Exceptional restructuring costs

Net cash inflow from operating activities includes an outflow of £1,313,000 (2004: £678,000; 2003: £723,000) in respect of exceptional restructuring costs (note 6.10).

6.21 Analysis of net debt/(funds)

	<i>At</i> 1 March 2004 £000	<i>Cashflows</i> £000	<i>Exchange</i> <i>movements</i> £000	<i>Other</i> <i>Movements</i> £000	<i>At</i> 28 February 2005 £000
Cash at bank and in hand	2,092	139	43	—	2,274
Amounts owed by Huntsworth/Incepta					
– amounts falling due within one year	2,587	(2,587)	—	—	—
Amounts owed to Huntsworth/Incepta					
– amounts falling due within one year	—	(273)	(284)	(835)	(1,392)
- amounts falling due after more than one year	(3,374)	1,732	—	—	(1,642)
Finance leases					
– amounts falling due within one year	(15)	15	—	(5)	(5)
– amounts falling due after more than one year	(81)	33	—	(79)	(127)
	<u>1,209</u>	<u>(941)</u>	<u>(241)</u>	<u>(919)</u>	<u>(892)</u>

	<i>At</i> 1 March 2003 £000	<i>Cashflows</i> £000	<i>Exchange</i> <i>movements</i> £000	<i>Other</i> <i>Movements</i> £000	<i>At</i> 29 February 2004 £000
Cash at bank and in hand	1,618	564	(90)	—	2,092
Amounts owed by Incepta/Huntsworth					
– amounts falling due within one year	9,493	(4,392)	(2,390)	(124)	2,587
Amounts owed to Incepta/Huntsworth					
– amounts falling due after more than one year	(11,501)	8,127	—	—	(3,374)
Finance leases					
– amounts falling due within one year	(41)	41	1	(16)	(15)
– amounts falling due after more than one year	(105)	5	3	16	(81)
	<u>(536)</u>	<u>4,345</u>	<u>(2,476)</u>	<u>(124)</u>	<u>1,209</u>

Other movements comprise movements in investments by Incepta/Huntsworth inception of finance leases, together with transfers between ageing categories.

6.22 Acquisitions

In the year ended 28 February 2005 there were no acquisitions. Acquisitions in the years ended 29 February 2004 and 28 February 2003 are detailed below.

Acquisitions in the year ended 29 February 2004

On 25 April 2003, one of the Marketing Services Group companies purchased for total consideration of €1 an 80 per cent interest in the trade and assets of Hoffman Reiser Schalt DDB Werbeagentur GmbH, a German specialist advertising business.

6.22 Acquisitions (continued)

On 1 July 2003, one of the Marketing Services Group companies acquired the trade and assets of the 19/20 Partnership, a design business based in Northern Ireland. Initial consideration comprised £189,000 in cash. Maximum deferred consideration, subject to future performance, amounted to £260,000 payable in cash.

Goodwill arising on all acquisitions has been capitalised (note 6.13).

The aggregate book values and fair values of assets and liabilities acquired as a result of these acquisitions were as follows:

	<i>Book value £000</i>	<i>Fair value adjustments £000</i>	<i>Fair value £000</i>
Tangible fixed assets	77	(52)	25
Work in progress	73	—	73
Debtors	514	(171)	343
Net cash at bank and in hand	59	—	59
Creditors	(308)	(212)	(520)
	<u>415</u>	<u>(435)</u>	(20)
Goodwill			<u>499</u>
Total cost			<u><u>479</u></u>
Comprising:			
Cash			189
Deferred contingent consideration			111
Costs			<u>179</u>
			<u><u>479</u></u>

The fair value adjustments to tangible fixed assets were made to ensure consistency of accounting policies. The fair value adjustment to debtors reflects write downs to estimated realisable value. The fair value adjustment to creditors represents accruals for unrecorded liabilities.

Acquisitions in the year ended 28 February 2003

On 1 March 2002 one of the Marketing Services Group companies acquired for total consideration of £1, the trade and assets of Hyperlink, an online and interactive marketing services agency. No trading information has been provided in respect of this company in note 6.4 as it is not separately identifiable and insignificant to the aggregated operations.

6.23 Related party disclosures

Related parties note

Prior to the acquisition of the Marketing Services Group by Media Square the Marketing Services Group companies did not operate as a separate group and consequently there were a number of related party transactions between the Marketing Services Group companies and Incepta/Huntsworth as detailed below.

The Marketing Services Group was charged £1,291,000, £462,000, £2,167,000 of administrative costs relating to Incepta Group plc or Huntsworth PLC's centrally incurred costs in 2003, 2004 and 2005 respectively. As referred to in note 6.1, these 'Management charges' are included in the aggregated profit and loss account.

In addition, in the year ended February 2005 there are amounts included within the Marketing Services Group's profit and loss account in respect of trade with Incepta/Huntsworth companies outside of the Marketing Services Group of £1,238,000 (2004 – £1,608,000; 2003 – £2,073,000) in turnover, £302,000 (2004 – £2,865,000; 2003 – £771,000) in cost of sales and £1,953,000 (2004 – £2,079,000; 2003 £1,954,000) in administration costs. The amounts included in administration costs largely comprise property, audit and insurance costs paid for by Incepta Group Plc and recharged to the Marketing Services Group.

6.23 Related party disclosures (continued)

Balances owed to/from the Incepta/Huntsworth Group are set out in notes 6.15, 6.16 and 6.17.

E.A. Hauck, a director of Hauck Research Services Limited owns a property from which Incepta Marketing Intelligence Limited operates and previously Hauck Research Services Limited operated. During the year ended 28 February 2005 the Marketing Services Group paid rent to E.A. Hauck amounting to £36,000 (2004 – £36,000; 2003 – £36,000).

Hauck Research Services Limited provided payroll services for staff employed by another director M.A. Hauck. These costs amounting to £nil in the year ended 28 February 2005 (2004 – £5,076; 2003 – £7,595), were fully recharged to M.A. Hauck. This service ceased in October 2003.

Karen Earl Sponsorship Limited paid rental of £175,800 in the year ended 28 February 2005 (2004 – £175,800; 2003 – £175,912) to KB Earl and PA Haig-Thomas for the use of buildings owned by the directors personally.

On 5 April 2004 and 1 October 2004, Silver Bullet Group Limited entered into leases on an arm's length basis to rent space in a property owned by R. Fine, a director of the company. During the period to 28 February 2005 £68,828 was paid in rent. No monies were due as payable at 28 February 2005.

On 1 March 2005, Silver Bullet Group Limited entered into a loan agreement with the shareholders to the value of £199,000 in proportion to the shareholders' equity interest in the company. The loan is unsecured, bears interest at 1% above base rate and is repayable to the shareholders by 1 September 2007.

In the year ended 28 February 2005 Citigate South Africa (Proprietary) Limited paid rent to entities in which directors had an interest of Rand 998,250 (2004 – Rand 907,934; 2003 – Rand 825,789) to A. Horner and Rand 345,090 (2004 – Rand 309,498; 2003 – Rand 277,577) to A Horner, J. Wilson and R.M. Graham-Adriani.

6.24 Commitments

	2005		2004		2003	
	<i>Land and buildings</i>	<i>Other</i>	<i>Land and Buildings</i>	<i>Other</i>	<i>Land and buildings</i>	<i>Other</i>
	£000	£000	£000	£000	£000	£000
Operating leases which expire:						
Within one year	1,274	108	265	55	315	127
Within two to five years	1,203	152	2,002	208	2,216	78
After five years	645	9	717	—	426	—
	<u>3,122</u>	<u>269</u>	<u>2,984</u>	<u>263</u>	<u>2,957</u>	<u>205</u>

6.25 Contingencies

Consideration for acquisitions

Under the terms of certain acquisition agreements, additional consideration is payable by Incepta and certain of its subsidiary undertakings contingent on the future financial performance of the acquired entities. The estimated amount of such contingent consideration is included in Provisions for Liabilities and Charges (note 6.18).

Guarantees

As at 28 February 2005, in connection with the Incepta Group's banking and borrowing facilities with Lloyds TSB Bank plc, Incepta and certain of its subsidiary undertakings have entered into cross-guarantee and indemnity arrangements with Lloyds TSB Bank plc, HSBC Bank plc, JPMorganChase, Scotiabank Europe plc and The Co-operative Bank plc.

Subsequent to year end, following the acquisition of Incepta Group plc by Huntsworth plc, Incepta's banking facilities became repayable and were replaced by new facilities for the enlarged group. In connection with these facilities certain of the Marketing Services Group companies have entered into cross-guarantee and indemnity arrangements with Lloyds TSB Bank plc and The Royal Bank of Scotland plc.

6.26 Principal undertakings included in the aggregation

<i>Name</i>	<i>Country of incorporation/ principal operation</i>	<i>Class of business</i>
Principal undertakings included in the aggregation at 28 February 2005		
DMD Digital Marketing Direct Limited	England	Marketing Services
The Gate Worldwide Limited	England	Advertising
Silver Bullet Group Limited	England	Marketing Services
Catalyst Marketing Limited	England	Marketing Services
Theatre Brand Experience Limited	England	Marketing Services
Generator Marketing Services Limited	England	Marketing Services
Finex Communications Group plc	England	Marketing Services
Incepta Marketing Intelligence Limited	England	Marketing Services
Digital Advertising and Marketing Limited	England	Marketing Services
Karen Earl Sponsorship Limited	England	Marketing Services
Redmandarin Limited	England	Marketing Services
Citigate Lloyd Northover Limited	England	Marketing Services
Citigate Publishing Limited	England	Marketing Services
Incepta Online Limited	England	Marketing Services
Holmes & Marchant	England	Marketing Services
Citigate SMARTS (Birmingham) Limited	England	Marketing Services
Citigate SMARTS Ireland Limited	Ireland	Marketing Services
Citigate SMARTS Limited	Scotland	Marketing Services
Citigate Northern Ireland Limited	Northern Ireland	Marketing Services
Citigate SEA GmbH & Co KG	Germany	Advertising
Hoffman Schalt Werbeagentur GmbH	Germany	Advertising
The Gate Worldwide LLC (formerly Citigate LLC)	USA	Advertising
Citigate Hudson Inc	USA	Marketing Services
Citigate Lloyd Northover(Hong Kong)1	Hong Kong	Marketing Services
The Gate Worldwide (Hong Kong) Limited	Hong Kong	Advertising
Citigate Su Yeang Design Pte Ltd	Singapore	Marketing Services
Citigate South Africa (Pty) Limited	South Africa	Marketing Services
The Gate Worldwide (Singapore) Pte Limited	Singapore	Advertising
Redmandarin (PTE) Ltd (Singapore)	Singapore	Marketing Services
Dynamo Marketing Limited	England	Marketing Services
Tactical Marketing Group Limited	England	Marketing Services
The Sponsorship Research Company Limited	England	Marketing Services
Incepta Marketing Intelligence NA LLC	USA	Marketing Services

1 Trades as a division of Citigate Asia Limited

All of the above undertakings are wholly owned with the exception of The Gate Worldwide (Hong Kong) Limited (90 per cent. owned), Citigate South Africa (Pty) Limited (74.9 per cent. owned), Silver Bullet Group Limited (51 per cent. owned), Hoffmann Schalt Werbeagentur GmbH (80 per cent. owned) and Digital Advertising and Marketing Limited (75 per cent. owned).

All principal undertakings have financial year ends of 28 February with the exception of Holmes & Marchant which has a 31 December year end.

Yours Faithfully

KPMG LLP
Chartered Accountants

PART V

Unaudited Pro forma Statement of Net Assets of the Enlarged Group

The Directors
Media Square plc
Queens Avenue
Macclesfield
Cheshire
SK10 2BN

Grant Thornton 

The Directors
Collins Stewart Limited (in their capacity as Nominated Adviser)
88 Wood Street
London
EC2V 7QR

12 October 2005

Dear Sirs

We report on the Pro Forma Statement of Net Assets (the “Pro forma financial information”) set out in Part V of the AIM Admission Document to be dated 13 October 2005, which has been prepared on the basis of the accounting policies adopted by Media Square plc in preparing the financial statements for the year ended 31 October 2004.

Responsibilities

It is the responsibility of the Directors of Media Square plc to prepare the pro forma financial information in accordance with, and as if it had been applicable, Schedule Two of the AIM Rules with reference to paragraph 20.2 of Annex I of the PD Regulation attached to the AIM Rules.

It is our responsibility to form an opinion as required by paragraph 7 of Annex II of the PD Regulation attached to the AIM Rules if applicable as to the proper compilation of the Pro forma financial information and to report that opinion to you.

In providing this opinion we are not updating or refreshing any reports or opinions previously made by us on any financial information used in the compilation of the Pro forma financial information, nor do we accept responsibility for such reports or opinions beyond that owed to those to whom those reports or opinions were addressed by us at the dates of their issue.

Basis of opinion

We conducted our work in accordance with the Standards for Investment Reporting issued by the Auditing Practices Board in the United Kingdom. The work that we performed for the purpose of making this report, which involved no independent examination of any of the underlying financial information, consisted primarily of comparing the unadjusted financial information with the source documents, considering the evidence supporting the adjustments and discussing the Pro forma financial information with the directors of Media Square plc.

