

**themutual.net plc**

Interim Report

31 October 2005

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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)
James Morris	(Executive Director)
Jeremy Middleton	(Non-Executive Director)
Vince Smith	(Non-Executive Director)
Harold Gittelmon	(Non-Executive Director)

**Secretary and Registered Office**

Peter Coveney FCA, 2<sup>nd</sup> Floor, 69-73 Theobalds Road, London, WC1X 8TA.

**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**

Panmure Gordon (Broking) Limited, Moorgate Hall, 155 Moorgate, London EC2M 6XB

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## Chairman's statement

### Interim accounts for the period ended 31 October 2005

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

The Group financial highlights, with comparative figures, are:

<b>Profit and Loss Account</b>	<b>Unaudited 6 months to 31/10/05</b>	<b>Unaudited 6 months to 31/10/04</b>	<b>Audited Year ended 30/04/05</b>
Turnover	£1,761,000	£1,535,000	£3,079,000
Gross profit	1,537,000	1,355,000	2,732,000
EBITDA	777,000	685,000	1,373,000
Operating profit	470,000	366,000	733,000
Profit before tax	947,000	383,000	778,000

  

<b>Balance Sheet</b>	<b>31/10/05</b>	<b>31/10/04</b>	<b>30/04/05</b>
Cash at bank	£2,563,000	£1,225,000	£1,555,000
Net current assets	2,587,000	1,521,000	1,772,000
Shareholders' funds	2,741,000	1,952,000	2,100,000

Growth for the period is in line with management expectations and allows us to look to the full year forecasts with confidence. Our profit before tax is £947,000, including an exceptional profit of £439,000 from the sale of an investment. Operating profit is up 28% compared to the six months to 31 October 2004, while our cash at bank has increased to £2,563,000

A number of factors have contributed to the group's performance, including the following:

- Email marketing rates have hardened, which has coincided with our focus on building a high quality, high response database
- Website sales have recently reached record revenue figures, generating over £2 million of sales for shopping, finance and service partners each month
- We continue to sign up over 40,000 new members each month utilising the new website
- We now have over 1.55 million members across our reward programmes
- Total revenue in September and October reached record levels
- The MyPoints database was fully written off in September, which reduces our amortisation charge by £20,000 a month going forward.

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**Chairman's statement continued:**

**Interim accounts for the period ended 31 October 2005**

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With the recent acquisition of Electronic Direct Response Limited (“EDR”), the enlarged group represents one of the largest online direct marketing companies in the UK. The opportunities that this brings, along with the expanded services and database inventory, create an exciting company with fantastic potential in a rapidly growing market place. With over £148m spent on email marketing in the UK alone in 2005 (source: e-Consultancy) and the total spend on internet advertising predicted to break £1 billion this year (source: Internet Advertising Bureau), the enlarged group is well positioned to generate increased revenue and enjoy strong growth.

The enlarged group now owns or has access to in excess of 6.5 million email addresses and offers a complete range of high quality online marketing services to its base of over 500 clients. Core services include email sales for the owned databases, a full planning and buying agency for online advertisers, delivery solutions and further focus on the reward programmes, which continue to grow apace as the largest online reward site in the UK.

We now have over 40 staff across our sales, technology and marketing departments and an increased strength and depth in management. James Morris, founder and Managing Director of EDR, joins the plc board and I would like to take the opportunity once more to welcome him.

The integration process has begun and we expect to see the synergies and benefits develop positively over the coming months. The enlarged group will be organised in two separate divisions – one dealing with the sales and marketing of the combined databases and reward products, and the other offering a specialist planning and buying service for online advertisers. A full re-branding of the enlarged group and the individual divisions will commence in the next few months.

We feel that we are in an excellent position to build on our existing market share in the online direct marketing sector, with a strong foundation of experience and our history of success to back this up. The group is structured to handle this and further expansion and we look to the future with great enthusiasm and confidence.

I would like to welcome the new staff who have joined us following the purchase of EDR and to thank all the staff for their dedication and hard work during the period, all of whom have contributed to our success.

Warren Tayler  
**Chairman**

## Group profit and loss account for the period ended 31 October 2005

	Unaudited 6 months ended 31 October 2005 £	Unaudited 6 months ended 31 October 2004 £	Audited Year ended 30 April 2005 £
<b>Turnover</b>	<b>1,761,311</b>	<b>1,534,613</b>	<b>3,079,352</b>
Cost of sales	224,278	179,820	346,847
<b>Gross profit</b>	<b>1,537,033</b>	<b>1,354,793</b>	<b>2,732,505</b>
Administrative expenses	759,613	670,145	1,359,024
<b>EBITDA (*)</b>	<b>777,420</b>	<b>684,648</b>	<b>1,373,481</b>
Depreciation	(25,600)	(21,006)	(44,089)
Database amortisation	(281,386)	(297,806)	(596,441)
<b>Operating profit</b>	<b>470,434</b>	<b>365,836</b>	<b>732,951</b>
Profit on disposal of investment	439,586	-	-
Interest receivable	37,293	16,771	45,214
<b>Profit on ordinary activities before taxation</b>	<b>947,313</b>	<b>382,607</b>	<b>778,165</b>
Taxation on profit on ordinary activities	(306,376)	(140,000)	(288,780)
<b>Profit on ordinary activities after taxation, attributable to shareholders</b>	<b>640,937</b>	<b>242,607</b>	<b>489,385</b>
Basic earnings per share	1.59p	0.60p	1.21p
Diluted earnings per share	1.49p	0.56p	1.13p

