

IDEAL SHOPPING DIRECT PLC

7 MARCH 2006

2005 PRELIMINARY RESULTS

Ideal Shopping Direct Plc, Britain's leading independent multi-channel TV home shopping business, today reports preliminary figures for 2005.

HIGHLIGHTS

	2005	2004	Growth
• Turnover	£79.2m	£60.4m	31%
• Operating Profit	£7.0m	£4.1m	71%
• Profit before taxation	£7.4m	£4.1m	80%
• Earnings per share (basic)	17.6p	9.4p	87%
• Full year dividends declared	3.0p	1.0p	200%
• Cash (net of borrowings)	£15.4m	£10.3m	49%

- Strong turnover growth, benefiting from a full year Freeview contribution
- Sales up 15% year-on-year on a like-for-like basis
- Operating margin up to 8.9% from 6.8%
- Full year pre-tax profits up 80% at £7.4m
- Company remains strongly cash generative
- Final dividend 2.0p (last year 1.0p) making full year total 3.0p (2004:1.0p)
- Fourth TV shopping channel - Jewellery Vault - launched on July 1st 2005
- Continuing investment in management and business infrastructure
- Voted "AIM Company of the Year" at PLC Awards 2005

Jim Hodkinson, Chairman, commented:

"These results reflect a year of healthy progress for Ideal Shopping Direct. Organic sales growth remained strong, despite a softening of the retail market generally, and the well documented growth in digital TV and in on-line retailing confirms our positioning in the most dynamic sectors of retailing. The focus on all elements of our business performance remains at a very high level, and these factors give the Board every confidence that we will be able to make further good progress during 2006."

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Chairman's Statement

In last year's annual report to shareholders I was delighted to be able to report a record profit and cash performance as the business began to leverage the operational gearing of the television shopping model. It is equally gratifying to be able to confirm our progress with another strong set of results for 2005.

We have enjoyed a full year's sales contribution from the Freeview platform (which launched in April 2004) and have added new revenue streams to the business, but have also delivered organic growth in like-for-like operations of c.15%, despite the well publicised difficulties of the retail market as a whole. These factors moved turnover up 31% on 2004 (which was 42% up in turn on 2003). We have invested significant amounts in the operational infrastructure of the business to give it the capability to scale up, but have still delivered enhanced operating margins by growing revenues so rapidly. This resulted in record operating profits of £7.0m, up 71%, and profit before tax of £7.4m, up 80%. Cashflow was also healthy and net cash balances at the end of the year were over £15m.

We declared a maiden dividend last year of 1p, and the Board now propose a final dividend of 2p to add to the interim dividend of 1p for 2005.

The profile of the Ideal Shopping Direct Board and senior management team has changed significantly over the last fifteen months. Key appointments in logistics, buying and other functions have been made to create a strong executive team under the leadership of Andrew Fryatt, who became Chief Executive Officer in September 2005. A new Finance Director, Mike Camp, joined Ideal in September. Mike's background in Booker and RAC Consumer combines experience of the fmcg supply chain and large scale consumer service management.

These changes have allowed the founder directors, Paul Wright and Val Kaye, to step back from day to day executive responsibility. Val became a non executive director in May of last year, and Paul becomes non-executive deputy chairman with effect from today. The Company is hugely indebted to them for their contribution, and their continuing presence on the Board will ensure that the business retains the flow of new ideas that has characterised its development over recent years.

Ideal's total workforce has grown to over 500 in the course of the last year. Their energy and commitment is a key resource and management have actively invested in developing and retaining their skills. On behalf of the Board I would like to thank the whole team: these excellent results are a testament to their efforts.

The well documented growth in digital TV and in on-line retailing confirms our positioning in the most dynamic sectors of retailing. The management team is maintaining a high focus on continuing organic growth from range and service enhancement, on effective operations and infrastructure development, and on the development and trial of new business streams. The external picture remains a mixed one however our performance in the current year is in line with our internal expectations and our positioning, capability and plans give the Board every confidence that we will be able to make further good progress during 2006.

Jim Hodkinson

Chairman

2005 Annual Review

PERFORMANCE OVERVIEW

Turnover for the year of £79.2 million was up 31% on 2004. As reported at the interims, 14% of this growth (£8.3m) was the result of sales from our Freeview channel up to the anniversary of launch in April. Additionally, our new Jewellery Vault channel contributed £1.5m of sales since its launch in July. Like for like sales growth was therefore of the order of 15%.

