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Digital Marketing Group plc

marketing in the digital age

contents

1. performance highlights

- The admission to AIM of Digital Marketing Group via the merger with Seashell II
- The completion of four excellent cornerstone acquisitions (HSM, Dig For Fire, Cheeze and Jaywing)
- Post acquisition results of £8 39m Gross Profit (Revenue less direct cost of sales) and £2 00m EBITDA (before exceptional costs but after charges for share options)
- When looked at on a pro forma annualised and normalised basis for the 12 months ended 31 March 2007 the acquired businesses would have delivered
  - £23 95m Gross Profit up 25 1% on prior year
  - £6 0m EBITDA before charges for group share options, up 38 4% on prior year
  - £5 2m EBITDA after annualised company only costs of £0 85m
- Each acquired business achieving to 31 March 2007 the financial forecasts upon which our investment decisions were based
- Securing significant initial shareholder investment, excellent banking facilities and subsequent further shareholder equity investment enabling us to achieve a balance of sensible gearing and funds available for future acquisitions

2. chairman's statement

It is a pleasure to report our maiden results We posted Revenue of £13 1m and profit before tax and exceptional costs of £1 4m After deducting exceptional costs of £0 3m profit before tax on continuing operations amounted to £1 1m EBITDA before exceptional costs was £2 0m

Gross Profit, which represents Revenue less direct costs of sales, is an important measure in our industry and I am therefore also pleased to report a Gross Profit of £8 4m

These results represent post acquisition figures to 31 March 2007 and comprise 6 months for HSM Limited (HSM) and Scope Creative Marketing Limited (trading as Dig For Fire), 3 months for Cheeze Limited (Cheeze) and 2 months for Alphanumeric Group (trading as Jaywing) Two of these entities have moved their year ends to 31 March from 31 December in order for us to report co-terminus results

Additionally under IFRS 5 our Financial Statements contain results from discontinued operations relating to the activities of Seashell II Limited with whom we merged in October 2006 prior to listing on AIM In order therefore to aid comprehension we have provided in the Strategic Review, for illustrative purposes, the results as if each business had been in the Group for the full year to 31 March 2007 The headline figures, for illustration purposes, show Revenue of £37 6m, Gross Profit of £24 0m and EBITDA of £5 2m

Importantly, these results fulfil our financial expectation for each of the Group companies for this period

Digital Marketing Group is a recently formed Group of companies based in the UK and focused on the provision of direct digital marketing services to its clients Although the Group is recently formed, each of our companies

- Has proven entrepreneurial leadership with a strong financial track record
- Is a recognised market leader
- Enjoys outstanding employee and client loyalty
- Is regionally based and serves a wide variety of largely blue chip clients
- Is passionate about a shared view of a highly dynamic and growing market and how to meet future client needs
- Include senior managers who, as vendors, have invested significantly in the share capital of the Group

These are early days for our Group, but all of our companies are performing well both individually and collectively A stream of new business has been won through cross referrals and joint pitches are also achieving notable successes

In addition to the significant investments management has made in the Group, they are also incentivised by plans which reward the delivery of superior earnings per share ("EPS") growth over a three year period, we are very focused on delivering for shareholders as well as clients.

I would like to thank fellow Board members for their support, and our employees and managers under the exceptional leadership of Ben Langdon for these excellent results and their commitment to our Group vision

In particular I would also like to thank the clients of Digital Marketing Group for their loyalty and support A group in a business such as ours is genuinely 'nothing' without them Our business is focused on delivering personalised communications in a digital age Our aim as a Group of integrated businesses is focused on helping our clients generate more profitable and loyal customers, and improved ROI ("Return On Investment") on marketing spend

We are confident of sustaining high levels of organic growth and, selectively, attracting further complementary companies to the Digital Marketing Group

On behalf of the Board, I would like to welcome Sarah Guest who will be joining us as our new Financial Director and Company Secretary in September 2007, and to thank Robert Millington for his valued contribution in leading the Group through the AIM flotation process and the first phase of its development We are delighted to welcome Sarah Guest to our Board She brings with her a wealth of experience and we are confident that she will make a substantial contribution to the Group

Stephen Davidson
Chairman
June 26 2007

3. strategic review

3 1 introduction

In 2006 we set out to create an innovative, highly focused Group of businesses providing personalised communications for clients across all digital and direct channels

why?

The market context for the decision to create this business was (and remains) extremely encouraging

- Advertising expenditure through traditional media channels is in decline (Source Internet Advertising Bureau Factsheet Online Ad Spend 2006)
- Online advertising is experiencing significant growth, and is predicted to continue growing strongly into the future (Source Internet Advertising Bureau Factsheet Online Ad Spend 2006) According to a Pricewaterhouse Coopers report released on 21 June 2007 internet advertising in the UK will grow to £4 5bn and account for nearly 30% of all UK advertising by 2011
- The internet has emerged as a new tool for "direct" or one-to-one marketing
- The ongoing evolution of the internet creates a constant new feed of channels for brands to engage with consumers
- The growth in digital interactivity has created an explosion in customer data capture opportunities for brands

Most importantly, digital interactivity gives marketing clients much greater and more identifiable returns on their investment

- Measurement using technology, brands can now better measure the effectiveness of marketing campaigns by tracking "online" behaviour and transactions often in real-time,
- Data capture brands can develop direct and cost-effective communications with customers and gain a greater degree of consumer data than through traditional advertising channels, many of which contain no data capture opportunities,
- Flexibility of medium "online" campaigns can be adapted at very short notice (in some cases in real-time) as a result of information gleaned from previous marketing, which can increase the levels of personalisation and enhance ROI in the short-term at low cost

Core to the strategic vision of the Company therefore was that our business focused on the specialist area of digital direct marketing Digital Marketing Group is not a "marketing services" group and will never seek to make investments in traditional marketing services such as mass-market advertising agencies, packaging, design, or sales promotion

Upon the Company's admission to the Alternative Investment Market ("AIM") in October 2006 the company's stated objectives were to develop the business through two key strategies

- "buy and build" through the acquisition of a number of businesses with complementary skills in digital direct marketing (fig a), and
- "organic growth" driven by the inherent growth within the acquired businesses and the application of a group business development programme

digital marketing group

Digital Marketing Group has now acquired four well established, profitable and fast growing businesses

- **HSM Limited (HSM)** – one business with two divisions, Inbox Digital, an online marketing agency and HSM Telemarketing The segmental reporting set out in Note 2 of the Consolidated Financial Statements combines these under outbound telemarketing and online marketing
- **Scope Creative Marketing Limited (trades as Dig For Fire)** – the UK's largest direct marketing agency operating exclusively outside of London
- **Cheeze Limited (Cheeze)** – one of the UK's leading digital media planning and buying agencies
- **Alphanumeric Group (trades as Jaywing)** – a leading provider of marketing, credit and fraud data services in the UK

All of the acquired businesses share common characteristics

- Desire to become part of a focused digital direct marketing company rather than a "marketing services" group
- Proven expertise in their individual fields with experienced, high quality management teams
- Entrepreneurially run, fast-growing, with complementary skills to one another in the focused area of digital direct marketing
- All located outside of London where the focus of businesses in this sector is often more philosophically skewed to delivering ROI for clients, and where staff and client retention is strong

Through the acquisition of these businesses we can now offer clients the ability to coordinate both their "online" and "offline" direct marketing strategy and concurrently offer the skills necessary to input, collect, analyse and apply customer data in order to generate more effective digital direct marketing, higher brand-consumer loyalty and improved client profitability

The Group is now actively looking for selective and specialist businesses with skills in mobile marketing, and web development technology The Group may also seek to acquire businesses in sectors where the need for digital direct marketing is most pronounced e g media and entertainment or where our platform could significantly improve an existing business e g digital advertising networks

In addition to our "buy and build" strategy we have implemented an organic growth strategy with a marketing and new business development programme targeting clients who already use digital, direct or database marketing as part of their existing marketing mix We implement a rigorous cross referral programme for new business across the existing client base of the Group, and have had significant success already in attracting incremental revenue to the Group

Panasonic

A recent example of a client that has chosen to employ the combined services of Digital Marketing Group is Panasonic As their digital communications agency, Inbox have already introduced other group companies to Panasonic and the result has been a highly successful joint viral video campaign through Inbox Digital and Dig For Fire The campaign which was featured on YouTube and myspace com was passed around the internet and not only was it viewed by over 1 3 million people, it generated thousands of email registrations into the Panasonic eCRM programme which is managed by Inbox Digital

AA

Another example of a blue-chip client using the combined services of Digital Marketing Group is AA Business Services who have used a combination of Cheeze for online media planning and buying, Inbox Digital for online advertising and email marketing, and HSM for telephone-based sales generation and conversion The AA prospect database is managed by HSM and the results of the entire campaign activity can be measured centrally on a cost per click, cost per response, cost per sale and cost per channel basis

Importantly each of the companies within our group will start to benefit from our own proprietary integrated Digital and Direct Marketing Platform "Digital Brain" (fig b)

In effect, Digital Brain will evolve through combining existing agency skills and will allow us to offer our clients integrated data and contact strategies in real time through digital and direct channels

Finally, the Group has an identified plan for integration produced in collaboration with the CEOs of each of the Group companies, and focused on the following areas

- Marketing
- Trade Press Relations
- Office Premises
- Financial Management
- Information Technology
- Human Resources
- Telecomms
- Insurance
- Utilities

The Digital Marketing Group platform will allow communications to be integrated across multiple channels At the heart is a digital brain which can receive data from these channels and pass back instructions in order to personalise the content or timing of future communications

3.1.1 2006/7 performance

The Group was formed in October 2006 with the acquisitions of HSM and Dig For Fire In January 2007 we acquired Cheeze and Jaywing

Our results represent post acquisition figures to March 2007 and comprise 6 months for HSM and Dig For Fire, 3 months for Cheeze and 2 months for Jaywing

On this basis the Group achieved

- £8 39m Gross Profit (Revenue less direct cost of sales)
- £2 00m EBITDA before exceptional costs but after charges for share options

Throughout the remainder of this report certain information is provided on an annualised and normalised basis This information is provided for illustrative purposes only The information is based on the statutory accounts of the individual entities prepared under UK GAAP, time apportioned where appropriate The information has been adjusted for items which are considered to be non recurring, for example excess management remuneration, and excludes charges in respect of share options

When looked at on a pro forma annualised and normalised basis the group's results for the 12 months ended 31 March 2007, as shown in the following table, would have been

- £23 95m Gross Profit up 25 1% on the previous year
- £6 0m EBITDA for the four trading businesses before charges for group share options up 38 4% on the previous year
- £5 2m EBITDA after annualised company only costs of £0 85m.

The table below shows the summarised contributions of each Group company together with illustrative comparatives for the previous year

3.1 2 liquidity review

The Group was originally funded by an equity placing and merger with Seashell II Limited which raised £10 6m This allowed the Group to secure the acquisitions of HSM and Dig For Fire with net cash outflow of £8 9m

In January 2007 the Group secured bank funding of £13 85m to allow the acquisitions of Cheeze and Jaywing for net cash outflows of £11 75m Total borrowings were approximately 2 6 times current EBITDA

The consolidated cash flow statement shows the Group to be cash generative from its operations

In April 2007 the Group undertook an equity placing of 14,285,715 shares raising a gross £10m This has allowed the Group to pay down £2 5m of its borrowing and retain funds for potential further acquisitions

	06/07 annualised		05/06 annualised		% growth	
	Gross Profit £m	EBITDA £m	Gross Profit £m	EBITDA £m	Gross Profit yr/yr%	EBITDA yr/yr%
HSM	5 81	1 16	4 05	0 70	43 5%	**65.7%**
Dig For Fire	5 46	1 55	5 14	1 41	6 2%	**9.9%**
Cheeze	2 50	0 86	1 47	0 42	70 1%	**104.8%**
Jaywing	10 18	2 48	8 48	1 84	20 0%	**34.8%**
	23.95	**6.05**	**19 14**	**4.37**	**25.1%**	**38.4%**
Company only	-	(0 85)				
	23.95	**5.20**				

The figures are shown for illustrative purposes only The information is based on the statutory accounts or management accounts of each group business and time apportioned where appropriate The figures have been adjusted for items which are considered to be non recurring, for example, excess management remuneration and exclude charges in respect of group share options, which, on an annual basis would be £1 57m The 05/06 columns for HSM and Cheeze represents the year ended 31 December 2005

More details of individual financial performance is provided in section 3 4 Description of Business

3.1 3 outlook and objectives for 2007/8

The trend towards online advertising and digital marketing is strong

- Online advertising spend in 2006 exceeded £2bn and spending on internet advertising grew by 41 6% year-on-year on a like-for-like basis
- The advertising industry as a whole managed growth of 1 1% Online grew by £649 4m meaning that the rest of the advertising market declined Press, TV, Radio, Cinema, and Direct Mail all experienced falling revenues
- Online's share of the market has grown to 11 4% for the whole of 2006 up from 7 8% for 2005

(Source Internet Advertising Bureau Fact Sheet Online adspend - 2006)

All of the recently acquired businesses achieved their financial forecasts and goals for 2006/7 However, we do not rest on the assumption that the underlying growth in the digital market will inevitably deliver success, and we therefore measure our businesses and the Group against a number of key performance indicators

- Each of our businesses is expected to contribute to our stated ambition of achieving 25% Compound Annual Growth Rate in Earnings Per Share ("EPS") between March 2007 and March 2010
- Each of the businesses is expected to achieve a level of top line revenue growth that will allow us to deliver this EPS performance without having to rely on cutting costs We firmly believe that the ultimate test of strength of any business in this sector is its ability to generate strong revenue as well as EBITDA growth
- In addition to the strong organic growth being forecast by our businesses we hope to deliver incremental revenues to the Group through coordinated new business pitches We are optimistic that these could generate significant additional revenue to the Group over and above the organic growth levels already forecast by the businesses in 2007/8
- In addition we aim to measure the performance of our business through "softer" measures such as client satisfaction and employee loyalty Prior to the acquisition of each of our businesses we undertook a client satisfaction survey, and we intend to repeat that exercise during 2007/8 We also intend to conduct a similar survey of the 378 employees across the Group that were employed as at 31 March 2007
- Finally, we intend to implement some rationalisation of the cost base as part of our integration plan This will contribute to improved margins over time The integration plan is however focused on areas that will not impact on the Group's delivery of product and service to its clients

3.1.4 long term strategic vision

The long term strategic vision for Digital Marketing Group remains extremely exciting

- We have completed our cornerstone acquisitions more quickly than expected
- We have successfully begun the intensive task of delivering organic and cross-referred growth to the acquired businesses, and have an ongoing plan for further development in this area
- We have identified further specialist companies for acquisition that will help complete the full suite of digital marketing services
- The opportunity to develop the business into parallel areas of digital marketing is becoming more apparent by the day
- We can already envisage a time where Digital Marketing Group utilises its existing skills and resources to enter new digital sectors

online PR

Noize, the Group's Online PR offering is currently being developed from combining existing skills within Cheeze, Dig For Fire and Inbox Digital

The services of the division will focus on 3 main areas

1. Mapping, Understanding and Stimulating Online Conversation

Noize will work to identify 'online chatter' about particular subjects or brands
The work done by Cheeze will encompass software solutions which trawl the net (from forums, to blogs and chat rooms) and identify instances of phrases or words being mentioned about client brands

Noize will also monitor the channels relevant to brands where we can use paid-for promotion to stimulate conversations with key online influencers Access to Cheeze's existing Blog and Podcast Directory ("BLAD") and the Inbox viral marketing database will also help Noize disseminate brand messages

2. Content Creation & Dissemination

Noize already has access to an online audience community that is willing to receive content from Digital Marketing Group

Cheeze is already working with clients to create "blog builds" and strategy but not content preparation In combination with the skills of Dig For Fire and Inbox Digital we will be able to offer an end to end blog solution providing both strategy and execution

3. Research

Noize will test brand campaigns and messages via the Group's existing online community (BLAD & Inbox) prior to full market roll-out

On a wider and more ambitious scale we can foresee an opportunity for Digital Marketing Group to enter the following digital business sectors

content

- Digital Marketing Group already owns and manages websites and creates digital content that attracts millions of people e g inboxjunkies com and gamenet com
- The opportunity exists to develop a wider portfolio of Digital Marketing Group-owned websites that could generate advertising revenue
- Through new creative content owned by Digital Marketing Group we have the opportunity to attract consumers and develop revenue streams through
  - Captured email address databases
  - Advertising revenue, potentially managed by our own advertising network Our experience of managing the third party advertising on Tesco com site at Dig For Fire, encourages us to believe that a carefully managed entry into this sector of the digital market might prove fruitful

technical platforms

- Within the Group we now have extensive technical expertise and a number of proprietary platforms One of our stated objectives in 2006/7 was to pull together these complementary technologies in order to build a proprietary integrated digital and direct marketing platform, which we are calling our "Digital Brain"
- Our platform and technology services are being continuously developed, and our aim is to create platforms which can not only deliver superior technical solutions for this sector, but can help introduce wider cross sell opportunities for all the Group's companies

digital advertising network

- Digital Marketing Group already possesses the skills necessary to help web publishers recruit more visitors, communicate with them better and increase loyalty We believe our creative and strategic skills in this area will be superior to those of existing networks
- "Digital Brain" should enable us to help advertisers target ads more effectively thereby increasing quality response rates, increasing site revenue and the relevance of advertising on a site We also believe our use of "Digital Brain" will prove attractive to publishers, advertisers and visitors alike
- There are two options available to Digital Marketing Group, both of which we are currently investigating
  1 Build a small network organically Gamenet alone gets up to 3 million impressions per month
  2 Acquisition Find a network we could acquire and improve via the skills of Digital Brain

The medium term organisational structure of Digital Marketing Group might therefore appear as in fig c below

Since our admission to AIM in October 2006 we have

- Acquired 4 market-leading businesses
- Delivered on the financial promises and commitments made to our shareholders to date
- Built an integrated platform to deliver digital direct marketing to our clients
- Secured new accounts and generated incremental revenue to the Group
- Identified acquisition targets and new opportunities for the Group's development
- Broadened our shareholder base to include blue chip institutions, as well as using bank debt sensibly to give us flexibility in the market
- Short-listed targets for integration in collaboration with the CEOs of all the Group companies