We planned and performed our work so as to obtain all the information and explanations which we considered necessary in order to provide us with reasonable assurance that the Pro forma financial information has been properly compiled on the basis stated.

Opinion

In our opinion:

- (a) the Pro forma financial information has been properly compiled on the basis stated; and
- (b) such basis is consistent with the accounting policies of Media Square plc.

Declaration

For the purposes of Paragraph (a) of Schedule Two of the AIM Rules we are responsible for this report as part of the AIM Admission Document and declare that we have taken all reasonable care to ensure that the information contained in this report is, to the best of our knowledge, in accordance with the facts and contains no omission likely to affect its import. This declaration is included in the AIM Admission Document in compliance with Paragraph (a) of Schedule Two of the AIM Rules.

Yours faithfully

GRANT THORNTON UK LLP

The following unaudited pro-forma statement of net assets has been produced to illustrate the impact of the acquisition of the Marketing Services Group and the Placing as if they had happened on 30 April 2005 and is produced on the basis of the notes below:

	<i>Media Square as at 30 April 2005</i>		<i>MSG as at 28 February 2005</i>		<i>Impact of acquisition of MSG</i>		<i>Pro-forma net assets</i>
	<i>Unaudited Note ii £'000</i>	<i>Disposal of property Note iii £'000</i>	<i>Note ii £'000</i>	<i>Effect of Placing Note iv £'000</i>	<i>Note v £'000</i>	<i>Goodwill adjustment £'000</i>	<i>£'000</i>
Fixed assets							
Intangible assets							
– positive goodwill	16,578	—	28,143	—	67,800	(35,000)	77,521
– negative goodwill	(86)	—	—	—	—	—	(86)
Tangible assets	8,650	—	3,814	—	—	—	12,464
Investments	8	—	—	—	—	—	8
	<u>25,150</u>	<u>—</u>	<u>31,957</u>	<u>—</u>	<u>67,800</u>	<u>(35,000)</u>	<u>89,907</u>
Current assets							
Stocks	1,575	—	1,196	—	—	—	2,771
Debtors	16,803	(3,513)	37,599	—	—	—	50,889
Cash at bank and in hand	6,568	3,513	2,274	30,000	(24,250)	—	18,105
	<u>24,946</u>	<u>—</u>	<u>41,069</u>	<u>30,000</u>	<u>(24,250)</u>	<u>—</u>	<u>71,765</u>
Creditors: amounts falling due within one year	<u>(16,369)</u>	<u>—</u>	<u>(34,322)</u>	<u>(1,200)</u>	<u>(4,800)</u>	<u>—</u>	<u>(56,691)</u>
Net current assets	<u>8,577</u>	<u>—</u>	<u>6,747</u>	<u>28,800</u>	<u>(29,050)</u>	<u>—</u>	<u>(15,074)</u>
Total assets less current liabilities	<u>33,727</u>	<u>—</u>	<u>38,704</u>	<u>28,800</u>	<u>38,750</u>	<u>(35,000)</u>	<u>104,981</u>
Creditors: amounts falling due after more than one year	<u>(4,161)</u>	<u>—</u>	<u>(1,844)</u>	<u>—</u>	<u>(38,750)</u>	<u>—</u>	<u>(44,755)</u>
Provisions for liabilities and charges	<u>(547)</u>	<u>—</u>	<u>(1,860)</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>(2,407)</u>
Net assets	<u>29,019</u>	<u>—</u>	<u>35,000</u>	<u>28,800</u>	<u>—</u>	<u>(35,000)</u>	<u>57,819</u>

Notes:

- (i) The pro-forma information is prepared for illustrative purposes only and, because of its nature, cannot give a complete picture of the Enlarged Group's financial position.
 - (ii) The net asset position of Media Square is extracted from the unaudited interim financial statements to 30 April 2005. The net asset position of the Marketing Services Group is extracted from the aggregated balance sheets as at 28 February 2005.
 - (iii) On 4 May 2005, under the terms of an agreement dated 19 October 2004, Media Square received £3,513,000 from Berkeley Homes plc, being the final instalment of the proceeds from the disposal of the former East London site of Coutts. Due to the exceptional size of this receipt it has been adjusted for in the pro-forma balance sheet.
 - (iv) On 13 October 2005, Media Square conditionally agreed to place a total of 120,000,000 Vendor Placing Shares shares at a price of 25 pence per share, thereby raising £30.0 million gross. The estimated expenses associated with the Placing are £1.2 million.
 - (v) The aggregate consideration payable in connection with the acquisition of the Marketing Services Group is £63.0 million, in cash. The acquisition is to be partially funded by the advancement of a bank loan of up to £38.75 million, together with the placing referred to above. Additional bank facilities have been secured to fund the further financing requirements of the Enlarged Group. The estimated expenses associated with the acquisition of the Marketing Services Group are £4.8 million.
 - (vi) The pro-forma information does not constitute statutory accounts within the meaning of Section 240 of the Companies Act.
- No adjustment has been made to take account of trading, capital or other movements subsequent to the dates of the latest balance sheets and profit and loss accounts included in the Interim Results of Media Square and the aggregated results of the Marketing Services Group set out in Parts III and IV respectively of this document.

PART VI

Additional Information

1. Responsibility

The Directors, whose names appear below, accept responsibility for the information contained in this document or any part of it including individual and collective responsibility for compliance with the AIM Rules, and to the best of the knowledge and belief of the Directors (who have taken all reasonable care to ensure that such is the case) the information contained in this document is in accordance with the facts and there is no omission likely to affect the import of such information.

<i>Name</i>	<i>Function</i>	<i>Age</i>
Nigel Douglas Bacon	Interim Non-Executive Chairman	47
Arthur Jeremy Barritt Middleton	Chief Executive Officer	44
Graeme Ian Burns	Group Finance Director	38

2. The Company

2.1 The Company was incorporated and registered in England and Wales on 2 June 2000 as a public company under the Act with company number 4006884 under the name of Wemedia PLC. It changed its name, on 1 August 2000, to Media Square plc. The principal legislation under which the Company operates is the Act. On 16 August 2000, the Company was granted a trading certificate, as required by the Act.

2.2 The liability of the Company's members is limited.

2.3 The Company's registered office is at Queens Avenue, Macclesfield, Cheshire, SK10 2BN and the Company's telephone number is 01625 442 888.

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

3. Share Capital

3.1 The authorised and issued share capital of the Company as at the date of this document is:

<i>Authorised</i>		<i>Issued and fully paid</i>	
<i>Amount</i>	<i>Number</i>	<i>Amount</i>	<i>Number</i>
£15,000,000	300,000,000	£10,263,813.65	205,276,253

Taking into account the Placing and the proposed increase of the share capital of the Company to be effected pursuant to the Resolutions, the authorised and issued share capital of the Company following the Acquisition will be:

<i>Authorised</i>		<i>Issued and fully paid</i>	
<i>Amount</i>	<i>Number</i>	<i>Amount</i>	<i>Number</i>
£23,000,000	460,000,000	£16,263,812.65	325,276,253

3.2 The Company was incorporated with an authorised share capital of £100,000 comprising 100,000 ordinary shares of £1 each. On incorporation two ordinary shares of £1 each were issued to the subscribers to the Memorandum of Association and on 15 August 2000 these two ordinary shares were forfeited and each of John Patrick Butcher and Linda Jane Stevens subscribed for one share of £1 each. Such shares were allotted to them in consideration of their respective undertakings to pay up such shares at par in full.

3.3 Since incorporation to the date of this document, the following paragraphs set out the changes to the authorised and issued share capital of the Company.

- 3.4 By resolutions passed on 15 August 2000, the members of the Company resolved, among other things, that:
- (A) each ordinary share of £1 in the capital of the Company be subdivided into 20 Ordinary Shares, with the result that the authorised ordinary share capital of the Company be £100,000 divided into 2,000,000 Ordinary Shares, of which 40 were in issue; and
 - (B) the authorised share capital of the Company be increased to £455,466 by the creation of a further 7,109,320 Ordinary Shares.
- 3.5 On 15 August 2000, 3,799,960 Ordinary Shares were allotted at the subscription price of 5p each.
- 3.6 On 14 September 2000, a further 4,240,000 Ordinary Shares were allotted at a subscription price of 25p per Ordinary Share.
- 3.7 On 28 February 2001, the members of the Company resolved (at two separate meetings), *inter alia*, that the authorised share capital of the Company be increased from £455,466 to £800,000 by the creation of 6,890,680 Ordinary Shares and the Company allotted 5,833,336 Ordinary Shares in relation to the acquisition of e.plan Limited.
- 3.8 On 22 March 2002, members of the Company resolved amongst other things that the authorised share capital of the Company be increased from £800,000 to £1,000,000 by the creation of 4,000,000 Ordinary Shares.
- 3.9 On 18 June 2002, members of the Company resolved to increase the authorised share capital from £1,000,000 to £2,500,000 by the creation of 30,000,000 Ordinary Shares.
- 3.10 On 18 June 2002, the Company allotted 10,046,208 Ordinary Shares in relation to the acquisition of Equanim Group Limited.
- 3.11 On 19 June 2002, 7,927,620 Ordinary Shares were allotted at a subscription price of 6p each.
- 3.12 On 3 June 2003, 1,000,000 Ordinary Shares were allotted at a subscription price of 7.5p each.
- 3.13 On 1 October 2003, members of the Company resolved to increase the authorised share capital from £2,500,000 to £4,500,000 by the creation of 40,000,000 Ordinary Shares.
- 3.14 On 1 October 2003, 33,552,088 Ordinary Shares were allotted at the subscription price of 8p each.
- 3.15 On 2 October 2003, 3,947,912 Ordinary Shares were allotted in exchange for the capitalisation of debt at a subscription price of 8p per Ordinary Share.
- 3.16 On 7 November 2003, a further 6,000,000 Ordinary Shares were allotted at the subscription price of 12p each.
- 3.17 On 12 March 2004, the members of the Company resolved that the authorised share capital be increased from £4,500,000 to £5,500,000 by the creation of 20,000,000 Ordinary Shares.
- 3.18 On 30 April 2004, the members of the Company resolved that the authorised share capital of the Company be increased from £5,500,000 to £9,500,000 by the creation of 80,000,000 Ordinary Shares.
- 3.19 On 4 May 2004, 27,944,449 Ordinary Shares were allotted at a subscription price of 18p each.
- 3.20 On 10 May 2004, 31,055,551 Ordinary Shares were allotted at a subscription price of 18p each.
- 3.21 On 4 October 2004, the members of the Company resolved that the authorised share capital be increased from £9,500,000 to £15,000,000 by the creation of 110,000,000 Ordinary Shares.

- 3.22 On 8 October 2004, 36,000,000 Ordinary Shares were allotted at a subscription price of 17.5p each.
- 3.23 Between 22 October 2004 and 8 November 2004, 22,324,513 Ordinary Shares were allotted at a subscription price of 18.75p each.
- 3.24 On 4 November 2004, 1,596 Ordinary Shares were allotted at a subscription price of 18.75p each.
- 3.25 On 24 November 2004, 105,257 Ordinary Shares were allotted at a subscription price of 18.75p each.
- 3.26 Between 24 November 2004 and 9 December 2004 199,799 Ordinary Shares were allotted at a subscription price of 18.75p each.
- 3.27 On 18 March 2005, 2,540,305 Ordinary Shares were allotted at a subscription price of 18.36p each.
- 3.28 On 23 March 2005, 50,065 Ordinary Shares were allotted at a subscription price of 7.59p each.
- 3.29 On 13 May 2005, 70,060 Ordinary Shares were allotted at a subscription price of 12.57p each and 82,917 Ordinary Shares were allotted at a subscription price of 13.42p each.
- 3.30 On 6 October 2005, 8,544,577 Ordinary Shares were allotted in connection with the agreement described in paragraph 11.1(E) of this Part VI.
- 3.31 The provisions of section 89(1) of the Act, to the extent not disapplied pursuant to section 95 of the Act, conferring on all shareholders rights of pre-emption in respect of the allotment of equity securities which are, or are to be, paid up in cash, apply to the authorised but unissued share capital of the Company.
- 3.32 Save as disclosed in this document, since the incorporation of the Company:
- (A) there has been no change in the amount of issued share capital or loan capital of the Company;
- (B) no share capital or loan capital of the Company is under option or is agreed conditionally or unconditionally to be put under option; and
- (C) no commissions, discounts, brokerages or other special terms have been granted by the Company in connection with the issue or sale of the share or loan capital of the Company.

