dealgroupmedia plc

interim report 2006 six months ended 30 June 2006

highlights

- **Turnover increased to £12,824,000 (2005: £10,171,000)**
- **Operating loss of £1,501,000 (2005: £48,000 profit)**
- **EBITDA loss of £586,000 (2005: £851,000 profit)**
- **Costs of £718,000 incurred in relation to the restructuring of the business which should not recur**
- **Underlying growth of 45% from continuing business**
- **Proprietary technology platform strengthened to allow product expansion**
- **Strong performances from the Australian office and the recently opened South African office**

"Following the Chairman's review and as part of the turn around, the Group has been through a period of change. During much of this period our focus has been to stabilise and then develop our proprietary technology platform. Having achieved this, we are now seeing an increase in demand for our services and remain confident that despite competitive market conditions we can continue to win new customers with existing and innovative new products."

Andrew Dickson
Chief Executive

chairman's statement

for the six months ended 30 June 2006

"dgm has moved to regain its standing in terms of a solid product offering that is backed up by robust technology."

Following my review of the business, the management team, led by Andrew Dickson, has implemented and completed many of the changes required to take the Group forward. These changes have had a cost which, as part of the turn-around, should not be recurring and are necessary to position the Group to enable it to take advantage of a growing market.

Financial performance

Group turnover increased to £12,393,000 in the first half of 2006, an increase of 19% from the second half of 2005. As we had predicted at the Preliminary Results the gross profit margin fell from 31% in the second half of 2005 to 28% in the first half of 2006.

Underlying growth from continuing business is up 45% over the first six months of 2005, after removing the contribution made by the major customer lost in the second half of 2005.

The cost base has increased significantly as the team has worked to improve the affiliate platform. The cost base includes £718,000 in relation to the restructuring of the business. The majority of these costs, that are unlikely to be incurred again, relate to the major technology infrastructure changes that we have implemented and costs associated with key personnel changes.

Although the Group made an EBITDA (Earnings before Interest Depreciation and Amortisation) loss of £586,000 (2005: profit £851,000), I believe that the business has moved to regain its standing with the affiliate community in terms of a solid product offering that is backed up by robust technology.

We continue our strategy of providing clients with choice about the level of involvement with our systems and we have continued to develop ways of making the services provided to clients more efficient, while not affecting the control and advice we give to them.

dgm affiliates

The first quarter's results include the last elements of some of the accounts lost in 2005. Recently, as our technology and internal process have improved, the account management team have won several re-pitches. Several clients who introduced second networks to their programmes are now reverting back to single networks and I am pleased that dgm is more often than not being chosen as that network.

The affiliate landscape is competitive, and at the last count, there were 24 affiliate networks operating in the UK.

chairman's statement continued

for the six months ended 30 June 2006

With the publicised technology issues in 2005, we had low expectations for client wins in the first half of 2006, the results were therefore in line with our expectations and now I expect to see an improvement in the second half of the year.

The Fuel AdNetwork

Our AdNetwork business delivers 35 million impressions a month for our clients while representing some leading sites in the UK such as Match.com, eacademy and Manchester Evening Arena.

This division was subject to high staff turnover in 2005 but a new team has now been formed. The business has moved to using the Helios platform and is taking full advantage of customer targeting technology available. This positions us as a top performing Network in the UK.

Webgravity

The interaction of Search Engines and customers is key to all our business units. The Webgravity team have been selected to give advice on Natura Search Optimisation for several new clients in 2006, and I believe their services will be in greater demand as several new search engines, including MSN Search, launch later this year.

Technology

There has been a complete overhaul of how our technology is organised. Carl Davis has been appointed Head of Technology and has recruited a new team. The team has released two upgrades to dgmPRO, our proprietary software that affiliates and clients can interface with and it has received praise from both groups.

As the internet has matured advertisers wish to be able to allocate sales to channel on a transparent basis and dgm has developed technologies to allow the advertiser to do this with no manual intervention.

There has been a significant overhaul of the dgm hardware infrastructure leading to cost savings in the future and a sensible backbone to take the Group forward for future expansion.

Overseas

Our Australian office has taken advantage of the expansion of broadband internet in Australia and as a result is capitalising on the growing demand for online marketing services. Through perseverance it has established a strong position in their market which now contributes significantly to the Group's profit and loss account.

“I have been very impressed by the high quality and dedication of our staff.”

I am please to report that we have opened our South African office and believe that this will have recouped the start up costs by the end of the year. We continue to look at avenues for international expansion.

Staff

The dgm team have worked extremely hard on the challenges presented to them. I have been very impressed by their high quality and dedication.