In short, much achieved, much opportunity

Ben Langdon
Chief Executive
June 26 2007

3 2 board of directors

Stephen Davidson
Chairman (aged 51)

Stephen is Chairman of SPG Media Plc and Enteraction TV Limited He is also a Non-Executive Director of Inmarsat Plc, Betex Group Plc, EBT Mobile China Plc and Datatec Limited Stephen has held various positions in Investment Banking, most recently at WestLB Panmure where he was Global Head of Media and Telecoms, Investment Banking, then Vice Chairman of Investment Banking

From 1993 to 1998 Stephen was Finance Director, then CEO of Telewest Communications Plc He was Chairman of the Cable Communications Association from 1996 to 1998

Stephen holds an Honours degree in Mathematics and Statistics from the University of Aberdeen

Ben Langdon
Chief Executive (aged 43)

Ben was previously Chairman of Euro RSCG UK, one of the country's largest marketing service groups, which includes businesses in digital and direct marketing, advertising, public relations, sales promotion and design

From 1996-2003 Ben worked at McCann-Erickson where he was promoted from Chief Executive of the London business to UK Group Chairman In 2000 he was promoted to European Regional Director of Universal McCann, the media planning and buying business within the Group and then in late 2001, at the age of 38, to Regional Director for McCann-Erickson World Group, Europe, Middle East and Africa ("EMEA") During Ben's time at McCann-Erickson, the UK agency was voted the best overall agency in the UK in Marketing Week Magazine's Annual Survey (2003) amongst the country's client community Ben holds an Honours degree in Modern History from Oxford University

Gary Stevens
Executive Director (aged 37)

Gary is a marketing professional with over 16 years experience in direct marketing Gary started his marketing career at Teledata, a London-based telemarketing agency In 1991 he left Teledata and co-founded HSM and has been pivotal in its development

Gary is a member of the Institute of Direct Marketing and manages the Inbox Digital Division within HSM Gary is the Chief Executive of HSM

Robert Millington
Finance Director & Company Secretary (aged 52)

Robert was Company Secretary and Financial Director of Dig For Fire from 2001 to October 2006 Robert had previously worked at Palamatic Handling Systems Limited and Norton Holdings, as well as running his own accountancy practice

Andrew Wilson
Non-Executive Director (aged 46)

Andrew is currently Chairman of London Town Plc and a non-executive director of The Corporate Services Group Plc, Watford Leisure Plc and Global Health Partners Plc Previously he was an investment banker with UBS Warburg specialising in mergers and acquisitions

Ian Robinson
Non-Executive Director (aged 60)

Ian is currently a Director of Strand Associates Limited and London Town Plc Previously he was Chief Financial Officer of Carlisle Group's UK staffing and facilities services operations Ian qualified as a chartered accountant having trained with KPMG in London after graduating with an Honours degree in economics from Nottingham University He has held several other senior financial appointments in UK and overseas service group companies

Barry Jenner
Non-Executive Director (aged 49)

Barry is Director of global human resources for Gallaher Limited ("Gallaher") Prior to this he was Managing Director of the UK division of Gallaher (2000-2006) managing the sales, marketing, trade marketing and distribution functions Barry joined Gallaher as a management trainee in 1979 and held a series of sales positions until entering brand management/ marketing in 1985 Barry was appointed head of cigarette marketing in 1991, before becoming marketing director, UK in 1994

3 3 operations board

The Operations Board meets regularly under the Chairmanship of Ben Langdon and manages all the key day to day issues affecting our clients, people and stakeholders

The Operations Board consists of the following people

Ben Langdon, Chief Executive, Digital Marketing Group Plc

Robert Millington, Finance Director, Digital Marketing Group Plc

Gary Stevens, Chief Executive, HSM

Helena Stevens, Managing Director, HSM

Charles Buddery, Chief Executive, Dig For Fire

Katherine Jerman, Managing Director, Cheeze

Jamie Riddell, Director of Innovation, Cheeze

Martin Boddy, Managing Partner, Jaywing

Andy Gardner, Managing Partner, Jaywing

HSM: inbox digital

outbound telemarketing and online marketing

3.4 description of business

the business today

Digital Marketing Group is engaged in the creation, planning and execution of highly personalised communications via digital and direct channels This is what we call "digital direct marketing"

Digital Marketing Group consists of four cornerstone businesses

1. History

- HSM based in Swindon, was founded in 1991 and incorporated in 1997 as an outbound telemarketing business, specialising in the business to business sector
- In 1999, following the creation of Inbox Digital ("Inbox"), the directors identified the opportunity to link outbound telemarketing with "online" marketing This greatly improved results for clients by enhancing communication with current and prospective customers and providing better targeting for outbound telemarketing This strategy has resulted in award winning campaigns and has been pivotal in building and retaining HSM's client base

2. Product

HSM operates via two divisions

- Inbox Digital a full-service "online" marketing business and
- HSM Telemarketing which specialises in outbound telemarketing and database management

Its strength is the level of integration that has been achieved across the two businesses enabling direct marketing through a number of digital channels

Underlying this is a proprietary technology platform that integrates key real-time marketing channels encompassing email, the internet and the telephone At the heart of the platform is an email marketing system that delivers highly targeted and personalised email campaigns The use of data can allow related websites to be personalised when a recipient clicks through from an email, thereby creating a tailored experience In addition, where appropriate, the data can then automatically drive outbound telemarketing With the platform's ability to track "online" interaction, detailed campaign reporting can be carried out which can help refine future activity

inbox digital

Inbox Digital plans, creates and manages end-to-end digital marketing campaigns for many leading brands Its services include

- Online advertising
- Email marketing
- Viral advertising
- Websites (through website design and build programmes), and
- Campaign reporting

Inbox Digital is a leading UK email marketing agency, and was the creator of 4 of the UK's top 10 viral games in 2006 (Marketing Magazine 21 March 2007)

HSM

HSM Telemarketing's core activity is highly targeted outbound telemarketing This is a market it knows intimately and in which it has proven success over the last 15 years However, as many clients require a full spectrum of outsourced contact centre services, HSM Telemarketing provides a range of solutions along with value added support services These include

- Telemarketing campaign and data planning
- Database development and system integration
- Full multi-channel contact centre (co-browse, email management, call blending etc)
- Inbox Digital technology integrated into the contact centre
- Bespoke on and offline reporting and analysis

HSM Telemarketing was estimated to be a top 10 independent (prior to acquisition by Digital Marketing Group) outbound agency as a result of an analysis of data from Marketing Direct Magazine

3. Clients of inbox digital

Clients of HSM Telemarketing

inbox digital

Inbox launched K-Swiss' new sneaker range through a Pan European website and interactive advertising campaign driving over 2 million people to the website

Inbox have been managing and delivering Panasonic's online customer and prospect management strategy for over 2 years doubling the size of their database Purchase intent within the base increased by 16% as a result of this activity

With over 20 million views Viva la Volley was considered the most successful viral marketing campaign of 2006

HSM

Digital marketing is at the heart of HSM Telemarketing's business This latest campaign for the AA integrates online advertising email marketing and telesales through HSM

With numerous awards for strategy, quality and training HSM Telemarketing are providing the UK's leading brands with highly successful measurable and innovative telemarketing solutions

HSM Telemarketing's new state of the art contact centre was once voted "The happiest workplace in Britain"

4. Financial performance

The following table shows the financial contribution of HSM to the Group's results, representing 6 months post acquisition trading, together with an indicative summary of what the contribution would have been on an annualised and normalised basis to March 2007 and normalised previous year

	HSM			
	Post acquisition £M	**06/07 Annualised £M**	**05/06 £M**	**Yr/Yr Growth**
Revenue	3 11	5 97	4 15	
Direct Costs	0 09	0 16	0 10	
Gross Profit	**3.02**	**5.81**	**4.05**	
Operating expenses excluding interest, depreciation & amortisation	2 43	4 65	3 35	
EBITDA	**0.59**	**1.16**	**0.70**	**65.7%**
Depreciation	0 07	0 11	0 08	
Operating Profit before amortisation	**0.52**	**1.05**	**0.62**	**68.3%**
Note	1	2	2	

1 The post acquisition column shows the financial contribution of HSM to the Group's results to 31 March 2007 before amortisation of intangible assets which, in this period, amounted to £0 09m

2 The 06/07 annualised and 05/06 columns are shown for illustrative purposes only The information is based on the statutory accounts of HSM and time apportioned where appropriate and has been adjusted for items which are considered to be non recurring, for example, excess management remuneration and excludes charges in respect of group share options 05/06 represents the year ended 31 December 2005

HSM RECENT WINS

dig for fire

direct marketing services

1. History

- Dig For Fire (trading then as Scope Creative Marketing) was established in Sheffield in 1979
- Dig For Fire is now the largest direct marketing agency operating exclusively outside of London (Marketing Magazine 2006) and is in the top 20 of UK direct marketing agencies with billings of £33m
- Approximately 20 per cent of Dig For Fire's gross profit is now derived from "online" marketing and the company is ranked within the top 100 UK digital agencies

2. Product

- Dig For Fire offers clients an end-to-end integrated direct marketing service accommodating both "online" and "offline" direct marketing including web design and build, viral advertising, banner advertising, direct mail, direct response press communications and "online" and "offline" press relations
- Dig For Fire also offers a strategic planning service which enables clients to understand the direct marketing "customer journey", to identify key consumer insights and to begin the process of customer segmentation critical to successful direct marketing campaigns In addition, they offer clients "Dig Research" as a stand-alone service in order to provide objective advice in the area of direct marketing strategy

3. Clients

Dig For Fire acts across a broad range of industry sectors, including financial services, retail and leisure

dig for fire

Tesco.com

The world's leading online supermarket, with over 750 000 customers and over 200,000 orders a week, has been a Dig For Fire client since the launch in 1998

For nearly a decade we have developed a real understanding of the online shopper allowing us to push the boundaries of online retail design and consistently deliver improved basket share

Co-operative Financial Services

A fully integrated direct response campaign, including TV, profiled direct mail regionally targeted door drops and press inserts and online components - designed to maximise new customer response and increase overall market share

AXA PPP Healthcare

Dig For Fire have worked with AXA PPP Healthcare for over 5 years delivering online customer acquisition and member retention campaigns Our recent online member retention campaign 'Step Up Challenge' had members enhancing their health and fitness - walking a combined 17,500 miles!

4. Financial performance

The following table shows the financial contribution of Dig For Fire to the Group's results, representing 6 months post acquisition trading, together with an indicative summary of what the contribution would have been on an annualised and normalised basis to March 2007 and normalised previous year

	Dig For Fire			
	Post acquisition £M	**06/07 Annualised £M**	**05/06 £M**	**Yr/Yr Growth**
Revenue	3 91	7 36	6 87	
Direct Costs	1 00	1 90	1 73	
Gross Profit	**2.91**	**5.46**	**5.14**	
Operating expenses excluding interest, depreciation & amortisation	2 03	3 91	3 73	
EBITDA	**0.88**	**1.55**	**1.41**	**9.9%**
Depreciation	0 02	0 13	0 18	
Operating Profit before amortisation	**0.86**	**1.42**	**1.23**	**15.4%**
Note	1	2	2	

1 The post acquisition column shows the financial contribution of Dig For Fire to the Group's results to 31 March 2007 before amortisation of intangible assets which, in this period, amounted to £0 11m

2 The 06/07 and 05/06 columns are shown for illustrative purposes only The information is based on the statutory accounts of Dig For Fire and has been adjusted for items which are considered to be non recurring, for example, excess management remuneration and excludes charges in respect of group share options

DIG FOR FIRE RECENT WINS

cheeze
the digital marketing agency

digital media planning and buying

1. History

Cheeze was founded in 1999

At the time of its acquisition by Digital Marketing Group in January 2007 Cheeze was one of the UK's last remaining independent digital media planning and buying agencies, and was ranked within the country's top 10 digital media agencies by spend

Over the last 8 years Cheeze has enjoyed high levels of organic growth and was one of the UK's 50 best companies by Business XL magazine

In March 2006 Cheeze was ranked 21 in Media Momentum's 50 "fastest growing UK media companies"

2. Product

Cheeze are specialists in digital media planning and buying – the process by which they create the optimum media schedule to fulfil a client's business objectives This includes selecting the correct digital media channels and recommending the best formats within those channels

In addition to media planning and buying, Cheeze offers its clients research and analysis designed to monitor the performance of digital media as a direct marketing channel To do this it has developed several in-house software applications to give them a competitive advantage over other agencies

Cheeze have also recently developed a market-leading expertise in Web 2 0 (the generic term for new products and media channels evolving on the internet which combine the greater use of technology and faster broadband speeds to offer a more personalised web experience e g blogging, podcasting, and social networking including Myspace)

Cheeze offers a full range of digital advertising services and bespoke marketing technologies to clients across Europe and increasingly on a global basis The Company operates twelve-month digital programmes live across Europe, North America and the Middle East

In summary the range of services offered to clients seeking traditional and innovative digital direct marketing solutions include

- Strategic consultancy in relation to digital direct marketing
- Digital media planning and buying
- Digital creative development and production
- Campaign management
- Results measurement, reporting and analysis
- Search marketing
- Web 2 0 services, and
- In-house tools and services

3. Clients

cheeze
the digital marketing agency

cottages4you.co uk
Cheeze will buy over 2 billion display impressions in 2007, including banners skyscrapers and home page panels

Fred Olsen cruiselines
To increase online response rates, Cheeze developed an interactive Google Earth cruise route for Fred Olsen cruiselines.

Blad blog directory
Cheeze have created a directory of blogs and podcasts to bring advertisers and web 2 0 media owners together

Face Party
Cheeze use the power of social networks to engage online communities For example Cheeze worked with Springboard to help young people to find education through "Face Party"

4. Financial performance

The following table shows the financial contribution of Cheeze to the Group's results, representing 3 months post acquisition trading, together with an indicative summary of what the contribution would have been on an annualised and normalised basis to March 2007 and normalised previous year

	Cheeze			
	Post acquisition £M	**06/07 Annualised £M**	**05/06 £M**	**Yr/Yr Growth**
Revenue	3 50	10 77	6 40	
Direct Costs	2 71	8 27	4 93	
Gross Profit	**0.79**	**2.50**	**1.47**	
Operating expenses excluding interest, depreciation & amortisation	0 38	1 64	1 05	
EBITDA	**0.41**	**0.86**	**0.42**	**104.8%**
Depreciation	0 05	0 12	0 04	
Operating Profit before amortisation	**0.36**	**0.74**	**0.38**	**94.7%**
Note	1	2	2	

1 The post acquisition column shows the financial contribution of Cheeze to the Group's results to 31 March 2007 before amortisation of intangible assets which, in this period, amounted to £0 04m

2 The 06/07 annualised and 05/06 columns are shown for illustrative purposes only The information is based on the statutory accounts of Cheeze and time apportioned where appropriate and has been adjusted for items which are considered to be non recurring, for example, excess management remuneration and excludes charges in respect of group share options 05/06 represents the year ended 31 December 2005

CHEEZE RECENT WINS

jaywing

data services and consultancy

1. History

Jaywing is a leading provider of marketing, credit and fraud data information services in the UK With clients predominantly in the financial services, telecommunications, home shopping and retail sectors, Jaywing specialises in the manipulation of data, providing intelligent analysis which improves business results

It has a number of high quality relationships with blue chip clients which include, Egg, Powergen, Barclaycard, Sky and HBoS

Jaywing has experienced significant growth since its incorporation in 1999 through consultancy sales Jaywing has now expanded its offering to include specific software and data products which are assisting in winning new consultancy business and strengthening existing relationships

2. Product

Jaywing is a consultancy led data services company It has an extremely experienced team of data practitioners and employees work on a location independent basis working from home, from a client's premises or occasionally from one of the offices, located in Derby, Wakefield and Witney Jaywing has an exceptionally low staff attrition rate, which is considered a key strength of the business

Jaywing works across a range of industry sectors including

- Financial services
- Retail/home shopping
- Utilities/telecoms
- Travel/leisure

The 3 key products and services can be summarised as follows

i. Consultancy

- Marketing analysis
- Credit analysis
- Fraud analysis

ii. Outsourcing

Database hosting and campaign management

- Customer contact strategy
- Campaign planning
- Outsourced marketing databases
- Campaign management software
- Campaign management resource
- Advice on technical infrastructure

iii. Data products and services

- List broking – helping clients to select the right cold data for their campaigns
- List management – helping clients to create additional revenue streams from their customer data by renting it to other organisations

Jaywing will continue to grow its consultancy outsourcing and data product business streams However its main focus will be on developing revenues of the following product propositions

Signals

A managed multi-channel communications programme with exclusive or preferred access to life events data sets including moving house, child birth, marriage, birthday, product renewal data, rejected credit application, etc

Smartdecisions

An online service designed to help financial services organisations make better credit checks by providing them with access to more information about the applicant including Jaywing's expert risk assessment models

Digital Brain

An online decision engine or platform that enables the triggering of relevant communication and offers based upon a full relationship assessment of that customer, combined with current events e g navigation whilst browsing a website

Digital analytics

Alongside the development of product propositions a strategy will be pursued that seeks to build on associated digital capabilities, specifically

- Web analytics – the incorporation of digital behaviour into event based marketing, risk assessment and attitudinal profiling
- Digital deployment (digital print, email, sms and on screen ad serving)

jaywing

3. Clients

4. Financial performance

The following table shows the financial contribution of Jaywing to the Group's results, representing 2 months post acquisition trading, together with an indicative summary of what the contribution would have been on an annualised and normalised basis to March 2007 and normalised previous year

	Jaywing			
	Post acquisition £M	**06/07 Annualised £M**	**05/06 £M**	**Yr/Yr Growth**
Revenue	2 54	13 50	10 86	
External Cost of Sales	0 91	3 32	2 38	
Gross Profit	**1.63**	**10.18**	**8.48**	
Operating expenses excluding interest, depreciation & amortisation	0 98	7 7	6 64	
EBITDA	**0.65**	**2.48**	**1.84**	**34.8%**
Depreciation	0 02	0 20	0 51	
Operating Profit before amortisation	**0.63**	**2.28**	**1.33**	**71.4%**
Note	1	2	2	

