

**themutual.net plc**

Interim Report

31 October 2004

themutual.net plc

Interim accounts for the period ended 31 October 2004

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Directors

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## Directors

Warren Tayler	(Non-Executive Chairman)
Mark Smith	(Chief Executive Officer)
Peter Coveney	(Financial Director)
Ben Heaton	(Strategic Director)
Vince Smith	(Non-Executive Director)
Harold Gittelmon	(Non-Executive Director)

## Secretary and Registered Office

Peter Coveney FCA, 2<sup>nd</sup> Floor, 39 Hatton Garden, London, EC1N 8EH.

## Auditors

Menzies, Chartered Accountants, Neville House, 55 Eden Street, Kingston upon Thames, Surrey KT1 1BW.

## Principal Bankers

Barclays Bank plc, London Corporate Banking, 50 Pall Mall, London, SW1 1QB.

## Solicitors

Field Fisher Waterhouse, 35 Vine Street, London EC3N 2AA.

## Nominated Advisor and Broker

Durlacher Limited, Moorgate Hall, 155 Moorgate, London EC2M 6XB

Chairman's statement

Interim accounts for the period ended 31 October 2004

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I am delighted to announce the Group results for the first six months of the financial year showing continued growth in revenue and profitability.

The Group financial highlights, with comparative figures, are:

<b>Profit and Loss Account</b>	<b>Unaudited 6 months to 31/10/04</b>	<b>Unaudited 6 months to 31/10/03</b>	<b>Audited Year ended 30/04/04</b>
Turnover	£1,535,000	£789,000	£2,199,000
Gross profit	1,355,000	748,000	2,011,000
EBITDA	685,000	340,000	1,015,000
Profit before tax	383,000	219,000	650,000
<b>Balance Sheet</b>	<b>31/10/04</b>	<b>31/10/03</b>	<b>30/04/04</b>
Cash at bank	£1,225,000	£511,000	£919,000
Net current assets	1,521,000	803,000	1,260,000
Shareholders' funds	1,952,000	1,366,000	1,797,000

The Group results for the half year reflect the continued success of MutualPoints, purchased from GUS last year, combined with healthy growth in email marketing and website revenues. Turnover grew 94% against the comparable period with EBITDA growing by 101% and profit before tax by 75%. Cash at bank increased by £306,000 over the six month period which, after spending £88,000 on the buyback of our shares, reflects the strong cash generative qualities of the business. We look forward to the traditionally stronger second half of the year with confidence and the financial strength of the company puts us in position to take advantage of opportunities that may arise.

Further highlights include the consolidation of our shares by 100:1; the introduction of cash rewards to members as an alternative to themutual.net's free share offer, largely diminishing any dilutive effect; and a share buy back by the company of approximately 1.25% of the issued capital. At the recent AGM the company reaffirmed its authority to buy-back up to 10% of the issued share capital.

During this period we implemented a number of strategies to deal with the challenges that email marketing faces now and, potentially, in the future. These included:

- Working closely with ISP's to improve understanding and cooperation with regard to email delivery;
- Double opt-in registration to ensure the validity and quality of new members;
- Collection and use of increased targeting data to assist in delivering mails that are both relevant and effective to our members and our clients; and
- The introduction of an eCRM program to educate new members and further encourage existing members to utilise our services.

continued:

**Chairman's statement continued:**

**Interim accounts for the period ended 31 October 2004**

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These, together with firm internal policies helped develop and maintain, in your Board's opinion, one of the most effective third party email databases in the country. We believe this will allow the company to continue to thrive and develop over the years to come.

The database currently incorporates over 1.15 million members. Over 900,000 advertising and promotional emails are sent each day, all accompanied by reward opportunities which provide a strong 'reason to receive and react' to our mails which we believe sets the company apart from other email marketing providers. This results in excess of one million visitors being sent to our advertisers on a monthly basis.

From our website activity, themutual.net now generates in excess of £1,500,000 of online sales for our website partners each month. We anticipate this will be greatly enhanced by the introduction of the MutualShop, our new shopping portal which is due for 'soft' launch shortly before Xmas, with a final launch to include price-comparison shopping and full functionality by the financial year end. This is the largest overhaul of the website that the company has undertaken, including a full redesign, and will be further supported by adding user functionality, allowing better control of their membership and the number of emails received.

To have managed such internal change while the company continued its substantial growth in revenue and profitability is a strong achievement and testament to the scalability of our business model and operations.