4. Directors' and other interests

- 4.1 The interests (all of which are beneficial) of the Directors and persons connected with them (within the meaning of section 346 of the Act) in the issued share capital of the Company which (i) have been notified to the Company pursuant to sections 324 and 328 of the Act or (ii) which are required to be entered in the register maintained under section 325 of the Act or (iii) so far as the Directors are aware having made due and proper enquiry of such persons as are connected (within the meaning of section 346 of the Act) with each Director, are interests of a connected person and which would, if the connected person were a director of the Company, be required to be disclosed under paragraphs (i) or (ii) above, as at the latest practicable date prior to printing of this document and as they will be following the Acquisition and Placing, are as follows:

<i>Directors</i>	<i>As at 12 October 2005</i>		<i>Following the Acquisition</i>	
	<i>No. of Ordinary Shares</i>	<i>Percentage of current issued share capital</i>	<i>No. of Ordinary Shares</i>	<i>Percentage of enlarged issued share capital</i>
Jeremy Middleton	10,574,672	5.2	10,574,672	3.3
Graeme Burns	1,499,311	0.7	1,499,311	0.5
Nigel Bacon	nil	nil	nil	nil

- 4.2 Save as disclosed in paragraphs 4.1, 4.8 and 4.9 none of the Directors (or any person connected with them within the meaning of section 346 of the Act) has any interest in the share capital of the Company.
- 4.3 As at the latest practicable date prior to the printing of this document and following the Acquisition and Placing so far as the Directors are aware, the only persons who are or will be directly or indirectly interested in three per cent. or more of the issued share capital of the Company (other than the Directors set out above) are as follows:

	<i>As at 12 October 2005</i>		<i>Following the Acquisition</i>	
	<i>No. of Ordinary Shares</i>	<i>Percentage of current issued share capital</i>	<i>No. of Ordinary Shares</i>	<i>Percentage of enlarged issued share capital</i>
Framlington Investment Management	25,394,700	12.4	25,394,700	7.8
Electra Partners Europe	11,357,143	5.5	11,357,143	3.5
Ashcourt Asset Management Legal & General Investment Management	9,472,362	4.6	9,472,362	2.9
Singer & Friedlander Investment Management	7,699,877	3.8	7,699,877	2.4
Artemis Investment Management	7,480,899	3.6	7,480,899	2.3
Rathbones	6,833,332	3.3	6,833,332	2.1
	6,201,000	3.0	6,201,000	1.9

- 4.4 Save as disclosed above, the Directors are not aware of any person who, directly or indirectly, jointly or severally, could exercise control over the Company, and none of the major shareholders of the Company has different voting rights.
- 4.5 Save as disclosed in this document no Director has or has at any time had any interest, direct or indirect, in any transaction which is or was unusual in its nature or conditions or which is or was significant in relation to the business of the Marketing Services Group or the Company and which was effected by the Marketing Services Group or the Company at any time and which remains in any respect outstanding or unperformed.
- 4.6 Save as disclosed in this document, no Director has or has had any interest, direct or indirect, in any assets which have been acquired, disposed of by, or leased to the Marketing Services Group or the Company or which are proposed to be acquired, disposed of by, or leased to the Marketing Services Group or the Company.
- 4.7 There are no outstanding loans granted by the Company to any of the Directors nor are there any guarantees granted by the Company for their benefit.
- 4.8 *Share Option Schemes*

The Company has granted options under an enterprise management incentive scheme (“EMI Option Scheme”) over 1,840,000 Ordinary Shares in the Company and under an unapproved share option scheme (the “Unapproved Option Scheme”) over 2,129,524 Ordinary Shares, under the Media Square company share option plan (the “Media Square Option Scheme”) over 3,200,000 Ordinary Shares, under the Coutts Holdings 1996 savings-related share option scheme (the “Coutts YBS SAYE Scheme”) over 369,952 Ordinary Shares and under the Media Square 2005 savings-related share option scheme (the “2005 SRS Option Scheme”) over 1,983,364 Ordinary Shares.

Details of Ordinary Shares under option under the EMI Option Scheme are as follows:

<i>Number of Ordinary Shares</i>	<i>Exercise Price per Ordinary Share (p)</i>	<i>First date of exercise</i>	<i>Last date of exercise</i>
300,000	15.25	November 2005	November 2008
540,000	18.00	May 2005	May 2010
1,000,000	18.00	June 2006	June 2009

All EMI options have an exercise price equal to the market value of the shares at the date of the grant of the option, with the exception of an option over 540,000 shares with an exercise price of 18 pence per share but market value at the date of grant of 18.5 pence per share.

The unapproved options have been granted to four individuals. One individual has options subject to performance conditions. Details of Ordinary Shares under option, under the unapproved option scheme, are as follows:

<i>Number of Ordinary Shares</i>	<i>Exercise Price per Ordinary Share (p)</i>	<i>First date of exercise</i>	<i>Last date of exercise</i>
241,200	25.00	March 2001	September 2005
312,940	6.00	December 2002	December 2007
1,000,000	6.75	May 2004	April 2009*
460,000	18.00	May 2005	May 2010
115,384	26.00	February 2008	February 2010

* exercisable by instalments

Details of Ordinary Shares under option under the Media Square Option Scheme are as follows:

<i>Number of Ordinary Shares</i>	<i>Exercise Price per Ordinary Share (p)</i>	<i>First date of exercise</i>	<i>Last date of exercise</i>
3,200,000	24.50	September 2008	September 2011

Details of Ordinary Shares under option under the Coutts YBS SAYE Scheme are as follows:

<i>Number of Ordinary Shares</i>	<i>Exercise Price per Ordinary Share (p)</i>	<i>First date of exercise</i>	<i>Last date of exercise</i>
235,296	4.98	February 2006	August 2006
134,656	9.18	February 2007	August 2007

Details of Ordinary Shares under option under the 2005 SRS Option Scheme are as follows:

<i>Number of Ordinary Shares</i>	<i>Exercise Price per Ordinary Share (p)</i>	<i>First date of exercise</i>	<i>Last date of exercise</i>
1,983,364	22.50	July 2008	January 2009

4.9 Details of options over Ordinary Shares granted for nil consideration to the Directors which are outstanding at the date of this document are as follows:

<i>Director</i>	<i>No. of Ordinary Shares</i>	<i>Exercise Price per Ordinary Share (p)</i>	<i>First date of exercise</i>	<i>Last date of exercise</i>
Graeme Burns	540,000 ¹	18.00	May 2005	April 2010
Graeme Burns	460,000 ¹	18.00	May 2005	May 2010

1. These options have been granted under both the EMI Option Scheme (540,000) and the unapproved share option scheme (460,000).

4.10 Save as disclosed in this document and excluding professional advisers and trade suppliers, no person has at any time received, directly or indirectly from the Marketing Services Group or the Company or entered into any contractual arrangements to receive, directly or indirectly, from the Marketing Services Group or the Company on or after Admission, any fees, securities in the Company or any other benefit to the value of £10,000 or more.

4.11 Other than their directorships of the Company, the directorships and partnerships held by the Directors at the date of this document and over the five years preceding the date of this document are as follows:

Jeremy Middleton

Current:

APR Photography Limited
Oast Partners Limited
Osborne PR Limited
Z Digital Limited
e principals plc
Banc Group Limited
Four Ninety Limited
Brand New Media Limited
PPI Leeds Limited
Blakedew 394 Limited
Spacetabs Limited
I.A.S. Production Limited
I A S Marketing and Communication plc
I.A.S. Publicity Limited
IAS Group Limited
Clark McKay and Walpole Limited
AMX Communications Limited
P.M. Crafts Limited
TheMutual.Net plc
Evelow Limited
Essex Corrugated Containers Company Limited
Coutts Holdings Limited
Coutts Retail Communications Limited
Alpine Plastics and Displays Limited
Arken Display Limited
Bravo Design Consultancy Limited
Bannerman Group Limited
Coutts Arken Display Limited
The Manchester Picture Company Limited
Marketplace Properties limited
Marketplace Design Limited
Marketplace Holdings Ltd
AI London Limited
Symbian Print Intelligence Ltd

Graeme Burns

Current:

Brand New Media Limited
Four Ninety Limited
APR Photography Limited
Osborne PR Limited
Z Digital Limited
e principals plc
Banc Group Limited
Marketplace Properties Limited
Marketplace Design Limited
Marketplace Holdings Limited
PPI Leeds Limited
Blakedew 394 Limited
Spacetabs Limited
I.A.S. Production Limited
I A S Marketing and Communication plc
I.A.S. Publicity Limited

Previous:

Cinque Marketing Communications Limited
Indigo 6 Limited
West North West Limited
Second Perspective Limited
M3D Ltd
Connect Packaging Limited
Comtech Innovations Limited

Previous:

Cinque Marketing Communications Limited
West North West Limited
Second Perspective Limited
Indigo 6 Limited
M3D Ltd
Comtech Innovations limited

Graeme Burns (*continued*)

Current:

IAS Group Limited
Banc Group Limited
Clark McKay and Walpole Limited
AMX Communications Limited
AI London Limited
P.M Crafts Limited
Evelow Limited
Essex Corrugated Containers Company Limited
Coutts Retail Communications Limited
Coutts Holdings Limited
Coutts Arken Display Limited
Bravo Design Consultancy Limited
Alpine Plastics and Displays Limited
Arken Display Limited
Bannerman Group Limited
The Manchester Picture Company Limited
Symbian Print Intelligence Ltd

Nigel Bacon

Current:

GW 816 Limited
Contact 4 Partnership Limited
Pertemps Venture Limited
Createclick Limited
Ed + Limited (In Administration)
Field Marketing @ Pertemps Limited
Venture Investment Placement Limited
Occupational Health Network Limited
Pertemps Limited
Pertemps Investment Limited
GW446 Limited (In Administration)
Dreambloom Limited
T.E.N. (The Education Network – Employment Services) Limited

Previous:

Pertemps Marketing Partnership Limited
The Medial Recruitment Network Limited
Callpoint (Bath Street) Limited (Liquidation)
Jobs TV Limited
Network Construction Services Limited
Strictly Education Limited
Professional Recruitment Group Limited
Fusion Interactive Communication Solutions Limited

- 4.12 None of the Directors has any unspent convictions in respect of indictable offences.
- 4.13 None of the Directors has been declared bankrupt or entered into an individual voluntary arrangement.
- 4.14 Save as set out below, none of the Directors has been a director of a Company which, while he was a director or within 12 months of his ceasing to be a director, had a receiver appointed, entered into liquidation, entered into administration, entered into voluntary arrangement or made any composition or arrangement with its creditors generally or with any class of creditors.
- (A) Graeme Burns resigned from Cinque Marketing Communications Limited on 31 March 2001. This company went into liquidation on 20 August 2001 and was subsequently dissolved on 7 February 2004.
- (B) Jeremy Middleton was a director of Cinque Marketing Communications Limited. This company went into liquidation on 20 August 2001 and was subsequently dissolved on 7 February 2004.
- (C) Nigel Bacon was a director of Callpoint (Bath Street) Limited. This company went into liquidation on 3 December 2004 and a notice of winding up was made by order of the Court on 30 March 2005.

- (D) Nigel Bacon is currently a director of Ed + Limited. An Administrator was appointed to this company on 6 August 2004.
- (E) Nigel Bacon is currently a director of GW446 Limited. An Administrator was appointed to this company on 6 August 2004.
- 4.15 None of the Directors has been a partner of any partnership which, while he was a partner or within 12 months of his ceasing to be a partner entered into compulsory liquidation, administration or a partnership voluntary arrangement.
- 4.16 None of the Directors has owned an asset over which a receiver has been appointed nor has any of the Directors been a partner of any partnership at the time of or within 12 months of receivership of any assets of the partnership.
- 4.17 None of the Directors has been the subject of any public criticism by any statutory or regulatory authority (including recognized professional bodies).
- 4.18 None of the Directors has been disqualified by a court from acting as a director of a company or from acting in the management or conduct of the affairs of any company.

5. Share Option Schemes

The Company has five share option schemes in order to allow selected employees to share in the success of the Group and promote motivation and retention.

A summary of the terms of the EMI Option Scheme, the Unapproved Option Scheme, the Coutts YBS SAYE Scheme, the Media Square Option Scheme and the 2005 SRS Option Scheme is set out below.

The EMI Option Scheme

Grants of Options

Options to acquire Ordinary Shares may be granted to eligible employees under the provisions of Schedule 5 (Enterprise Management Incentives) Income Tax (Earnings and Pensions) Act 2003 ("Schedule 5").

Eligibility

An eligible employee is an employee of the Company who has not given or received notice of termination of employment.

Performance Criteria

Any performance criteria may be determined by the Directors.

Exercise Price

The exercise price shall be determined by the Directors.

Limit of Participation

The value of the option shares will not be greater than £100,000 in accordance with paragraph 5, Part 2 of Schedule 5.

Total Number of Shares Available

The total value of Ordinary Shares in the Company in respect of which unexercised options granted under the provisions of Schedule 5 exist will not exceed £3 million.

Exercise of Options

Options shall generally be exercisable not earlier than the second anniversary of the date of the relevant EMI Option Scheme agreement and not later than five years from the date of grant.

In the case of an acquiring company (a) obtaining control of the Company as a result of making a general offer for the whole of the issued share capital of the Company or a general offer to acquire all the shares in the Company that are the same class as the option shares, (b) obtaining control of the Company as a result of a compromise or arrangement under section 425 of the Act or (c) obtaining all the shares of a Company whose shares are subject to such a share option as a

result of a qualifying exchange of shares under paragraph 40 of Schedule 5 the option holder will be able to exercise options during the period of six months from the date on which the acquiring company obtains control. If an acquiring company becomes bound or entitled to acquire shares in the company of the same class as the option shares under section 428 to 430F of the Act the option holder will be able to exercise his options during the period during which the acquiring company remains so bound or entitled.

Employees Leaving the Group

If an option holder ceases to be an eligible employee for any other reason than death, disability, redundancy or retirement at normal retirement age on or after reaching age 65 then any options held by such option holder shall lapse.