1 The post acquisition column shows the financial contribution of Jaywing to the Group's results to 31 March 2007 before amortisation of intangible assets which, in this period, amounted to £0 09m

2 The 06/07 and 05/06 columns are shown for illustrative purposes only The information is based on the statutory accounts of Jaywing and has been adjusted for items which are considered to be non recurring, for example, excess management remuneration and excludes charges in respect of group share options

JAYWING RECENT WINS

3 5 principal risks and uncertainties

3.5.1 People

The operations of the Group are dependent upon the continuing employment of a number of senior management personnel The future results of the Group could depend upon the efforts and expertise of such individuals The loss of the service of any key management personnel could have a material adverse effect on the business of the Group

As the Group operates in a specialised sector, it is dependent on its ability to recruit personnel with adequate experience and technical expertise However, as the supply of such personnel is limited, the Group is likely to encounter significant competition for the recruitment of suitably experienced and skilled personnel The future results of the Group could depend significantly upon the recruitment of such personnel and failure to do so could have a material adverse effect on the business of the Group

To mitigate this risk the Group was keen that vendors in each business took a significant percentage of their consideration in shares in Digital Marketing Group Plc In addition, the key managers in our businesses participate in the Performance Share Plan share options programme and the Annual Bonus Programme, both of which reward performance and loyalty to the company (see Section 6 Directors' Remuneration Report)

3.5.2. Clients

The businesses within the Group have, historically, derived a substantial amount of their revenue from contracts with a limited number of clients and these contracts are generally terminable upon three months' notice by the client However, all of the companies within the Group have a proven track record of retaining customers The loss of one or more contracts with the Group's clients, especially one of the two largest contracts, or a significant decrease in revenue derived from such contracts, could have an adverse impact on the Group's businesses, financial condition and results of operations In order to mitigate this risk, each of the businesses has instigated a system of customer satisfaction reviews to identify areas for improving its service The Group also intends to repeat its own client satisfaction survey (first conducted as part of the commercial due diligence programme prior to acquisition) during the course of 2007/8

3.5.3. Competition

The Group faces competition from other entities operating in the sector

In particular these entities may have greater resources and may operate in international markets which could make them attractive to those clients seeking global campaigns or global consolidation of their marketing efforts Each of the companies within the Group has however been competing successfully against international networks for several years, and have in many cases won international projects from blue-chip multinational brands

3.5.4. Suitable Acquisitions

The Company's plans for continued expansion are based on acquisitions and organic growth However, opportunities for further acquisitions may not materialise and there is an increasing number of competitive acquirers for acquisition opportunities However, the company's acquisition strategy is extremely selective and strategic, and it is believed that the focused nature of the Group's proposition will continue to make the company attractive to successful businesses in this sector

3.5.5. Access to Capital

The availability of debt or equity finance to fund future acquisitions may be limited or difficult to obtain If the Company fails to carry out future acquisitions its rate of growth could be adversely affected and it may be unable to fully implement its strategic objectives

3.5.6. Execution

The ability of the Group to deliver incremental revenues through coordinated new business activity is dependent on the availability of key senior personnel to help convert leads and cross refer business

3.5.7. Products and Services

The "online" marketing industry is characterised by rapidly changing technology, evolving industry standards, frequent product and service introductions and evolving web publisher and advertiser demands These uncertainties are exacerbated by the emerging nature of Internet use and advertising The Group's future success will depend on its ability to modify its products and services to respond in a timely and cost-effective manner to new technologies and changing web publisher and advertiser demands If the Group is unable to adapt to these pressures or to develop products and services to address new and converging technologies, the Group may be unable to compete successfully The Group intends to develop its own tools and products often from within existing resources to ensure that it responds in a timely and cost-effective manner to these changes

3.5.8. General economic and business conditions

The sector in which the Group operates, is sensitive to both general economic and business conditions and can be affected by the condition of specific industries such as the professional, financial services, retail, technology, pharmaceuticals, telecommunications and automotive industries Some of these industries have in the past been sensitive to event-driven disruptions such as government regulation, war, terrorism, disease, natural disasters and other significant adverse events A general decline in economic conditions or disruptions in specific industries characterised by falls in spending on advertising and marketing could cause a material decline in the Group's revenue

It is believed however that the Group's focus on digital direct marketing and its ability to offer clients measurable ROI is likely to prove attractive to clients in such economic conditions

3.6 forward-looking statements

Statements contained in this Report, including in the description of business, principal risks and uncertainties, the directors' report, and the directors' remuneration report may constitute forward-looking statements that are based on the Board's current expectations, assumptions and projections about the Group and the industry, which contain risks and uncertainties The Group's actual results could differ materially from those anticipated in these forward-looking statements as a result of other factors

3 7 comparative statements

In this report Digital Marketing Group Plc makes certain statements with respect to the market in which the Group operates, its position within that market and also the position of its businesses (HSM, Dig For Fire, Cheeze, Jaywing) within the same market This report also makes certain statements with respect to the products, services and brands of the Group and its businesses by comparison with third parties or their products, services or brands These statements are based on either independent sources or published and referenced information and are accurate to the best of the knowledge and belief of the Directors of Digital Marketing Group

4. directors' report

directors' report for the year ended 31 March 2007

The Directors have pleasure in submitting their report and the audited financial statements for the year ended 31 March 2007

principal activities

Our principal activities are detailed in the Strategic Review and further in Note 2 to the Financial Statements on Segmental Reporting

business review

The Company is required by the Companies Act 1985 to set out in this report a fair review of the business of the Group during the financial year 31 March 2007 and of the position of the Group at the year end

A review of the business and a commentary on its strategy, performance and development is set out in the Chairman's statement on page 5, Strategic Review on pages 6 to 13, and Financial Statements on pages 54 to 95

In addition, the principal risks facing the business are detailed on pages 34 to 35

All the information detailed in those sections which is required for the business review or otherwise for this report is incorporated by reference in (and shall be deemed to be part of) this report

The Group has set some clear financial goals to achieve in 2007/8 both at the full year and half year level

results and dividend

The results are shown on pages 54 to 95

The Directors are not proposing to pay a dividend

post balance sheet events

On 26 April 2007 the Group announced the placing of 14,285,715 Ordinary Shares of 50p at a price of 70p raising a gross £10M These funds have been applied to reduce bank borrowings and provide available funds for future acquisitions

On 27 June 2007 the Group announced the appointment of Sarah Guest as Finance Director and Company Secretary Sarah Guest will join the Group on September 4th 2007 and Robert Millington will continue to remain employed by the Group until the end of September 2007

financial instruments

Details of the financial risk management objectives and policies of the Group, including hedging policies, are given in note 30 to the consolidated financial statements

future developments

The future prospects of the Group are referred to in the Chairman's Statement on page 5 and the Strategic review on pages 6 to 13

share capital and substantial shareholdings

Details of Share Capital during the year are given in note 21 to the consolidated financial statements

Substantial Shareholdings:

	as at 31-Mar 2007	as at 10-May 2007
Mayfair Limited	*25 93%	25 61%
Andrew Gardner	9 81%	7 63%
Martin Boddy	9 81%	7 63%
Helena Stevens	7 00%	5 45%
Gary Stevens	7 00%	5 45%
Charles Buddery	7 65%	5 96%
Katherine Jerman	5 58%	4 34%
Jamie Riddell	5 58%	4 34%
Tudor Capital	3 50%	3 28%

* Note 0 15% and 0 11% respectively relate to indirect holdings

board committees and advisers

remuneration committee

Barry Jenner (Chairman)
Stephen Davidson
Ian Robinson
Andrew Wilson

nomination committee

Stephen Davidson (Chairman)
Ben Langdon
Barry Jenner
Ian Robinson
Andrew Wilson

audit committee

Ian Robinson (Chairman)
Stephen Davidson
Barry Jenner
Andrew Wilson

company secretary

Robert Millington

registered office

Couching House, Couching Street,
Watlington, Oxfordshire OX49 5PX

registered number

05935923

auditors

Grant Thornton UK LLP
2 Broadfield Court
Sheffield
S8 0XF

legal advisers

Rosenblatt Solicitors
9-13 St Andrew Street
London EC4A 3AF

financial PR

Redleaf Communications Limited
9-13 St Andrew Street
London EC4A 3AF

nominated adviser and broker

Cenkos Securities Limited
6, 7, 8 Tokenhouse Yard
London EC2R 7AS

registrars

Capita Registrars
The Registry
34 Beckenham Road
Beckenham
Kent BR3 4TU

directors and their interests

A list of the Directors who served during the year is shown below

		Ordinary shares of 50p each		Share options over ordinary shares of 50p each	
Director and position	date of appointment	At 26 October 2006	At 31 March 2007	At 26 October 2006	At 31 March 2007
Stephen Davidson, Chairman	20 September 2006	570,175	570,175	-	1,754,386
Ben Langdon, Chief Executive	20 September 2006	1,008,772	1,008,772	-	4,561,403
Robert Millington, Finance Director and Company Secretary	26 October 2006	170,520	170,520	-	131,579
Gary Stevens, Executive Director	25 October 2006	3,508,772	3,508,772	-	877,193
Barry Jenner, Non-Executive Director	26 October 2006	-	-	-	70,175
Ian Robinson, Non-Executive Director	20 September 2006	127,342	127,342	-	70,175
Andrew Wilson, Non-Executive Director	20 September 2006	75,970	75,970	-	70,175

directors' and officers' liability insurance

The Group maintains appropriate insurance to cover Directors' and Officers' liability At the date upon which this report was approved and for the period from the IPO, the Group has provided an indemnity in respect of all of the Group's Directors Neither the insurance nor the indemnity provides cover where the Director has acted fraudulently or dishonestly

annual general meeting

Your attention is drawn to the Notice of Meeting enclosed with this Annual Report, which sets out the resolutions to be proposed at the forthcoming Annual General Meeting

reappointment of directors

Under the Company's Articles each of the Directors is required to retire at the upcoming AGM and each is eligible for reappointment

charitable and political donations

No charitable or political donations were made during the period

employees

As at 31 March 2007 the number of people employed by the Group was 378

equal opportunities

The Group believes in giving full and equal opportunities to applicants and existing employees in relation to job opportunities, development and remuneration irrespective of their sex, colour, race, religion, disability, age or sexual orientation

health and safety

The Group is committed to maintaining high standards of health and safety for its employees, customers, visitors, contractors and anyone affected by its business activities Health and safety is on the agenda for regularly scheduled Board meetings

employee welfare

At a subsidiary level our businesses encourage regular consultations so that employee views can be taken into account

policy and practice on payment of creditors

It is the Group's policy and practice to settle its supplier accounts on due dates according to agreed terms of credit The average creditor days across the Group for the year was 58 days

auditor

As recommended to the Board by the Audit Committee, Grant Thornton UK LLP were appointed as the Group's auditor Grant Thornton UK LLP have expressed their willingness to continue in office as auditor and a resolution will be proposed to reappoint them at the Annual General Meeting

directors' responsibilities

The following statement, which should be read in conjunction with the auditors' statement of 'Respective responsibilities of Directors and Auditors' set out on page 54, is made with a view to distinguishing between the respective responsibilities of the Directors and the auditors in relation to the financial statements

The Directors are responsible for preparing the Annual Report and the financial statements in accordance with applicable law and regulations

Company law requires the Directors to prepare financial statements for each financial period Under that law the Directors have elected to prepare the parent company financial statements in accordance with Accounting Standards (United Kingdom Generally Accepted Accounting Practice) and the consolidated financial statements in accordance with International Financial Reporting Standards The financial statements are required by law to give a true and fair view of the state of affairs of the Group and of the profit or loss of the Group for that period In preparing those financial statements, the Directors are required to

- Select suitable accounting policies and then apply them consistently,
- Make judgments and estimates that are reasonable and prudent,
- State whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements, and
- Prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Group will continue in business

The Directors are responsible for keeping proper accounting records that disclose with reasonable accuracy at any time the financial position of the Group and which enable them to ensure that the financial statements comply with the Companies Act 1985 They are also responsible for safeguarding the assets of the Group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities

In so far as the Directors are aware

- There is no relevant audit information of which the Group's auditor is unaware, and
- The Directors have taken all steps that they ought to have taken to make themselves aware of any relevant audit information and to establish that the auditor is aware of that information

The Directors are responsible for the maintenance and integrity of the digitalmarketinggroup co uk website Accordingly the auditor accepts no responsibility for the information published

Uncertainty regarding legal requirements is compounded as information published on the Internet is accessible in many countries with different legal requirements relating to the preparation and dissemination of financial statements

The Directors have engaged Grant Thornton for certain non-audit work including Due Diligence on some acquisitions and, on a case by case basis, consider carefully the safeguard of their objectivity and independence as auditors prior to engagement Often this includes engaging another UK office for the non-audit work

By order of the Board

Robert Millington
Company Secretary

Robert Millington

26 June 2007

5. statement on corporate governance

The Group is subject to the continuing requirements of the AIM Rules and is committed to adhering to corporate governance standards appropriate for a company of its size The Group follows the Quoted Companies Alliance guidelines and has remuneration, audit and nomination committees with written terms of reference and a schedule of matters reserved for the Board

remuneration committee

The composition of the Remuneration Committee is disclosed on page 37 and comprises solely Non-Executive Directors The Remuneration Committee, on behalf of the Board, meets as and when necessary to review and approve as appropriate the remuneration of the Executive Directors and Senior Management and major remuneration plans for the Group as a whole The Remuneration Committee appraises the Chief Executive against his written objectives Similarly, the Chief Executive appraises the other Executive Directors and Senior Management The Remuneration Committee approves the setting of objectives for all of the Executive Directors and authorises their annual bonus payments for achievement of objectives The Remuneration Committee provides remuneration packages sufficient to attract, retain and motivate Executive Directors required to run the Group successfully, but does not pay more than is necessary for this service The Remuneration Committee is empowered to recommend the grant of share options under the existing share option plans and to make awards under the long-term incentive plans The Remuneration Committee considers there to be an appropriate balance between fixed and variable remuneration and between short- and long-term variable components of remuneration

All the decisions of the Remuneration Committee on remuneration matters in 2006/7 were reported to and endorsed by the Board

The Remuneration Committee's terms of reference explaining the Remuneration Committee's role and the authority delegated to it by the Board are publicly available on the Group's website

audit committee

All members of the Audit Committee are Non-Executive Directors The Board is confident that the collective experience of the Audit Committee members enables them, as a group, to act as an effective Audit Committee Their details are disclosed on pages 14,15 and 37

By invitation, the meetings of the Audit Committee may be attended by the Chief Executive, Finance Director and the auditors Prior to the financial year end, the Audit Committee met once but, on an on-going basis, will meet at least twice each year as detailed in its terms of reference The Chairman of the Audit Committee meets regularly with the auditors

The Audit Committee has particular responsibility for monitoring the adequacy and effectiveness of the operation of internal controls and risk management and ensuring that the Group's financial statements present a true and fair view of the Group's financial position Its duties include keeping under review the scope and results of the audit and its cost-effectiveness, consideration of management's response to any major audit recommendation and the independence and objectivity of the auditors

The Audit Committee's terms of reference explaining the Audit Committee's role and the authority delegated to it by the Board are publicly available on the Group's website

nomination committee

The composition of the Nomination Committee is disclosed on page 37 and comprises a majority of Non-Executive Directors The Nomination Committee did not meet during the year ending 31 March 2007 The Nomination Committee has responsibility for nominating to the Board candidates for appointment as Directors, bearing in mind the need for a broad representation of skills across the Board

The Nomination Committee's terms of reference explaining the Nomination Committee's role and the authority delegated to it by the Board are publicly available on the Group's website

2006/07 board and committee meetings

Between the date of the AIM Listing (26 October 2006) and the year end of 31 March 2007, the Board met 5 times The following table shows the attendance of Directors at meetings of the Board and its main committees

board meetings

	02-Oct-06	28-Nov-06	22-Jan-07	26-Jan-07	02-Feb-07	13-Feb-07
Stephen Davidson	yes	yes	yes	yes	yes	yes
Ben Langdon	yes	yes	yes	yes	yes	yes
Robert Millington	in attendance	yes	yes	yes	yes	yes
Gary Stevens	in attendance	yes	yes	yes	yes	yes
Barry Jenner	in attendance	yes	yes	yes	yes	yes
Ian Robinson	yes	yes	yes	yes	yes	yes
Andrew Wilson	yes	yes	yes	yes	yes	no

reference to 'in attendance' relates to a Board Meeting before formal appointment

remuneration committee meetings

	02-Oct-06	26-Jan-07	13-Feb-07
Barry Jenner Chairman	yes	yes	yes
Stephen Davidson	yes	yes	yes
Ian Robinson	yes	yes	yes
Andrew Wilson	no	yes	no

audit committee meetings

The following shows the Audit Committee Meeting held to appoint our Auditors No further meeting of the Audit Committee was held prior to the year end

	19-Oct-06
Ian Robinson Chairman	yes
Stephen Davidson	yes
Andrew Wilson	yes
Robert Millington	in attendance

directors' remuneration

Details of the Group's remuneration policy and directors' remuneration are contained in the Directors' Remuneration Report on pages 47 to 53

relations with shareholders

The Group recognises the importance of communicating with its shareholders to ensure that its strategy and performance is understood and that it remains accountable to shareholders The Board as a whole is responsible for ensuring that a satisfactory dialogue with shareholders takes place, while the Chairman and Chief Executive ensure that the views of the shareholders are communicated to the Board as a whole The Board ensures that the Group's strategic plans have been carefully reviewed in terms of their ability to deliver long-term shareholder value Interim Statements and fully audited Annual Reports will be sent to shareholders and posted on the Group's website