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

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

## Group balance sheet at 31 October 2005

	Unaudited 31 October 2005 £	Unaudited 31 October 2004 £	Audited 30 April 2005 £
<b>Fixed assets</b>			
Intangible assets	408,483	630,311	456,093
Tangible assets	56,649	65,597	68,001
Investments	-	-	121,363
	<u>465,132</u>	<u>695,908</u>	<u>645,457</u>
<b>Current assets</b>			
Debtors	974,902	727,589	760,229
Cash at bank and in hand	2,562,514	1,225,204	1,554,764
	<u>3,537,416</u>	<u>1,952,793</u>	<u>2,314,993</u>
<b>Creditors: amounts falling due within one year</b>	<u>(950,802)</u>	<u>(431,418)</u>	<u>(542,547)</u>
<b>Net current assets</b>	<u>2,586,614</u>	<u>1,521,375</u>	<u>1,772,446</u>
<b>Total assets less current liabilities</b>	<u>3,051,746</u>	<u>2,217,283</u>	<u>2,417,903</u>
<b>Provisions for liabilities and charges</b>			
Other provisions	310,858	265,031	318,000
	<u>2,740,888</u>	<u>1,952,252</u>	<u>2,099,903</u>
<b>Capital and reserves</b>			
Called up share capital	104,052	104,044	104,003
Share premium account	2,330,501	2,330,501	2,330,501
Other reserves	120,464	120,424	120,464
Profit and loss account	185,871	(602,717)	(455,065)
<b>Shareholders' funds</b>	<u>2,740,888</u>	<u>1,952,252</u>	<u>2,099,903</u>

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

## Cash flow statement for the period ended 31 October 2005

	Unaudited 6 months ended 31 October 2005 £	Unaudited 6 months ended 31 October 2004 £	Audited Year ended 30 April 2005 £
<b>Net cash inflow from operating activities</b>	<b>657,482</b>	<b>595,963</b>	<b>1,267,475</b>
<b>Returns on investments and servicing of finance</b>			
Interest received	37,293	16,771	45,214
<b>Net cash inflow from returns on investments and servicing of finance</b>	<b>37,293</b>	<b>16,771</b>	<b>45,214</b>
<b>Capital expenditure and financial investment</b>			
Purchase of tangible fixed assets	(14,248)	(8,768)	(34,255)
Purchase of intangible fixed assets	(233,775)	(210,303)	(334,721)
Acquisition of investments	-	-	(121,363)
Sale of investments	560,949	-	-
<b>Net cash inflow/(outflow) for capital expenditure and financial investment</b>	<b>312,926</b>	<b>(219,071)</b>	<b>(490,339)</b>
<b>Net cash inflow before financing</b>	<b>1,007,701</b>	<b>393,663</b>	<b>822,350</b>
<b>Financing</b>			
Issue of ordinary share capital	49	52	52
Purchase of own shares	-	(50)	(91)
Premium on purchase of own shares	-	(87,824)	(186,910)
<b>Net cash inflow/(outflow) from financing</b>	<b>49</b>	<b>(87,822)</b>	<b>(186,949)</b>
<b>Increase in cash</b>	<b>1,007,750</b>	<b>305,841</b>	<b>635,401</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 2005 and the comparative figures for the six months ended 31 October 2004 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 2005.

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 2005 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**

Basic profit per share for the six months ended 31 October 2005 has been calculated based on the weighted average number of shares in issue during the period of 40,267,368 (31 October 2004 – 40,564,614) and the profit for the period of £640,937 (31 October 2004 - £242,607).

Diluted earnings per share has been calculated based on the weighted average number of shares of 43,143,201 (31 October 2004 – 43,357,114) which includes the dilutive potential of shares under option.

**3 Net cash inflow from operating activities**

	<b>Unaudited 6 months ended 31 October 2005 £</b>	<b>Unaudited 6 months ended 31 October 2004 £</b>	<b>Audited Year ended 30 April 2005 £</b>
Operating profit	470,434	365,836	732,951
Depreciation of tangible fixed assets	25,600	21,006	44,089
Amortisation of intangible fixed assets	281,386	297,806	596,442
(Increase) in debtors	(214,673)	(37,596)	(70,236)
(Decrease)/increase in creditors	101,877	(58,174)	(95,825)
(Decrease)/increase in provisions	(7,142)	7,085	60,054
	—————	—————	—————
Net cash inflow from operating activities	657,482	595,963	1,267,475
	=====	=====	=====

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

	Unaudited 6 months ended 31 October 2005 £	Unaudited 6 months ended 31 October 2004 £	Audited Year ended 30 April 2005 £
Increase in cash in the period	1,007,750	305,841	635,401
Change in net funds arising from cash flows	1,007,750	305,841	635,401
Movement in net funds in the period	1,007,750	305,841	635,841
Net funds at start of period	1,554,764	919,363	919,363
Net funds	2,562,514	1,225,204	1,554,764

**5 Analysis of changes in net funds**

	Opening balance 1 May 2005 £	Cash flows £	31 October 2005 £
Cash at bank and in hand	1,554,764	1,007,750	2,562,514
Net funds	1,554,764	1,007,750	2,562,514

**6 Dividend**

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

**7 Subsequent Event**

On 15th November 2005 the company acquired the entire issued share capital of Electronic Direct Response Limited for an initial consideration of £2.0 million in cash and the issue of 7,843,137 new ordinary shares. In addition to the initial cash payment and initial shares, the total consideration includes deferred consideration of £0.6 million, payable in cash in three equal instalments of £200,000 each on 31 May 2006, 31 May 2007 and 31 May 2008. There is also further deferred consideration, contingent on the future profitability of the enlarged group, of up to £0.1 million in cash and up to 1,960,785 shares. The contingent consideration is dependent on the future profitability of the enlarged group for the years ended 30 April 2007 and 30 April 2008 and is payable following publication of the enlarged group's audited annual accounts.

*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, 69-73 Theobalds Road, London WC1X 8TA*