Variation of Share Capital

In the event of a variation of share capital the number of Ordinary Shares under option and the exercise price may be adjusted in the manner the Auditors confirm in writing to be in their opinion fair and reasonable provided that the exercise price may not be less than its nominal value and the aggregate amount payable on the exercise of the option in full is not increased.

Relationship with Contract of Employment

The grant of this option does not form part of the option holder's entitlement to remuneration or benefits pursuant to his contract of employment.

The Unapproved Option Scheme

Grants of Options

Options to acquire Ordinary Shares may be granted to eligible employees.

Eligibility

An eligible employee is an employee of the Company who has not given or received notice of termination of employment.

Exercise Price

The exercise price shall be determined by the Directors.

Exercise of Options

Options shall generally be exercisable not earlier than the third anniversary of the date of the relevant unapproved share option scheme agreement and not later than six years from the date of grant.

In the case of an acquiring company (a) obtaining control of the Company as a result of making a general offer for the whole of the issued share capital of the Company or a general offer to acquire all the shares in the Company that are the same class as the option shares, (b) obtaining control of the Company as a result of a compromise or arrangement under section 425 of the Act or (c) obtaining all the shares of a Company whose shares are subject to such a share option as a result of a qualifying exchange of shares under paragraph 40 of Schedule 5 the option holder will be able to exercise options during the period of six months from the date on which the acquiring company obtains control. If an acquiring company becomes bound or entitled to acquire shares in the company of the same class as the option shares under section 428 to 430F of the Act the option holder will be able to exercise his options during the period during which the acquiring company remains so bound or entitled.

Employees Leaving the Group

If an option holder ceases to be an eligible employee for any other reason than death, disability, redundancy or retirement at normal retirement age on or after reaching age 65 then any options held by such option holder shall lapse.

Variation of Share Capital

In the event of a variation of share capital the number of Ordinary Shares under option and the exercise price may be adjusted in the manner the Auditors confirm in writing to be in their opinion fair and reasonable provided that the exercise price may not be less than its nominal value and the aggregate amount payable on the exercise of the option in full is not increased.

Relationship with Contract of Employment

The grant of this option does not form part of the option holder's entitlement to remuneration or benefits pursuant to his contract of employment.

The Coutts YBS SAYE Scheme

Grants of Options

Options to acquire Ordinary Shares may be granted to eligible employees at the absolute discretion of the Directors of the Company. Options may only be granted during the period of 14 days following any of the following (a) the date of approval of the Scheme; or (b) the date on which the Company makes the preliminary announcement of its results for any period or the announcement of its interim results for any period (and only at a time at which all of the dealing days by reference to which the option price is calculated follow the date of such announcement).

Eligibility

An eligible employee is any employee or director of a participating company who is not precluded by having a material interest in the Company and (a) (i) being a director, devotes not less than 25 hours per week to the Group, (ii) has a minimum continuous period of employment/directorship of one or more participating companies (such time to be determined by the Directors but not to be more than five years), and (iii) is chargeable to tax in respect of his employment or office with a participating company or (b) any other employee of any member of the Group.

Option Price

The option price shall be determined by the Directors but shall not be less than the higher of the nominal value of an Ordinary Share and eighty percent of the market value of an Ordinary Share on the relevant date of invitation or such other time as agreed in writing by the Company and HMRC provided that different prices may be determined for the three and five year contractual savings schemes.

Total Number of Shares Available

The aggregate number of Ordinary Shares in respect of which options may be granted (and which, if not exercised, have not ceased to be exercisable) (a) shall not exceed 5 per cent. of the issued Ordinary Shares on that date of grant and (b) in respect of rights granted under all Schemes adopted by the Company shall not, in the period of 10 years ending on that date of grant, exceed 7.5 per cent. of the Ordinary Shares in issue on that date of grant.

Exercise of Options

Options shall generally be exercisable not earlier than the bonus date and not later than six months from and including the bonus date.

In the case of a reconstruction, takeover or members' voluntary winding up the option holder will be able to exercise options during the period of six months from the date on which the court sanctions the reconstruction or amalgamation, the date on which the person making the offer obtains control of the Company or the date of the passing of a resolution for winding up respectively.

Employees Leaving the Group

If an option holder ceases to hold office or employment with the Group for reason of injury, disability, dismissal by reason of redundancy or retirement, the employing company of the Group ceasing to be a member of the Group or any other reason provided that such cessation occurs more than three years after the relevant date of grant of an option then any such options held by the option holder may be exercised within six months from the date of such cessation. Where the option holder dies any options held by such option holder may be exercised within either (a) the twelve

month period from the date of death or (b) the twelve month period from the bonus date. Any option not exercised in accordance with the above will lapse at the end of the applicable period. If an option holder ceases to hold office or employment with the Group for any reason other than that stated above then any option held by such option holder shall lapse on the date of such cessation.

Variation of Share Capital

In the event of a variation of share capital the number of Ordinary Shares under option and the exercise price shall be adjusted in such manner as the Auditors shall in writing advise the Directors to be fair and reasonable provided that (a) the option price of an ordinary share shall never be less than its nominal value, (b) the aggregate option price in respect of any option shall neither be materially increased or decreased; and (c) if the scheme has been approved by the HMRC no such adjustment shall have effect until approved by the HMRC.

Alteration of the Coutts YBS SAYE Scheme

The Directors may at any time alter or amend the provision of the Scheme provided that no alteration shall take effect (a) without the confirmation in writing from the HMRC that such alteration or addition shall not affect the approved status of the Scheme and (b) so as to materially affect an option holder in relation to any held by such person or (c) if such alteration is to the advantage of the option holders, without the prior approval by ordinary resolution of the members of the Company in General Meeting except in respect of minor alterations to benefit the administration of the Scheme and alterations to take account of a change in legislation or to obtain or maintain favourable tax, exchange control or regulatory treatment for option holders or a participating company.

Relationship with Contract of Employment

The grant of an option does not afford the option holder any additional right to compensation on the termination of his employment which would not have existed had the Scheme not existed.

The Media Square Option Scheme

Grants of Options

Options to acquire Ordinary Shares may be granted to eligible employees at the absolute discretion of the Directors of the Company. An option shall not be granted to any person at any time when he has or has within the preceding 12 months had a material interest in a close company being either the Company or a company which has control of the Company or is a member of a consortium which owns such a company.

Eligibility

An eligible employee is:

- (a) an employee who is a director of any member of the Group and is required under his contract of employment to work for not less than 25 hours per week (excluding meal breaks) disregarding holiday entitlement; or
- (b) any other employee of any member of the Group.

Performance Criteria

The exercise of an option may be conditional upon the performance of the Company and/or of a member of the Group and/or the option holder over such period and measured against such objective criterion or criteria as shall be determined by the Directors and notified to the option holder when the option is granted. If, in consequence of a performance-related condition being met, an option becomes vested in respect of some but not all of the number of Ordinary Shares over which it subsists, it shall lapse and cease to be exercisable in respect of the balance of the Ordinary Shares over which it was held.

Exercise Price

The exercise price shall be determined by the Directors but shall not be less than the greater of the market value of an Ordinary Share on the date of grant and, in the case of an Option which is a right to subscribe for Ordinary Shares, the nominal value of an Ordinary Share.

Limit of Participation

The number of Ordinary Shares in respect of which an option is granted to an eligible employee shall be limited and the option shall take effect, so that the aggregate market value of Ordinary Shares which may be acquired upon the exercise of that option when added to (a) the aggregate market value of shares in respect of which options have previously been granted (and have not then been exercised nor ceased to be exercisable); and (b) the aggregate market value of Ordinary Shares in respect of which rights to acquire such Ordinary Shares have been obtained by that eligible employee under any other share option plan approved in accordance with the CSOP Code which has been established by the Company or by any associated company (and have not then been exercised nor ceased to be exercisable) shall not exceed or further exceed £30,000.

Total Number of Shares Available

The aggregate number of Ordinary Shares in respect of which options may be granted (and which, if not exercised, have not ceased to be exercisable) shall not exceed 15 per cent. of the issued Ordinary Shares.

Exercise of Options

Options shall generally be exercisable not earlier than the third anniversary of the date of grant or such other later time as is specified by the grantor at the relevant date of grant and not later than six years from the date of grant.

In the case of a demerger the option holder will be able to exercise options within such period as the Directors may specify (such period not exceeding 30 days). In the case of a statutory reconstruction or amalgamation the option holder will be able to exercise options during the period of six months from the date on which the court sanctions the reconstruction or amalgamation. In the event of a winding-up the option holders may exercise options at any time before commencement of the winding up. In the case of a takeover the option holders may exercise the options within the period of 6 months of the date when the person making the offer has obtained control of the Company and any condition subject to which the offer is made has been satisfied or waived.

Employees Leaving the Group

If an option holder ceases to hold office or employment with the Group for reason of injury or disability, dismissal by reason of redundancy or retirement on or after reaching age 65 then any options held by such option holder may be exercised on the same conditions as if the option holder had not ceased to hold office or employment.

If an option holder ceases to hold office or employment with the Group for any reason other than that stated above then, provided that the grantor makes such a decision within three months of the option holder ceasing to hold office or employment with the Group (and notifies the option holder of such decision), any options held by such option holder may be exercised on the same conditions as if the option holder had not ceased to hold office or employment. If no decision is made by the grantor within the three month period then any options held by such option holder shall lapse and cease to be exercisable at the end of the three month period.

If an option holder dies in service or after ceasing to hold office or employment with the Group then any options held by such option holder may be exercised by the personal representative of such option holder within the period of twelve months beginning with the date of death, after which the options shall lapse and cease to be exercisable.

Variation of Share Capital

In the event of a variation of share capital the Directors may adjust the number of Ordinary Shares under option and the exercise price to reflect such variation. This adjustment shall be subject to the confirmation by the Auditors that such adjustment is fair and reasonable. No such adjustment shall be made unless the HMRC has approved the adjustment and confirmed that the approved status of the Scheme is not affected.

Alteration of the Media Square Option Scheme

The Directors may at any time alter or amend the provision of the Scheme provided that no alteration shall take effect (a) without the confirmation in writing from the HMRC that such

alteration or addition shall not affect the approved status of the Scheme and (b) so as to affect the liabilities of any person other than the Company in relation to any option granted by such person without the prior written consent in writing of such person.

Relationship with Contract of Employment

The grant of an option does not form part of the option holder's entitlement to remuneration or benefits pursuant to his contract of employment nor does the existence of a contract of employment between any person and the Company or a member of the Group give such person any right or entitlement to have an option granted to him in respect of any number of Ordinary Shares or any expectation that an option might be granted to him whether subject to any conditions or at all.

Grantor of Options

The Grantor of options may be the Company, an employee's trust or any other person as the Directors may decide.

The 2005 SRS Option Scheme

Grants of Options

Options to acquire Ordinary Shares may be granted to eligible employees at the absolute discretion of the Directors of the Company. Options may only be granted during the 42 day period following either (a) the date of approval of the Scheme; or (b) the date on which the Company makes a preliminary announcement of its results for any period or the announcement of its interim results for any period (and only at a time at which all of the dealing days by reference to which the option price is calculated follow the date of such announcement).

Eligibility

An eligible employee is any employee or director of a participating company who is not precluded by having a material interest in the Company and (a) (i) being a director, devotes not less than 25 hours per week to the Group, (ii) has a minimum continuous period of employment/directorship of one or more participating companies (such time to be determined by the Directors but not to be more than five years), and (iii) is chargeable to tax in respect of his employment or office with a participating company or (b) any other employee of any member of the Group.

Option Price

The option price shall be determined by the Directors but shall not be less than the higher of the nominal value of an Ordinary Share and eighty percent of the market value of an Ordinary Share on the relevant date of invitation or such other time as agreed in writing by the Company and HMRC, provided that different prices may be determined for the three and five year contractual savings schemes.

Total Number of Shares Available

The aggregate number of Ordinary Shares in respect of which options may be granted (and which, if not exercised, have not ceased to be exercisable) (a) shall not exceed 7.5 per cent. of the issued Ordinary Shares on the date of grant and (b) in respect of rights granted under all schemes adopted by the Company shall not, in the period of 10 years ending on the date of grant, exceed 20 per cent. of the Ordinary Shares in issue on the date of grant.

Exercise of Options

Options shall generally be exercisable not earlier than the bonus date and not later than six months from and including the bonus date.

In the case of a reconstruction, takeover or members' voluntary winding up the option holder will be able to exercise options during the period of six months from the date on which the court sanctions the reconstruction or amalgamation, the date on which the person making the offer obtains control of the Company or the date of the passing of a resolution for winding up respectively.

Employees Leaving the Group

If an option holder ceases to hold office or employment with the Group for reason of injury, disability, dismissal by reason of redundancy or retirement, the employing company of the Group

ceasing to be a member of the Group or any other reason provided that such cessation occurs more than three years after the relevant date of grant of an option then any such options held by the option holder may be exercised within six months from the date of such cessation. Where the option holder dies any options held by such option holder may be exercised within either (a) the twelve month period from the date of death or (b) the twelve month period from the bonus date. Any option not exercised in accordance with the above will lapse at the end of the applicable period.

If an option holder ceases to hold office or employment with the Group for any reason other than that stated above then any option held by such option holder shall lapse on the date of such cessation.