Shareholders are welcome at the Group's Annual General Meeting (AGM), (notice of which is provided with this Report), where they will have an opportunity to meet the Board The Chairman of the Audit Committee and the Remuneration Committee, together with as many Directors as possible, will attend the AGM and be available to answer shareholders' questions Voting may be by form of proxy, by poll, by show of hands or a combination of all three The voting results will be notified to the UK Listing Authority through a Regulatory Information service immediately after the meeting and will be published on the Group's website

The Group obtains feedback from its broker on the views of institutional investors on a non-attributed and attributed basis and any concerns of major shareholders would be communicated to the Board

internal controls

The Board acknowledges its responsibility for establishing and maintaining the Group's system of internal controls and will continue to ensure that management keep these processes under regular review and improve them where appropriate The system of internal controls is designed to manage, rather than eliminate, the risk of failure to achieve business objectives and can provide only reasonable and not absolute assurance against material misstatement or loss

Management Structure: there is a clearly defined organisational structure throughout the Group with established lines of reporting and delegation of authority based on job responsibilities and experience

Financial Reporting: monthly management accounts provide relevant, reliable, up-to-date financial and non-financial information to management and the Board Annual plans, forecasts and performance targets allow management to monitor the key business and financial activities and the progress towards achieving the financial objectives The annual budget is approved by the Board

Monitoring of Controls: It is intended that the Audit Committee receives regular reports from the auditors and assures itself that the internal control environment of the Group is operating effectively There are formal policies and procedures in place to ensure the integrity and accuracy of the accounting records and to safeguard the Group's assets Significant capital projects and acquisitions and disposals require Board approval

Going Concern

After due consideration, the Directors have a reasonable expectation that the Group has adequate resources to continue in operational existence for the foreseeable future For this reason, they continue to adopt the going concern basis in preparing the accounts

corporate social responsibility

The Board recognises the growing awareness of social, environmental and ethical matters and it endeavours to take into account the interests of the Group's stakeholders, including its investors, employees, suppliers and business partners, when operating the business

Employment

At a subsidiary level each individual company has established policies which address key corporate objectives in the management of employee relations, communications and employee involvement, training and personal development and equal opportunities

The Board recognises its legal responsibilities to ensure the well-being, safety and welfare of its employees and to maintain a safe and healthy working environment for them and for its visitors and sub-contractors Health and Safety is on the agenda for regularly scheduled Board meetings

Environment

By their nature, the Group's regular operations are judged to have a low environmental impact and are not expected to give rise to any significant, inherent environmental risks over the next 12 months

6. directors' remuneration report

This report complies with the Companies Act 1985, as amended by the Directors' Remuneration Report Regulations 2002 and the Listing Rules of the Financial Services Authority Shareholders will be invited to vote to approve the Directors' Remuneration Report at the forthcoming Annual General Meeting

composition of the remuneration committee

The Board has an established Remuneration Committee and it comprises

Barry Jenner (Chairman)

Stephen Davidson

Ian Robinson

Andrew Wilson

remuneration policy

The Group's policy on remuneration for the current year and, so far as is practicable, for subsequent years is set out below However, the Remuneration Committee believes that it should retain the flexibility to adjust the remuneration policy in accordance with the changing needs of the business All statements in this report in relation to remuneration policy for subsequent years should be read in conjunction with this paragraph Any changes in policy for subsequent years will be detailed in future reports on remuneration

The Group must ensure that its remuneration arrangements attract and retain people of the right calibre in order to ensure corporate success and to enhance shareholder value Its overall approach is to attract, develop, motivate and retain talented people at all levels, by paying competitive salaries and benefits to all its staff and encouraging its staff to hold shares in the Group

Pay levels are set to take account of contribution and individual performance, wage levels elsewhere in the Group and with reference to relevant market information The Group seeks to reward its employees fairly and give them the opportunity to increase their earnings by linking pay to achieving business and individual performance targets

The Board believes that share ownership is an effective way of strengthening employees' involvement in the development of the business and bringing together their interests and those of shareholders

Executive Directors are rewarded on the basis of individual responsibility, competence and contribution and salary increases also take into account pay awards made elsewhere in the Group as well as external market benchmarking There are three Executive Directors on the Board Ben Langdon (Chief Executive), Robert Millington (Finance Director) and Gary Stevens, Chief Executive, HSM

Performance-related elements form a substantial part of the total remuneration package and are designed to align Directors' interests with those of shareholders In line with best practice and to bring Directors' and shareholders' interests further into line, Executive Directors and the management team are encouraged to maintain a holding of ordinary shares in the Group with a value of at least one times salary

executive directors' annual total reward opportunity 2006/7

advisers

The Remuneration Committee is advised internally by the Chief Executive and the Company Secretary The Committee has access to external advice as required

non-executive directors' fees

Fees for Non-Executive Directors are determined by the Board annually, taking advice as appropriate and reflecting the time commitment and responsibilities of the role Non-Executive Directors' fees currently comprise a basic fee of £15,000 per annum

Non-Executive Directors do not participate in the annual bonus plan, pension scheme or healthcare arrangements They were made awards as described below under the Performance Share Plan ("PSP")

The Group reimburses the reasonable expenses they incur in carrying out their duties as Directors

Non-Executive Directors do not have service contracts, but instead have letters of appointment Details of their terms of appointment are given below

directors' service agreements and letters of appointment

Ben Langdon has entered into a service contract with DMG dated 2 October 2006 subject to termination upon 6 months' notice by Mr Langdon and 12 months' notice by DMG The agreement provides for an annual salary of £150,000 Mr Langdon may also be entitled to a bonus, subject to terms determined annually by the Remuneration Committee It is envisaged that the bonus which may be achieved by Mr Langdon will be between 60 per cent and 100 per cent of his annual salary Mr Langdon also participates in the PSP Mr Langdon is also covered under the Group Directors' and Officers' Liability Insurance Policy

Robert Millington has entered into a service contact with DMG dated 2 October 2006 subject to termination upon 3 months' notice by Mr Millington and 6 months' notice by DMG The agreement provides for an annual salary of £80,000 Mr Millington may also be entitled to a bonus, subject to terms determined annually by the Remuneration Committee

Mr Millington also participates in the PSP Mr Millington is entitled to the following benefits annual car allowance of £7,451, annual pension contributions of £5,750 and life assurance

Mr Millington is also covered under the Group Directors' and Officers' Liability Insurance Policy

Gary Stevens has entered into a service contract with HSM dated 2 October 2006 subject to termination upon 6 months' notice by HSM or Mr Stevens The agreement provides for an annual salary of £100,000 Mr Stevens may also be entitled to a bonus, subject to terms determined annually by the Remuneration Committee Mr Stevens will also participate in the PSP In addition, Mr Stevens is entitled to life assurance, permanent health insurance, private healthcare and pension contributions (currently £5,200 per annum) Mr Stevens is also covered under the Group Directors' and Officers' Liability Insurance Policy

Stephen Davidson has entered into a letter of appointment with DMG dated 2 October 2006 subject to termination upon at least 3 months' notice by either Mr Davidson or DMG, although such notice may not expire before 2 October 2007 The letter provides for an annual fee of £40,000 Mr Davidson is also covered under the Group Directors' and Officers' Liability Insurance Policy

Barry Jenner has entered into a letter of appointment with DMG dated 2 October 2006 subject to termination upon 3 months' notice by either Mr Jenner or DMG The letter provides for an annual fee of £15,000 Mr Jenner is also covered under the Group Directors' and Officers' Liability Insurance Policy

DMG has entered into agreements with Strand Associates Limited for the provision of the services of Andrew Wilson and Ian Robinson as non-executive directors to DMG An annual fee of £15,000 is payable to Strand Associates Limited under each of the agreements The agreements may be terminated on 3 months' notice by DMG or Strand Associates Andrew Wilson and Ian Robinson are also covered under the Group Directors' and Officers' Liability Insurance Policy

There are no service agreements in existence between the Directors and any member of the Group which cannot be determined by the employing company without payment of compensation (other than statutory compensation) within one year

main elements of executive directors' remuneration

fixed remuneration

Basic Salary and Benefits

Basic salary is set by the Remuneration Committee by taking into account the responsibilities, individual performance and experience of the Executive Directors, as well as the market practice for Executives in a similar position Basic salary is reviewed (but not necessarily increased) annually by the Remuneration Committee and adjustments will occur if necessary in relation to market practice and after a formal appraisal of performance

As at 31 March 2007, the annual salaries for Mr Langdon, Mr Millington and Mr Stevens were £150,000, £80,000 and £100,000 respectively

Pensions

Pension contributions for Robert Millington and Gary Stevens are paid into money purchase schemes from Scope Creative Marketing and HSM respectively

management incentives

Annual Bonus Plan ("ABP")

The Annual Bonus Award is payable in cash with a share option alternative and is open to Executive Directors and Senior Management

Cash bonuses may alternatively be taken in "nil cost options", with the Group matching the award under the terms of the PSP (i e subject to vesting and performance criteria and availability)

The ABP pool is created through achievement and/or over-achievement against budgeted revenue and profit targets

50% of any profits achieved over-budget can be distributed internally by the operating unit CEO subject to achievement of the Group's 25% EPS CAGR target and up to a ceiling of 150% of budget

ABP awards are capped at 100% of salary

Members of Senior Management are anticipated to have accrued bonuses of 25% salary within budget with the opportunity to earn up to 50% salary by over-achieving budget provided the 25% EPS CAGR has been achieved

All bonuses need to be approved by Digital Marketing Group Plc CEO and the Remuneration Committee

Performance Share Plan ("PSP")

The Board has adopted the Digital Marketing Performance Share Plan ("PSP") under which the Remuneration Committee may grant conditional share awards, nil-cost options or options with an exercise price equal to the market value of the DMG Shares on the date of grant (awards) While possible, it is intended that options under the PSP would be granted as qualifying options for the purpose of the EMI Code (as defined in section 527(3) of the Income Tax (Earnings and Pensions Act 2003)

It is also intended that the PSP will contain a schedule under which HMRC approved options may be granted (up to a maximum value of £30,000 for each option holder) All employees within the Group are eligible to participate in the PSP, but it is intended that only the senior management will be granted awards initially Awards may be granted in the 42 day period following the announcement of DMG's results for any period and at any other times that the Remuneration Committee considers exceptional circumstances exist justifying the grant of awards

The PSP is currently subject to a maximum of 13,750,000 Shares that can be issued and pursuant to options granted to Directors (as set out in the table of directors and their interests on page 38) will be available for issue to Directors and employees of the Group Awards will vest after three years subject to the achievement of performance criteria determined by the Remuneration Committee

Vesting the initial grant of awards under the PSP is subject to the achievement of a CAGR in adjusted earnings per share as defined in the PSP of at least 15 per cent at which point 25 per cent of the shares subject to an award would vest with a proportionate and linear interpolation up to a CAGR of 25 per cent at which point all of the DMG shares subject to an award would vest

For the purpose of the PSP, the base year will be the adjusted 12 months ended 31 March 2007 and the base year earnings per share will be an agreed figure as defined in the PSP

The PSP will run for the three years ended 31 March 2010

If a participant ceases employment with the Group before an award vests, the award will usually lapse However, if the cessation is due to disability, ill-health, injury, redundancy or retirement, or the sale of the employing company or business for which the participant works (or where exceptional circumstances exist, another reason not involving gross misconduct), the award will vest at the end of the performance period to the extent the applicable performance criteria have been met, but pro rata to the time elapsed between the date of grant and the date of cessation of employment The Remuneration Committee will have discretion to allow an award to vest on another basis if it believes that the circumstances warrant this If a participant dies, the participants award will vest in full

If there is a takeover of DMG other than part of an internal reconstruction, awards will vest to the extent that the performance criteria have been met up to that time, and pro rata to the time elapsed since the date of the grant However, the Remuneration Committee will have discretion to allow awards to vest to a greater extent if it believes there are exceptional factors which warrant this

On the vesting of an award, participants will receive additional DMG Shares (or cash) equal to the value of dividends which would have been paid on the DMG shares subject to the award which is vested in the period since the date of grant

The number of DMG shares subject to awards and, in the case of market value options, the exercise price, may be adjusted in the event of a variation in the share capital of DMG

The Remuneration Committee may amend the rules of the PSP at any time However, no amendment which is to the advantage of the participants may be made without the prior approval of shareholders if it relates to the limits on the number of DMG Shares which may be made the subject of awards, the persons to whom awards may be granted, the rights attaching to awards and the DMG shares subject to awards, in the case of market value options the determination of the option price and the rights of participants in the event of a variation in the share capital of the DMG, except for minor amendments to benefit the administration of the Plan, or amendments to take account of a change in legislation or to obtain or maintain favourable tax, exchange control or regulatory treatment in any jurisdiction for any participant or member of the Group

Barry Jenner, Stephen Davidson, Ian Robinson and Strand Associates Limited (in respect of Andrew Wilson's appointment as a director) were granted nil cost options over DMG shares on the same terms and subject to the same performance criteria as the initial grant of awards under the PSP Details of these option grants are set out in the directors' remuneration report on page 47

directors' remuneration

Information on the remuneration of each Director during the year is detailed below

Directors' emoluments for the period October 2006 to March 2007

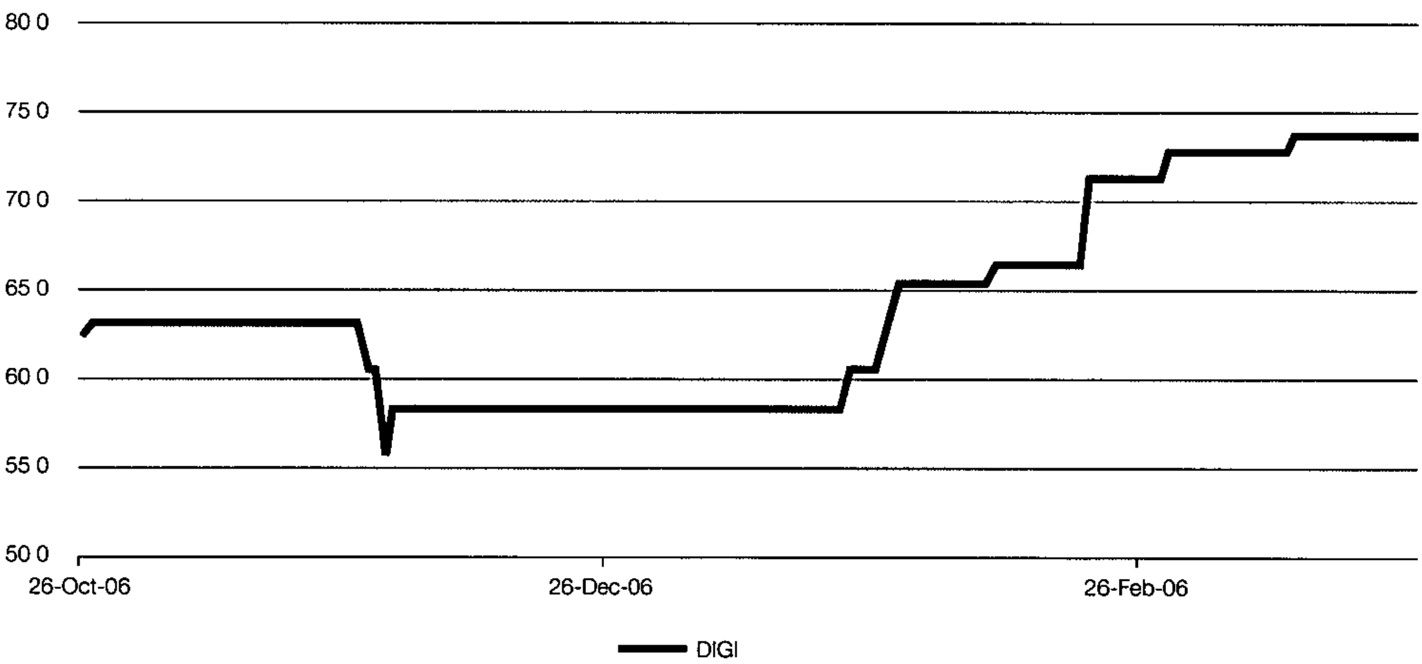
Director	Salary £	Bonus £	Benefits £	Pension £	Charge in respect of share options £	Total £
Stephen Davidson	17,282	-	-	-	41,117	58,399
Ben Langdon	64,808	60,000	-	-	113,072	237,880
Robert Millington	33,680	25,000	3,726	2,875	3,855	69,136
Gary Stevens	50,000	-	281	2,600	25,698	78,579
Barry Jenner	6,481	-	-	-	2,056	8,537
Ian Robinson	6,492	-	-	-	2,056	8,548
Andrew Wilson	6,492	-	-	-	-	6,492
	185,235	**85,000**	**4,007**	**5,475**	**187,854**	**467,571**

directors' interests

The interests of the Directors of the Group in office at the end of the year and their interests in the share capital of the Group as at 31 March 2007 and their connected persons are shown in the Directors' Report on page 38 The Register of Directors' interests (which is open to shareholders' inspection) contains full details of Directors' shareholdings and options to subscribe for shares.

shareholder returns

The followıng graph charts the movement ın Dıgıtal Marketıng Group's share prıce (ın pence per share) from admıssıon to AIM on 26 October 2006 to 31 March 2007



Approved by the Board

Barry Jenner

Chaırman, Remuneratıon Commıttee

June 2007

REPORT OF THE INDEPENDENT AUDITOR TO THE MEMBERS OF DIGITAL MARKETING GROUP PLC

We have audited the consolidated financial statements of Digital Marketing Group plc for the year ended 31 March 2007 which comprise the principal accounting policies, the consolidated income statement, the consolidated balance sheet, the consolidated cash flow statement, the consolidated statement of changes in equity and notes 1 to 30 These consolidated financial statements have been prepared under the accounting policies set out therein

We have reported separately on the Company financial statements of Digital Marketing Group plc for the year ended 31 March 2007

This report is made solely to the Company's members, as a body, in accordance with Section 235 of the Companies Act 1985 Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditor's 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 and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed

Respective responsibilities of Directors and Auditors

The Directors' responsibilities for preparing the Annual Report and the consolidated financial statements in accordance with United Kingdom law and International Financial Reporting Standards (IFRSs) as adopted by the European Union are set out in the Statement of Directors' Responsibilities

Our responsibility is to audit the consolidated financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland)

