

**media**square

**interim  
statement  
2008/09.**

# Highlights

- **Good progress in turnaround of business during the six months to 31 August 2008**
- **Revenue of £33.1 million (2007: £35.2 million) representing a 3% reduction on a like-for-like basis**
- **Headline EBITDA of £2.7 million (2007: £1.6 million) representing a 69% increase**
- **Headline operating profit increased by 186% to £2.0 million (2007: £0.7 million)**
- **Profit before tax of £0.9 million (2007: loss £13.2 million)**
- **Net debt at 31 August 2008 reduced to £17.1 million (31 August 2007: £19.8 million)**

Note: All 2007 figures have been restated as a result of reclassifications to discontinued operations as described in detail in Note 12.

# Chairman's statement

for the six months ended 31 August 2008

## Overview

The first six months of the Group's 2008/09 financial year demonstrate the first clear proof of the successful turnaround of Media Square plc.

At this point last year the Group incurred a loss before tax for the six months of £13.2 million. For this half year we are reporting a profit before tax of £0.9 million. It is a small profit but a huge improvement and an indication that the company is now on track and moving in the right direction.

Turnover and revenue are both down which reflects the net effect of the resignation of a number of loss-making client accounts and the reduction in spending by ongoing clients balanced by new business wins.

Following a number of years of rapid growth by acquisition Media Square delivered a very poor performance in 2007/08 financial year, the reasons for which were advised in November last year. As we reported in June 2008 the business has now been radically restructured to focus on five key professional disciplines. This has resulted in a significant reduction in both complexity and in the number of Business Units, which is reflected in reduced overheads and improved operating efficiencies.

In the six months ended 31 August 2008 Group turnover was £65.3 million (2007: £68.9 million), a fall of 5%.

Group revenue for the period under review was £33.1 million, down 6% on last year (2007: £35.2 million), representing a 3% reduction on a like-for-like basis. Much of this reduction was instigated by the management as loss-making accounts were resigned. In addition, a number of our clients, particularly in financial services, automotive and retailing, have reduced their marketing budgets, reflecting current economic uncertainty.

Headline EBITDA in the six months ended 31 August 2008 was £2.7 million (2007: £1.6 million), representing an increase of 69%. This improvement reflects the closure or sale of loss-making business units and an improvement in operating efficiency in others, together with lower costs at the corporate centre.

Headline operating profit for the period was £2.0 million (2007: £0.7 million) representing a 186% increase.

During the 12 months to 31 August 2008 net debt has reduced to £17.1 million (£19.8 million as at 31 August 2007).

The Board does not recommend payment of an interim dividend.

# Chairman's statement

for the six months ended 31 August 2008

## **Steady operational progress**

Most of the dramatic changes in the restructuring of Media Square were implemented in the second half of the previous financial year (September 2007 to February 2008). The past six months have seen a focus on achieving steady operational improvements in the remaining business units.

We now offer clients five marketing communications disciplines: advertising, design, marketing, PR and research and we operate 12 principal business units. Each of them now has clear leadership and robust management control systems, including client profitability, staff utilisation and revenue forecasting.

In simple terms, all Media Square business units now operate in the same way that would be expected of any first-class marketing communications agency.

Despite achieving significant net reductions in overheads, we have invested heavily in creative, planning and management talent to make our businesses stronger and improve client service.

## **Key Performance Indicators**

As we move forward into the next phases of the turnaround programme, management will be focused on a small number of Key Performance Indicators.

The most important is organic increases in gross revenue, as this reflects additional work on behalf of existing clients and the winning of new business. To achieve growth in this area, a number of our business units have invested in the quality of their creative, planning and account management services.

In addition, management are targeting further improvements in the revenue generated by headcount and the operating profit margins. The Group's headline operating profit margin has improved since last year to 6% but there is still much further progress to be made over the course of the turnaround to achieve industry-average levels of performance.

Business Units now have in place systems to monitor individual client profitability and also individual staff utilisation to support the improvement programme.

## **New Business**

In the past six months, the Media Square Group has delivered a good new business performance. We have won accounts with annualised gross revenue of about £9 million. Significant assignments include work for Diageo, Epson, Friends Provident, Kraft, Marks & Spencer, Mitsubishi, Nestlé, Samsung, Saxo Bank and Visa.