Variation of Share Capital

In the event of a variation of share capital the number of Ordinary Shares under option and the exercise price shall be adjusted in such manner as the Auditors shall in writing advise the Directors to be fair and reasonable provided that (a) the option price of an ordinary share shall never be less than its nominal value, (b) the aggregate option price in respect of any option shall neither be materially increased or decreased; and (c) if the scheme has been approved by HMRC no such adjustment shall have effect until approved by HMRC.

Alteration of the 2005 SRS Option Scheme

The Directors may at any time alter or amend the provisions of the scheme provided that no alteration shall take effect (a) without the confirmation in writing from the HMRC that such alteration or addition shall not affect the approved status of the scheme and (b) so as to materially affect an option holder in relation to any option held by such person or (c) if such alteration is to the advantage of the option holders, without the prior approval by ordinary resolution of the members of the Company in general meeting except in respect of minor alterations to benefit the administration of the scheme and alterations to take account of a change in legislation or to obtain or maintain favourable tax, exchange control or regulatory treatment for option holders or a participating company.

Relationship with Contract of Employment

The grant of an option does not afford the option holder any additional right to compensation on the termination of his employment which would not have existed had the scheme not existed.

6. Service Contracts

- 6.1 Oast Partners Limited, a company of which Jeremy Middleton is a director, entered into an agreement on 18 June 2002 which was subsequently amended for the provision of consultancy services to the Company. A consultancy fee of £200,000 per annum is payable. The agreement is terminable on 12 months' notice to be given by either party.
- 6.2 Graeme Burns entered into a service agreement on 18 June 2002 which was subsequently amended pursuant to which Graeme was appointed as Group Commercial Director of the Company entitled to receive a salary of £120,000 per annum, together with a company car, a pension contribution of 5 per cent., life assurance and private medical insurance allowances. The agreement is terminable on 12 months' notice to be given by either party.
- 6.3 Nigel Bacon was appointed as a non-executive director on 12 March 2004. Nigel is paid £24,000 per annum and does not have a service contract with the Company.
- 6.4 The aggregate of the remuneration paid and benefits in kind granted to the Directors during the financial period ended 31 October 2004, was £305,000. This sum included remuneration of £35,000 paid to Kevin Barrie Steeds, the Company's former chairman, who resigned on 7 June 2004. The aggregate of the remuneration payable and benefits in kind to the Directors for the current financial year ending 31 October 2005, based on the arrangements in force at the date of this document, is estimated to be £650,000. This sum included remuneration and compensation for loss of office of approximately £315,000 paid to Robert Essex, the Company's former chairman, who ceased to be a director on 23 September 2005.
- 6.5 Save as disclosed in this Document, there are no arrangements for the provision of benefits upon termination of employment.

6.6 There is no arrangement under which the Directors have agreed to waive emoluments during the period since the Company's incorporation.

7. Memorandum and Articles of Association

The principal objects of the Company are set out in full in clause 4 of its memorandum of association and provide that the Company may, *inter alia*, act as a general commercial company. The Company's memorandum of association is available for inspection as provided in paragraph 15 below. The articles of association of the Company ("Articles") contain provisions, *inter alia*, to the following effect:

7.1 Voting

- (A) Subject to any special terms or restrictions as to voting upon which any shares may be issued or may for the time being be held, or any suspension or abrogation of voting rights pursuant to the Articles, at a general meeting every member who (being an individual) is present in person or (being a corporation) is present by a duly authorized representative (not being himself a member) has one vote, and in the case of a poll every member present in person or by proxy shall have one vote for every share of which he is the holder.
- (B) No member shall, unless the Board otherwise determines, be entitled (save as proxy for another member) to be present or vote at a general meeting either personally or by proxy if:
 - (1) any call or other sum as is payable by him to the Company in respect of that share remains unpaid; or
 - (2) he, or any other person who appears to be interested in that share, has been issued, pursuant to section 212 of the Act, with a notice requiring the provision to the Company of information regarding that share, and is in default in complying with such notice.

7.2 Dividends

- (A) Subject to the provisions of the Act and of the Articles, the Company may by ordinary resolution declare dividends to be paid to members according to their respective rights and interests in the profits of the Company. However no dividend shall exceed the amount recommended by the Board.
- (B) Subject to the provisions of the Act, the Board may declare or pay such interim dividends (including any dividend payable at a fixed rate) as appears to the Board to be justified by the profits of the Company available for distribution.
- (C) Except as otherwise provided by any rights attached to or terms of issue of any shares, all dividends shall be declared and paid according to the amounts paid up (otherwise than in advance of calls) on the shares in respect of which the dividend is paid. Subject as aforesaid, all dividends shall be apportioned and paid proportionately to the amount paid up on the shares during any portion or portions of that period in respect of which that dividend is paid.
- (D) No dividends or other monies payable in respect of any share shall bear interest unless otherwise provided by the rights attached to the share.
- (E) The Board may deduct from any dividend or other monies payable in respect of any shares all sums due from the person to whom such dividends or other monies are payable on account of calls or otherwise in relation to the shares.
- (F) Unless the Board otherwise determines, the payment of any dividend or other money that would otherwise be payable on or in respect of a share will be withheld if:
 - (1) a notice has been issued in respect of that share pursuant to section 212 of the Act;
 - (2) the share or shares which are the subject of that notice represent in aggregate at least 0.25 per cent. of that class of share; and
 - (3) the notice has not been complied with within the prescribed period. Furthermore, the holder of such share or shares shall not be entitled to elect to receive shares instead of a cash dividend.

- (G) Any dividend remaining unclaimed for a period of 12 years from the date of being declared or having become due for payment shall be forfeited and cease to remain owing by the Company.
- (H) Subject to the provisions of the Articles, the Board may, with the authority of an ordinary resolution of the members, offer the holders of shares the right to elect to receive further shares (whether or not of the same class) credited as fully paid instead of cash in respect of all or part of such dividend or direct that the payment of any dividend declared be satisfied wholly or partly by the distribution of assets in specie.

7.3 *Distribution of assets on winding-up*

If the Company is wound up the liquidator may, with the authority of an extraordinary resolution of the Company and any other sanction required by law, divide among the members in kind the whole or any part of the assets of the Company and may, for that purpose, set such value as he considers fair on any one or more class or classes of property and determine, on the basis of such valuation, how the assets are to be divided as between the holders of shares or classes of shares. The liquidator may, with the same authority and sanction, transfer any part of the assets to trustees on such trust for the benefit of members as he thinks fit, but no member shall be compelled to accept any assets upon which there is a liability or potential liability for the owner of such assets.

7.4 *Changes in capital*

- (A) Any shares in the capital of the Company for the time being may be allotted with such special rights or restrictions as the Company may by ordinary resolution or (in the absence of such ordinary resolution or where such ordinary resolution does not make specific provision) as the Board may determine.
- (B) Subject to the provisions of the Act, the Company may from time to time by ordinary resolution increase its capital by the creation of new shares or consolidate and/or divide all or any of its share capital into shares of a larger amount than its existing shares or subdivide all or any of its share capital into shares of a smaller amount than its existing shares or cancel any shares which at the date of the passing of the relevant resolution have not been taken or agreed to be taken and diminish the amount of its share capital by the nominal amount of the shares so cancelled.
- (C) Subject to the provisions of the Act, the Company may by special resolution reduce its authorised and issued share capital, any capital redemption reserve and any share premium account in any way.
- (D) Subject to the provisions of the Act, the Company may from time to time purchase its own shares (including any redeemable shares).

7.5 *Variation in class rights*

- (A) Subject to the provisions of the Act, whenever the capital of the Company is divided into different classes of shares, all or any of the rights or privileges attached to any class may be varied or abrogated in such manner (if any) as may be provided by such rights or (in the absence of any such provisions) with the written consent of the holders of at least three fourths in nominal value of the issued shares of that class or with the sanction of any extraordinary resolution passed at a separate general meeting of the holders of such shares.
- (B) The provisions of the Articles relating to extraordinary general meetings shall apply, *mutatis mutandis*, to every separate general meeting of the holders of a particular class of shares except that:
 - (1) no member (other than a director) shall be entitled to receive notice of such meeting or to attend it unless he is a holder of shares of the class in question;
 - (2) the necessary quorum for such meeting, including an adjourned meeting, shall be at least two persons present in person and holding or representing by proxy at least one third in nominal amount of the issued shares of the class; and

- (3) a poll may be demanded by any member present in person or by proxy and entitled to vote at the meeting and, on a poll, each member shall have one vote for every share of the class in question of which he is the holder.

7.6 *Transfer of Shares*

- (A) Shares held in uncertificated form may be transferred in accordance with the Act.
- (B) A transfer of a share held in certificated form must be effected by an instrument of transfer in writing in any usual form or in any other form approved by the Board. Any instrument of transfer shall be executed by or on behalf of the transferor and, except in the case of a fully paid share, by or on behalf of the transferee. The transferor shall remain the holder of the share concerned until the name of the transferee is entered in the register of members in respect of it.
- (C) In respect of any shares held in certificated form, the Board may, in its absolute discretion and without giving any reason for its decision, refuse to register any transfer or renunciation of a renounceable letter of a share unless:
 - (1) it is in respect of a share which is fully paid up;
 - (2) it is in respect of only one class of share;
 - (3) it is in favour of a single transferee or not more than four joint transferees;
 - (4) the transferee is not a child, bankrupt or person of unsound mind;
 - (5) it is duly stamped (if required); and
 - (6) it is delivered to the registered office or such other place as the Board may determine together with the relevant share certificate(s) and such other evidence as the Board may reasonably require to show the right of the transferor to make the transfer.
- (D) If the Board refuses to register a transfer of a certificated share it shall within two months after the date on which the transfer was lodged with the Company, send notice of the refusal to the transferee.
- (E) The register of transfers may be suspended by the Board for any period (not exceeding 30 days) in any year.
- (F) There are no rights of pre-emption relating to the transfer of shares.

7.7 *General Meetings*

- (A) The Company shall hold annual general meetings, which shall be convened by the board, in the accordance with the Act.
- (B) The board may convene an extraordinary general meeting of the Company whenever it thinks fit.
- (C) An extraordinary general meeting shall also be convened by the board on receipt of a requisition from those members entitled to attend and vote in accordance with the Act or the articles, and in default, such meeting may be convened by the requisitionists. At any extraordinary general meeting convened on any such requisition or by such requisitionists, no business shall be transacted except that stated by the requisition or proposed by the board.
- (D) An annual general meeting and an extraordinary general meeting called for the passing of a special resolution or a resolution of which special notice is required by the Act shall be called by not less than 21 clear days' notice. All other extraordinary general meetings of the Company shall be called by not less than 14 clear days' notice.
- (E) The notice shall specify (1) whether the meeting is an annual general meeting; (2) the place, the day and the time of the meeting; (3) in the case of special business (but not otherwise) the general nature of that business; (4) if the meeting is convened to consider a special or extraordinary resolution, the intention to propose the resolution as such; and (5) with reasonable prominence, that a member entitled to attend and vote at the meeting is entitled to appoint one or more proxies to attend and, on a poll vote instead of him and that a proxy need not be a member.

- (F) A member may not vote in respect of any shares where any calls or monies due and payable remain unpaid and where any information required by the Company in accordance with section 212 of the Act has not been given.

7.8 *Directors*

- (A) Subject to the provisions of the Act and provided that the provisions of the Articles referred to in paragraphs 7.8(B) and 7.8(C) below are complied with, a director:
- (1) may enter into or otherwise be interested in any contract, arrangement, transaction or proposal with the Company or in which the Company is interested;
 - (2) may hold any other office or place of profit with the Company (other than the office of auditor of the Company or any subsidiary) in conjunction with his office of director and may act by himself or through his firm in a professional capacity to the Company, in each case on such terms (as to remuneration and otherwise) as the Board may arrange;
 - (3) may be or become a member or a director or other officer, hold any other office or place of profit under, or be a party to any transaction or arrangement with or otherwise interested in any company promoted by the Company or in which the Company is otherwise interested or as regards which the Company has any powers of appointment; and
 - (4) shall not be liable to account to the Company for any profit, remuneration or other benefit realised by any such contract, arrangement, transaction or proposal, office, place of profit or membership and no such contract, arrangement, transaction or proposal shall be avoided on the grounds of any such interest or benefit.
- (B) Any director who, to his knowledge, is in any way (directly or indirectly) interested in any contract, arrangement, transaction or proposal with the Company shall declare the nature of his interest at the Board meeting at which the contract, arrangement, transaction or proposal is first considered if he knows his interest then exists or, in any other case, at the first Board meeting after he knows that he is or has become so interested.
- (C) Save as provided below, a director shall not vote on or be counted in the quorum in relation to, any resolution of the Board or any committee of the Board in respect of any contract, arrangement, transaction or proposal to which the Company is or is to be a party and in which he directly or indirectly (together with any person connected with him) is to his knowledge materially interested. A director shall be entitled to vote (and be counted in the quorum) in respect of any resolution at such meeting if such resolution relates to one of the following matters:
- (1) any contract in which he is interested by virtue of an interest in shares, debentures or other securities of the Company or otherwise in or through the Company;
 - (2) the giving of any guarantee, security or indemnity in respect of money lent or obligations incurred by him or by any other person at the request of or for the benefit of the Company or any of its subsidiary undertakings or a debt or obligation of the Company or any of its subsidiary undertakings for which he himself has assumed responsibility in whole or in part, either alone or jointly with others, under a guarantee or indemnity or by the giving of security relating to any issue or offer of shares;
 - (3) any issue or offer of shares, debentures or other securities of the Company or any of its subsidiaries in respect of which he is or may be entitled to participate in his capacity as a holder of any securities or in the underwriting or sub-underwriting of which the director is to participate;
 - (4) any other company in which he and any persons connected with him do not to his knowledge hold an interest in shares (as that term is used in sections 198 to 211 of

the Act) representing one per cent. or more either of any class of the equity share capital or the voting rights available to members of that company;