We report to you our opinion as to whether the consolidated financial statements give a true and fair view and whether the consolidated financial statements have been properly prepared in accordance with the Companies Act 1985 We also report to you whether in our opinion the information given in the Directors' Report is consistent with the financial statements The information given in the Directors' Report includes specific information that is presented elsewhere in the Annual Report that is cross referred from the Business Review section of the Directors' Report

In addition we report to you if, in our opinion, we have not received all the information and explanations we require for our audit, or if information specified by law regarding Directors' remuneration and other transactions is not disclosed

We read other information contained in the Annual Report and consider whether it is consistent with the audited consolidated financial statements The other information comprises only the performance highlights, the Chairman's statement, the strategic review, the statement on corporate governance and the Directors' remuneration report We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the Group financial statements Our responsibilities do not extend to any other information

Basis of audit opinion

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the Group financial statements It also includes an assessment of the significant estimates and judgments made by the Directors in the preparation of the Group financial statements, and of whether the accounting policies are appropriate to the Group's circumstances, consistently applied and adequately disclosed

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the consolidated financial statements are free from material misstatement, whether caused by fraud or other irregularity or error In forming our opinion we also evaluated the overall adequacy of the presentation of information in the consolidated financial statements

Opinion

In our opinion

- the consolidated financial statements give a true and fair view, in accordance with IFRSs as adopted by the European Union, of the state of the Group's affairs as at 31 March 2007 and of its profit for the year then ended,
- the consolidated financial statements have been properly prepared in accordance with the Companies Act 1985, and
- the information given in the Directors' Report is consistent with the consolidated financial statements

Gr Thn UK LLP

GRANT THORNTON UK LLP
REGISTERED AUDITORS
CHARTERED ACCOUNTANTS
SHEFFIELD

26 June 2007

1 The maintenance and integrity of the Digital Marketing Group plc website is the responsibility of the Directors the audit does not involve consideration of these matters and accordingly the auditors accept no responsibility for any changes that may have occurred to the financial statements since they were initially presented on the website
2 Legislation in the United Kingdom governing the preparation and dissemination of the financial statements differs from legislation in other jurisdictions

Consolidated Income Statement

	Note	Year ended 31 March 2007			Period ended 31 March 2006
Continuing operations		**Before exceptional item £000**	**Exceptional item (see note 3) £000**	**Total £000**	Total £000
Revenue	2	**13,057**	**-**	**13,057**	-
Direct costs		**(4,668)**	**-**	**(4,668)**	-
Gross profit		**8,389**	**-**	**8,389**	-
Other operating income	4	**16**	**-**	**16**	-
Amortisation		**(321)**	**-**	**(321)**	-
Operating expenses		**(6,568)**	**(336)**	**(6,904)**	-
Operating profit	2	**1,516**	**(336)**	**1,180**	-
Financial income	8	**99**	**-**	**99**	-
Financial expenses	8	**(205)**	**-**	**(205)**	-
Net financing costs		**(106)**	**-**	**(106)**	-
Profit before tax		**1,410**	**(336)**	**1,074**	-
Taxation	9	**(537)**	**-**	**(537)**	-
Profit for year from continuing operations		**873**	**(336)**	**537**	-
Discontinued operations					
(Loss)/profit for period on discontinued operations				**(640)**	123
(Loss)/profit for the year attributable to shareholders	22			**(103)**	123
Earnings per share	10				
From continuing and discontinued operations				**(0.55)p**	1 90p
- basic				**(0.51)p**	1 90p
- diluted					
From continuing operations				**2.87p**	1 90p
- basic				**2.62p**	1 90p
- diluted					

The accompanying notes form part of the consolidated financial statements

Consolidated Balance Sheet

	Note	2007 £000	2006 £000
Non-current assets			
Property, plant and equipment	11	**714**	6
Goodwill	12	**30,734**	-
Other intangible assets	13	**10,215**	-
		41,663	6
Current assets			
Inventories	15	**165**	-
Trade and other receivables	16	**6,102**	10
Cash and cash equivalents		**5,569**	3,564
		11,836	3,574
Total assets		**53,499**	3,580
Current liabilities			
Bank overdraft	23	**2,664**	-
Other interest-bearing loans and borrowings	23	**1,474**	-
Trade and other payables	17	**6,980**	190
Tax payable		**611**	-
		11,729	190
Non-current liabilities			
Other interest-bearing loans and borrowings	23	**9,339**	-
Provisions	20	**518**	-
Deferred tax liabilities	14	**3,073**	-
		12,930	-
Total liabilities		**24,659**	190
Net assets		**28,840**	3,390
Equity attributable to shareholders			
Share capital	21	**25,063**	3,267
Share premium account	22	**2,986**	-
Shares to be issued	22	**500**	-
Retained earnings	22	**291**	123
Total equity		**28,840**	3,390

These financial statements were approved by the board of directors on 26 June 2007 and were signed on its behalf by

Robert Millington
Director

Robert Millington

The accompanying notes form part of the consolidated financial statements

Consolidated Cash Flow Statement

	Note	Year ended 31 March 2007 £000	Period ended 31 March 2006 £000
Cash flows from operating activities			
Loss for the year		**(103)**	(213)
Adjustments for			
Depreciation, amortisation and impairment		**487**	-
Financial income		**(99)**	-
Financial expense		**205**	-
Share-based payment expense		**271**	-
Taxation		**537**	-
Operating profit before changes in working capital and provisions		**1,298**	(213)
Increase/(decrease) in trade and other receivables		**1**	(10)
Decrease in inventories		**(11)**	-
(Decrease)/increase in trade and other payables		**(349)**	190
Cash generated from the operations		**939**	(33)
Interest paid		**(205)**	-
Interest received		**99**	103
Tax paid		**(288)**	-
Net cash inflow from operating activities		**545**	70
Cash flows from investing activities			
Proceeds from sale of property, plant and equipment		**1,306**	-
Acquisitions of subsidiaries, net of cash acquired	*18*	**(20,662)**	-
Acquisition of property, plant and equipment	*11*	**(143)**	(6)
Net cash outflow from investing activities		**(19,499)**	(6)
Cash flows from financing activities			
Proceeds from new loan		**10,813**	-
Proceeds from the issue of share capital	*21*	**7,532**	3,267
Repayment of borrowings		**-**	-
Payments to redeem share capital		**(50)**	-
Net cash inflow from financing activities		**18,295**	3,267
Net increase in cash and cash equivalents		**(659)**	3,331
Cash and cash equivalents at beginning of period		**3,564**	-
Effect of exchange rate fluctuations on cash held		**-**	233
Cash and cash equivalents at end of period		**2,905**	3,564
Cash and cash equivalents comprise:			
Cash at bank and in hand		**5,569**	3,564
Bank overdrafts		**(2,664)**	-
Cash and cash equivalents at end of period		**2,905**	3,564

The accompanying notes form part of the consolidated financial statements

Consolidated Statement of Changes in Equity

	Share capital £000	Retained earnings £000	Share premium account £000	Shares to be issued £000	Total £000
At 21 October 2004	-	-	-	-	-
Allotment of 50p Ordinary shares	3,217	-	-	-	3,217
Allotment of £1 Convertible A shares	50	-	-	-	50
Retained earnings	-	123	-	-	123
At 31 March 2006	3,267	123	-	-	3,390
Allotment of 50p Ordinary shares	21,846	-	2,986	-	24,832
Redemption of Convertible A shares	(50)	-	-	-	(50)
Retained earnings	-	(103)	-	-	(103)
Credit in respect of share based payments	-	271	-	-	271
Shares to be issued	-	-	-	500	500
At 31 March 2007	**25,063**	**291**	**2,986**	**500**	**28,840**

The accompanying notes form part of the consolidated financial statements

Notes to the consolidated financial statements

1 Accounting policies

Digital Marketing Group plc is a Company incorporated in the UK

The consolidated financial statements consolidate those of the Company and its subsidiaries (together referred to as the "Group")

The consolidated financial statements have been prepared and approved by the directors in accordance with International Financial Reporting Standards as adopted by the EU ("Adopted IFRSs") The consolidated financial statements have been prepared under the historical cost convention

The accounting policies set out below have, unless otherwise stated, been applied consistently to all periods presented in these consolidated financial statements

Judgements made by the directors in the application of these accounting policies that have a significant effect on the consolidated financial statements together with estimates with a significant risk of material adjustment in the next year are discussed in note 29

The Group has not adopted IFRS 7 'Financial Instruments Disclosures', IFRS 8 'Operating Segments', IFRIC 7 'Applying the Restatement Approach under IAS 29 Financial Reporting in Hyperflationary Economies', IFRIC 8 'Scope of IFRS 2', IFRIC 9 'Reassessment of Embedded Derivatives', IFRIC 10 'Interim Financial Reporting and Impairment', IFRIC 11 'IFRS 2 Group and Treasury Transactions' and IFRIC 12 'Service Concession Arrangements' which are not yet effective These standards will take effect from 2008 and 2009 financial years respectively and are not expected to have a significant impact on the consolidated financial statements

Basis of consolidation

Subsidiaries are entities controlled by the Group Control exists when the Group has the power, directly or indirectly, to govern the financial and operating policies of an entity so as to obtain benefits from its activities In assessing control, potential voting rights that are currently exercisable or convertible are taken into account The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases Transactions between Group companies are eliminated on consolidation

On 24 October 2006 Digital Marketing Group plc merged with Seashell II Limited, and on that date the shareholders of Seashell II Limited exchanged their shares for equivalent shares in Digital Marketing Group plc As Digital Marketing Group plc was newly incorporated at the time of the transaction under the terms of IFRS 3 'Business Combinations' this transaction has been accounted for as a reverse acquisition, on the basis that the shareholders of Seashell II Limited gained a controlling interest in the Group The financial statements therefore represent a continuation of the financial statements of Seashell II Limited Following the merger, the activities of Seashell II Limited were discontinued by the Group, and have been presented as a discontinued activity in both the current and previous periods

Revenue

Revenue for all business segments other than media planning and buying comprises income earned in respect of amounts billed, and is stated exclusive of VAT, sales tax and trade discounts Revenue is recognised on long term contracts if their final outcome can be assessed with reasonable certainty, by including in the income statement revenue and related costs as contract activity progresses

Media planning and buying

Revenue comprises gross billings to customers relating to media placements and fees for advertising services Revenue may consist of various arrangements involving commissions, fees, incentive-based revenue or a combination of the three, as agreed upon with each client

Revenue is recognised when the service is performed, in accordance with the terms of the contractual arrangement Incentive-based revenue typically comprises both quantitative and qualitative elements, on the element related to quantitative targets, revenue is recognised when the quantitative targets have been achieved, on elements related to qualitative targets, revenue is recognised when the incentive is receivable

Foreign currency

Transactions in foreign currencies are translated at the foreign exchange rate ruling at the date of the transaction Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated at the foreign exchange rate ruling at that date Foreign exchange differences arising on translation are recognised in the income statement

Classification of financial instruments issued by the Group

Financial instruments issued by the Group are treated as equity (i e forming part of shareholders' funds) only to the extent that they meet the following two conditions

- they include no contractual obligations upon the Company (or Group as the case may be) to deliver cash or other financial assets or to exchange financial assets or financial liabilities with another party under conditions that are potentially unfavourable to the Company (or Group), and
- where the instrument will or may be settled in the Company's own equity instruments, it is either a non-derivative that includes no obligation to deliver a variable number of the Company's own equity instruments or is a derivative that will be settled by the Company's exchanging a fixed amount of cash or other financial assets for a fixed number of its own equity instruments

To the extent that this definition is not met, the proceeds of issue are classified as a financial liability Where the instrument so classified takes the legal form of the Company's own shares, the amounts presented in these financial statements for called up share capital and share premium account exclude amounts in relation to those shares

Finance payments associated with financial liabilities are dealt with as part of finance expenses Finance payments associated with financial instruments that are classified in equity are dividends and are recorded directly in equity

Property, plant and equipment

Property, plant and equipment are stated at cost less accumulated depreciation and impairment losses

Where parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items of property, plant and equipment

Depreciation is charged to the income statement on a straight-line basis over the estimated useful lives of each part of an item of property, plant and equipment Land is not depreciated The estimated useful lives are as follows

• Freehold buildings	40 years
• Leasehold improvements	over period of lease
• Motor vehicles	4 years
• Office equipment	3 - 5 years

It has been assumed that all assets will be used until the end of their economic life

Intangible assets and goodwill

All business combinations are accounted for by applying the purchase method Goodwill represents the difference between the cost of the acquisition and the fair value of the net identifiable assets acquired Identifiable intangibles are those which can be sold separately or which arise from legal or contractual rights regardless of whether those rights are separable

Goodwill is stated at cost less any accumulated impairment losses Goodwill is allocated to cash-generating units and is not amortised but is tested annually for impairment

Other intangible assets that are acquired by the Group are stated at cost less accumulated amortisation and accumulated impairment losses

Amortisation is charged to the income statement on a straight-line basis over the estimated useful lives of intangible assets unless such lives are indefinite Intangible assets with an indefinite useful life and goodwill are systematically tested for impairment at each balance sheet date Other intangible assets are amortised from the date they are available for use The estimated useful lives are as follows

• Customer relationships	8 to 12 years
• Trademarks	12 years

Impairment

For goodwill, assets that have an indefinite useful life and intangible assets that are not yet available for use, the recoverable amount is estimated annually, the first assessment will take place during the year ended 31 March 2008 For other assets the recoverable amount is only estimated when there is an indication that an impairment may have occurred

An impairment loss is recognised whenever the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount Impairment losses are recognised in the income statement

Impairment losses recognised in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to cash-generating units and then to reduce the carrying amount of the other assets in the unit on a pro rata basis A cash generating unit is the smallest identifiable group of assets that generates cash inflows that are largely independent of the cash inflows from other assets or groups of assets

Inventories

Work in progress is valued on the basis of direct costs plus attributable overheads based on normal level of activity on a FIFO basis Provision is made for any foreseeable losses where appropriate No element of profit is included in the valuation of work in progress

Employee benefits

Defined contribution plans

Obligations for contributions to defined contribution pension plans are recognised as an expense in the income statement as incurred

Share-based payment transactions

The fair value at the date of grant of share based remuneration is calculated using a trinomial pricing model and charged to the Income Statement on a straight line basis over the vesting period of the award The charge to the Income Statement takes account of the estimated number of shares that will vest All share based remuneration is equity settled

Provisions

A provision is recognised in the balance sheet when the Group has a present legal or constructive obligation as a result of a past event, and it is probable that an outflow of economic benefits will be required to settle the obligation If the effect is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability

Expenses

Operating lease payments

Payments made under operating leases are recognised in the income statement on a straight-line basis over the term of the lease Lease incentives received are recognised in the Income Statement as an integral part of the total lease expense

Net financing costs

Net financing costs comprise interest payable and interest receivable on funds invested Interest income and interest payable is recognised in profit or loss as it accrues, using the effective interest method

Taxation

Tax on the profit or loss for the year comprises current and deferred tax Tax is recognised in the income statement except to the extent that it relates to items recognised directly in equity, in which case it is recognised in equity

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years

Deferred tax is provided on temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes The following temporary differences are not provided for

- the initial recognition of goodwill,
- the initial recognition of assets or liabilities that affect neither accounting nor taxable profit other than in a business combination,
- and differences relating to investments in subsidiaries to the extent that they will probably not reverse in the foreseeable future

The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantively enacted at the balance sheet date

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be utilised

Financial assets

Cash and cash equivalents

Cash and cash equivalents comprise cash balances and call deposits Bank overdrafts that are repayable on demand and form an integral part of the Group's cash management are included as a component of cash and cash equivalents for the purpose only of the statement of cash flows

Trade and other receivables

Trade and other receivables are initially recorded at fair value and thereafter carried at fair value amount less any required allowances for uncollectible amounts

Financial liabilities

Interest-bearing borrowings

Interest-bearing borrowings are recognised initially at fair value less attributable transaction costs Subsequent to initial recognition, interest-bearing borrowings are stated at amortised cost with any difference between cost and redemption value being recognised in the income statement over the period of the borrowings on an effective interest basis

Trade and other payables

Trade payables are carried at amounts expected to be paid to counterparties

Segmental reporting

The Group's primary reporting format is business segments and its secondary format is geographical segments

Discontinued operations

A discontinued operation is a component of the Group's business that represents a separate major line of business or geographical area of operations or is a subsidiary acquired exclusively with a view to resale, that has been disposed of, has been abandoned or that meets the criteria to be classified as held for sale

Exceptional items

Exceptional items are items of significance which the Directors consider need to be brought to the attention of the readers of the accounts

2 Segmental reporting

The Group's primary reporting segments are the following business segments

Continuing operations **Year ended 31 March 2007**

	Outbound telemarketing and online marketing £000	Direct marketing services £000	Media planning and buying £000	Data services and consultancy £000	Unallocated £000	**Group total £000**
Revenue	3,111	3,906	3,501	2,539	-	**13,057**
Direct costs	(90)	(997)	(2,706)	(875)	-	**(4,668)**
Gross profit	3,021	2,909	795	1,664	-	**8,389**
Other operating income	-	-	16	-	-	**16**
Operating expenses excluding depreciation and amortisation	(2,433)	(2,028)	(395)	(1,018)	(528)	**(6,402)**
Earnings before interest, tax, depreciation and amortisation	588	881	416	646	(528)	**2,003**
Depreciation	(69)	(25)	(52)	(20)	-	**(166)**
Operating profit before amortisation charge	519	856	364	626	(528)	**1,837**
Amortisation charge	(89)	(103)	(38)	(91)	-	**(321)**
Operating profit	430	753	326	535	(528)	**1,516**
Exceptional expenses						**(336)**
Operating profit - total						**1,180**
Finance income (note 8)						**99**
Finance costs (note 8)						**(205)**
Profit before tax						**1,074**
Taxation						**(537)**
Profit for year from continuing operations						**537**

There were no results in the comparative period relating to continuing operations

Discontinued operations	**Year ended 31 March 2007 £000**	Period ended 31 March 2006 £000
Administrative expenses	**(418)**	(213)
Finance income	**65**	336
Finance costs	**(287)**	-
(Loss)/profit for period on discontinued operations	**(640)**	123