# Chairman's statement

for the six months ended 31 August 2008

However, in the past six month period reported on, the volume of new work actually undertaken for the new accounts was less than the reduction in spending by existing clients and that which resulted from resigning loss-making accounts. Many of the recently won accounts will not start delivering material revenues until the second half of this year and during 2009 so the prospects for organic new business growth look positive.

## Platform for Growth

Now that the "heavy lifting" of the turnaround has been completed, the Group is beginning the process of small-scale organic growth within our existing, successful, agency businesses. We are now in the second year of a three year process.

Our international advertising and communications network, The Gate Worldwide, has opened a new office in Edinburgh which is already winning new business. Our public relations group, Smarts, has opened a new office in London. Our design group, Lloyd Northover, has begun to implement its strategy of building a single global design and branding franchise.

We have made a number of new appointments in what could broadly be described as the craft skills area, with new creative, planning and research directors in a number of businesses. At a Group level, we now have a full-time New Business Manager.

If 2008 was a year principally devoted to restructuring and cost-cutting, 2009 is going to be principally focused on organic growth, and balanced with continued close monitoring of business unit cost bases to ensure on-going alignment with revenue.

## Income Statement

During the six months under review the Group reports turnover of £65.3 million (2007: £68.9 million), revenue of £33.1 million (2007: £35.2 million), headline EBITDA of £2.7 million (2007: £1.6 million) and headline operating profit of £2.0 million (2007: £0.7 million).

Net finance costs reported as £0.7 million (2007: £0.8 million) include non-cash, fair value movements of derivative instruments, being the Group's interest rate hedge, and amortisation of loan costs.

The tax charge of £0.3 million represents a tax rate of 31% being the best estimate of the full year tax charge for the current financial year.

To arrive at percentage movements in underlying figures between 2008 and the prior period these have been assessed on a like-for-like basis. This means that the effect of companies disposed of during the prior financial year has been excluded.

# Chairman's statement

for the six months ended 31 August 2008

In establishing the basis for headline EBITDA and headline operating profit the following items have been excluded: the costs of share-based remuneration £0.3m (2007: £0.1 million) and in 2007 only, exceptional costs of £12.7 million.

## **Discontinued Operations**

Businesses where the Group has ceased to operate in a distinct discipline or geographical area are presented on the income statement under the heading discontinued operations. The two principal components of discontinued operations, which are explained in more detail within Note 4 below, are CRC and the German operations of the Group.

In March 2008 the Group sold for cash Coutts Retail Communications Limited and Coutts Germany GmbH (together "CRC") which manufactured Point Of Purchase materials and had incurred losses in the 2007/08 financial year.

On 3 November 2008 the holding company for the majority of operations within Germany applied to court for that business to enter an insolvency process. As such the Group's economic interest will be nil. The German operations had incurred significant operating losses in both the period under review and the prior financial year. Their exclusion from continuing activities shall increase both the reported and future operating profit margin.

The comparative figures for the 2007 Interim and 2008 Annual reports have been restated to exclude the results of these discontinued activities which are now shown under the line discontinued operations. Note 12 below provides full details of all restatements.

## **Balance Sheet, Cash Flow, Net Debt and Bank Facilities**

Balance sheet movements in the period reflect the results of trading for the period. Although a substantial disposal was concluded during the period, in March 2008, the accounting effects of this were incorporated into the February 2008 financial statements.

At the period end the Group had cash of £5.0 million with net debt standing at £17.1 million. The Group has a committed revolver facility of £10 million, of which £9.5 million was undrawn at the end of the first half. The Group's term debt is hedged at a maximum LIBOR interest rate of only 4.78% for the full term of the debt, which expires between 2011 and 2014.

During the period under review the Group made £4.1 million permanent repayments of debt and made a further payment of £2.0 million in October 2008 following the conclusion of post completion matters regarding the disposal of CRC, described in greater detail below.

Operating cash outflow was £4.3 million which represents a combination of the exceptional costs

# Chairman's statement

for the six months ended 31 August 2008

reported in the year to 29 February 2008 being paid together with the seasonal movements in net working capital balances the Group experiences each year in the build up to the busiest quarter in Quarter 3. This latter point is more marked this year as a couple of large client contracts saw peak working capital requirements in August. These balances have reduced significantly in September and October. The Group anticipates that, as in previous financial years, the second half shall see material operating cash inflows.