Aside from the dilutive effect of the Freeview royalty, margin was affected by two other factors: the launch of Jewellery Vault, whose business model has a lower average margin; and the high levels of growth in the footwear and technology categories, which are at lower margins. Overall reported margin therefore fell by 1.36% points against 2004. However, despite significant investment in elements of our cost base, strong productivity gains and the operational gearing of Ideal's core business model meant that costs fell significantly as a percentage of sales so that net operating margin increased from 6.8% to 8.9%. Overall cash generation was healthy and net cash balances grew by £5.1m.

MARKET DEVELOPMENTS

The TV shopping market continues to outperform High Street retailing, and is estimated to have grown at around 15% over the last 12 months. Although there is some evidence that this slowed in the second half, we anticipate that growth will continue, partly fuelled by the ongoing increase in digital penetration as the analogue signal is progressively switched off by 2012, and partly by increasing usage amongst the existing digital household base.

The growth in digital households, now at 68% of the total, continues to be driven by Freeview, with 10 million set top boxes or integrated digital TVs in the market, of which 3.6 million are second boxes. Sky still retains a lead in number of households, but the gap is closing fast.

In terms of its significance for TV shopping, there are 36 shopping channels on Digital satellite, but only 4 on Freeview, including Ideal World.

The future of broadcasting across the world is evolving, and convergence between TV and the internet will become increasingly important over the next few years. Ideal Shopping Direct already streams its channels onto the internet, and will develop this avenue further in 2006.

TRADING

Our main channel, Ideal World, achieved a 25% increase, led by strong growth in Fashion & Footwear and Leisure & Technology. Sales via our call centres and the automated ordering system were supported by the expansion of our web proposition in the year, which is the preferred route now for an increasing number of our customers.

Create and Craft, our digital satellite niche craft and hobby channel, saw growth of 65% in the year. Again, web-based ordering has become increasingly important here, and this was helped by the launch of the

Create and Craft Club, which encourages online sales via a discount, in return for an annual subscription, as well as delivering a bi-monthly online interactive magazine which features video projects.

Ideal Vitality, which focuses on the health, beauty & fitness market on digital satellite, grew by 62%. Both Ideal Vitality and Create and Craft benefit from sharing overheads with Ideal World, and thus make a very positive contribution to overall profit.

Our fourth channel, Jewellery Vault, which sells jewellery via a falling-price auction model, launched in July 2005 on Sky channel 638 for eight hours a day. Although it too benefits in part from shared overheads, the TV shopping model depends on achieving critical mass to reach profitability. Whilst we fully expect to achieve this over the next few months, the 2005 investment resulted in a £0.5m reduction in overall profit before tax.

Underlying product margin for the year was affected by stronger than expected growth in Footwear and Technology, which command lower than average margins. We have progressively strengthened our buying team over the last year and anticipate that this will improve our ranging, merchandising and sourcing in our target categories.

DEVELOPMENT

In such a fast moving market, the pursuit of business development opportunities remains a key component of our strategy. 2005 saw the launch of the Create and Craft Club, which includes an interactive online subscription magazine, delivered via broadband and combining video and internet functionality. In addition, we launched Jewellery Vault in July 2005.

Current projects being researched include an interactive online general merchandise catalogue, similar to a traditional mail order catalogue, but with a business model that limits the product sales risk and which utilises video adverts, and also a second online club concept. In addition, we are in discussion with a number of well known High Street brands, who are interested in having some presence on our TV shopping channels.

EMPLOYEES

The growth in the business has seen our employee numbers rise to over 500. Retaining, developing and motivating them is key to future success and in 2005 important steps were taken to achieve this. A defined contribution pension plan and SAYE option scheme were introduced last year as a part of a wider benefits package, and core skills training programmes have been enhanced. These initiatives have contributed to a 40% reduction in staff turnover compared with 2004.

INVESTMENT

The Company invested £1.75m in new and replacement fixed assets during the course of the year, including £0.9m in a major new computer systems project and £0.17m in site development. The first phase of the systems project went live in January 2006.

OPERATING COSTS

The operating cost to sales ratio decreased to 33.3% (2004: 36.7%) as the business continued to exploit the operational gearing of the television shopping business model. This is despite carrying a full year of the cost of operating on the Freeview platform, six months of Jewellery Vault channel costs and continued investment in people,

infrastructure and new developments. Substantial productivity gains were achieved in call centre and warehousing operations whilst also shortening our call queues and delivery times. We anticipate further gains from the investment being made in management and systems.