We have also begun exploratory analysis of launching a similar product into France and Germany. We will report on this further at the year end.

Anna Soobrattee, our Technical Director, has resigned from the Board with effect from today. She continues to be employed by the company, in predominately the same role, with her resignation better reflecting her responsibilities within the Group.

I would like to thank all the staff for their dedication and hard work during the period, all of who have contributed to our success.

With the early success of our strategic developments delivering growth in membership, an enhanced user experience and increased revenue and profitability, combined with the substantial continued growth in the online advertising market, we look forward to the future with confidence.

Warren Tayler  
**Chairman**

29 November 2004

## Group profit and loss account for the period ended 31 October 2004

	Unaudited 6 months ended 31 October 2004 £	Unaudited 6 months ended 31 October 2003 £	Audited Year ended 30 April 2004 £
<b>Turnover</b>	<b>1,534,613</b>	<b>789,274</b>	<b>2,198,708</b>
Cost of sales	179,820	41,062	187,409
<b>Gross profit</b>	<b>1,354,793</b>	<b>748,212</b>	<b>2,011,299</b>
Administrative expenses	670,145	408,033	996,208
<b>EBITDA (*)</b>	<b>684,648</b>	<b>340,179</b>	<b>1,015,091</b>
Depreciation	(21,006)	(5,752)	(18,456)
Database Amortisation	(297,806)	(124,346)	(363,810)
<b>Operating profit</b>	<b>365,836</b>	<b>210,081</b>	<b>632,825</b>
Interest receivable	16,771	9,07	17,660
Interest payable and similar charges	-	-	-
<b>Operating profit before taxation</b>	<b>382,607</b>	<b>219,154</b>	<b>650,485</b>
Taxation on profit on ordinary activities	(140,000)	-	-
<b>Profit on ordinary activities after taxation, attributable to shareholders</b>	<b>242,607</b>	<b>219,154</b>	<b>650,485</b>
Basic profit per share (**)	0.60p	0.57p	1.66p
Diluted profit per share (**)	0.56p	0.54p	1.56p

\* EBITDA = Earnings before interest, tax, depreciation and amortisation

\*\* The comparative Earnings per Share have been restated to reflect the change during the period of the consolidation and re-designation of the ordinary share capital from 0.0001p shares to 0.01p shares.

The notes on pages 6 and 7 form part of these accounts.

## Group balance sheet at 31 October 2004

	Unaudited 31 October 2004 £	Unaudited 31 October 2003 £	Audited 30 April 2004 £
<b>Fixed assets</b>			
Intangible assets	630,311	761,846	717,814
Tangible assets	65,597	29,781	77,835
Investments	-		
	<u>695,908</u>	<u>791,627</u>	<u>795,649</u>
<b>Current assets</b>			
Debtors	727,589	511,825	689,993
Cash at bank and in hand	1,225,204	510,808	919,363
	<u>1,952,793</u>	<u>1,022,633</u>	<u>1,609,356</u>
<b>Creditors: amounts falling due within one year</b>	<u>(431,418)</u>	<u>(219,158)</u>	<u>(349,592)</u>
<b>Net current assets</b>	<u>1,521,375</u>	<u>803,475</u>	<u>1,259,764</u>
<b>Total assets less current liabilities</b>	<u>2,217,283</u>	<u>1,595,102</u>	<u>2,055,413</u>
<b>Provisions for liabilities and charges</b>			
Other provisions	265,031	229,092	257,946
	<u>1,952,252</u>	<u>1,366,010</u>	<u>1,797,467</u>
<b>Capital and reserves</b>			
Called up share capital	104,044	103,916	104,042
Share premium account	2,330,501	2,330,501	2,330,501
Other reserves	120,424	120,374	120,374
Profit and loss account	(602,717)	(1,188,781)	(757,450)
<b>Shareholders' funds</b>	<u>1,952,252</u>	<u>1,366,010</u>	<u>1,797,467</u>

The notes on pages 6 and 7 form part of these accounts.