## Disposal

As announced in March 2008 the Group disposed of Coutts Retail Communications Limited and Coutts Germany GmbH (together "CRC") its loss making Point Of Purchase design and production specialists in the UK and Germany for gross cash proceeds of £7.2 million before transaction costs and completion accounts adjustment payments which totalled £1.6 million. Part of these net proceeds were used to repay debt during the period and following conclusion of post completion matters and payment of adjustments arising from the completion accounts, a further payment was made in October 2008 to reduce the Group's gross debt balance as described above.

## Prospects

Media Square is now a much simpler and stronger company than it was a year ago. We have a number of new senior people in place. The recent new business record has been encouraging. The Group is well positioned to grow profitably on an organic basis.

All of our Business Units now have credible creative and service propositions which will enable them to successfully participate in new business activities.

Although the major restructuring work is completed, the Group continues to reduce overheads through a large number of small initiatives. Whilst the economies in the United Kingdom and the USA remain very depressed, we have good growth prospects in our offices in China and the Middle East.

Media Square has now recovered from its period of over-ambitious and over-rapid expansion. Like other marketing communications companies, it faces difficult trading conditions and is taking action to ensure that the Group is correctly positioned for such conditions. However, the fundamentals of strong business management and strong agency brands are now in place and therefore the Board is cautiously optimistic about future prospects.

## Roger Parry

Executive Chairman

3 November 2008

# Consolidated income statement

for the six months ended 31 August 2008

		<b>6 months ended 31 August 2008</b>	6 months ended 31 August 2007	Year ended 29 February 2008
		<b>£'000</b>	Restated £'000	Restated £'000
	Note	<b>Unaudited</b>	Unaudited	Audited
<b>Turnover</b>		<b>65,338</b>	68,876	140,251
<b>Revenue</b>	3	<b>33,119</b>	35,199	69,060
Administrative expenses		<b>(31,164)</b>	(34,465)	(67,719)
<b>Headline operating profit</b>	3	<b>1,955</b>	734	1,341
Exceptional costs		-	(12,652)	(14,437)
Share based payments		<b>(295)</b>	(85)	(384)
<b>Operating profit/(loss)</b>	3	<b>1,660</b>	(12,003)	(13,480)
Loss on disposal of subsidiary undertakings		-	(447)	(917)
Finance costs		<b>(1,084)</b>	(1,279)	(2,974)
Finance costs relating to derivative		-	-	(759)
Finance income		<b>123</b>	491	567
Finance income relating to derivative		<b>218</b>	18	-
Net finance cost		<b>(743)</b>	(770)	(3,166)
Profit/(loss) from continuing operations before tax		<b>917</b>	(13,220)	(17,563)
Tax on (profit)/loss		<b>(284)</b>	211	1,147
Profit/(loss) from continuing operations		<b>633</b>	(13,009)	(16,416)
Loss from discontinued operations	4	<b>(297)</b>	(5,318)	(9,193)
<b>Profit/(loss) for the year</b>		<b>336</b>	(18,327)	(25,609)
<b>Attributable to:</b>				
Parent company's shareholders		<b>374</b>	(18,289)	(25,574)
Minority interests		<b>(38)</b>	(38)	(35)
<b>Profit/(loss) transferred to reserves</b>		<b>336</b>	(18,327)	(25,609)
<b>Basic earnings/(loss) per share from total operations</b>	5	<b>1.16p</b>	(55.81p)	(78.53p)
<b>Diluted earnings/(loss) per share from total operations</b>	5	<b>0.98p</b>	(55.81p)	(78.53p)