2 Segmental reporting (continued)

	Assets		Liabilities		Capital employed	
	2007	2006	**2007**	2006	**2007**	2006
	£000	£000	**£000**	£000	**£000**	£000
Outbound telemarketing and online marketing	**9,981**	-	**1,696**	-	**8,285**	-
Direct marketing services	**9,656**	-	**1,102**	-	**8,554**	-
Media planning and buying	**13,284**	-	**2,671**	-	**10,613**	-
Data services and consultancy	**17,235**	-	**2,247**	-	**14,988**	-
Unallocated assets and liabilities	**3,343**	-	**16,943**	-	**(13,600)**	-
Total - continuing operations	**53,499**	-	**24,659**	-	**28,840**	-
Discontinued activities	**-**	3,580	**-**	190	**-**	3,390
Total	**53,499**	3,580	**24,659**	190	**28,840**	3,390

Unallocated assets and liabilities consist predominantly of external borrowings which have not been allocated across the business segments

	Capital additions	
	2007	2006
	£000	£000
Outbound telemarketing and online marketing	**101**	-
Direct marketing services	**19**	-
Media planning and buying	**12**	-
Data services and consultancy	**11**	-
Total	**143**	-

Geographical segments

All turnover is derived from and all assets and liabilities are located in, the United Kingdom

3 Exceptional items

	Year ended 31 March 2007 £000	Period ended 31 March 2006 £000
Costs incurred in listing the Company's shares on the Alternative Investment Market	**336**	-

4 Other operating income

	Year ended 31 March 2007 £000	Period ended 31 March 2006 £000
Other operating income	**16**	-

5 Expenses and auditors' remuneration

Included in profit before tax are the following	**Year ended 31 March 2007 £000**	Period ended 31 March 2006 £000
Depreciation of property plant and equipment	**166**	-
Amortisation of intangible assets	**321**	-
Employee emoluments	**4,807**	-

Auditors' remuneration	**Year ended 31 March 2007 £000**	Period ended 31 March 2006 £000
Audit of these financial statements	**35**	-
Amounts receivable by auditors and their associates in respect of		
Audit of financial statements of subsidiaries pursuant to legislation	**20**	-
Other services relating to taxation	**9**	-
Services relating to corporate finance transactions entered into or proposed to be entered into by or on behalf of the Company or the Group	**50**	-

Amounts paid to the Company's auditor in respect of services to the Company, other than the audit of the Company's financial statements, have not been disclosed as the information is required instead to be disclosed on a consolidated basis

6 Staff numbers and costs

The average number of persons employed by the Group (including directors) during the year, analysed by category, was as follows

	Number of employees	
	Year ended 31 March 2007 £000	Period ended 31 March 2006 £000
Management and administration	**62**	-
Call centre operatives	**114**	-
Account management and production	**84**	-
Information strategists	**71**	-
Media planning and buying	**15**	-
	346	-

The aggregate payroll costs of these persons were as follows	**Year ended 31 March 2007 £000**	Period ended 31 March 2006 £000
Wages and salaries	**4,050**	-
Share based payments (See note 19)	**271**	-
Social security costs	**354**	-
Other pension costs	**132**	-
	4,807	-

7 Directors' emoluments

The table below shows emoluments of Directors for the period October 2006 to March 2007 There was no remuneration relating to the Group directors before October 2006

	Salary	Bonus	Benefits	Pensions	Charge in respect of share options	Total
	£	£	£	£	£	£
Stephen Davidson	17,282	-	-	-	41,117	58,399
Ben Langdon	64,808	60,000	-	-	113,072	237,880
Robert Millington	33,680	25,000	3,726	2,875	3,855	69,136
Gary Stevens	50,000	-	281	2,600	25,698	78,579
Barry Jenner	6,481	-	-	-	2,056	8,537
Ian Robinson	6,492	-	-	-	2,056	8,548
Andrew Wilson	6,492	-	-	-	-	6,492
	185,235	**85,000**	**4,007**	**5,475**	**187,854**	**467,571**

Pension contributions for Robert Millington and Gary Stevens are paid in to Money purchase schemes by Scope Creative Marketing Limited and HSM Limited respectively

Share Options and Performance Share Plan (PSP)

On 2 October 2006 the Board adopted the Digital Marketing Performance Share Plan (PSP) under which the Remunerations Committee may grant conditional share awards, nil cost options or market rate options The following table sets out the share options granted to Directors during the year which are all nil cost options and the exercise price is a nominal £1 per tranche exercised The options are performance linked to compound annual growth rate in Earnings per Share and, subject to the performance criteria, vest after 31 March 2010 Further details of the PSP are given on pages 50 and 51 There were no results in the comparative period relating to continuing operations

Share options granted under the PSP during the year were as follows

	B/Fwd	Number granted this period and outstanding at 31 March 2007	Date of grant
Stephen Davidson	-	1,403,509	26 Jan 07
	-	350,877	2 Feb 07
Ben Langdon	-	3,859,649	26 Jan 07
	-	701,754	2 Feb 07
Robert Millington	-	131,579	26 Jan 07
Gary Stevens	-	877,193	26 Jan 07
Barry Jenner	-	70,175	26 Jan 07
Ian Robinson	-	70,175	26 Jan 07
Andrew Wilson	-	70,175	26 Jan 07

8 Finance income and expense

	Year ended 31 March 2007 £000	Period ended 31 March 2006 £000
Interest income	**99**	103
Total financial income	**99**	103
Interest expense	**205**	-
Total financial expenses	**205**	-

9 Taxation

Recognised in the income statement

	Year ended 31 March 2007 £000	Period ended 31 March 2006 £000
Current tax expense		
Current year	**707**	-
Deferred tax expense		
Origination and reversal of temporary differences	**(170)**	-
Total tax in income statement	**537**	-

Reconciliation of total tax charge

	Year ended 31 March 2007 £000	Period ended 31 March 2006 £000
Profit before tax	**1,074**	123
Tax using the UK corporation tax rate of 30% *(2006 30 %)*	**322**	37
Non-deductible expenses	**222**	-
Deductions allowable for tax	**(19)**	(37)
Unused tax losses carried forward	**76**	-
Utilisation of tax losses	**(40)**	-
Other	**(24)**	-
Total tax in income statement	**537**	-

10 Earnings per share

From continuing and discontinued operations	**Year ended 31 March 2007 pence per share**	Period ended 31 March 2006 pence per share
Basic	**(0.55)p**	1 90p
Diluted	**(0.51)p**	1 90p

Earnings per share has been calculated by dividing the profit attributable to shareholders by the weighted average number of ordinary shares in issue during the year The numbers used in calculating basic and diluted earnings per share are reconciled below

	Year ended 31 March 2007 £000	Period ended 31 March 2006 £000
(Loss)/profit for year attributable to shareholders	**(103)**	123
Weighted average number of shares in issue		
Basic	**18,686**	6,433
Adjustment for share options, warrants and contingent shares	**1,788**	-
Diluted	**20,474**	6,433

	Year ended 31 March 2007 pence per share Discontinuing operations	**Year ended 31 March 2007 pence per share Continuing operations**	Period ended 31 March 2006 pence per share
Basic	**(3.43)p**	**2.87p**	1 90p
Diluted	**(3.13)p**	**2.62p**	1 90p

	£000	£000
(Loss)/profit for year attributable to shareholders	**(103)**	123
Add loss for year on discontinued operation	**640**	-
Earnings from continuing operations	**537**	123

The denominators are the same as shown above for both basic and diluted earnings per share

11 Property, plant and equipment

	Leasehold improvements £000	Freehold land and buildings £000	Motor vehicles £000	Office equipment £000	Total £000
Cost					
At 21 October 2004	-	-	-	-	-
Additions	-	-	-	6	6
At 31 March 2006	-	-	-	6	6
Acquisitions through business combinations	79	1,301	20	637	2,037
Additions	55	-	-	88	143
Disposals	-	(1,301)	-	(43)	(1,344)
At 31 March 2007	134	-	20	688	842
Depreciation and impairment					
At 21 October 2004 and 31 March 2006	-	-	-	-	-
Depreciation charge for the year	12	1	4	149	166
Disposals	-	(1)	-	(37)	(38)
At 31 March 2007	12	-	4	112	128
Net book amount					
At 21 October 2004 and 31 March 2006	-	-	-	6	6
At 31 March 2007	**122**	**-**	**16**	**576**	**714**

Security

The assets are covered by a fixed charge in favour of the Group's lenders

12 Goodwill

	Goodwill £000
Cost	
At 21 October 2004 and 31 March 2006	-
Acquisitions through business combinations	30,734
At 31 March 2007	**30,734**
Provision for impairment	
At 21 October 2004, 31 March 2006 and at 31 March 2007	-
Net book amount	
At 31 March 2007	**30,734**

Goodwill is primarily attributed to the following cash generating units	£000
Outbound telemarketing and online marketing	5,920
Direct marketing services	5,550
Media planning and buying	8,929
Data services and consultancy	10,335
	30,734

Impairment testing

The recoverable amount for goodwill is estimated annually The first assessment will take place during the year ended 31 March 2008

13 Other intangible assets

	Customer relationship and trademarks £000
Cost	
At 21 October 2004 and at 31 March 2006	-
Acquisitions through business combinations	10,536
At 31 March 2007	10,536
Amortisation and impairment	
At 21 October 2004 and at 31 March 2006	-
Amortisation for the year	321
At 31 March 2007	321
Net book amount	
At 31 March 2006	-
At 31 March 2007	**10,215**

Customer relationships and trademarks are amortised over up to 12 years The Group have obtained an external valuation of the customer relationships, and consider its results to give a fair reflection of the value of the intangible assets The review was based on the assumptions that current customer attrition rates will be 10% each year and sales growth will be 2% each year. Discount rates based on each subsidiary's weighted average cost of capital of between 14 6% and 15% have been applied to the future cashflows of the current customer relationships.

14 Deferred tax assets and liabilities

Recognised deferred tax assets and liabilities

Deferred tax assets and liabilities are all attributable to property, plant and equipment The following movements have occurred

	Accelerate capital allowances £000	Other temporary differences £000
At 21 October 2004 and at 31 March 2006	-	-
Arising on acquisitions	86	3,157
Credit to Income Statement	(78)	(92)
At 31 March 2007	8	3,065

15 Inventories

	2007 £000	2006 £000
Work in progress	**165**	-

16 Trade and other receivables

	2007 £000	2006 £000
Trade debtors	**5,394**	-
Prepayments	**538**	-
Other debtors	**170**	10
	6,102	10

Trade debtors are stated net of an allowance for estimated irrecoverable amounts of £141,000 (2006 - £nil)
The carrying amount of trade and other receivables approximates to their fair values

17 Trade and other payables

	2007 £000	2006 £000
Trade creditors	**2,346**	190
Tax and social security	**1,758**	-
Other creditors, accruals and deferred income	**2,876**	-
	6,980	190

The carrying amount of trade and other payables approximates to their fair values

18 Acquisitions of subsidiaries

Durng the year the Group made four acquisitions of subsidiary undertakings The net assets acquired, consideration paid, and goodwill upon acquisition for each of these subsidiary undertakings are detailed in the following note
A summary of these amounts is shown below

Summary of all four acquisitions

	Acquiree's book values £000	Fair value adjustment £000	Notes	Acquisition amounts £000
Acquiree's net assets at the acquisition date:				
Other intangible assets	-	10,523	1	10,523
Property, plant and equipment	1,840	197	2	2,037
Intangible assets	13	-		13
Inventories	154	-		154
Trade and other receivables	6,093	-		6,093
Tax receivable	417	-		417
Cash and cash equivalents	4,499	-		4,499
Trade and other payables	(6,939)	-		(6,939)
Tax payable	(609)	-		(609)
Deferred tax	(17)	(3,226)	3	(3,243)
Provisions	(518)	-		(518)
Net identifiable assets and liabilities	4,933	7,494		12,427
Goodwill on acquisition				30,734
				43,161
Satisfied by:				
Cash consideration paid (Including legal and professional fees of £1,448,000)				25,161
Deferred consideration payable 1 January 2008				200
Contingent consideration payable in shares				500
Issue of 20,983,333 ordinary shares at £0 57 to £0 60 per share				17,300
				43,161

Summary of net cash outflows from acquisitions

Cash paid	25,161
Cash acquired	(4,499)
Net cash outflow	20,662

Fair value adjustments comprise:

1 Valuation of customer relationships
2 Adjustments to value of property at open market value of £230,000 together with a harmonisation of depreciation rates of £33,000
3 Deferred tax effect of valuation of property to open market value and valuation of customer relationships

All fair values are provisional and will be reviewed during the current financial year

On 24 October 2006 Digital Marketing Group plc merged with Seashell II Limited, and on that date the shareholders of Seashell II Limited exchanged their shares for equivalent shares in Digital Marketing Group plc As Digital Marketing Group plc was newly incorporated at the time of the transaction under the terms of IFRS 3 'Business Combinations' this transaction has been accounted for as a reverse acquisition, on the basis that the shareholders of Seashell II Limited gained a controlling interest in the Group

18 Acquisitions of subsidiaries (continued)

The results for the Group had the acquisitions during the period been at the beginning of the period can be analysed as follows

	HSM	Scope Creative Marketing	Cheeze	Alphanumeric	Adjustment	**Group total**
Note	**(1)**	**(2)**	**(1)**	**(2)**	**(3)**	
	£000	£000	£000	£000	£000	**£000**
Revenue	5,970	7,360	10,770	13,500	-	**37,600**
Direct costs	(160)	(1,900)	(8,270)	(3,320)	-	**(13,650)**
Gross profit	5,810	5,460	2,500	10,180	-	**23,950**
Operating expenses excluding depreciation and amortisation	(4,650)	(3,910)	(1,640)	(7,700)	(850)	**(18,750)**
Earnings before interest, tax, depreciation and amortisation	1,160	1,550	860	2,480	(850)	**5,200**

Notes

(1) The information is based on the management accounts for the 12 months ended 31 March 2007 as the statutory accounts cover a 15 month period They exclude charges in respect of group share options For HSM the operating expenses have been adjusted to exclude the exceptional cost of £440,000 in respect of an onerous lease provision

(2) The information is based on the statutory accounts and has been adjusted for items which are considered to be non recurring, being legal fees of £58,000 and equity restructuring costs of £194,000 They also exclude charges in respect of group share options

(3) The operating loss of the parent Company arrived at before charging exceptional items and amortisation of £468,000 and Group share option costs of £194,000 has been annualised by applying the 5 5 months costs over a full 12 months

18 Acquisitions of subsidiaries (continued)

HSM Limited

On 25 October 2006 the Group acquired all of the ordinary shares in HSM Limited, an outbound telemarketing and online marketing services company, for £9,434,066, satisfied in cash and shares In the period since acquisition the subsidiary contributed net profit of £430,000 to the consolidated net profit for the year

The assets and liabilities of HSM Limited acquired were as follows

	Acquiree's book values £000	Fair value adjustment £000	Acquisition amounts £000
Acquiree's net assets at the acquisition date.			
Other intangible assets	-	2,181	2,181
Property, plant and equipment	188	-	188
Trade and other receivables	1,251	-	1,251
Cash and cash equivalents	1,665	-	1,665
Trade and other payables	(423)	-	(423)
Tax payable	(253)	-	(253)
Deferred tax	-	(654)	(654)
Provisions	(441)	-	(441)
Net identifiable assets and liabilities	1,987	1,527	3,514
Goodwill on acquisition			5,920
			9,434
Satisfied by:			
Cash consideration paid (Including legal and professional fees of £393,000)			5,434
Issue of 7,017,544 ordinary shares at £0 57 per share			4,000
			9,434
Cash paid			5,434
Cash acquired			(1,665)
Net cash outflow			3,769

18 Acquisitions of subsidiaries (continued)

Scope Creative Marketing Limited

On 25 October 2006 the Group acquired all of the ordinary shares in Scope Creative Marketing Limited, a direct marketing services company, for £10,101,510, satisfied in cash and shares In the period since acquisition the subsidiary contributed net profit of £753,000 to the consolidated net profit for the year

The assets and liabilities of Scope Creative Marketing Limited acquired were as follows

	Acquiree's book values £000	Fair value adjustment £000	Acquisition amounts £000
Acquiree's net assets at the acquisition date:			
Other intangible assets	-	2,565	2,565
Property, plant and equipment	1,201	230	1,431
Inventories	150	-	150
Trade and other receivables	1,615	-	1,615
Tax receivable	417	-	417
Cash and cash equivalents	859	-	859
Trade and other payables	(1,662)	-	(1,662)
Deferred tax	16	(839)	(823)
Net identifiable assets and liabilities	2,596	1,956	4,552
Goodwill on acquisition			5,550
			10,102
Satisfied by:			
Cash consideration paid (Including legal and professional fees of £461,000)			6,002
Deferred consideration, payable 1 January 2008			200
Issue of 6,842,105 shares at £0 57 per share			3,900
			10,102
Cash paid			6,002
Cash acquired			(859)
Net cash outflow			5,143

The freehold land and buildings of Scope Creative Marketing Limited were disposed of at market value to two directors of that Company shortly after acquisition A fair value adjustment has been made to reflect the market value of the freehold land and buildings at the date of acquisition, with a related deferred tax liability

18 Acquisitions of subsidiaries (continued)

Cheeze Limited

On 25 January 2007 the Group acquired all of the ordinary shares in Cheeze Limited, a media planning and buying company, for £11,015,738, satisfied in cash and shares In the period since acquisition the subsidiary contributed net profit of £326,000 to the consolidated net profit for the year

