



**interim report
2005**

MEDIASURFACE®

chairman's statement

for the six months ended 31 March 2005

I am pleased to announce the results for the six months ended 31 March 2005. The results, which were ahead of expectations, clearly demonstrate that our strategy to empower the business user of Web Content Management Systems is proving to be a success.

At the time of my previous statement in the Annual Report I indicated that Morello, the Company's innovative software product, was set to drive revenue growth. I am pleased to report this has indeed been the case over the past six months, as is evidenced by a number of major wins including Inter-Continental Hotels Group, Citigroup, The Home Office, ESPN and Aegon Holdings.

Group revenues for the first six months increased by 29% to £3.66 million (2004: £2.83 million). The Group achieved a pre-tax profit of £0.14 million (2004: pre-tax loss £0.15 million). Net assets stood at £1.67 million compared with £1.46 million at 30 September 2004.

In line with our stated policy, earnings for the foreseeable future will be re-invested to finance the growth of the business. The Directors therefore do not recommend the payment of a dividend.

On 7 April 2005 the Company concluded the acquisition of Class-Act BV in the Netherlands. The acquisition brings to Mediasurface a new software product aimed at Small to Medium Businesses (SMB), a market the Company has hitherto not addressed. The acquisition is expected to be modestly profit enhancing and will complement the Company's product portfolio.

Prospects for the Company as a whole remain positive. Morello continues to attract significant interest and major new sale opportunities exist for the second half of the financial year. The Board remains committed to enhancing shareholder value and believes the Company is well placed to grow profitably.

MICHAEL JACKSON

Chairman
3 May 2005

chief executive's report

for the six months ended 31 March 2005

As you will appreciate from the Chairman's Statement, the results are ahead of market expectations both in terms of revenue and profitability. Behind these headline numbers, the Company is pleased to report that all of its revenue streams showed growth on the same period last year with:

- licence sales up 36%
- consultancy and training up 44%
- recurring revenues on an annualised basis up from £1.72 million to £1.91 million, up 11%

These growth figures illustrate the impact of the Company's R&D efforts on its competitiveness in the market, as is evidenced by significant new business wins with blue chip customers such as Citigroup, Inter-Continental Hotels Group, Aegon Holdings, ESPN and The Home Office. It is my firm belief that these organisations selected Mediasurface because of our innovative flagship product Morello, which clearly differentiates us in the market. Our business strategy of developing and marketing innovative applications targeted at the business user, yet robust enough to be used to build and run very significant web-applications has certainly paid off over the period and the average new business sales transaction has more than doubled.

The Company intends to continue with this strategy to power growth and has an exciting series of product releases planned for the second half of the Company year. Beyond this, further releases can be expected which again continue to demonstrate useful innovation and separation from our competitors.

As part of the Company's non-organic growth strategy, on 7 April 2005 the Company acquired Class-Act BV, a software developer based in the Netherlands. The company has already developed a Web Content Management application suitable for SMB and has approximately 80 customers in the Netherlands. The acquisition is expected to be immediately, though modestly, earnings enhancing. Strategically the Company has gained access to the SMB market through this acquisition as well as having an ideal solution to offer on a hosted rental or ASP basis to this market. The SMB market does appear to have a preference for hosted solutions of this type, to diminish the risks of having to maintain their own infrastructure and associated skill sets. It is a proven product and, when enhanced through Mediasurface's experience in creating business focussed tools and marketed through Mediasurface's emerging channel network, is expected to make a sound contribution to our recurring revenues.

I trust you will enjoy reading the detail of our interim results which I believe make good reading and should provide some comfort that your investment has been well rewarded through the efforts of the management team and employees.