# Consolidated balance sheet

as at 31 August 2008

	Note	At 31 August 2008 £'000 Unaudited	At 31 August 2007 £'000 Unaudited	At 29 February 2008 £'000 Audited
<b>Non-current assets</b>				
Goodwill		40,256	46,187	41,221
Property, plant and equipment		6,788	10,620	7,269
Financial assets		284	842	66
Trade and other receivables		150	-	150
Deferred tax		1,387	649	1,593
		<b>48,865</b>	58,298	50,299
<b>Current assets</b>				
Inventories		2,195	3,742	1,722
Trade and other receivables		28,423	35,644	29,014
Corporation tax		-	641	239
Cash and cash equivalents		5,032	7,687	9,632
		<b>35,650</b>	47,714	40,607
<b>Total assets</b>		<b>84,515</b>	106,012	90,906
<b>Assets in disposal groups classified as held for sale</b>	11	-	-	8,199
<b>Current liabilities</b>				
Trade and other payables		(32,614)	(42,862)	(39,016)
Corporation tax		(70)	-	(159)
Borrowings	8	(154)	(3,482)	(128)
Financial liabilities		(5,485)	(426)	(167)
		<b>(38,323)</b>	(46,770)	(39,470)
<b>Non-current liabilities</b>				
Borrowings	8	(16,473)	(17,619)	(20,489)
Financial liabilities		(12)	(5,395)	(5,355)
Provisions for liabilities		(1,770)	(1,749)	(2,058)
		<b>(18,255)</b>	(24,763)	(27,902)
<b>Total liabilities</b>		<b>(56,578)</b>	(71,533)	(67,372)
<b>Liabilities in disposal groups classified as held for sale</b>	11	-	-	(4,385)
<b>Net assets</b>		<b>27,937</b>	34,479	27,348
<b>Shareholders' funds</b>				
Share capital	6	3,317	16,585	16,585
Share premium account		37,686	37,686	37,686
Capital redemption reserve		13,268	-	-
Merger reserve		5,078	5,078	5,078
Share based payment reserve		689	228	394
Investment in own shares		(905)	(807)	(805)
Translation reserve		(422)	(330)	(480)
Retained earnings		(30,236)	(23,458)	(30,610)
<b>Equity shareholders' funds</b>		<b>28,475</b>	34,982	27,848
Minority interests		(538)	(503)	(500)
<b>Total equity</b>		<b>27,937</b>	34,479	27,348

# Consolidated statement of change in equity

for the six months ended 31 August 2008

	Share capital £'000	Share premium account £'000	Capital redem- ption reserve £'000	Merger reserve £'000	Share based payment reserve £'000	Invest- ment in own shares £'000	Trans- lation reserve £'000	Retained Earnings £'000	Total £'000	Minority Interest £'000	Total Equity £'000
Balance at 28 February 2007	16,400	37,436	-	5,078	143	-	(295)	(5,169)	53,593	(465)	53,128
Exchange loss arising on consolidation	-	-	-	-	-	-	(185)	-	(185)	-	(185)
Net expenses recognised directly in equity	-	-	-	-	-	-	(185)	-	(185)	-	(185)
Loss for the financial year	-	-	-	-	-	-	-	(25,574)	(25,574)	(35)	(25,609)
Total recognised expense for the year	-	-	-	-	-	-	(185)	(25,574)	(25,759)	(35)	(25,794)
Issue of shares	185	250	-	-	-	-	-	-	435	-	435
Share buy-backs	-	-	-	-	-	(805)	-	-	(805)	-	(805)
Employee share based compensation	-	-	-	-	384	-	-	-	384	-	384
Share based compensation vested in the year	-	-	-	-	(133)	-	-	133	-	-	-
Balance at 29 February 2008	16,585	37,686	-	5,078	394	(805)	(480)	(30,610)	27,848	(500)	27,348
Exchange gain arising on consolidation	-	-	-	-	-	-	58	-	58	-	58
Net profit recognised directly in equity	-	-	-	-	-	-	58	-	58	-	58
Profit for the period	-	-	-	-	-	-	-	374	374	(38)	336
Total recognised profit for the period	-	-	-	-	-	-	58	374	432	(38)	394
Repurchase of deferred 4p shares	(13,268)	-	13,268	-	-	-	-	-	-	-	-
Share buy-backs	-	-	-	-	-	(100)	-	-	(100)	-	(100)
Employee share based compensation	-	-	-	-	295	-	-	-	295	-	295
<b>Balance at 31 August 2008</b>	<b>3,317</b>	<b>37,686</b>	<b>13,268</b>	<b>5,078</b>	<b>689</b>	<b>(905)</b>	<b>(422)</b>	<b>(30,236)</b>	<b>28,475</b>	<b>(538)</b>	<b>27,937</b>