## Cash flow statement for the period ended 31 October 2004

	Unaudited 6 months ended 31 October 2004 £	Unaudited 6 months ended 31 October 2003 £	Audited Year ended 30 April 2004 £
<b>Net cash inflow from operating activities</b>	<b>595,963</b>	<b>290,458</b>	<b>701,584</b>
<b>Returns on investments and servicing of finance</b>			
Interest received	16,771	9,073	17,660
<b>Net cash inflow from returns on investments and servicing of finance</b>	<b>16,771</b>	<b>9,073</b>	<b>17,660</b>
<b>Capital expenditure and financial investment</b>			
Purchase of tangible fixed assets	(8,768)	(21,550)	(82,308)
Purchase of intangible fixed assets	(210,303)	(329,797)	(280,323)
Sale of tangible fixed assets	-	-	-
<b>Net cash outflow for capital expenditure and financial investment</b>	<b>(219,071)</b>	<b>(351,347)</b>	<b>(362,631)</b>
<b>Acquisitions and disposals</b>			
Cash paid to acquire subsidiaries	-	(212,500)	(212,500)
<b>Net cash outflow from acquisitions and disposals</b>	<b>-</b>	<b>(212,500)</b>	<b>(212,500)</b>
<b>Net cash inflow/(outflow) before financing</b>	<b>393,663</b>	<b>(264,316)</b>	<b>144,113</b>
<b>Financing</b>			
Issue of ordinary share capital	52	55,084	55,210
Purchase of own shares	(87,874)	-	-
<b>Net cash inflow from financing</b>	<b>(87,822)</b>	<b>55,084</b>	<b>55,210</b>
<b>Increase/(decrease) in cash</b>	<b>305,841</b>	<b>(209,232)</b>	<b>199,323</b>

The notes on pages 6 and 7 form part of these accounts.

**1 Basis of preparation**

The results for the period ended 31 October 2004 and the comparative figures for the six months ended 31 October 2003 are unaudited. They have been prepared on accounting bases and policies that are consistent with those used in the preparation of the financial statements of the Group for the year ended 30 April 2004.

The financial information contained in this report does not constitute statutory accounts within the meaning of Section 240 of the Companies Act 1985. The financial information for the period ended 30 April 2004 has been extracted from the audited financial statements for that period, which have been filed with the Registrar of Companies and which contain an unqualified audit report.

**2 Profit per share**

During the period the ordinary share capital was consolidated and re-designated from 10,000,000,000 ordinary shares of 0.0001p each to 100,000,000 ordinary shares of 0.01p each.

The Earnings per Share for comparative periods have been restated to reflect the change detailed above.

Basic profit per share for the six months ended 31 October 2004 has been calculated based on the weighted average number of shares in issue during the period of 40,564,614 (31 October 2003 - 38,295,339) and the profit for the period of £242,607 (31 October 2003 - £219,154).

Diluted earnings per share has been calculated based on the weighted average number of shares of 43,357,114 (31 October 2003 – 40,691,164) which includes the dilutive potential of shares under option.

**3 Net cash (outflow)/inflow from operating activities**

	<b>Unaudited 6 months ended 31 October 2004 £</b>	<b>Unaudited 6 months ended 31 October 2003 £</b>	<b>Audited Year ended 30 April 2004 £</b>
Operating profit	365,836	210,081	632,825
Depreciation of tangible fixed assets	21,006	5,75	18,456
Amortisation of intangible fixed assets	297,806	124,346	363,810
Loss on disposal of fixed assets	-	-	-
(Increase) in debtors	(37,596)	(268,118)	(446,286)
(Decrease)/increase in creditors	(58,174)	(10,695)	119,739
Increase in provisions	7,085	229,092	13,040
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Net cash inflow from operating activities	595,963	290,458	701,584
	=====	=====	=====

**4 Reconciliation of net cash flow to movement in net funds**

	Unaudited 6 months ended 31 October 2004 £	Unaudited 6 months ended 31 October 2003 £	Audited Year ended 30 April 2004 £
Increase/(decrease) in cash in the period	305,841	(209,232)	199,323
Cash outflow from decrease in debt and lease financing	-		-
Cash outflow from decrease in liquid resources	-		-
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Change in net funds arising from cash flows	305,841	(209,232)	199,323
New finance leases	-		-
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Movement in net funds in the period	305,841	(209,232)	199,323
Net funds at start of period	919,363	720,040	720,040
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Net funds	1,225,204	510,808	919,363
	=====	=====	=====

**5 Analysis of changes in net funds**

	Opening balance 1 May 2004 £	Cash flows £	31 October 2004 £
Cash at bank and in hand	919,363	305,841	1,225,204
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Net funds	919,363	305,841	1,225,204
	=====	=====	=====

**6 Dividend**

The company does not intend to pay a dividend at this time.

*Copies of this statement will be available for a period of one 1 month from the company's registered office.  
The Company Secretary, themutual.net plc, 2<sup>nd</sup> Floor, 39 Hatton Garden, London EC1N 8EH*