dealgroupmedia plc

interim report six months ended 30 June 2005

highlights

- **First directly comparable results for the Group since the acquisition of The Deal Group Limited in October 2003**
- **Above online advertising market growth rate achieved with turnover increasing by 55% to £10,171,000 (2004: £6,555,000)**
- **Pre-tax profits increased to £154,000 (2004: £45,000)**
- **EBITDA of £851,000 (2004: £763,000)**
- **Operating cash flow of £431,000 – increase in cash during the six months of £419,000**
- **dgmPro – a new tracking, optimising and reporting system launched. All existing clients now using dgmPro**
- **Benefits of first half expenditure will not be seen until the second half of the year**
- **Analyst estimates for UK online advertising spend expected to double by 2010** *(Forrester Research)*

"Our main objective, as outlined in our 2004 Annual Report, was to continue to grow above the industry average. I am pleased to report that our strategy of client optimisation and new client wins has achieved this. In the last six months we have invested in a larger sales team and technology, which will also continue to have a direct impact on our future development. We continue to look for complementary acquisitions in Europe which will diversify our portfolio and further this growth."

Adrian Moss
Chief Executive

chairman’s statement

for the six months ended 30 June 2005

These are the first directly comparable results for the Group since the acquisition of The Deal Group Limited in October 2003. Last year the Group reorganised and refocused the product offering – this work is now showing tangible results.

During the first six months of 2005, the Group achieved an above market growth rate with turnover increasing to £10,171,000 (2004: £6,555,000) that produced pre-tax profits of £154,000 (2004: £45,000).

On an EBITDA basis, the Group generated £851,000 in the first six months of 2005 (2004: £763,000), with an increase in the cost base of £595,000 which includes eleven new sales people who have joined the Group in the first six months and short term consultant costs involved in the re-design and launch of dgmPro – our new tracking, optimising and reporting system. The benefits of this expenditure will not be seen until the second half of the year. The new sales team are showing a promising pipeline of new clients and all existing clients are now using dgmPro and enjoying the benefits of quicker and more flexible reporting.

The Group generated operating cash flow of £431,000 which led to an overall increase in cash during the six months of £419,000.

Key business drivers

The continued growth of the Group has been driven by a number of factors:

According to OFCOM, there are now more broadband households than dial-up households in the UK and the number of broadband users increases each week by 100,000. The rapid increase of the broadband market is expected to encourage more advertisers to launch online marketing programmes.

Spend on Online Advertising has overtaken Radio for the first time in 2005 according to the Internet Advertising Bureau and now stands at 4% of UK advertising spend. As the internet accounts for over 20% of the UK consumers’ media hours, the difference between these two figures should diminish over time.

As advertisers spend more online (Forrester Research forecasts online spend will grow by 27% in the next year) dgm’s managed solutions allow advertisers to focus their products and brands to the most relevant people – those who actively search for their product or brand. This varies from most traditional media in that users are pulling information they want to access, rather than unsolicited information being pushed at them – this is why online advertising is so attractive to advertisers and why online advertising growth forecasts are much higher than other forms of media.

Review of operations

As the online market develops we are confident that dgm is in a strong position to coordinate an advertiser’s marketing online to allow the advertiser to dominate the search engines from which 85% of advertiser websites are found (Forrester Research 2005 & EIAA).

chairman's statement (continued)

Products

dgmPerformance delivers sales, leads and email capture or other commercially valuable actions through a network of several thousand small online media owners and entrepreneurs. dgm receives a revenue share from the advertisers for every action that is taken.

Advertisers only pay once a predetermined action has been completed by a consumer, such as the ordering of a brochure or the sale of a product. The fee paid for this cost-per-acquisition model is influenced by market forces and by how much an advertiser is willing to pay to generate a result.

dgmAdNetwork offers low cost advertising on a variety of large portals and content websites. dgm acquires inventory at a low cost from various media owners which is bundled and sold to advertisers at a discounted rate. The advantage to advertisers is that the space is acquired at relatively inexpensive rates on high traffic websites that enhance the prospect of a return on spend.

dgmSearchLab operates in two distinct areas of search engine marketing. The first is the fine tuning of clients' websites to allow superior listings on search engines. Revenues are based on fixed fees and on improved listings on search engines.

The second area involves the management of clients 'pay for performance' search engine campaigns. dgm bids on behalf of advertisers for listings on specific 'keyword' search terms. The advertiser is listed as a 'sponsored link'. dgm derives its revenue from fees for the management of campaigns and commission from the search engines on the media spend.