TAXATION

The overall tax charge is £2.3m (2004: £1.3m). The Company's actual corporation tax liability is mitigated by the utilisation of tax losses brought forward from previous years, however these losses have now been exhausted and it is therefore anticipated that tax payments will commence in the course of 2006.

CASH

The business model for the new Jewellery Vault channel requires an increased stockholding to provide the variety necessary for a fast moving auction show format. Other stocks have increased by c.£0.4m (10%) to support increased turnover. Supplier payment days outstanding have fallen from 64 to 50, reflecting changes in mix and short term fluctuations in payment patterns. Net cash inflow from operating activities was £6.9m (2004: £9.2m) and net cash balances rose by £5.1m. Surplus cash balances have mostly been invested in short-term bank deposits to maintain liquidity at minimum risk.

EARNINGS AND DIVIDENDS

Basic earnings per share increased by 87% and fully diluted earnings per share by 86%. Continued growth and cash generation has encouraged the Board to recommend a final dividend of 2p per share to add to the interim dividend of 1p, compared to the single dividend of 1p for 2004. Subject to approval by shareholders at the Company's Annual General Meeting on 4 May 2006, the dividend will be paid on 11 May 2006 to shareholders on the Register as at 10 March 2006.

ACCOUNTING POLICIES

The adoption of FRS 21 has resulted in a change in accounting policy in respect of proposed equity dividends, as discussed in notes 1 and 3 below.

The Company anticipates implementing FRS 20 "Share Based Payments" in its 2006 Financial Statements. The standard requires that the estimated fair value of share option grants be expensed through the Profit and Loss account in the period from grant to exercise. As the Company has historically used share options as a part of executive incentivisation, the change in treatment may lead to the recognition of additional operating expenses.

The Company also expects to implement International Financial Reporting Standards ("IFRS") in its Financial Statements for 2007. Planning for this transition, and the collation of comparative figures, is underway.

Andrew Fryatt
Chief Executive

Mike Camp
Finance Director

Consolidated Profit and Loss Account
For the Year Ended 31 December 2005

	Note	2005	2005	2004	2004
		£'000	£'000	restated £'000	restated £'000
Turnover			79,191		60,382
Cost of sales			<u>(45,822)</u>		<u>(34,113)</u>
Gross profit			33,369		26,269
Distribution costs		(2,670)		(1,867)	
Administrative expenses		(23,684)		(20,293)	
Net operating expenses			<u>(26,354)</u>		<u>(22,160)</u>
Operating profit			7,015		4,109
Net interest			<u>389</u>		<u>(4)</u>
Profit on ordinary activities before taxation			7,404		4,105
Tax on profit on ordinary activities	2		<u>(2,250)</u>		<u>(1,349)</u>
Retained profit transferred to reserves			<u>5,154</u>		<u>2,756</u>
Basic earnings per share	5		<u>17.6p</u>		<u>9.4p</u>
Diluted earnings per share	5		<u>17.3p</u>		<u>9.3p</u>

Consolidated Balance Sheet
For the Year Ended 31 December 2005

	2005	2005	2004	2004
	£'000	£'000	restated £'000	restated £'000
Fixed assets				
Tangible assets		8,794		7,908
Current assets				
Stocks	5,254		3,829	
Debtors	2,208		1,354	
Cash	<u>19,557</u>		<u>14,517</u>	
	27,019		19,700	
Creditors: amounts falling due within one year	<u>(17,295)</u>		<u>(13,649)</u>	
Net current assets		<u>9,724</u>		<u>6,051</u>
Total assets less current liabilities		18,518		13,959
Creditors: amounts falling due after more than one year		(3,294)		(3,367)
Provisions for liabilities and charges		<u>(757)</u>		<u>(794)</u>
		<u>14,467</u>		<u>9,798</u>
Capital and reserves				
Called up share capital		887		882
Share premium		180		84
Profit and loss account		<u>13,400</u>		<u>8,832</u>
Shareholders' funds		<u>14,467</u>		<u>9,798</u>

Consolidated Cash Flow Statement
For the Year Ended 31 December 2005

	Note	2005 £'000	2004 £'000
Net cash inflow from operating activities		<u>6,913</u>	<u>9,225</u>
Returns on investments and servicing of finance			
Interest received		506	236
Interest paid		-	(103)
Finance lease interest paid		<u>(117)</u>	<u>(137)</u>
Net cash inflow/(outflow) from returns on investments and servicing of finance		<u>389</u>	<u>(4)</u>
Capital expenditure			
Purchase of tangible fixed assets		(897)	(231)
Sale of tangible fixed assets		<u>5</u>	<u>-</u>
Net cash outflow from capital expenditure		<u>(892)</u>	<u>(231)</u>
Equity dividends paid	4	<u>(586)</u>	<u>-</u>
Financing			
Issue of shares		101	21
Receipts from borrowings		-	212
Repayment of borrowings		(339)	(235)
Capital element of finance lease payments		<u>(546)</u>	<u>(818)</u>
Net cash outflow from financing		<u>(784)</u>	<u>(820)</u>
Increase in cash		<u>5,040</u>	<u>8,170</u>