- (5) any arrangement for the benefit of employees of the Company or any of its subsidiary undertakings which does not award him any privilege or benefit not generally awarded to the employees to whom such arrangements relate; and
 - (6) insurance which the Company proposes to maintain or purchase for the benefit of directors or for the benefit of persons including directors.
- (D) Any director who serves on any committee or who devotes special attention to the business of the Company, or who otherwise performs services which in the opinion of the Board are outside the scope of the ordinary duties of a director, may be paid such reasonable special remuneration as the Board may determine in addition to any remuneration provided by or pursuant to any other provision of the Articles.
- (E) The remuneration and other terms and conditions of appointment of a director appointed to any executive office or employment of the Company shall be such as the Board (or the remuneration committee of the Board) may from time to time determine and may be by way of a fixed sum of money, or may altogether or in part be governed by business done or profits made or otherwise as determined by the Board (or the remuneration committee of the Board) and may be in addition to or in lieu of any fees payable to him for his services as a director pursuant to the Articles.
- (F) At each annual general meeting:
- (1) any director who is appointed by the Board to fill a vacancy or as an addition to the existing board; and
 - (2) one-third of the other directors for the time being or, if their number is not a multiple of three, then the number nearest to one-third; and
 - (3) any other director who has not retired from office at any of the three pre-ceding annual general meetings,

shall retire from office and if there are fewer than three directors subject to retirement by rotation, one shall retire from office.

7.9 *Forfeiture and lien*

- (A) The Company shall have a first lien on any share (not being a fully paid share) for any amount payable in respect of such share, whether the due date for payment shall have arrived or not and such lien shall apply to all dividends from time to time declared or other monies payable in respect of such share.
- (B) The Board may at any time waive any lien that has arisen or declare any share to be wholly or partly exempt from such lien. Unless otherwise agreed with a transferee, the registration of a transfer of a share shall operate as a waiver of the Company's lien (if any) on such share.
- (C) For the purpose of enforcing the Company's lien, the Company may sell any share subject to the lien, provided that the due date for payment has arrived and payment is not made within 14 days after the service of a notice complying with the Articles on the member concerned.
- (D) If the whole or any part of a call remains unpaid after it has become due and payable, the Board may by notice to the holder of the relevant shares demand payment on a date not less than 14 days from the date of the notice, of the outstanding amount and any interest that may have accrued on that amount and all costs, charges and expenses incurred by the Company by reason of such non-payment. The notice shall state the place where payment is to be made and shall state that, if the notice is not complied with, any share in respect of which the notice was given will be liable to be forfeited.
- (E) Until cancelled in accordance with the provisions of the Act, a forfeited share may be sold, re-allotted or otherwise disposed of to any person on such terms and in such manner as the Board may determine.

- (F) Any person whose shares shall have been forfeited shall cease to be a member in respect of them, but shall remain liable to pay to the Company all calls, interest, costs, charges and expenses owing on or in respect of such shares at the time of forfeiture, together with interest on those amounts from the time of forfeiture until payment at such rate as may be fixed at the time of allotment of the shares or, if no rate is fixed, such rate (not exceeding, without the sanction of an ordinary resolution, 20 per cent. per annum) as the Board may determine.

7.10 *Borrowing powers*

- (A) Subject to the provisions of the Articles, the Board may exercise all the powers of the Company to borrow money and to mortgage or charge its undertaking, property, assets and uncalled capital or any part thereof and, subject to the provisions of the Act, to issue debentures and other securities, whether outright or as collateral security for any debt, liability or obligation of the Company or any third party.
- (B) The Board shall restrict the borrowings of the Company and exercise all voting and other rights or powers of control exercisable by the Company in relation to its subsidiaries (if any) so as to secure (as regards subsidiaries so far as by such exercise they can secure) that the aggregate principal amount outstanding in respect of borrowings by the group (exclusive of intra-group borrowings) shall not at any time, without the previous sanction of an ordinary resolution of the Company, exceed an amount equal to twice the aggregate of the amount paid up (or credited as paid up) on the issued share capital of the Company and the amounts standing to the credit of the reserves of the Company and its subsidiaries (whether distributable or undistributable) and including the share premium account, capital redemption reserve, revaluation reserve and unappropriated balance of grants (including investment grants) but after adding or deducting any credit or debit balance on the group's profit and loss account all as shown in the latest balance sheet but after certain adjustments specified in the Articles.

8. **Litigation**

- 8.1 Neither the Company nor any member of the Group is or has been involved in any legal or arbitration proceedings and no such proceedings are known to the Directors to be pending or threatened by or against the Company or any member of the Group which are having or may have a significant effect on the Company's financial position.
- 8.2 No member of the Marketing Services Group is or has been involved in any legal or arbitration proceedings and no such proceedings are known to the Directors to be pending or threatened by or against any member of the Marketing Services Group which are having or may have a significant effect on the Marketing Services Group's financial position.

9. **Working Capital**

In the opinion of the Directors, having made due and careful enquiry and after taking into account the Additional Facilities, the working capital available to the Enlarged Group will be sufficient for its present requirements, that is for at least 12 months from the date of Admission.

10. Subsidiaries

10.1 Media Square has the following material subsidiaries, each of which is directly or indirectly wholly owned (dormant subsidiaries have not been included):

<i>Subsidiary</i>	<i>Business</i>	<i>Country of Incorporation</i>
Ai London Limited	Marketing communications	England
Banc Group Limited	Marketing communications	England
Clark McKay and Walpole Limited	Marketing communications	England
Coutts Arken Display Limited	Marketing services	England
Coutts Germany GmbH	Marketing services	Germany
Coutts Holdings Limited	Holding/Management company	England
Coutts Retails Communications Limited	Marketing services	England
Fourninety Limited	Retail Marketing services	England
IAS Group Limited	Marketing communications	England
I A S Marketing and Communication plc	Marketing communications	England
Lineword Limited	Marketing services	England
Marketplace Design Limited	Marketing communications	England
Symbian Print Intelligence Limited	Marketing services	England

10.2 The Marketing Services Group comprises the following material subsidiaries, each of which is directly or indirectly wholly owned (dormant subsidiaries have not been included) by Huntsworth and Incepta:

<i>Subsidiary</i>	<i>Business</i>	<i>Country of Incorporation</i>
Atomic Print Management Limited	Print management	England
CAROL Limited	Investor relations services	England
Catalyst Marketing Limited	Marketing services	England
Citigate Consulting Services (Shanghai) Co. Limited	Marketing services	PRC
Citigate DVL Smith Limited	Holding company	England
Citigate GmbH	Holding company	Germany
Citigate Group Holdings GmbH	Holding company	Germany
Citigate Hudson Inc	Marketing services	USA
Citigate Lloyd Northover Limited	Marketing services	England
Citigate Northern Ireland Limited	Marketing services	Northern Ireland
Citigate Publishing Limited	Marketing services	England
Citigate SEA GmbH & Co KG	Advertising	Germany
Citigate Smarts (Birmingham) Limited	Marketing services	England
Citigate Smarts Ireland Limited	Marketing services	Eire
Citigate Smarts Limited	Marketing services	Scotland
Citigate South Africa (Pty) Limited	Marketing services	South Africa
Citigate Su Yeang Design Pte Limited	Marketing services	Singapore
Digital Advertising and Marketing Limited	Marketing services	England
DMD Digital Marketing Direct Limited	Marketing services	England
Dynamo Marketing Limited	Marketing services	England
Finex Communications Group Plc	Marketing services	England

<i>Subsidiary</i>	<i>Business</i>	<i>Country of Incorporation</i>
Generator Marketing Services Limited	Marketing services	England
Hauck Research Services Limited	Market research/consultancy	England
Hoffmann Schalt Werbeagentur GmbH	Advertising	Germany
Holmes & Marchant International Limited	Marketing services	England
Incepta Marketing Intelligence Limited	Marketing services	England
Incepta Marketing Intelligence NA LLC	Marketing services	USA
Incepta Online Limited	Marketing services	England
Karen Earl Sponsorship Limited	Marketing services	England
Orange Design Pte Limited	Marketing services	Singapore
Redmandarin (Pte) Limited	Marketing services	Singapore
Redmandarin Limited	Marketing services	England
Sarapo Limited	Holding company	Hong Kong
Silver Bullet Group Limited	Marketing services	England
Smarts (Advertising and Design) Limited	Advertising and design agency	England
Tactical Marketing Group Limited	Marketing services	England
The Gate Worldwide (Singapore) Pte Limited	Advertising	Singapore
The Gate Worldwide (Hong Kong) Limited	Advertising	Hong Kong
The Gate Worldwide Limited	Advertising	England
The Gate Worldwide LLC (formerly Citigate LLC)	Advertising	USA
The Sponsorship Research Company Limited	Marketing services	England
Theatre Brand Experience Limited	Marketing services	England
Theatre Cast & Crew Limited	Marketing services	England

The above companies are 100 per cent. owned by Huntsworth, apart from the following five companies in which there are minority interest shareholdings. Four employees hold minority interests representing 49 per cent. of the shares in Silver Bullet Group Limited. 42.25 per cent. of the issued share capital of Silver Bullet is owned by the original founder, R. Fine. Kagiso Trust Small Business Enterprises (Pty) Limited has a minority interest of 25.1 per cent. in Citigate South Africa (Pty) Limited. Two employees hold a 20.0 per cent. minority interest in Hoffmann Schalt Werbeagentur GmbH. Arnold Ng holds a 10.0 per cent. minority interest in The Gate Worldwide (Hong Kong) Limited. Watertitan Limited holds a 25.0 per cent. minority interest in the shares of Digital Advertising and Marketing Limited.

Summary of Minority Interests

<i>Company</i>	<i>Minority interest</i>
Hoffman Schalt Werbeagentur GmbH	20.0%
Citigate South Africa (Pty) Limited	25.1%
Silver Bullet Group Limited	49.0%
Digital Advertising and Marketing Limited	25.0%
The Gate Worldwide (Hong Kong) Limited	10.0%

11. Material Contracts

11.1 Media Square

The following contracts, not being contracts entered into in the ordinary course of business, have either been entered into by Media Square or a member of the Group during the two years immediately preceding the date of this document and are or may be material, or are contracts entered into prior to that period which contain provisions under which Media Square or any member of the Group has an obligation or entitlement which is material to the Media Square group as at the date of this document:

- (A) An agreement dated 24 October 2003 between (1) Castlegate 240 Limited a wholly-owned subsidiary of the Company, (2) PrePrint Imaging Limited, (3) Angus

- Mathew Martin and Ian Brown, and (4) Media Square, whereunder Castlegate 240 Limited acquired the trade and certain of the trading assets of PrePrint Imaging Limited for a cash consideration of £115,000.
- (B) An agreement dated 11 March 2004 between (1) BANC Group Limited, a wholly-owned subsidiary of the Company and (2) the shareholders of Marketplace Holdings Limited, whereunder BANC Group Limited acquired the entire share capital of Marketplace Holdings Limited for a consideration of £750,000, comprising £150,000 in loan notes and £600,000 in cash.
 - (C) An agreement dated 29 June 2004 between (1) BANC Group Limited, a wholly-owned subsidiary of the Company, (2) Timothy Hazelhurst, (3) Timothy Hazelhurst and Patricia Hazelhurst as trustees of the Timothy John Hazelhurst Fund Scheme, and (4) Media Square, whereunder BANC Group Limited acquired the entire share capital of IAS Group Limited for a cash consideration of £500,000.
 - (D) A placing agreement dated 7 April 2004 between (1) the Company, (2) Collins Stewart and (3) certain Directors of the Company, under which Collins Stewart acted as agent for the Company in the matter of two placings of the Company's Ordinary Shares. The first placing of 27,944,449 Ordinary Shares was at a placing price of 18p each and the second placing of 31,055,551 Ordinary Shares was at a placing price of 18p each.
 - (E) An agreement dated 31 August 2004 between (1) Jonathan Clarke, (2) Janet McKay, (3) Steve Walpole, and (4) the Company whereunder the Company acquired the entire issued share capital of Clark McKay and Walpole Limited for an aggregate consideration of up to £5.3 million comprising initial cash consideration of £2,925,600 and retained consideration, subject to achievement by Clarke McKay and Walpole Limited of certain revenue targets within the twelve months following completion, of £254,400 in cash plus the allotment to the vendors of Ordinary Shares with an aggregate value (applying a discount of 20 per cent. to the then current market price) of £2,120,000. These revenue targets have been achieved and the final payment of retained consideration was made by the issue of 8,544,577 Ordinary Shares on 6 October 2005. There are no further payments of retained consideration to be made under the terms of this agreement.
 - (F) An agreement for the acquisition of Arnold Interactive Limited from HAVAS SA dated 30 September 2004 for a maximum consideration of £600,000 in cash, of which £300,000 was paid on completion, £200,000 was paid on 31 December 2004 and the remaining £100,000 is payable if certain revenue targets for the period 1 September 2004 until 31 August 2005 are met.
 - (G) An underwriting agreement dated 10 September 2004 between (1) Collins Stewart and (2) Media Square, by which Collins Stewart agreed conditionally, following Media Square's offer for the shares in Coutts Holdings Plc, to procure places to subscribe for 36,000,000 Ordinary Shares at 17.5 pence per share.
 - (H) A facility agreement dated 10 September 2004 between (1) The Royal Bank of Scotland plc ("RBS") and (2) Media Square, by which RBS made available to the Company a term facility in an aggregate amount of £9,000,000 and a revolving facility in the amount of £6,000,000, and made available to the Company and certain of its subsidiaries an overdraft facility in the amount of £1,000,000. The term facility and the revolving facility were used for the purposes of financing the acquisition by Media Square of all the issued and to be issued share capital of Coutts Holdings plc. This facility agreement will terminate on Completion of the Acquisition and all amounts owing thereunder will be repaid by the Company to RBS.
 - (I) An agreement with Berkeley Homes plc dated 19 October 2004 for the disposal of its East London production site for £7,026,000 in cash.
 - (J) An agreement dated 29 October 2004, for the sale of Coutts Packaging Limited to its management team for a maximum consideration of £3.85 million in cash, of which

£2.85 million was payable on completion and a further sum of £1,000,000 is payable if certain profit targets for the period from completion to 29 October 2005 are met.