# Consolidated cash flow statement

for the six months ended 31 August 2008

	Note	6 months ended 31 August 2008 £'000 Unaudited	6 months ended 31 August 2007 £'000 Unaudited	Year ended 29 February 2008 £'000 Audited
<b>Cash (outflow)/inflow from operating activities</b>				
Cash (outflow)/inflow from operating activities before tax	9	(4,276)	(1,095)	1,673
Corporation tax received/(paid)		52	(628)	(58)
<b>Net cash (outflow)/inflow from operating activities after tax</b>		<b>(4,224)</b>	<b>(1,723)</b>	<b>1,615</b>
<b>Cash inflow/(outflow) from investing activities</b>				
Finance income received		134	497	578
Acquisition of subsidiary undertakings		(81)	(469)	(681)
Purchase of property, plant and equipment		(609)	(1,286)	(1,898)
Disposal of subsidiary undertakings		5,469	(933)	(368)
Proceeds from disposals of property, plant and equipment		16	13	36
Net cash acquired with subsidiary undertakings		-	590	611
Net cash disposed of with subsidiary undertakings		-	(100)	(443)
Net cash reclassified as asset held for resale		-	-	1,196
Net cash impaired due to closure of subsidiary		(313)	-	-
<b>Net cash inflow/(outflow) from investing activities</b>		<b>4,616</b>	<b>(1,688)</b>	<b>(969)</b>
<b>Cash outflow from financing activities</b>				
Proceeds from issue of Ordinary shares		-	435	435
Purchase of treasury shares		(100)	(807)	(805)
Equity dividends paid		-	(391)	(391)
Finance cost paid		(832)	(1,066)	(2,135)
Repayment of borrowings		(4,190)	(11,940)	(13,005)
Capital element of hire purchase agreements		(97)	(283)	(543)
<b>Net cash outflow from financing activities</b>		<b>(5,219)</b>	<b>(14,052)</b>	<b>(16,444)</b>
<b>Net decrease in cash and cash equivalents</b>		<b>(4,827)</b>	<b>(17,463)</b>	<b>(15,798)</b>
<b>Cash and cash equivalents at beginning of year</b>		<b>9,632</b>	<b>25,216</b>	<b>25,216</b>
Effect of exchange rate changes on the balance of cash held in foreign subsidiaries		227	(66)	214
<b>Cash and cash equivalents at end of year</b>		<b>5,032</b>	<b>7,687</b>	<b>9,632</b>

# Notes to the consolidated financial statements

for the six months ended 31 August 2008

## 1. General information

Media Square plc and its subsidiaries' principal activities are marketing communications and marketing services.

Media Square plc, a Public Limited Company is incorporated and domiciled in the United Kingdom.

The financial information set out in the interim report does not constitute statutory accounts as defined in Section 240 of the Companies Act 1985. Statutory accounts for the year ended 29 February 2008, prepared under IFRS, have been filed with the Registrar of Companies. The auditor's report on those financial statements was unqualified and did not contain a statement under Section 237(2) or Section 237(3) of the Companies Act 1985. The interim report was approved by the Board on 3 November 2008.

## 2. Basis of preparation

This consolidated financial information for the six months ended 31 August 2008 has been prepared in accordance with IAS 34, "Interim Financial Reporting" as adopted by the European Union. The half yearly consolidated financial report should be read in conjunction with the annual financial statements for the year ended 29 February 2008, which have been prepared in accordance with IFRS as adopted by the European Union.

This interim financial information has been prepared using the accounting policies set out in the Group's 2008 statutory accounts.

Copies of the interim results for the six months ended 31 August 2008 are being sent to all shareholders. A copy can also be found on the Company's website at [www.mediasquare.co.uk](http://www.mediasquare.co.uk).

The income statement for the six months ended 31 August 2007 and the year ended 29 February 2008 has been restated as shown in Note 12.

# Notes to the consolidated financial statements

for the six months ended 31 August 2008

## 3. Segmental analysis

6 months ended 31 August 2008	Advertising £'000	Marketing £'000	Design £'000	Unallocated £'000	Eliminations £'000	Total £'000
<b>Revenue</b>	<b>16,668</b>	<b>6,408</b>	<b>10,215</b>	-	(172)	<b>33,119</b>
<b>Headline operating profit/(loss)</b>	<b>1,772</b>	<b>115</b>	<b>997</b>	(929)	-	<b>1,955</b>
Share based payments	-	-	-	(295)	-	(295)
<b>Operating profit/(loss)</b>	<b>1,772</b>	<b>115</b>	<b>997</b>	(1,224)	-	<b>1,660</b>

The unallocated operating loss relates to central costs.