Technology

Over the last twelve months, the Group invested approximately £1,000,000 in dgm's IT software and infrastructure. I am pleased to be able to announce the launch of our new proprietary software – dgmPro. This is the software that tracks, manages and reports on all our online activity. The new system produces more user friendly reports with increased tracking and reporting data.

dgmPro runs off the new site architecture that we invested in at the end of 2004.

dgm needs to maintain a competitive advantage and provide a service that is of a higher standard than the new entrants to the market. I believe that dgmPro does this today but that we must continue to strive to make the interface between the advertiser and the campaigns as easy to use and understand as possible.

People

We have a talented team delivering for our clients, but as the size of the business changes we are required to set higher client service standards and to analyse the data to a deeper level. This year we have introduced management training programmes and specific skills development programmes to meet these and future challenges.

Strategy

The Board's aim is to continue to grow dgm above the industry average and we are confident that we will be able to do this through a combination of approaches:

- continuing to optimise existing clients' return on online spending, while using dgmPro to increase the level and detail of reporting to improve efficiencies in every client program e.g. measuring comparative performance of clients' creative designs.
- winning new clients is a key part of the Group's continuing success and we have increased the sales team by eleven new heads, including the former Head of Agency Sales at Yahoo, and are working directly with Agencies to deliver for their clients.
- in addition, the Group is looking to diversify its portfolio of services through acquisitions which we believe will enhance our advertisers' ability to do online marketing in an efficient way with consistent reporting and tracking.

Management will continue to focus on the UK operations, although advantage will be taken of acquisition opportunities in Europe. Any target company needs to have an immediate positive impact on the Group's ability to deliver for advertisers and a committed, experienced management team.

Summary

The online advertising market has been extremely buoyant in the last twelve months, currently accounting for 4.4% of total advertising spend (IAB H2 2004) and forecasters remain optimistic of further growth.

The growth is being fuelled by online consumer spending and broadband penetration. Online consumer spending is forecast to double from £10 billion in 2004 to £20 billion in 2007 *(Forrester Research)*, whilst broadband penetration in the UK is expected to grow from 19% in 2004 to 42.3% in 2010 *(Forrester Research)*. This level of growth is also reflected in Forrester Research analyst estimates for UK online advertising spend which predicts that it will double by 2010.

Online advertising is also forecast to grow at a faster rate than all other media due to its accountability. In an advertising world where marketers strive to justify the return on their advertising budget, dgm allows advertisers to track their results and calculate their return on investment over all aspects of the internet ranging from small hobby websites to the major search engines.

Consequently, the Board and I are confident that the outlook for the Group remains strong.

Stone of Blackheath

Lord Stone of Blackheath
Chairman
5 September 2005

consolidated profit and loss account

for the six months ended 30 June 2005

	Notes	**6 months to 30 June 05 £'000**	6 months to 30 June 04 £'000
Turnover		**10,171**	6,555
Cost of sales		**(6,754)**	(3,821)
Gross profit		**3,417**	2,734
Administritive expenses			
– Amortisation of goodwill		**(575)**	(574)
– Depreciation of tangible fixed assets		**(139)**	(142)
– Other administrative expenses		**(2,566)**	(1,971)
		(3,280)	(2,687)
Operating profit		**137**	47
Net interest		**17**	(2)
Profit on ordinary activities before taxation		**154**	45
Taxation	2	**(258)**	—
Total (loss)/profit after taxation for period		**(104)**	45
Basic (loss)/profit per share	3	**(0.03p)**	0.01p

There were no other recognised gains or losses other than the profit for the period.
All operations are continuing.

The accompanying accounting policies and notes form part of these financial statements.

consolidated balance sheet

as at 30 June 2005

	As at 30 June 05 £'000	As at 30 June 04 £'000
Fixed assets		
Intangible fixed assets	**6,388**	7,537
Tangible fixed assets	**488**	673
	6,876	8,210
Current assets		
Debtors	**4,980**	2,158
Cash at bank and in hand	**2,356**	590
	7,336	2,748
Current liabilities		
Creditors: amounts falling due within one year	**(4,054)**	(3,050)
Net current assets/(liabilities)	**3,282**	(302)
Total assets less current liabilities	**10,158**	7,908
Creditors: amounts falling due after more than one year	**(97)**	(91)
Net assets	**10,061**	7,817
Capital and reserves		
Called up share capital	**3,771**	3,588
Capital redemption reserve	**13,188**	13,188
Share premium account	**21,384**	21,116
Profit and loss account	**(28,282)**	(30,075)
Shareholders' funds	**10,061**	7,817

The financial statements were approved by the Board of directors and signed on their behalf on 5 September 2005.