- (K) An agreement dated 30 July 2005 between (1) Greg Scott, (2) John Savage and (3) the Company for the acquisition by the Company of the entire issued share capital of Lineword Limited in consideration of (i) £27,000 in cash paid on completion, (ii) £50,000 in cash payable in twelve monthly instalments starting from 30 September 2005 and (iii) retained consideration of £133,333, the payment of which is dependent on quarterly revenues of Lineword Limited for the period from 1 August 2005 to 1 August 2007 reaching certain targets. If the retained consideration becomes payable, it shall be satisfied within 30 business days from 1 August 2007 by the allotment of such number of Ordinary Shares in the Company equal to the value of the retained consideration.
- (L) An agreement dated 29 July 2005 between (1) Simon Stevens, (2) Tanya Stevens and (3) the Company for the acquisition by the Company of the entire issued share capital of Symbian Print Intelligence Limited in consideration of (i) £750,000 in cash paid on completion, subject to a post-completion net assets adjustment and (ii) retained consideration of a maximum of £438,000, the payment of which is dependent on revenue of Symbian Print Intelligence Limited for the period from 1 August 2005 to 1 August 2006 reaching certain targets. If retained consideration is payable, it shall be satisfied by the allotment of such number of Ordinary Shares in the Company equal to the value of the retained consideration.
- (M) Under a placing agreement dated 12 October 2005 between Collins Stewart and the Company (the “Placing Agreement”), Collins Stewart has, as agent for the Company and subject to the terms and conditions of the Placing Agreement, agreed to procure by way of the Placing, subscribers for, or failing which, to itself subscribe for, the Vendor Placing Shares at the Placing Price.

The Placing Agreement, which contains certain customary representations, warranties and indemnities by the Company in favour of Collins Stewart, is conditional, *inter alia*, upon: (i) the Resolutions being passed at the EGM; (ii) the Acquisition Agreement having completed in escrow subject only to Admission occurring; and (iii) Admission becoming effective on or before 1 November 2005 (or such later date, being not later than 30 November 2005, as Collins Stewart and the Company may agree).

The Placing Agreement provides for the payment by the Company to Collins Stewart of a commission of 4.0 per cent. of the aggregate value at the Placing Price of the Vendor Placing Shares as are the subject of the Placing and a corporate advisory fee of £200,000. The Company will also pay to Collins Stewart all other costs, charges and expenses of, or incidental to, the Placing and the issue of the Vendor Placing Shares including, without limitation, registrars’ fees, printing, advertising and distribution fees and expenses, accounting fees and expenses, legal fees and (including Collins Stewarts’ legal fees and expenses).

Collins Stewart may terminate the Placing Agreement prior to Admission in certain customary circumstances, principally in the event of force majeure, a breach by the Company of the warranties or certain other of the Company’s obligations under the Placing Agreement.

- (N) A facility agreement dated 12 October 2005 between (1) The Governor and Company of the Bank of Scotland plc (“HBOS”) and (2) Media Square, by which HBOS will make available to the Company a sterling term facility in an aggregate amount of £48,350,000 and a multicurrency revolving facility in the amount of £10,000,000. The sterling term facility is divided into the following three tranches:

Tranche A:	£20,000,000
Tranche B:	£24,750,000
Tranche C:	£3,600,000

(“Tranche A”, “Tranche B” and “Tranche C” respectively)

Tranche A and up to £18,750,000 of Tranche B are to be used for the purposes of financing the Acquisition. £6,000,000 of Tranche B may only be drawn, with the agreement of HBOS, for potential further acquisitions by Media Square. Tranche C is to be used to refinance the existing indebtedness of Media Square. The revolving facility is to be used to provide Media Square with working capital. Tranche B and the revolving facility may be utilised by Media Square by way of Letters of Credit (as defined in, and in accordance with, the facility agreement).

Tranche A is repayable as to the sum of £3,500,000 in each of the first two years, as to the sum of £4,000,000 in each of the next two years and as to the sum of £5,000,000 in the fifth year.

Tranche B is repayable in full on the date falling 5 years and 6 months from the date of the facility agreement.

Tranche C is repayable as to the sum of £380,000 in each of the first 8 years with the balance payable in the ninth year.

The facility agreement also provides that following a flotation (which expression includes the sale of all or substantially all of the assets of the Group) or change of control of Media Square (involving the acquisition by a third party of over 30 per cent. of the total voting share capital) Media Square shall prepay all of the loans outstanding under the facility agreement together with all accrued interest and other amounts payable and that on such date the facilities shall be cancelled. Media Square shall also ensure that it prepays borrowing under the facility agreement from the proceeds of (i) any claims that it may make against Huntsworth under the Acquisition Agreement and related documents (ii) the disposals of assets (exceeding £500,000 in any year) and (iii) insurance claims in respect of loss or damage to assets in excess of £500,000 to the extent not used to make good any such loss or damage. Media Square will also prepay borrowings under the facility agreement to the extent of 50 per cent. of excess cash for any financial year (the first such payment to be made in respect of the financial year ending 28 February 2007).

The interest payable in respect of amounts drawn under Tranche A is 2.25 per cent. per annum over LIBOR, Tranche B is 2.75 per cent. per annum over LIBOR and Tranche C is 1.75 per cent., per annum over LIBOR, in each case plus Mandatory Costs (as defined in the agreement), if any, calculated in accordance with the facility agreement.

- (O) A share purchase agreement between the Company and Huntsworth dated 26 September 2005 (the "Acquisition Agreement") as amended by the Amendment Agreement pursuant to which the Company agreed to purchase or procure the purchase of the companies comprising the Marketing Services Group. The consideration payable by the Company on Completion is £63,000,000 (including the repayment of all debt owed by the Marketing Services Group to Huntsworth at Completion) which comprises:
- (i) the Vendor Placing Shares (to be allotted and issued by the Company at the Placing Price to Collins Stewart or such other person (other than Huntsworth) as Collins Stewart may direct and such that the cash proceeds are paid to Huntsworth); and
 - (ii) the balance of approximately £33,000,000 in cash.

Of the consideration payable on Completion, an amount of £8,000,000 (the "Retention") shall be held in an escrow account to the order of the Company, pending final determination of the Final Net Cash/Third Party Debt as at Completion (defined as the aggregate cash balances of the Marketing Services Group less the aggregate balances of external borrowings and indebtedness of the Marketing Services Group).

The consideration payable on Completion is subject to the following post-completion adjustments:

- (i) if the Final Net Cash/Third Party Debt as at Completion is a positive amount equal to or in excess of the Retention, the Company shall release the Retention to Huntsworth and pay to Huntsworth an amount equal to the amount by which the Final Net Cash/Third Party Debt exceeds the Retention;
- (ii) if the Final Net Cash/Third Party Debt as at Completion is a negative amount, Huntsworth shall release the Retention back to the Company and shall pay to the Company an amount equal to the (negative) Final Net Cash/Third Party Debt;
- (iii) if the Final Net Cash/Third Party Debt as at Completion is a positive amount less than the Retention, the Company shall release to Huntsworth, from the Retention, the sum equal to the Final Net Cash/Third Party Debt while the balance of the Retention shall be released back to the Company; and
- (iv) if the net assets of the Marketing Services Group are less than £8,280,000 at completion Huntsworth shall pay to the Company an amount equal to the difference. For these purposes, net assets means the aggregate of the following line items for each company in the Marketing Services Group except Atomic Print Management Limited: tangible fixed assets, work in progress, debtors (other than inter-company receivables), creditors (both within one year and over one year, other than inter-company payables and any borrowings or indebtedness in the nature of borrowings, including indebtedness arising under finance leases), and provisions for liabilities and charges (including provisions for tax liabilities other than any deferred tax liability on goodwill). There shall be no further payment from the Company to Huntsworth if net assets at Completion exceed £8,280,000.

Completion of the Acquisition Agreement is conditional on:

- (i) approval of the Acquisition by the shareholders of Huntsworth;
- (ii) approval of the Acquisition by the Shareholders and the granting of authority by the Shareholders to the Directors to allot the Vendor Placing Shares;
- (iii) the Company having entered into a facility agreement with the Bank of Scotland pursuant to which the Bank of Scotland agrees to make available to the Company the Acquisition Finance of £38,750,000 plus the Additional Facilities;
- (iv) the facilities referred to in sub-paragraph (iii) above being unconditionally available at Completion;
- (v) the Company having received conditional commitments to subscribe for the Vendor Placing Shares in an aggregate amount of between £25,000,000 and £35,000,000;
- (vi) Collins Stewart and Huntsworth having entered into a cash realisation agreement in a form reasonably satisfactory to Huntsworth;
- (vii) the Company not having notified Huntsworth that it is terminating the Acquisition Agreement by reason of it having discovered a breach of warranty by Huntsworth which would have a material adverse effect on the Marketing Services Group taken as a whole such that a reasonably prudent commercial purchaser would not have entered in to the Acquisition Agreement if such breach of warranty had been known to him prior to such entry;
- (viii) the Company not having notified Huntsworth that it is terminating the Acquisition Agreement by reason of it having discovered a breach of Huntsworth's pre-completion covenants which would have a material adverse effect on the Marketing Services Group taken as a whole; and
- (ix) the commitments referred to in sub-paragraph (v) having become unconditional.

Huntsworth may terminate the Acquisition Agreement if it becomes aware before Completion of any matter which constitutes a breach of warranty by Huntsworth which would have a material adverse effect on the Marketing Services Group taken as a whole.

Huntsworth has undertaken to operate the Marketing Services Group in the ordinary course in the period prior to Completion.

Huntsworth has also given certain customary warranties and indemnities to the Company in relation to the Marketing Services Group and its business which expire, in relation to warranties relating to taxation, seven years following Completion and, in relation to other warranties eighteen months following Completion. The liability of Huntsworth in respect of the warranties is subject to certain limitations, including an aggregate maximum liability equal to the final consideration and *de minimis* provisions. In addition, there is an aggregate claim threshold of £420,000; if such threshold is reached, then Huntsworth is liable for the whole of the aggregate amount of the claims under such warranties and not merely the excess.

11.2 *The Marketing Services Group*

The following contract, not being a contract entered into in the ordinary course of business, has either been entered into by a member of the Marketing Services Group during the two years immediately preceding the date of this document and is or may be material, or is a contract entered into prior to that period which contains provisions under which a member of the Marketing Services Group has an obligation or entitlement which is material to the Marketing Services Group as at the date of this document:

A joint investment agreement relating to Silver Bullet Group Limited (“Silver Bullet”) dated March 2004 between Incepta, R. Fine, Silver Bullet and Finex Communications Group plc (“Finex”). Under the Agreement, Incepta agreed to subscribe for 5,090 A Shares, and R. Fine agreed to subscribe for 4,225 B Shares and procure that key employees subscribe for 675 C Shares. The agreement sets out the terms on which the parties have agreed to operate Silver Bullet as a below the line direct marketing business. The parties have agreed that day-to-day control of Silver Bullet shall be determined by R. Fine except that prior written consent of each of the chief executive of Incepta and R. Fine will be required to carry out certain restricted matters, and the director of Silver Bullet appointed by Incepta shall have a casting vote on certain other specified restricted matters. Silver Bullet has agreed that it shall not solicit or accept any instructions for work from any persons who are specified in a list of clients of Finex. As and when Silver Bullet identifies any particular business opportunity that it proposes to take, R. Fine shall notify the chief executive of Finex as soon as reasonably practicable who shall notify the chief executive of Incepta. Procedures are in place for discussion between the chief executives of Incepta, Finex and Silver Bullet to determine which of Finex and Silver Bullet shall pursue the relevant business opportunity. Silver Bullet shall distribute 80 per cent. of its distributable profits in dividends to its shareholders. Certain restrictive covenants are imposed on R. Fine which are customary in an agreement of this type, and each of the investors in the company have agreed not to dispose of their shares in any matter which would not be permitted by the articles of association of the Silver Bullet, or to any person who is not a party to this agreement unless the transferee shall have first executed a deed of adherence. Incepta has given certain customary warranties to R. Fine.