6 months ended 31 August 2007	Advertising £'000	Marketing £'000	Design £'000	Unallocated £'000	Eliminations £'000	Total £'000
<b>Revenue</b>	16,859	6,657	10,572	1,387	(276)	35,199
<b>Headline operating profit/(loss)</b>	2,093	(192)	713	(1,880)	-	734
Exceptional expenses	(47)	(40)	(57)	(673)	-	(817)
Impairment of goodwill	(814)	(5,432)	(1,840)	(3,749)	-	(11,835)
Share based payments	-	-	-	(85)	-	(85)
<b>Operating profit/(loss)</b>	<b>1,232</b>	<b>(5,664)</b>	<b>(1,184)</b>	<b>(6,387)</b>	-	<b>(12,003)</b>

The unallocated revenue, operating loss and segmental assets all relate to subsidiaries that were disposed of prior to the introduction of the divisional structure and central costs.

Year ended 29 February 2008	Advertising £'000	Marketing £'000	Design £'000	Unallocated £'000	Eliminations £'000	Total £'000
<b>Revenue</b>	33,972	12,698	20,770	2,299	(679)	69,060
<b>Headline operating profit/(loss)</b>	3,640	(457)	1,032	(2,874)	-	1,341
Exceptional expenses	(205)	(446)	(319)	(945)	-	(1,915)
Impairment of goodwill	(815)	(5,732)	(2,226)	(3,749)	-	(12,522)
Share based payments	-	-	-	(384)	-	(384)
<b>Operating profit/(loss)</b>	<b>2,620</b>	<b>(6,635)</b>	<b>(1,513)</b>	<b>(7,952)</b>	-	<b>(13,480)</b>

The unallocated revenue, operating loss and segmental assets all relate to subsidiaries that were disposed of prior to the introduction of the divisional structure and central costs.

# Notes to the consolidated financial statements

for the six months ended 31 August 2008

## 4. Discontinued operations

There are two components to the discontinued operations classification. Firstly, Coutts Retail Communications Limited and Coutts Germany GmbH (together "CRC") as reported in the 29 February 2008 financial statements. Secondly, the Group's subsidiary Media Square Deutschland GmbH ("German Operations") has entered an insolvency process and as a result the Group's interest is nil and all assets have been impaired to nil.

The results of discontinued operations are analysed as follows:

		<b>6 months ended 31 August 2008 £'000</b>	6 months ended 31 August 2007 £'000	Year ended 29 February 2008 £'000
As previously reported as at 29 February 2008		-	-	(2,020)
Trading loss for CRC		-	(170)	-
Reduction to impairment of assets held for sale of CRC	11	<b>1,111</b>	-	-
Trading loss for German Operations		<b>(621)</b>	(5,148)	(7,173)
Loss on impairment of liquidated assets		<b>(787)</b>	-	-
<b>Loss from discontinued operations</b>		<b>(297)</b>	(5,318)	(9,193)

The results for the German Operations were as follows:

		<b>6 months ended 31 August 2008 £'000</b>	6 months ended 31 August 2007 £'000	Year ended 29 February 2008 £'000
<b>Revenue</b>		<b>2,779</b>	3,026	5,727
Administrative expenses		<b>(3,410)</b>	(3,642)	(6,958)
<b>Headline operating loss</b>		<b>(631)</b>	(616)	(1,231)
Exceptional expenses		-	(4,536)	(5,904)
<b>Operating loss</b>		<b>(631)</b>	(5,152)	(7,135)
Net finance cost		<b>10</b>	4	7
Loss before taxation		<b>(621)</b>	(5,148)	(7,128)
Tax on loss		-	-	(45)
<b>Loss for the period</b>		<b>(621)</b>	(5,148)	(7,173)

# Notes to the consolidated financial statements

for the six months ended 31 August 2008

## 5. Earnings/(loss) per share

The calculation of the basic earnings/(loss) per share is based on the profit/(loss) on ordinary activities after tax and on the weighted average number of Ordinary shares in issue during the year.

The calculation of the diluted earnings per share is based on the profit/(loss) on ordinary activities after tax and on the weighted average number of Ordinary shares and share options in issue during the period. Given the loss incurred in the six months ended 31 August 2007 and year ended 29 February 2008, the effect of the share options and retained consideration are anti dilutive and as such no diluted earnings per share figure has been produced. In the six months ended 31 August 2008 all earnings are generated by continuing operations therefore there is no analysis of earnings per share between continuing and discontinuing operations.