The assets and liabilities of Cheeze Limited acquired were as follows

	Acquiree's book values £000	Fair value adjustment £000	Acquisition amounts £000
Acquiree's net assets at the acquisition date:			
Other intangible assets	-	1,358	1,358
Property, plant and equipment	230	(33)	197
Intangible assets	13	-	13
Trade and other receivables	614	-	614
Cash and cash equivalents	1,908	-	1,908
Trade and other payables	(1,330)	-	(1,330)
Tax payable	(237)	-	(237)
Deferred tax	(29)	(407)	(436)
Net identifiable assets and liabilities	1,169	918	2,087
Goodwill on acquisition			8,929
			11,016
Satisfied by:			
Cash consideration paid (Including legal and professional fees of £287,000)			7,016
Contingent consideration, payable in shares			500
Issue of 6,140,350 shares at £0 57 per share			3,500
			11,016
Cash paid			7,016
Cash acquired			(1,908)
Net cash outflow			5,108

18 Acquisitions of subsidiaries (continued)

Alphanumeric Holdings Limited

On 25 January 2007 the Group acquired all of the ordinary shares in the Alphanumeric group of companies, which provide data services and consultancy, for £12,609,115, satisfied in cash and shares In the period since acquisition the subsidiary contributed net profit of £535,000 to the consolidated net profit for the year

The assets and liabilities of the Alphanumeric group acquired were as follows

	Acquiree's book values £000	Fair value adjustment £000	Acquisition amounts £000
Acquiree's net assets at the acquisition date:			
Other intangible assets	-	4,419	4,419
Property, plant and equipment	221	-	221
Inventories	4	-	4
Trade and other receivables	2,613	-	2,613
Cash and cash equivalents	67	-	67
Trade and other payables	(3,524)	-	(3,524)
Tax payable	(119)	-	(119)
Deferred tax	(4)	(1,326)	(1,330)
Provisions	(77)	-	(77)
Net identifiable assets and liabilities	(819)	3,093	2,274
Goodwill on acquisition			10,335
			12,609
Satisfied by:			
Cash consideration paid (Including legal fees of £307,000)			6,709
Issue of 9,833,334 ordinary shares at £0 60 per share			5,900
			12,609
Cash paid			6,709
Cash acquired			(67)
Net cash outflow			6,642

19 Employee benefits

Performance share plan

The Company grants share options under the Digital Marketing Group Performance Share plan more details of which are given in the Director's Remuneration Report

Details of the share options granted during and outstanding at the end of the year are as follows

	Number of share options	**Year ended 31 March 2007 weighted average exercise price**	Number of share options	Period ended 31 March 2006 weighted average exercise price
At 1 April 2006	-	-	-	-
Granted during year	**9,846,490**	**5.9p**	-	-
At 31 March 2007	**9,846,490**	**5.9p**	-	-
Exercisable at 31 March 2007	**Nil**		Nil	

Share options outstanding at 31 March 2007 have a range of exercise prices from a nominal £1 per tranche exercised to £0 60 per share and a weighted average remaining vesting period of 4 8 years

Charge to Profit and Loss account

Under IFRS 2 the Group is required to recognise as an expense in the relevant Company's financial statements apportioned over the vesting period based upon the number of options which are expected to vest and the fair value of those options at the date of grant

In considering appropriate expense the Group commissioned an independent valuation from American Appraisal UK Limited and have fully adopted their findings and accordingly a charge of £271,000 has been made in these accounts

The weighted average fair value of the options is 63 4p

This weighted average fair value was calculated using the trinomial model with the following inputs

Share price range at date of grant	**65.5p to 67.5p**
Exercise prices	**0.0 to 60p**
Expected volatility	**35%**
Dividend yield	**0%**
Risk free rate	**5.24 - 5.27%**
Option life	**3 years**

Warrant over Shares

The Company has granted warrants to Cenkos Securities Plc over 324,561 ordinary shares at 57p per share in lieu of services rendered prior to the merger and admission These warrants are exercisable at any time until 25 October 2012 The fair value of the warrants has been calculated at £50,000 which represents the value of the services provided

20 Provisions

	Onerous lease provision £000
At 21 October 2004 and 31 March 2006	-
Amounts arising from acquisitions	518
At 31 March 2007	**518**
Total provisions are analysed as follows	518
Non-current	-
Current	
	518

Provisions relate to leases in Group companies where the commercial benefit has either ceased or will cease before the normal expiry period

21 Share capital

	2007 £000	2006 £000
Authorised		
100,000,000 Ordinary shares of £0 50 each	**50,000**	3,217
50,000 Redeemable preference shares of £1 each	**50**	-
50,000 Convertible A shares of £1 each	-	50
	50,050	3,267
Allotted, called up and fully paid		
50,126,437 Ordinary shares of £0 50 each (2006 - 6,433,455)	**25,063**	3,217
50,000 Convertible A shares of £1 each	-	50
	25,063	3,267

On 16 February 2006 Seashell II Limited allotted at par value for cash 50,000 convertible A shares of £1 each to two directors of the Company Subsequently, in the current period on 18 September 2006 the directors resigned from the Company and the Company acquired from said directors, for cash at par value, their entire holding in the convertible A shares and the shares were cancelled

During the year 49,999 redeemable preference shares in Digital Marketing Group plc were allotted and then subsequently redeemed by the Company out of the proceeds of the issues described below

During the year the Group merged with Seashell II Limited, which under the criteria specified under IFRS3, has been treated as a reverse acquisition The financial statements are therefore presented as a continuation of the activities of Seashell II Limited, and comparative information relates to that company

On 24 October 2006, the shareholders of Seashell II Limited exchanged their £0 50 ordinary shares in that company for the same number of £0 50 ordinary shares in Digital Marketing Group plc From this date the activities of Seashell II Limited were discontinued, and have been reported as such

On 25 October 2006 the Company issued 13,859,649 £0 50 ordinary shares at £0 57 per share The premium arising on issue was £970,175

On 25 October 2006 the Company issued 13,859,649 £0 50 ordinary shares at £0 57 per share as part of the consideration for the acquisitions of HSM Limited and Scope Creative Marketing Limited The premium arising on issue was £970,175

On 26 January 2007 the Company issued 15,973,684 £0 50 ordinary shares at £0 59 per share as part of the consideration for the acquisitions of Cheeze Limited and the Alphanumeric group of companies The premium arising on issue was £1,413,158

Reconciliation of movements in number of shares issued:

	Ordinary shares of £0.50 each Number	Redeemable preference shares of £1 each Number	Convertible A shares of £1 each Number
At 1 April 2006	-	-	-
Issue of convertible A shares	-	-	**50,000**
Issue of redeemable preference shares	-	**49,999**	-
Redemption of redeemable preference shares	-	**(49,999)**	-
Reverse acquisition	**6,433,455**	-	-
Issue of ordinary shares			
25 October 2006	**27,719,298**	-	-
26 January 2007	**15,973,684**	-	-
Total	**50,126,437**	-	**50,000**

22 Share premium account and reserves

	Retained earnings £000	Share premium account £000	Shares to be issued £000	Total £000
At 21 October 2004	-	-	-	-
Retained earnings	123	-	-	123
Balance at 31 March 2006	123	-	-	123
Premium on issue of shares	(103)	3,354	-	3,251
Share issue costs	-	(368)	-	(368)
Charge in respect of share options	271	-	-	271
Shares to be issued in respect of deferred consideration	-	-	500	500
Balance at 31 March 2007	**291**	**2,986**	**500**	**3,777**

23 Borrowings

	2007 £000	2006 £000
Overdraft		
Bank borrowings	2,664	-
	10,813	-
	13,477	-

Borrowings are repayable as follows

Within 1 year	4,138	-
In more than 1 year but not more than 2 years	4,917	-
In more than 2 years but not more than 3 years	1,474	-
In more than 3 years but not more than 4 years	1,474	-
In more than 4 years but not more than 5 years	1,474	-
Due in more than 1 year	9,339	-

Average interest rates at the balance sheet date were	2007 %	2006 %
Overdraft	7.5	-
Term loan	8	-
Revolver loan	7.9	-

The borrowing facilities available to the Group amounted to £13 85m and at the balance sheet date, taking account of credit cash balances across the Group, there were £6 20m of undrawn borrowing facilities

A Composite Accounting System allows debit balances on overdraft to off set across the Group with credit balances No hedging facility was in place at the period end

24 Operating leases

The Group has outstanding commitments under non-cancellable operating leases, which fall due as follows

	2007 £000	2006 £000
In less than one year	382	-
Between one and five years	1,903	-
After five years	3,357	-

The Group leases a number of office premises under operating leases During the year £165,000 was recognised as an expense in the Income Statement in respect of operating leases (2006 nil)

25 Capital commitments

Dunng the year the Group entered into a contract to purchase property, plant and equipment for £100,000 (2006 £nil)
These commitments are expected to be settled in the following financial year

26 Contingencies

The Group has a liability to pay deferred consideration if certain performance targets are met The maximum liability is £1,000,000 and the directors have provided £500,000, leaving £500,000 as an unprovided liability

27 Related parties

There were no significant related party transactions during the period

Key management of the Group is considered to be the Board of Directors Details of their remuneration is included in note 7

The Company is exempt from the requirements of FRS 8 to disclose transaction with other members of the Digital Marketing Group plc group of companies

28 Subsequent event

On 26 April 2007 the Group announced the placing of 14,285,715 Ordinary Shares of 50p at a price of 70p raising total funds of £10,000,000 These funds have been applied to reduce bank borrowings and provide available funds for future acquisitions

29 Accounting estimates and judgements

Impairment of goodwill

The carrying amount of goodwill is £27,577,000 The directors are confident that the carrying amount of goodwill is fairly stated but have not carried out an impairment review of this amount during the year

Other intangible assets

The valuation of customer lists is based on key assumptions which the directors have assessed, and are satisfied that the carrying value of these assets is fairly stated

Deferred consideration

The directors have provided an estimate of the amount payable in respect of deferred contingent consideration See note 26

Recognition of revenue as principal or agent

The Directors consider that they act as a principal in transactions where the Group assumes the credit risk Where this is via an agency arrangement and the Group assumes the credit risk for all billings it therefore recognises gross billings as revenue

30 Financial risk management

The Group uses various financial instruments these include loans, cash, equity investments, preference shares and various items, such as trade debtors and trade creditors that arise directly from its operations The main purpose of these financial instruments is to raise finance for the Group's operations

The existence of these financial instruments exposes the Group to a number of financial risks, which are described in more detail below

The main risks arising from the Group's financial instruments are market risk, cash flow interest rate risk, credit risk and liquidity risk The directors review and agree policies for managing each of these risks and they are summarised below

Market risk

Market risk encompasses three types of risk, being currency risk, fair value interest rate risk and price risk In this instance price risk has been ignored as it is not considered a material risk to the business The Group's policies for managing fair value interest rate risk are considered along with those for managing cash flow interest rate risk and are set out in the subsection entitled "interest rate risk" below

Currency risk

The Group is only minimally exposed to translation and transaction foreign exchange risk

Liquidity risk

The Group seeks to manage financial risk by ensuring sufficient liquidity is available to meet foreseeable needs and to invest cash assets safely and profitably

The Group policy throughout the period has been to ensure continuity of funding At the year-end, over 40% of the Group's borrowings were due to mature in more than two years

Short-term flexibility is achieved by overdraft facilities

The maturity of borrowings is set out in note 23 to the consolidated financial statements

Interest rate risk

The Group finances its operations through a mixture of retained profits and bank borrowings The Group exposure to interest rate fluctuations on its borrowings has not been mitigated during the period The directors are considering their policy on this exposure

The interest rate exposure of the financial assets and liabilities of the Group as at 31 March 2007 is shown in the table below The table includes trade debtors and creditors as these do not attract interest and are therefore subject to fair value interest rate risk

		Interest rate	
	Floating £000	**Zero £000**	**Total £000**
Financial assets			
Cash	5,569	-	5,569
Trade debtors	-	5,394	5,394
	5,569	5,394	10,963
Financial liabilities			
Overdrafts	2,664	-	2,664
Bank loans	10,813	-	10,813
Trade creditors	-	2,346	2,346
	13,477	2,346	15,823

Credit risk

The Group's principal financial assets are cash and trade debtors The credit risk associated with cash is limited, as the counterparties have high credit ratings assigned by international credit-rating agencies The principal credit risk arises therefore from the Group's trade debtors

In order to manage credit risk the directors set limits for customers based on a combination of payment history and third party credit references Credit limits are reviewed on a regular basis in conjunction with debt ageing and collection history

REPORT OF THE INDEPENDENT AUDITOR TO THE MEMBERS OF DIGITAL MARKETING GROUP PLC

We have audited the parent Company financial statements of Digital Marketing Group plc for the period ended 31 March 2007 which comprise the principal accounting policies, the balance sheet and notes 1 to 23 These financial statements have been prepared under the accounting policies set out therein

We have reported separately on the consolidated financial statements of Digital Marketing Group plc for the year ended 31 March 2007

This report is made solely to the parent Company's members, as a body, in accordance with Section 235 of the Companies Act 1985 Our audit work has been undertaken so that we might state to the parent Company's members those matters we are required to state to them in an auditor's 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 parent Company and the parent Company's members as a body, for our audit work, for this report, or for the opinions we have formed

Respective responsibilities of directors and auditors

The Directors' responsibilities for preparing the parent Company financial statements in accordance with United Kingdom law and Accounting Standards (United Kingdom Generally Accepted Accounting Practice) are set out in the Statement of Directors' Responsibilities

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland)

We report to you our opinion as to whether the parent Company financial statements give a true and fair view and whether the financial statements have been properly prepared in accordance with the Companies Act 1985 We also report to you whether in our opinion the information given in the Directors' Report is consistent with the parent Company financial statements The information given in the Directors' Report includes specific information that is presented elsewhere in the Annual Report that is cross referred from the Business Review section of the Directors' Report

In addition we report to you if, in our opinion, the parent Company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and other transactions is not disclosed

We read other information contained in the Annual Report and consider whether it is consistent with the audited parent Company financial statements The other information comprises only the performance highlights, the Chairman's statement, the strategic review, the statement on corporate governance and the Directors' remuneration report We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the parent Company financial statements Our responsibilities do not extend to any other information

Basis of audit opinion

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the statements It also includes an assessment of the significant estimates and judgments made by the Directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Company's circumstances, consistently applied and adequately disclosed

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements

Opinion

In our opinion

- the parent Company financial statements give a true and fair view, in accordance with United Kingdom Generally Accepted Accounting Practice, of the state of the parent Company's affairs as at 31 March 2007,
- the parent Company financial statements have been properly prepared in accordance with the Companies Act 1985, and
- the information given in the Directors' Report is consistent with the parent Company financial statements

GRANT THORNTON UK LLP
REGISTERED AUDITORS
CHARTERED ACCOUNTANTS
SHEFFIELD

26 June 2007

1 The maintenance and integrity of the Digital Marketing Group plc website is the responsibility of the Directors the audit does not involve a consideration of these matters and accordingly the auditors accept no responsibility for any changes that may have occurred to the financial statements since they were initially presented on the website
2 Legislation in the United Kingdom governing the preparation and dissemination of the financial statements differs from legislation in other jurisdictions

Company profit and loss account for the period ended 31 March 2007

	Note	For the period to 31 March 2007 £000
Administrative expenses before exceptional costs		**(584)**
Amortisation of capitalised goodwill		**(132)**
Cost incurred in listing the Company's shares on the Alternative Investment Market		**(336)**
Total administrative expenses	*2*	**(1,052)**
Operating loss		**(1,052)**
Income from fixed asset investments		**5,700**
Interest receivable		**27**
Interest payable	*6*	**(187)**
Profit on ordinary activities before taxation		**4,488**
Tax on profit on ordinary activities	*7*	**124**
Profit on ordinary activities after taxation	*17*	**4,612**

The Company has no recognised gains or losses other than the results for the period as set out above

The accompanying notes form part of the consolidated financial statements

Company balance sheet for the period ended 31 March 2007

	Note	2007 £'000
Fixed assets		
Tangible assets	9	5
Intangible assets	10	385
Investments	11	43,160
		43,550
Current assets		
Debtors	12	3,798
Cash at bank and in hand		-
		3,798
Creditors: amounts falling due within one year	13	(4,654)
Net current liabilities		(856)
Total assets less current liabilities		42,694
Creditors: amounts falling due after more than one year	14	(9,339)
		33,355
Capital and reserves		
Called up equity share capital	16	25,063
Share premium account	17	2,986
Shares to be issued	17	500
Share options reserve	17	4,689
Profit and loss account	17	117
Shareholders' funds	18	33,355

The financial statements were approved by the directors on 26 June 2007 and are signed on their behalf by

Robert Millington
Director

The accompanying notes form part of the consolidated financial statements

Notes to the Company financial statements

1 Accounting policies

Basis of consolidation

The accounts present the Company's performance from incorporation on 21 September 2006 to 31 March 2007 and have been prepared under the historical cost convention

The principal accounting policies of the Company are set out below

Goodwill arising on liquidation of subsidiary undertaking

On 24 October 2006 the Company acquired 100% of the ordinary share capital of Seashell II Limited through a share issue of 6,433,454 ordinary shares with a fair value of £3,217,000 Seashell II Limited was subsequently liquidated, and the Company received the activities, assets and liabilities which amounted to £2,700,000

The cost of the Company's investment reflected the underlying fair value of the net assets at the time of acquisition Following the liquidation of the investment, Schedule 4 of the Companies Act 1985 requires that the remaining balance be written off and charged to the profit and loss account However, the Directors considered that the difference between the value of the consideration and the amounts received following liquidation of the investment represent goodwill paid The Directors consider that writing the balance off in the period would fail to give a true and fair view of the Company's performance and it should instead be reallocated to goodwill, and amortised over the next two years

Fixed assets and depreciation

All fixed assets are initially recorded at cost

Depreciation is calculated so as to write off the cost of an asset, less its estimated residual value, over the useful economic life of that asset as follows

Fixtures & Fittings - 20-33% straight line

Investments

Investments are included at cost, less amounts written off

Classification of financial instruments issued by the Company

Financial instruments issued by the Company are treated as equity (i e forming part of shareholders' funds) only to the extent that they meet the following two conditions

- they include no contractual obligations upon the Company to deliver cash or other financial assets or to exchange financial assets or financial liabilities with another party under conditions that are potentially unfavourable to the Company, and
- where the instrument will or may be settled in the Company's own equity instruments, it is either a non-derivative that includes no obligation to deliver a variable number of the Company's own equity instruments or is a derivative that will be settled by the Company's exchanging a fixed amount of cash or other financial assets for a fixed number of its own equity instruments