Andrew Dickson, Director

consolidated cash flow statement

for the six months ended 30 June 2005

	Notes	6 months to 30 June 05 £'000	6 months to 30 June 04 £'000
Net cash outflow from operating activities	4	**431**	169
Return on investments and serving of finance			
Interest received		**17**	2
Interest paid		**—**	(4)
		17	(2)
Taxation		**(47)**	—
Capital expenditure and financial investments			
Purchase of tangible fixed assets		**(129)**	(274)
Sale of current asset investment		**—**	78
		(129)	(196)
Net cash inflow/(outflow) before financing		**272**	(29)
Financing			
Issue of ordinary share capital		**178**	35
Inception of finance lease		**—**	23
Capital element of finance lease rentals		**(8)**	—
Repayment of loan notes		**(23)**	—
		147	58
Increase in cash		**419**	29

notes to the financial statements

for the six months to 30 June 2005

1. BASIS OF PREPARATION

The interim report should be read in conjunction with the statutory accounts for the year ended 31 December 2004. The interim figures have been prepared on the same basis and applying the same accounting policies as in prior periods.

2. TAXATION

There are tax losses of approximately £4,889,550 to carry forward and use against future profits of the same trades. These losses represent a potential deferred tax asset of £1,466,865 at a corporation tax rate of 30%.

Tax losses have been utilised and offset against the profit for the period ended 30 June 2005. This results in a reduction in the deferred tax asset carried forward and a corresponding deferred tax charge for the period. An explanation of the deferred tax charge compared to the reported results is as follows:

	6 months to 30 June 05 £'000	6 months to 30 June 04 £'000
Profit on ordinary activities before taxation	**154**	45
Profit/(loss) on ordinary activities before taxation multiplied by corporation tax rate of 30%	**46**	14
Effect of:		
Amortisation of goodwill	**173**	173
Other expenses not deductible	**39**	—
Losses carried forward	**—**	(187)
Current tax charge for the period	**258**	—

3. (LOSS)/PROFIT PER SHARE

The calculation for the basic (loss)/profit per share is based upon the (loss)/profit attributable to ordinary shareholders divided by the weighted average number of shares on issue during the period.

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

	6 months to 30 June 05	6 months to 30 June 04
(Loss)/profit on ordinary activities after tax (£'000)	**(104)**	45
Weighted average number of shares	**374,072,594**	355,301,512
Amount of (loss)/profit per share in pence	**(0.03)**	0.01

4. NET CASH FLOW FROM OPERATING ACTIVITES

	6 months to 30 June 05 £'000	6 months to 30 June 04 £'000
Operating profit/(loss)	**136**	47
Depreciation	**139**	142
Amortisation	**575**	574
Loss on sale of fixed assets/current asset investment	**—**	3
(Increase)/decrease in debtors	**(486)**	540
Increase/(decrease) in creditors and provisions	**67**	(1,137)
Net cash flow from operating activities	**431**	169

5. COPIES OF THE INTERIM REPORT

Copies of the interim report are being sent to shareholders and are available to the public from the Company's registered office at 19 Cavendish Square, London W1A 2AW, as well as the Company's business address at Unit 800 Highgate Studios, 53-79 Highgate Road, London NW5 1TL. Copies can also be viewed online at www.dealgroupmediaplc.com.

independent review report to dealgroupmedia plc

Introduction

We have been instructed by the Company to review the financial information for the six months ended 30 June 2005, which comprises the profit and loss account, the balance sheet, the cash flow statement and notes 1 to 5. We have read the other information contained in the interim report, which comprises only the directors and advisers and the Chairman's statement and considered whether it contains any apparent misstatements or material inconsistencies with the financial information. Our responsibilities do not extend to any other information.

This report is made solely to the Company, in accordance with guidance contained in APB Bulletin 1999/4 "Review of Interim Financial Information". Our review work has been undertaken so that we might state to the Company those matters we are required to state to it in a review 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, for our review work, for this report, or for the conclusion we have formed.

Directors' responsibilities

The interim report, including the financial information contained therein, is the responsibility of, and has been approved by the directors. The directors are responsible for preparing the interim report and for ensuring that the accounting policies and presentation applied to the interim figures are consistent with those applied in preparing the preceding annual accounts except where any changes, and the reasons for them, are disclosed.

Review work performed

We conducted our review in accordance with guidance contained in Bulletin 1999/4 "Review of Interim Financial Information" issued by the Auditing Practices Board for use in the United Kingdom. A review consists principally of making enquiries of management and applying analytical procedures to the financial information and underlying financial data and, based thereon, assessing whether the accounting policies and presentation have been consistently applied unless otherwise disclosed. A review excludes audit procedures such as tests of controls and verification of assets, liabilities and transactions. It is substantially less in scope than an audit performed in accordance with United Kingdom auditing standards and therefore provides a lower level of assurance than an audit. Accordingly, we do not express an audit opinion on the financial information.

Review conclusion

On the basis of our review we are not aware of any material modifications that should be made to the financial information as presented for the six months ended 30 June 2005.

Grant Thornton UK LLP
Chartered Accountants
London Thames Valley Office, Slough
5 September 2005

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