The profit/(loss) and weighted average number of shares used in the calculations are set out below:

	At 31 August 2008			At 31 August 2007			At 29 February 2008		
	Profit/(loss) £'000	Weighted average number of shares	Earnings per share pence	Loss £'000	Weighted average number of shares	Loss per share pence	Loss £'000	Weighted average number of shares	Loss per share pence
<b>Basic earnings/(loss) per share</b>									
<b>Basic earnings/(loss) per share from total operations</b>									
Earnings/(loss) attributable to ordinary shareholders	374	32,247,172	1.16p	(18,289)	32,768,341	(55.81p)	(25,574)	32,566,726	(78.53p)
<b>Basic earnings/(loss) per share on continuing operations</b>									
Earnings/(loss) attributable to ordinary shareholders	671	32,247,172	2.08p	(12,971)	32,768,341	(39.58p)	(16,381)	32,566,726	(50.30p)
<b>Basic loss per share on discontinued operations</b>									
Loss attributable to ordinary shareholders	(297)	32,247,172	(0.92p)	(5,318)	32,768,341	(16.23p)	(9,193)	32,566,726	(28.23p)

	At 31 August 2008		
	Profit/(loss) £'000	Weighted average number of shares	Earnings per share pence
<b>Diluted earnings/(loss) per share</b>			
<b>Diluted earnings per share from total operations</b>			
Earnings attributable to ordinary shareholders	374	38,216,676	0.98p
<b>Diluted earnings per share on continuing operations</b>			
Earnings attributable to ordinary shareholders	671	38,216,676	1.76p
<b>Diluted loss per share on discontinued operations</b>			
Loss attributable to ordinary shareholders	(297)	38,216,676	(0.78p)

# Notes to the consolidated financial statements

for the six months ended 31 August 2008

## 6. Share capital

<b>At 31 August 2008</b>	<b>£'000</b>
Authorised 50,000,000 Ordinary shares of 10p each	<b>5,000</b>
Allotted, called up and fully paid 33,170,613 Ordinary shares of 10p each	<b>3,317</b>
<b>At 29 February 2008</b>	<b>£'000</b>
Authorised 500,000,000 Ordinary shares of 5p each	25,000
Allotted, called up and fully paid 331,706,131 Ordinary shares of 5p each	16,585

On the 29 July 2008, the Group's authorised and allotted share capital was altered by an Ordinary resolution at the Annual General Meeting. The Ordinary issued and unissued share capital of 5 pence each were converted into one Ordinary share of 1 pence each and one deferred share of 4 pence each.

Every 10 new Ordinary 1 pence shares were then consolidated into 1 Ordinary share of 10 pence each.

The deferred shares of 4 pence each were transferred to the Company by the holders for nil consideration and were then cancelled. The nominal value of these shares of £13,268,000 was transferred to a Capital Redemption Reserve to maintain the capital of the Company.

# Notes to the consolidated financial statements

for the six months ended 31 August 2008

## 7. Dividend

As announced on 27 June 2007 the Board has decided to suspend the payment of a dividend in favour of undertaking, as and when considered appropriate, a programme of share buy-backs.

## 8. Borrowings

	At 31 August 2008 £'000	At 31 August 2007 £'000	At 29 February 2008 £'000
Borrowings (current)	(154)	(3,482)	(128)
Borrowings (non-current)	(16,473)	(17,619)	(20,489)
	<b>(16,627)</b>	<b>(21,101)</b>	<b>(20,617)</b>

In addition to the standard quarterly loan repayments of £180,000 for the interim period, a repayment of £4,000,000 was made on 30 April 2008.

## 9. Net cash inflow/(outflow) from operating activities

	6 months ended 31 August 2008 £'000	6 months ended 31 August 2007 £'000	Year ended 29 February 2008 £'000
<b>Operating profit/(loss)</b>	<b>1,660</b>	(12,003)	(13,480)
Operating loss from discontinued operations	(631)	(5,360)	(7,716)
Depreciation	831	1,158	2,337
(Gain)/loss on disposal of property, plant & equipment	(3)	(12)	1
Impairment of property, plant & equipment	-	-	9
Impairment of goodwill	-	16,122	16,808
Release of excess acquisition accruals	-	-	(602)
Share based payment	295	85	384
(Increase)/decrease in stocks and work in progress	(508)	(1,288)	501
Decrease in receivables	20	6,008	8,854
Decrease in payables	(5,940)	(5,805)	(5,423)
<b>Net cash (outflow)/inflow from operating activities</b>	<b>(4,276)</b>	<b>(1,095)</b>	<b>1,673</b>