LAWRENCE FLYNN

Chief Executive Officer

3 May 2005

consolidated profit and loss account

for the six months ended 31 March 2005

	Note	6 months to 31 March 2005 (unaudited) £	6 months to 31 March 2004 (audited) £	12 months to 30 September 2004 (audited) £
Turnover		3,661,081	2,839,562	5,403,482
Cost of sales		(104,802)	(75,083)	(142,533)
Gross profit		3,556,279	2,764,479	5,260,949
Administrative costs		(3,432,373)	(2,910,367)	(5,993,342)
Operating profit		123,906	(145,888)	(732,393)
Interest receivable and similar income		23,480	2,050	7,603
Interest payable		(8,639)	(9,628)	(12,604)
Profit/(loss) on ordinary activities		138,747	(153,466)	(737,394)
Tax on profit/(loss)	2	50,000	227,044	331,273
Profit/(loss) on ordinary activities after tax		188,747	73,578	(406,121)
Earnings per share – basic	3	0.2p	0.1p	(0.7)p
Earnings per share – diluted	3	0.2p	0.1p	(0.6)p

consolidated balance sheet

as at 31 March 2005

	31 March 2005 (unaudited) £	31 March 2004 (audited) £	30 September 2004 (audited) £
Fixed assets			
Goodwill	—	22,895	—
Tangible assets	180,777	177,044	177,969
	180,777	199,939	177,969
Current assets			
Debtors	2,786,869	1,629,410	2,173,866
Cash at bank and in hand	1,040,181	201,540	1,395,558
	3,827,050	1,830,950	3,569,424
Creditors: amounts falling due within one year	(2,330,484)	(1,679,958)	(2,276,041)
Net current assets	1,496,566	150,992	1,293,383
Total assets less current liabilities	1,677,343	350,931	1,471,352
Creditors: amounts falling due after more than one year	(11,428)	(16,623)	(14,384)
Net assets	1,665,915	334,308	1,456,968
Capital and reserves			
Called up equity share capital	764,757	13,474,032	764,738
Share premium account	9,574,782	8,317,666	9,574,782
Capital redemption reserve	13,083,244	—	13,083,244
Merger reserve	27,297,412	27,297,412	27,297,412
Profit and loss account	(49,054,280)	(48,754,802)	(49,263,208)
Shareholders' funds	1,665,915	334,308	1,456,968

consolidated cashflow statement

for the six months ended 31 March 2005

	6 months to 31 March 2005 (unaudited) £	6 months to 31 March 2004 (audited) £	12 months to 30 September 2004 (audited) £
Net cash outflow from operating activities	(339,473)	(795,492)	(1,170,202)
Returns on investments and servicing of finance	14,841	(7,578)	(5,001)
Taxation	—	227,044	227,044
Capital expenditure	(30,764)	(48,556)	(80,816)
Cash outflow before financing	(355,396)	(624,582)	(1,028,975)
Financing	19	(53,284)	1,572,606
Increase/(decrease) in cash in the year	(355,377)	(677,866)	543,631

notes

for the six months ended 31 March 2005

1. The interim financial information for the six months ended 31 March 2005 has been prepared in accordance with applicable United Kingdom accounting standards and under the historical cost convention in accordance with the Group's accounting policies published in the Annual Report for the year ended 30 September 2004.

The financial information for the six months ended 31 March 2004 has been extracted from audited accounts prepared for and included in the Admission document published 26 August 2004.

The financial information set out above does not constitute the Company's statutory accounts as defined by section 240 of the Companies Act 1985. It is an extract from the accounts for the year ended 30 September 2004 which have been filed with the Registrar of Companies. The auditors' report was unqualified. The auditors' report does not contain a statement under either section 237(2) or (3) of the Companies Act 1985. The Group's auditors have reported on those accounts as required by section 235 of the Companies Act 1985.

2. The tax on loss on ordinary activities represents R&D tax credits. For the purposes of the Interim Accounts for the six months ended 31 March 2005, an estimated R&D tax credit has been recognised.

3. Earnings per share

The loss per ordinary share is calculated by reference to the profit/(loss) attributable to ordinary shareholders divided by the weighted average number of shares in issue during each period as follows:

	6 months to 31 March 2005 (unaudited) £	6 months to 31 March 2004 (audited) £	12 months to 30 September 2004 (audited) £
Profit/(loss) for the year	188,747	73,578	(406,121)
Basic – weighted average number of shares	76,474,372	59,356,184	61,450,900
Basic – profit/(loss) per share	0.2p	0.1p	(0.7)p
Fully diluted – weighted average number of shares	83,605,770	59,356,184	62,154,270
Fully diluted – profit/(loss) per share	0.2p	0.1p	(0.6)p

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