Our Graduate programme continues to deliver for the Group and we have maintained this programme in 2006. The rate of staff turnover has now returned to industry standard.

Expressions of interest

On 13 February the Group announced that it had received more than one approach which may or may not lead to an offer being made for the entire issued and to be issued share capital of the Group. These approaches were all of a preliminary nature, however they led to a number of further approaches. On 12 July we announced that the Board was in ongoing preliminary discussions with several parties which may or may not lead to a corporate transaction.

We continue to evaluate these approaches, as well as other potential partnerships, in order to ascertain the appropriate way forward that can create shareholder value.

Overall

The wins that have been achieved in account management from existing clients must now translate into new client wins, and this will be the focus for the second half of the year.

I believe that we have moved forward a long way in the period and I look forward to the future developments.

John Porter
Chairman
26 September 2006

consolidated profit and loss account

for the six months ended 30 June 2006

	Notes	6 months to 30 June 06 £'000	6 months to 30 June 05 (restated) £'000	12 months to 31 Dec 05 (restated) £'000
Turnover		12,824	10,171	20,561
Cost of sales		(9,322)	(6,754)	(13,876)
Gross profit		3,502	3,417	6,685
Administrative expenses				
– Amortisation of goodwill		(575)	(575)	(1,149)
– Fixed assets depreciation		(187)	(139)	(292)
– Share-based payments		(153)	(89)	(181)
– Other administrative expenses		(4,088)	(2,566)	(5,593)
		(5,003)	(3,369)	(7,215)
Operating (loss)/profit		(1,501)	48	(530)
Net interest		10	17	36
(Loss)/profit on ordinary activities		(1,491)	65	(494)
Taxation	2	(695)	(258)	—
Total loss after taxation for period		(2,186)	(193)	(494)
Basic and fully diluted loss per share	3	(0.58p)	(0.05p)	(0.13p)

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 2006

	As at 30 June 06 £'000	As at 30 June 05 (restated) £'000	As at 31 Dec 05 (restated) £'000
FIXED ASSETS			
Intangible fixed assets	**5,443**	6,388	5,857
Tangible fixed assets	**531**	488	647
	5,974	6,876	6,504
CURRENT ASSETS			
Debtors	**4,991**	4,980	6,150
Cash at bank and in hand	**2,551**	2,356	1,682
	7,542	7,336	7,832
CURRENT LIABILITIES			
Creditors: amounts falling due within one year	**(5,574)**	(4,054)	(4,317)
Net current assets	**1,968**	3,282	3,515
Total assets less current liabilities	**7,942**	10,158	10,019
Creditors: amounts falling due after more than one year	**(7)**	(97)	(65)
	7,935	10,061	9,954
CAPITAL AND RESERVES			
Called up share capital	**3,800**	3,771	3,798
Capital redemption reserve	**13,188**	13,188	13,188
Share-based payments reserve	**382**	137	229
Share premium account	**21,471**	21,384	21,458
Profit and loss account	**(30,906)**	(28,419)	(28,719)
Shareholders' funds	**7,935**	10,061	9,954

The financial statements were approved by the Board of directors and signed on its behalf on 26 September 2006.

Andrew Dickson
Director

consolidated cash flow statement

for the six months ended 30 June 2006

	Notes	As at 30 June 06 £'000	As at 30 June 05 (restated) £'000	As at 31 Dec 05 (restated) £'000
Net cash inflow from operating activities	4	**1,189**	431	32
Return on investments and serving of finance				
Interest received		**10**	17	36
Tax credit		**(3)**	(47)	(44)
Capital expenditure and financial investments				
Purchase of tangible fixed assets		**(147)**	(129)	(454)
Sale of current asset investment		**32**	—	—
Purchase of intangible assets		**(162)**	—	(44)
		(277)	(129)	(498)
Net cash inflow before financing		**919**	272	(474)
Financing				
Issue of ordinary share capital		**16**	178	279
Capital element of finance lease rentals		**(43)**	(8)	(15)
Repayment of loan notes		**(23)**	(23)	(45)
		(50)	147	219
Increase in cash		**869**	419	(255)

1 Basis of preparation

The interim report should be read in conjunction with the statutory accounts for the year ended 31 December 2005. The interim figures have been prepared on the same basis and applying the same accounting policies as in prior periods, except as stated below:

Share-based payments

With affect from 1 January 2006, the Group adopted FRS 20 which deals with share-based payments.

Share option awards are granted by Deal Group Media plc to Group employees and are satisfied by Deal Group Media plc issuing shares to the employees on exercise.