12. Related Party Transactions

12.1 The following transactions were entered into by the Group with the related parties:

- (A) Jeremy Middleton is a director of Oast Partners Limited. Since the last financial year end the Group made purchases amounting to £17,839 from this company. This figure does not include director’s fees.
- (B) Since the last financial year end, sales amounting to £57,720 relating to services were supplied by the Group to certain companies within the Pertemps group and purchases amounting to £264,365 relating to services were supplied to the Group by certain companies within the Pertemps group. Nigel Bacon is a director of several companies within the Pertemps group.

Related party transactions for the financial years ended 31 October 2002, 31 October 2003 and 31 October 2004 are disclosed in Part IIIb of this document and in the documents incorporated by reference, as detailed in Appendix I.

13. Taxation

The statements below are intended only as a general guide to the current law and practice in relation to UK taxation and may not apply to certain persons who hold shares in the Company other than as an investment (such as dealers in securities), who are not resident or ordinarily resident in the UK for the purposes of UK taxation or who are charities or persons with special tax status or claiming special tax reliefs or treatments. The following statements do not address any potential taxation which may arise outside the UK nor do they address the UK taxation of persons other than the holders of the Existing Ordinary Shares and the Vendor Placing Shares. Any persons who are in any doubt about their tax position are strongly advised to consult their own professional adviser.

13.1 *Taxation of dividends*

- (A) Under UK taxation legislation, no withholding tax is withheld at source from dividend payments made by the Company.
- (B) Dividends paid by the Company to individual shareholders resident in the UK carry an associated tax credit of one-ninth of the net dividend. The income tax liability on dividends received by taxpayers whose income is within the starting or basic rate bands (currently 10 per cent. and 22 per cent. respectively) will be satisfied by the associated tax credit and they will have no further tax to pay. However, non-taxpayers will not be entitled to any repayment of the associated tax credit. Individuals taxable at the higher rate (currently 40 per cent.) will have a liability to income tax of 32.5 per cent. of the gross dividend (the sum of the net dividend and the associated tax credit) of which 10 per cent. will be satisfied by the tax credit.
- (C) Trustees of discretionary or accumulation trusts will have a liability to income tax of 32.5 per cent. of the gross dividend, 10 per cent. of which will be satisfied by the tax credit.
- (D) UK resident corporate shareholders will not normally be liable to UK corporation tax or income tax on any dividends received from the Company.
- (E) Shareholders who are resident in countries other than the UK may be entitled to a credit for all or a proportion of the associated tax credit. Shareholders not resident in the UK may be subject to foreign taxation in respect of the dividend in their country of residence and should consult their own tax adviser as to their liability on dividends received or their entitlement to reclaim part of the tax credit and the procedure for claiming relief.

13.2 *Taxation of chargeable gains*

A subsequent disposal of the Vendor Placing Shares by persons resident or ordinarily resident in the United Kingdom in a tax year, which gives rise to gains, may be liable to capital gains tax (individuals and trustees) or corporation tax (companies). Liability to tax and the rate of tax will depend on the shareholder's circumstances and the availability of exemptions or allowable losses.

Indexation allowance, which increases the acquisition cost of an asset in line with the rise in the retail price index, is available for corporate shareholders during the period of ownership.

A subsequent disposal of Ordinary Shares may, depending on the shareholder's circumstances, and subject to any available exemption or relief, give rise to a chargeable gain or an allowable loss for the purposes of the taxation of chargeable gains. If an investor is an individual or an investment company, relief for losses incurred by that investor on a disposal of the Ordinary Shares may be available under section 573 to 574 of the Income and Corporation Taxes Act 1988, against, in the case of an individual, income of the same or prior year and, in the case of an investment company, the income of the accounting period in which

the loss was incurred and if the company was then an investment company and the claim so requires, of the income of the accounting periods ending within the 12 months period ending immediately before the accounting period in which the loss was incurred (subject to an apportionment of income for accounting periods commencing prior to such 12 months period).

13.3 *Stamp duty and stamp duty reserve tax ("SDRT")*

- (A) No liability to stamp duty or SDRT will generally arise on the re-admission of the Ordinary Shares by the Company.
- (B) Any subsequent sale of the Ordinary Shares by Shareholders outside CREST will usually be subject to *ad valorem* stamp duty, normally at the rate of 0.5 per cent. (rounded up if necessary to the nearest multiple of £5) of the amount or value of the consideration paid. Stamp duty is normally paid by the purchaser. A charge to SDRT at the rate of 0.5 per cent. of the amount or value of the consideration paid for the Ordinary Shares will arise in relation to an unconditional agreement to transfer those shares. (However, if within 6 years of the date of the agreement an instrument of transfer is executed pursuant to the agreement and stamp duty is paid on that instrument, the stamp duty will normally cancel, or give rise to a repayment, in respect of the SDRT liability.) SDRT is generally the liability of the purchaser.
- (C) There will be no stamp duty or SDRT on a transfer of the Ordinary Shares into CREST where such a transfer is made for no consideration. A transfer of the Ordinary Shares effected on a paperless basis through CREST will generally be subject to SDRT at the rate of 0.5 per cent. of the amount or value of the consideration payable. CREST is obliged to collect SDRT on relevant transactions settled within the system.
- (D) Where the Ordinary Shares are issued or transferred to issuers of depositary receipts or providers of clearance services (or their nominees or agents) stamp duty or SDRT (as appropriate) may be payable, in the case of stamp duty, at the higher rate of 1.5 per cent. (rounded up if necessary to the nearest multiple of £5) of the amount or value of the consideration provided; and in the case of SDRT, at the higher rate of 1.5 per cent. of the amount or value of the consideration payable (if in money or money's worth) or in any other case the open market value of the Ordinary Shares. Clearance services may opt, under certain conditions, for the normal rates of SDRT to apply to a transfer of shares into, and to transactions within the service, instead of the higher rate applying to an issue or transfer of shares into the clearance service. The information above is a general summary of certain tax provisions and should not be construed as constituting advice. Potential investors should obtain advice from their own investment or taxation adviser.

14. General

- 14.1 The gross proceeds of the Placing are expected to be £30.0 million. The total costs and expenses of or incidental to the Acquisition and Admission, which are payable by the Company, are estimated to amount to approximately £6.0 million (plus VAT where appropriate).
- 14.2 The Existing Ordinary Shares will continue to be and the Vendor Placing Shares will be in registered form and they are capable of being held in both certificated and uncertificated form. The Vendor Placing Shares have not been issued to or sold, nor are they available, in whole or in part, to the public in conjunction with the application for Admission.
- 14.3 The Existing Ordinary Shares are currently admitted to trading on AIM. Save for this trading facility for the Existing Ordinary Shares and the application for the Existing Ordinary Shares to be re-admitted to trading on AIM and for the Vendor Placing Shares to be admitted to trading on AIM, the Ordinary Shares have not been admitted to trading on any recognised investment exchange, nor has any application for such admission been made or refused.
- 14.4 Collins Stewart has given and not withdrawn its written consent to the references to its name in the form and context in which they appear.

- 14.5 Grant Thornton UK LLP has given and not withdrawn its written consent to the references to its name in the form and context in which they appear.
- 14.6 KPMG LLP has given and not withdrawn its written consent to the references to its name in the form and context in which they appear.
- 14.7 Smith & Williamson Corporate Finance Limited has given and not withdrawn its written consent to the references to its name in the form and context in which they appear.
- 14.8 Save as disclosed in this document, there has been no significant adverse change in the trading or financial position of the Company since 30 April 2005 and the Marketing Services Group since 28 February 2005, being the respective dates to which the latest published financial information for each relates.

15. Documents available for inspection

Copies of the following documents will be available for inspection at the offices of Rosenblatt Solicitors, 9 – 13 St Andrew Street, London EC4A 3AF during normal business hours on any week day, Saturdays, Sundays and public holidays excepted, from the date of this document until one month following Admission:

- 15.1 the memorandum and articles of association of the Company;
- 15.2 the Audited Accounts and Interim Accounts for Media Square for, respectively, the financial years ended 31 October 2004, 31 October 2003 and 31 October 2002 and the 6 month period to 30 April 2005;
- 15.3 the Accountants' Report on the Marketing Services Group for the three financial years ended 28 February 2005 set out in Part IV of this document;
- 15.4 the Pro Forma Statement of Net Assets set out in Part V of this document;
- 15.5 Jeremy Middleton's consultancy agreement and Graeme Burns' service contract referred to in paragraph 6 above;
- 15.6 the material contracts referred to in paragraph 11 above;
- 15.7 the consent letters referred to in paragraph 14 above;
- 15.8 the Rules of the Media Square Option Scheme;
- 15.9 the Rules of the 2005 SRS Option Scheme;
- 15.10 the Rules of the EMI Option Scheme;
- 15.11 the Rules of the Unapproved Option Scheme;
- 15.12 the Rules of the Coutts YBS SAYE Scheme; and
- 15.13 this document.

13 October 2005

APPENDIX I

Checklist of Documentation Incorporated by Reference

<i>Information incorporated by reference</i>	<i>Document reference</i>	<i>Page number in this document</i>
Annual accounts of Media Square for the year ended 31 October 2003	Annual report and accounts 2003	27
Annual accounts of Media Square for the year ended 31 October 2002	Annual report and accounts 2002	27

MEDIA SQUARE PLC

NOTICE OF AN EXTRAORDINARY GENERAL MEETING

NOTICE IS HEREBY GIVEN THAT an Extraordinary General Meeting of Media Square plc will be held at the offices of the Company at Queens Avenue, Macclesfield, Cheshire SK10 2BN at 9.00 a.m. on 31 October 2005 for the purpose of considering and, if thought fit, passing the following resolutions, all of which Resolutions will be proposed as ordinary resolutions:

ORDINARY RESOLUTIONS

1. THAT the proposed acquisition by the Company of the Marketing Services Group from Huntsworth plc, on the terms and subject to the conditions of the Acquisition Agreement dated 26 September 2005, as amended by the Amendment Agreement dated 12 October 2005 (a copy of which is produced to the Meeting and initialled by the Chairman for the purposes of identification only and the terms and conditions of which are described in the Admission Document dated 13 October 2005), with such non-material amendments, variations, revisions and modifications as the Directors (or a committee of the Directors) may consider appropriate, be approved and that the Directors be authorised to take all necessary steps and to execute all documents and deeds as are necessary or desirable to implement and give effect to such Acquisition with such non-material amendments, variations, revisions and modifications as they may in their absolute discretion think fit.
2. THAT, subject to and conditional upon Resolution 1 having been passed and subject to and conditional upon Admission, the authorised share capital of the Company be increased to £23,000,000 by the creation of 160,000,000 ordinary shares of 5 pence each.
3. THAT, subject to and conditional upon Resolutions 1 and 2 having been passed and subject to and conditional upon Admission, and in addition to all existing authorities, the Directors be generally and unconditionally authorised pursuant to Section 80 of the Companies Act 1985 ("Act") to allot relevant securities (as defined in Section 80 of the Act) up to an aggregate nominal amount of £6,000,000 for a period expiring (unless previously renewed, varied or revoked by the Company in general meeting) on the date falling 15 months after the passing of this resolution or, if earlier, at the conclusion of the Company's annual general meeting to be held in 2006, but so that this authority shall allow the Company to make offers or agreements before the expiry of this authority which would or might require relevant securities to be allotted after such expiry and the Directors may allot relevant securities in pursuance of such offers or agreements as if this authority had not expired.

Registered office:

Queens Avenue
Macclesfield
Cheshire
SK10 2BN

BY ORDER OF THE BOARD

Graeme Ian Burns
Company Secretary

Registered number: 4006884

Dated: 13 October 2005

Notes:

- (i) A member of the Company entitled to attend and vote at the meeting may appoint one or more proxies to attend and, on a poll, vote instead of him or her. A form of proxy is enclosed for this purpose. A proxy need not be a member of the Company and the appointment of a proxy will not preclude a member from attending and voting at the meeting.
- (ii) The instrument appointing a proxy and the power of attorney or other authority, if any, under which it is signed (or duly certified copy of such power or authority) must be lodged with the Company's Registrars, Neville Registrars Limited, New Issues Department, Neville House, 18 Laurel Lane, Halesowen, West Midlands B63 3BR, not later than 48 hours before the time appointed for holding the meeting.
- (iii) Pursuant to Regulation 41 of the Uncertificated Securities Regulations 2001, the Company specifies that only those members entered on the register of members of the Company as at 9.00 a.m. on 29 October 2005 or, if the meeting is adjourned, 48 hours before the time fixed for the adjourned meeting shall be entitled to attend and vote at the meeting in respect of the number of shares registered in their name at that time. Changes to entries on the register of members after 9.00 a.m. on 29 October 2005 or, if the meeting is adjourned, on the register of members 48 hours before the time fixed for the adjourned meeting shall be disregarded in determining the rights of any person to attend or vote at the meeting.