NOTES

1 BASIS OF PREPARATION

The financial information set out above in respect of 31 December 2005 does not constitute statutory accounts as defined in Section 240 of the Companies Act 1985. The financial information contained in this announcement has been extracted from the 2005 financial statements upon which the auditors opinion is unqualified and does not include any statement under Section 237 of the Companies Act 1985.

The preliminary announcement has been prepared in accordance with applicable accounting standards and under the historical cost convention.

The principal accounting policies of the Group are set out in the Group's 2004 annual report and financial statements. The policies in this preliminary announcement have remained unchanged from the 2004 financial statements, with the exception of the policy relating to the treatment of dividends which has been changed in accordance with the provisions of FRS 21. Under the new standard, if the company declares dividends to shareholders after the balance sheet date the company does not recognise those dividends as a liability at the balance sheet date. Previously where dividends were proposed after the balance sheet date but before authorisation of the financial statements they were recorded as balance sheet liabilities. The provisions of FRS 21 also require that dividends recognised in the year are disclosed as a movement on reserves, and not on the face of the consolidated profit and loss account. This change results in a restatement of the 2004 treatment of dividends declared.

2 TAXATION ON PROFIT ON ORDINARY ACTIVITIES

	2005 £'000	2004 £'000
Corporation tax at 30% (2004: 30%)	1,694	45
Total current tax	<u>1,694</u>	<u>45</u>
Deferred tax:		
Origination and reversal of timing differences	556	1,304
Adjustments in respect of prior year	<u>-</u>	<u>-</u>
Total deferred tax	<u>556</u>	<u>1,304</u>
Tax on profit on ordinary activities	<u>2,250</u>	<u>1,349</u>

The deferred tax charge of £556,000 represents release of the deferred tax asset established in respect of trading losses in prior years under FRS 19 and other timing differences.

3 PRIOR YEAR ADJUSTMENT

As disclosed in note 1, FRS21 was adopted in the year. Under the previous accounting policy the maiden dividend of £292,000 (1p per ordinary share), which was proposed after the 2004 balance sheet date, was treated as a liability at that date. Under FRS 21 this dividend is not treated as an appropriation of profit in 2004 or as a liability in the 2004 balance sheet. The comparative figures in these financial statements have been restated accordingly.

In the current period dividends of £588,000 have been proposed after the balance sheet date. Under the previous accounting policy these would have been shown as a liability and deducted from the profit for the year. Under the new accounting policy these are not accrued and are disclosed only in note 4.

4 DIVIDENDS

	2005	2004 restated
	£'000	£'000
Dividends on ordinary shares		
Paid during the year		
- 2004 final	292	
- 2005 interim	294	
	<u>586</u>	<u>-</u>
Proposed after the year-end (not recognised as a liability)	<u>588</u>	<u>292</u>

The proposed dividend is subject to approval by shareholders at the Annual General Meeting.

5 EARNINGS PER SHARE

The calculation of the basic earnings per share is based on the earnings attributable to ordinary shareholders divided by the weighted average number of shares in issue during the year.

The calculation of diluted earnings per share is based on the basic earnings per share adjusted to allow for the issue of shares on the assumed conversion of dilutive options.

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

2005	Earnings £	Weighted average number of Shares	Per share amount Pence
Earnings attributable to ordinary shareholders	5,154,000	29,315,129	17.6
Dilutive effect of securities:			
Options	<u>-</u>	<u>535,381</u>	<u>(0.3)</u>

Diluted earnings per share	<u>5,154,000</u>	<u>29,850,510</u>	<u>17.3</u>
2004	Earnings £	Weighted average number of Shares	Per share amount Pence
Earnings attributable to ordinary shareholders	2,756,000	29,203,449	9.4
Dilutive effect of securities: Options	-	379,884	(0.1)
Diluted earnings per share	<u>2,756,000</u>	<u>29,583,333</u>	<u>9.3</u>

6 REPORT AND ACCOUNTS

Copies of Company's annual report and accounts will be posted to the shareholders shortly.