# Notes to the consolidated financial statements

for the six months ended 31 August 2008

## 10. Analysis of changes in net debt

	At 29 February 2008 £'000	Cash flows £'000	Non cash Transactions £'000	At 31 August 2008 £'000
Cash at bank	9,632	(4,827)	227	<b>5,032</b>
Borrowings	(20,617)	4,190	(200)	<b>(16,627)</b>
Loan notes	(5,355)	-	(72)	<b>(5,427)</b>
Obligations under finance lease and hire purchase agreements	(167)	97	-	<b>(70)</b>
<b>Net debt</b>	<b>(16,507)</b>	<b>(540)</b>	<b>(45)</b>	<b>(17,092)</b>

## 11. Disposal of subsidiary undertakings

On 20 March 2008 the Group disposed of its interest in Coutts Retail Communications Limited and Coutts Germany GmbH (together "CRC") for consideration of £7.25 million. The net assets of the disposal subsidiaries at the date of disposal were:

	Total £'000
Net assets held for sale as at 29 February 2008	3,814
Reduction to impairment of assets held for sale	1,111
<b>Net assets held for sale</b>	<b>4,925</b>
<b>Satisfied by:</b>	
Cash	7,250
Transaction costs	(1,020)
Contingent consideration adjustment	(559)
Settlement of debt on completion	(746)
	<b>4,925</b>

The value of assets held for sale within the 29 February 2008 financial statements for CRC has now been finalised leading to a £1,111,000 reduction in the charge for impairment of assets held for sale previously reported. This reduction is due to a fall in the contingent consideration adjustment paid by the Group to the acquirer.

Full details on the disposal of CRC as required under "IFRS 5 Non-current Assets Held for Sale and Discontinued Operations" is provided within the Group's 2008 financial statements.

# Notes to the consolidated financial statements

for the six months ended 31 August 2008

## 12. Prior year restatements

The following table illustrates the effect of prior year restatements on the income statement for the six months ended 31 August 2007 and the year ended 29 February 2008.

	6 months ended 31 August 2007			Year ended 29 February 2008		
	Previously reported £'000	Prior year Adjustments Note a £'000	Restated £'000	Previously reported £'000	Prior year Adjustments Note b £'000	Restated £'000
<b>Turnover</b>	85,326	(16,450)	68,876	155,835	(15,584)	140,251
<b>Revenue</b>	43,276	(8,077)	35,199	74,787	(5,727)	69,060
Administrative expenses	(43,376)	8,911	(34,465)	(74,677)	6,958	(67,719)
<b>Headline operating (loss)/profit</b>	(100)	834	734	110	1,231	1,341
Exceptional costs	(17,190)	4,538	(12,652)	(20,341)	5,904	(14,437)
Share based payments	(85)	-	(85)	(384)	-	(384)
<b>Operating loss</b>	(17,375)	5,372	(12,003)	(20,615)	7,135	(13,480)
Gain on disposal of property, plant and equipment	12	(12)	-	-	-	-
Loss on disposal of subsidiary undertakings	(447)	-	(447)	(917)	-	(917)
Net finance cost	(776)	6	(770)	(3,159)	(7)	(3,166)
Loss from continuing operations before tax	(18,586)	5,366	(13,220)	(24,691)	7,128	(17,563)
Tax on loss	259	(48)	211	1,102	45	1,147
Loss from continuing operations	(18,327)	5,318	(13,009)	(23,589)	7,173	(16,416)
Loss from discontinued operations	-	(5,318)	(5,318)	(2,020)	(7,173)	(9,193)
<b>Loss for the year</b>	(18,327)	-	(18,327)	(25,609)	-	(25,609)
<b>Attributable to:</b>						
Parent company's shareholders	(18,289)	-	(18,289)	(25,574)	-	(25,574)
Minority interests	(38)	-	(38)	(35)	-	(35)
<b>Loss transferred to reserves</b>	(18,327)	-	(18,327)	(25,609)	-	(25,609)

Explanatory notes:

a) Separation of results of the discontinued German Operations and the discontinued operations of Coutts Retail Communications Limited and Coutts Germany GmbH. Reclassification of the gain on property, plant and equipment to administrative expenses rather than separate presentation on the face of the income statement after operating profit. The gain on disposal of property, plant and equipment for the six months ended 31 August 2007 was £12,000.

b) Separation of results of the discontinued German Operations.

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