To the extent that this definition is not met, the proceeds of issue are classified as a financial liability Where the instrument so classified takes the legal form of the Company's own shares, the amounts presented in these financial statements for called up share capital and share premium account exclude amounts in relation to those shares

Finance payments associated with financial liabilities are dealt with as part of finance expenses Finance payments associated with financial instruments that are classified in equity are dividends and are recorded directly in equity

Employee benefits

Share-based payment issued to employees of subsidiaries

The fair value at the date of grant of share based remuneration has been calculated using a trinomial pricing model and charged to the Profit and Loss account on a straight line basis over the vesting period of the award The charge to the Profit and Loss account takes account of the estimated number of shares that will vest All share based remuneration is equity settled

Taxation

Tax on the profit or loss for the year comprises current and deferred tax Tax is recognised in the Profit and Loss account except to the extent that it relates to items recognised directly in equity, in which case it is recognised in equity

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years

Deferred tax is provided on temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes The following temporary differences are not provided for

- the initial recognition of goodwill
- the initial recognition of assets or liabilities that affect neither accounting nor taxable profit other than in a business combination
- and differences relating to investments in subsidiaries to the extent that they will probably not reverse in the foreseeable future

The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantively enacted at the balance sheet date

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be utilised

Financial assets

Cash and cash equivalents

Cash and cash equivalents comprise cash balances and call deposits Bank overdrafts that are repayable on demand and form an integral part of the Group's cash management are included as a component of cash and cash equivalents for the purpose only of the statement of cash flows

Trade and other receivables

Trade and other receivables are initially recorded at fair value and thereafter carried at fair value amount less any required allowances for uncollectible amounts

2 Other operating charges

	For the period to 31 March 2007 £000
Administrative expenses	1,052

3 Operating profit

Operating profit is stated after charging	For the period to 31 March 2007 £000
Depreciation of owned fixed assets	1

4 Auditors remuneration

Details of remuneration paid to the auditors by the Group are shown in note 5 to the consolidated financial statements

5 Directors and employees

The average number of staff employed by the Company during the financial period amounted to	For the period to 31 March 2007 Number
Administrative	4

The aggregate emoluments (including those of Directors) for the period was	For the period to 31 March 2007 £000
Wages and salaries	163
Social security costs	15
Share based payments	19
Details of individual directors' remuneration, pension benefits and share options are shown in note 7 to the consolidated financial statements	372

6 Interest payable and similar charges

	For the period to 31 March 2007 £000
Bank interest charges	187

7 Tax on ordinary activities

Recognised in the profit and loss account	2007 £000
Current tax expense	
Current year	(124)

Reconciliation of current tax charge	2007 £000
Profit before tax	4,488
Tax using the UK corporation tax rate of 30% (2006 30 %)	1,346
Income not taxable	(1,710)
Expenses not deductible for tax	151
Other	13
Unused tax losses carried forward	76
Total tax in profit and loss account	(124)

8 Dividends

The Directors have not recommended a dividend for the current period

9 Fixed assets

	£000
Cost	
Additions	6
At 31 March 2007	6
Depreciation	
Provided during the period	1
At 31 March 2007	1
Net book amount at 31 March 2007	5

10 Intangible assets

	Capitalised goodwill £000
Cost	
Transferred from fixed asset investments on liquidation of investment in Seashell II Limited	517
At 31 March 2007	517
Amortisation	
Provided during the period	132
At 31 March 2007	132
Net book amount at 31 March 2007	385

11 Fixed asset investments

	Interest in subsidiary undertaking £000
Cost	
Acquisitions of subsidiary undertakings	**46,377**
Amounts written off	**(2,700)**
Reclassified as goodwill	**(517)**
At 31 March 2007	**43,160**

During the year the Company acquired the share capital of HSM Limited, Scope Creative Marketing Limited, Cheeze Limited and the group of companies headed by Alphanumeric Holdings Limited

At 31 March 2007 the Group held 20% or more of the allotted share capital of the following

		Proportion held		
	Class of share capital held	**by parent Company**	**by the Group**	**Nature of business**
Digital Marketing Group Services Limited	Ordinary	100%	100%	Dormant company
HSM Limited	Ordinary	100%	100%	Telemarketing
Inbox Limited	Ordinary	-	100%	Dormant company
Scope Creative Marketing Limited	Ordinary	100%	100%	Direct marketing
Dig For Fire Limited	Ordinary	-	100%	Dormant company
Junction Brand Communication Limited	Ordinary	-	100%	Dormant company
Cheeze Limited	Ordinary	100%	100%	Media planning
Alphanumeric Group Holdings Limited	Ordinary	100%	100%	Holding company
Alphanumeric Holdings Limited *	Ordinary "A"	70%	100%	Holding company
Alphanumeric Limited	Ordinary shares	-	100%	Information strategy
Jaywing Central Limited	Ordinary shares	-	100%	Dormant company
ISIS Direct Limited	Ordinary shares	-	100%	Dormant company

* The remaining 30% of share capital is owned by Alphanumeric Group Holdings Limited

All the companies listed above are incorporated in England and Wales

The Company acquired the whole of the issued share capital of Seashell II Limited, a company incorporated in Belize
The Company has been merged with the Digital Marketing Group plc under Belizean law

12 Debtors

	2007 £000
Corporation tax	124
Amounts due from subsidiary undertakings	3,500
Other taxation and social security	122
Prepayments and accrued income	52
	3,798

13 Creditors: amounts falling due within one year

	2007 £000
Bank loans and overdrafts (see note 15)	3,884
Trade creditors	47
Amounts owed to Group undertakings	10
Other taxation and social security	23
Deferred consideration payable on acquisitions of subsidiary undertakings	298
Accruals and deferred income	392
	4,654

14 Creditors: amounts falling due after more than one year

	2007 £000
Bank loans (see note 15)	9,339

The bank loans and overdrafts are secured over the assets of the Company and its subsidiaries

15 Borrowings and financial derivatives

Bank borrowings are repayable as follows	2007 £000
Within one year	
Bank overdraft	2,410
Bank loans	1,474
	3,884
Bank loans	
Between one and two years	4,917
Between two and five years	4,422
Total due after more than one year	9,339
Total debt	13,223

The Company did not have any financial derivatives at 31 March 2007

16 Share capital

	2007 £000
Authorised share capital	
100,000,000 ordinary shares of 50p each	**50,000**
50,000 redeemable preference shares of £1 each	**50**
	50,050
Allotted, called up and fully paid	
50,126,437 ordinary shares of 50p each	**25,063**

During the year 49,999 redeemable preference shares of £1 each were allotted and then subsequently redeemed by the holder for ordinary shares in the Company

On 24 October 2006, the shareholders of Seashell II Limited exchanged 6,433,455 £0 50 ordinary shares in that Company for the same number of £0 50 ordinary shares in Digital Marketing Group plc From this date the activities of Seashell II Limited were discontinued, and have been reported as such

On 25 October 2006 the Company issued 13,859,649 £0 50 ordinary shares at £0 57 per share The premium arising on issue was £970,175

On 25 October 2006 the Company issued 13,859,650 £0 50 ordinary shares as part of the consideration for the acquisition of HSM Limited and Scope Creative Marketing Limited The premium arising on issue was £970,175

On 26 January 2007 the Company issued 15,973,684 £0 50 ordinary shares as part of the consideration for the acquisition of Cheeze Limited and the Alphanumeric group of companies The premium arising on issue was £1,413,000

17 Reserves

	Share premium account £000	Shares to be issued £000	Share options reserve £000	Profit and loss account £000
Retained profit for the period	-	-	-	**4,612**
Deferred consideration on acquisition of subsidiary undertakings	-	**500**	-	-
Premium on allotments of shares during period	**3,354**	-	-	-
Credit in respect of share based payments	-	-	-	**194**
Share issue costs	**(368)**	-	-	-
Transfer to share options reserve	-	-	**4,689**	**(4,689)**
At 31 March 2007	**2,986**	**500**	**4,689**	**117**

The shares to be issued reserve represents the directors estimate of contingent amounts expected to be paid as part of the contingent consideration of the acquisition of Cheeze Limited during the year

At the meeting of the Board of Directors on 26 January 2007 the Directors approved the transfer of £4,689,000 from the profit and loss account to a designated share options reserve, in accordance with Article 113 of the Company's Articles of Association The share options reserve is distributable

18 Reconciliation of movements in shareholders' funds

	2007 £000
Profit for the financial period	4,612
Deferred consideration on acquisition of subsidiary undertakings	500
Credit in respect of share based payments	194
Issue of shares, net of issue costs	28,049
Net increase in shareholders' funds	33,355
Opening shareholders' funds	-
Closing shareholders' funds	33,355

19 Share based payments

Details of the share options issued are given in note 19 to the consolidated financial statements The basis of calculation of the share based payments, which all relate to share options issued, are given in the consolidated accounts in note 19 to the Group financial statements

20 Subsequent events

On 26 April 2007 the Company announced the placing of 14,285,715 Ordinary Shares of 50p at a price of 70p raising total funds of £10,000,000 These funds have been applied to reduce bank borrowings and provide available funds for future acquisitions

21 Contingent liabilities

There is a cross guarantee between all members of the Digital Marketing Group plc group of companies on all bank overdrafts and bank borrowings with Barclays Bank plc At 31 March 2007 the amount thus guaranteed by the Company was £nil

22 Related parties

The Company is exempt from the requirements of FRS 8 to disclose transactions with other members of the Digital Marketing Group plc group of companies

23 Financial risk management objectives and policies

Details of Group policies are set out in note 30 to the consolidated financial statements

DIGITAL MARKETING GROUP PLC

(the "Company")

(Incorporated and registered in England and Wales under number 5935923

NOTICE OF ANNUAL GENERAL MEETING

NOTICE IS HEREBY GIVEN that the 2006/7 Annual General Meeting will be held on Friday 7th September 2007 at the Hypnos Lounge, Adams Park Conference Centre, Wycombe Wanderers Football Club, Hillbottom Road, High Wycombe, Buckinghamshire, HP12 4HJ at 10 00am for the following purposes

Ordinary Business:

1 To receive and adopt the financial statements for the year ended 31 March 2007 together with the reports of the Directors and Auditors thereon

2 To appoint Grant Thornton as auditors of the Company to hold office from the conclusion of the meeting to the conclusion of the next meeting at which the accounts are laid before the Company at a remuneration to be determined by the Directors

3 To approve the directors' remuneration report for the financial year ended 31 March 2007

4 To re-appoint Stephen James Davidson who retires as a Director of the Company

5 To re-appoint Barry Graham Jenner who retires as a Director of the Company

6 To re-appoint Richard Benedict Langdon who retires as a Director of the Company

7 To re-appoint Ian George Robinson who retires as a Director of the Company

8 To re-appoint Gary Peter Stevens who retires as a Director of the Company

9 To re-appoint Andrew Wilson who retires as a Director of the Company

10 To re-appoint Sarah Guest who retires as a Director of the Company

Special Business

To consider, and if thought fit, to pass the following resolutions of which resolution 11 and 12 will be proposed as ordinary resolutions and resolutions 13 and 14 will be proposed as special resolutions

ORDINARY RESOLUTIONS

11 THAT the directors be and they are generally and unconditionally authorised for the purposes of section 80 of the Companies Act 1985 (the "**Act**") to exercise all the powers of the Company to allot relevant securities (within the meaning of that section) up to an aggregate nominal amount of £10,813,065 provided that this authority is for a period expiring at the Company's next Annual General Meeting but the Company may before such expiry make an offer or agreement which would or might require relevant securities to be allotted after such expiry and the directors may allot relevant securities in pursuance of such offer or agreement notwithstanding that the authority conferred by this resolution has expired This authority is in substitution for all subsisting authorities, to the extent unused

12 THAT in respect of the Company's Performance Share Plan (the "**Plan**") the maximum amount of the issued share capital of the Company that may be issued to directors and employees of the Company's group be and is increased to twenty percent (20%) (inclusive of those available to be issued under the Plan)

SPECIAL RESOLUTIONS

13 THAT the Directors be and they are empowered pursuant to section 95 of the Act to allot equity securities (within the meaning of section 94 of the Act) wholly for cash pursuant to the authority conferred by the previous resolution as if section 89(1) of the Act did not apply to any such allotment, provided that this power shall be limited to the allotment of equity securities

(a) in connection with an offer of such securities by way of rights to holders of ordinary shares in proportion (as nearly as may be practicable) to their respective holdings of such shares, but subject to such exclusions or other arrangements as the Directors may deem necessary or expedient in relation to fractional entitlements or any legal or practical problems under the laws of any territory, or the requirements of any regulatory body or stock exchange,

(b) in connection with an issue of securities to an employee of the Company or of the Company's group under any employee bonus scheme,

(c) in connection with a sale of any treasury shares held by the Company,

(d) otherwise than pursuant to sub-paragraph (a), (b) or (c) above up to an aggregate nominal amount of £1,621,960;

and shall expire on the conclusion of the next Annual General Meeting of the Company after the passing of this resolution save that the Company may, before such expiry make an offer or agreement which would or might require equity securities to be allotted after such expiry and the Directors may allot equity securities in pursuance of any such offer or agreement notwithstanding that the power conferred by this resolution has expired

14 THAT the Company be and is generally and unconditionally authorised for the purposes of section 166 of the Act to make one or more market purchases within the meaning of section 163(3) of the Act) on AIM of ordinary shares of £0 50 each in the capital of the Company provided that

(a) the maximum aggregate number of ordinary shares authorised to be purchased is 6,487,839 representing approximately 10% per cent of the Company's issued ordinary share capital),

(b) the minimum price which may be paid for such ordinary shares is £0 50 per share,

(c) the maximum price which may be paid for an ordinary share shall not be more than 5 per cent above the average of the middle market quotations for an ordinary share as derived from the London Stock Exchange Daily Official List for the five business day immediately preceding the date on which the ordinary share is purchased,

(d) unless previously renewed, varied or revoked, the authority conferred shall expire at the conclusion of the Company's next AGM or 18 months from the date of passing this resolution, if earlier, and

(e) the Company may make a contract or contracts to purchase ordinary shares under the authority conferred prior to the expiry of such authority which will or may be executed wholly of partly after the expiry of such authority and may make a purchase of ordinary shares in pursuance of any such contract or contracts

Tuesday 7 August 2007 By Order of the Board

Robert Millington
Company Secretary

Registered Office:
Couching House, Couching Street,
Watlington, Oxfordshire,
OX49 5PX

Notes:

1 Any member entitled to attend and vote at the meeting convened by the above notice is entitled to appoint one or more proxies to attend and, on a poll, to vote in his place A proxy need not be a member of the Company

2 To be valid the enclosed Form of Proxy for the Annual General Meeting together with the power of attorney or other authority, if any, under which it is signed or a notarially certified or office copy thereof must be deposited by 10 a m on 5 September 2007 at the offices of the Company's registrars, Capita Registrars, Proxies, The Registry, 34 Beckenham Road, Beckenham, BR3 4ZB

3 Completion of the Form of Proxy will not prevent you from attending and voting in person

4 Subject to complying with the provisions of the Act and the Articles of Association of the Company, any corporation which is a member of the Company may by resolution of its directors or other governing body authorise such person as it thinks fit to act as its representative at any meeting of the Company and the person so authorised shall be entitled to exercise the same powers on behalf of the corporation which he represents as that corporation could exercise if it were an individual member of the Company

5 The Company, pursuant to regulation 41 of the Uncertificated Securities Regulations 2001, specifies that only those shareholders registered in the register of members of the Company as at 10 a m on 5 September 2007 or, in the event that the meeting is adjourned, in the register of members 48 hours before the time of any adjourned meeting, shall be entitled to attend or vote at the aforesaid general meeting in respect of the number of shares registered in their name at the relevant time Changes to entries in the register of members after 10 a m on 5 September 2007 or, in the event that the meeting is adjourned, in the register of members less than 48 hours before the time of any adjourned meeting, shall be disregarded in determining the rights of any person to attend or vote at the meeting

6 In the case of joint holders, the vote of the senior who tenders a vote whether in person or by proxy will be accepted to the exclusion of the votes of the other joint holders and for this purpose seniority will be determined by the order in which the names stand in the register of members of the Company in respect of the relevant joint holding

A form of proxy is enclosed.

SHAREHOLDER INFORMATION

Annual General Meeting

The 2006/7 Annual General Meetıng will be held on Frıday 7th September 2007 at the Hypnos Lounge, Adams Park Conference Centre, Wycombe Wanderers Football Club, Hillbottom Road, High Wycombe, Buckinghamshire, HP12 4HJ at 10 00am

Results

Announcement of 2007/8 half year results to 30 September 2007 – mid December 2007 Preliminary announcements of 2007/8 results – mid July 2008

Dividends

There is no dividend payable

Multiple accounts on the shareholder register

If you have received two or more copies of this document, this means that there is more than one account in your name on the shareholder register This may be caused by either your name or address appearing on each account in a slightly different way For security reasons, the Registrars will not amalgamate the accounts without your written consent, so if you would like any multiple accounts combined into one account, please write to Capita Registrars at the address given below

Share dealing services

To purchase or sell shares in Digital Marketing Group log on to www capitadeal com or call 0870 458 4577 (Mon-Fri 8am -4 30pm) Capita Share Dealing Services is a trading name of Capita IRG Trustees Limited, which is authorised and regulated by the Financial Services Authority If you are selling shares you must have the relevant certificate(s) in your possession This is not a recommendation to buy or sell shares and this service may not be suitable for all shareholders

Shareholder enquiries

Capita Registrars maintain the register of members of the Company If you have any queries concerning your shareholding, or if any of your details change, please contact the Registrars

Capita Registrars

The Registry
34 Beckenham Road
Beckenham
Kent
BR3 4TU

Telephone 0870 162 3100

Fax 020 8639 2342

Textphone for shareholders with hearing difficulties 0870 600 3950

Capita Registrars also offer a range of shareholder information online at www capitaregistrars com

Website

Information on the Group is available at www digitalmarketinggroup co uk