Where an award of Deal Group Media plc Shares is made to a Group employee by a Group entity, the employing entity has an obligation to issue Deal Group Media plc shares to the employee if the vesting conditions of the award are satisfied. The employing entity incurs a liability in respect of the share awards recognised at fair value, revalued at each reporting date over the vesting period and at the date of settlement.

During the six months to 30 June 2006, £153,000 was charged to the profit and loss account in respect of equity settled transactions (2005: £89,000). This expense was based on the fair value of share-based payment transactions when contracted. All of the expense arose under employee share awards made within the Group's reward structures. Comparative figures have been restated accordingly.

Fair values of share options/awards, measured at the date of the grant of the option/award, are calculated using a binomial model methodology that is based on the underlying assumptions of the Black-Scholes model.

2 Taxation

There are tax losses of approximately £7,364,000 to carry forward to use against future profits of the same trade. These losses represent a potential deferred tax asset of approximately £2,209,000 at a corporation tax rate of 30%. Of this amount £1,724,000 was recognised at 31 December 2004. After a review of the forecasts and the recent performance of the Group, the directors feel it is prudent to release £695,000 from the deferred tax asset.

An explanation of the tax position compared to the Group's reported results is set out below:

	6 months to 30 June 06 £'000	6 months to 30 June 05 (restated) £'000	12 months to 31 Dec 05 (restated) £'000
(Loss)/profit on ordinary activities before taxation	**(1,491)**	65	(494)
(Loss)/profit on ordinary activities before taxation multiplied by corporation tax rate of 30%	**(447)**	20	(148)
Effect of:			
Amortisation of goodwill	**173**	173	345
Share-based payments	**46**	26	(359)
Deferred tax charge	**(695)**		
Other expenses not deductible	**—**	39	38
Surplus of depreciation compared to capital allowances	**—**	—	46
Accumulated losses utilised in year	**—**	—	(29)
Other differences	**—**	—	3
Losses carried forward to be offset against future taxable trading profit	**228**	—	104
Current tax charge for the period	**(695)**	258	—

3 Loss per share

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

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

	6 months to 30 June 06	6 months to 30 June 05 (restated)	12 months to 31 Dec 05 (restated)
Loss on ordinary activities after tax (£'000)	**(2,186)**	(193)	(494)
Weighted average number of shares	**380,029,031**	374,072,594	376,573,277
Amount of loss per share in pence	**(0.58)**	(0.05)	(0.13)

In view of the losses, options in issue have an antidilutive effect.

4 Net cash flow from operating activities

	6 months to 30 June 06 £'000	6 months to 30 June 05 (restated) £'000	12 months to 31 Dec 05 (restated) £'000
Operating (loss)/profit	**(1,501)**	48	(530)
Depreciation	**187**	139	292
Amortisation	**575**	575	1,149
Share-based payments	**153**	89	181
Loss on sale of fixed assets	**43**	—	13
Decrease/(increase) in debtors	**462**	(486)	(1,399)
Increase in creditors and provisions	**1,270**	66	326
Net cash flow from operating activities	**1,189**	431	32

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 2006, which comprises the profit and loss account, the balance sheet, the cash flow statement and notes 1 to 4. 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 2006.

Grant Thornton UK LLP
Chartered Accountants
London Thames Valley Office, Slough
26 September 2006

directors, company information and advisors

Directors

John Porter
Executive Chairman

Andrew Dickson
Chief Executive Officer

Adrian Moss
Non-executive director

Lord Stone of Blackheath
Deputy Chairman (non-executive)

David Lees
Non-executive director

Keith Lassman
Non-executive director

Dominic Trigg
Non-executive director

Paul Alexander
Non-executive director

Company Secretary

Keith Lassman

Registered office

19 Cavendish Square
London W1A 2AW

Nominated advisors and brokers

Evolution Securities Limited
100 Wood Street
London EC2V 7AN

Registrars

Capita IRG plc
Bourne House
34 Beckenham Road
Beckenham
Kent BR3 4TU

Auditors

Grant Thornton UK LLP
London Thames Valley Office
Churchill House
Chalvey Road East
Slough
Berks SL1 2LS

Solicitors

Howard Kennedy
19 Cavendish Square
London W1A 2AW

Memery Crystal
31 Southampton Row
London WC1B 5HT

Bankers

Barclays Bank plc
27 Soho Square
London W1D 3QR

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www.flathillplc.com

dealgroupmedia plc

Unit 800 Highgate Studios
53–79 Highgate Road
London NW5 1TL
t: +44 (0)20 7691 1880
f: +44 (0)20 7691 1881
dealgroupmediaplc.com