

Date: 2 July 2010  
On behalf of: Digital Marketing Group plc ("DMG", "the Company" or "the Group")  
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## Digital Marketing Group plc Preliminary Results 2010

Digital Marketing Group plc (AIM: DIGI), the UK's largest digital marketing specialists, today announced its preliminary results for the year ended 31 March 2010.

### Performance Highlights

- Revenues £48.5m (2009: £56.7m)
- Gross profit £35.5m (2009: £41.6m)
- EBITDA (before share based payment charges) £8.3m (2009: £9.3m)
- Profit before tax, impairment, share based payment charges and amortisation £7.2m (2009: £8.0m)
- Adjusted basic EPS 8.77p (2009:8.76p)
- Net cash flow generated from operations £4.8m (2009: £8.4m)
- Net debt £7.3m (2009: £5.9m)
- Completion of acquisition of award winning agency 20:20 London
- Recognised as the UK's biggest digital marketing agency for the second year running (Campaign Magazine January 2010)
- Consolidated the business into two pillars, 20:20 and DMG, down from nine separate units
- Exceptional performance from eCommerce division +52% yr/yr at £1.57m PBT
- Statutory loss before tax of £1.4m as a result of amortisation, charges for share based payments and impairment of intangibles and goodwill (2009: profit £3.1m)

**Commenting on the results, Stephen Davidson, Chairman of Digital Marketing Group plc, said:** *"In what continues to be the most challenging economic environment for business and our industry in particular I am pleased to report that your company has produced another robust performance, consistent with market forecasts. We have consolidated the business into two pillars; 20:20 and DMG. We are also pleased that our business is growing in areas where revenues are visible and recurring such as Digital Technology and eCommerce. We believe that our balanced portfolio of data, marketing and technology expertise represents the future of our industry."*

**Ben Langdon, Chief Executive, added:** *“Coming off the back of a global economic recession and an extremely strong year in 08/09 when the company grew EBITDA by 18% on a pro forma basis, we’re very pleased with these results. Despite our significantly undervalued stock we continue to believe that the shift in spending in favour of online and mobile channels and away from traditional media remains part of a favourable long term trend. Our position as the UK market leader means we are well placed to take advantage of the upturn in spend on consumer marketing. Our business is moving towards an increased emphasis on eCommerce, Technology and integrated multi-channel selling. We believe that the market should recognise this re-balancing of our company’s proposition and enable us to benefit from the valuation levels enjoyed by businesses less digitally and technologically skilled than ours.”*

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**Notes to Editors:**

- Digital Marketing Group (AIM: DIGI) listed on AIM in October 2006, employs over 500 people.
- Digital Marketing Group is the UK’s biggest digital marketing agency (Campaign Magazine Jan 2010).
- At the heart of the company is Digital Brain - a process which integrates digital marketing, technology and data.

Digital Marketing Group’s future development strategy consists of three key elements:

- Continued migration towards scalable services, with visible and recurring revenues
- Increased emphasis on eCommerce and Technology
- Continued consolidation of the business into one fully integrated operating unit.

## Chairman's statement

In what continues to be the most challenging economic environment for business and our industry in particular I am pleased to report that your company has produced another robust performance, which was consistent with market forecasts. Earnings before interest, tax, depreciation, amortisation and share based payments was £8.3million for the year ended 31 March 2010 against £9.3million for the previous year. The total adjustment is a charge of £6.0 million (2009: £6.2 million). The adjusted profit before tax was £7.2 million compared to £8.0 million in 2009.

A review of the carrying value of our intangible assets and goodwill was carried out at the year end and using a conservative weighted average cost of capital of 12.9% the Board has decided to impair the carrying value by £3.8million. The reported loss before tax for the year of £1.4 million (2009: profit £3.1 million) is therefore explained by share based payment charges of £2.9 million (2009: £3.0 million), amortisation of £1.9 million (2009: £1.9 million) and an impairment charge against the carrying value of intangibles and goodwill of £3.8 million (2009: £nil).

We have consolidated the business into two pillars; 20:20 and DMG. This reorganisation has been received well by the industry and clients alike and we are benefiting from recognition as the premier player in the UK digital marketing industry. This increase in profile has led to a corresponding increase in the level of invitations to pitch for projects and has improved our new business pipeline significantly year on year. The year has started well with our business operating in line with management budgets.

We are also pleased that our business is growing in areas where revenues are visible and recurring. Our Technology and eCommerce business had an exceptional year with its results up 52%. We believe that our balanced portfolio of data, marketing and technology expertise represents the future of our industry.

Our cost base continues to be controlled and we aim to ensure it is appropriate to the revenues we are generating. During the year we have reduced our salary bill by £2.5 million or 9.3%.

In December 2009 we acquired the award winning 20:20 agency based in London. This agency has won great acclaim in the industry for its innovative use of digital and mobile platforms in the launch of new products and engagement programmes. We have now branded our existing digital agencies under the 20:20 banner and continue to integrate the businesses into a single unit for the advantage of clients and employees.

As a result of this small scale acquisition we have increased our debt at year end to £7.3 million. We still have £3.9 million of headroom in our banking facilities of £11.2 million.

In a tough economic environment it is not surprising that our business has had both highs and lows. A big part of our data services business is focused on the financial services sector and has been severely impacted through the wider downturn with gross profit down 46.0%. We have also disclosed £1.7 million as other income which was received during the year from the administrator of a client with whom the Group had a contractual obligation.

I would like to thank management and employees who have worked tirelessly through the year to produce these results in what has been a very testing environment. It is extremely frustrating that all the hard work and success produced by all the management and employees is not reflected in the current share price. The members of the Board are all shareholders and are concerned the market does not rate the Company more highly and reflect the inherent value in the business. Once positive market sentiment returns to the sector we believe the Company will command the rating it merits.

I am extremely sad to report that Mike Ferguson, a director in our eCommerce business, died suddenly in May 2010 at the age of 56. Mike was part of the team at CyberDMG that transformed the business into the success it continues to be. Our sympathies are with his wife Ann and their children.

Stephen Davidson  
Chairman  
1 July 2010

## Chief Executive's Review

### Business review

Digital Marketing Group plc achieved an EBITDA before share based payment charges of £8.3m in 2009/10. The total adjustment is a charge of £6.0 million (2009: £6.2 million). Although this is a decline of £1m year on year it represents an extremely robust performance given the worst economic environment for generations and comes off the back of a very strong year in 2008/09 when the Company grew EBITDA by 18% year on year on a pro forma basis.

Unlike some of our competitors, we are a business with a broad spread of digital marketing expertise and are not reliant on one particular discipline for our revenues. We have, for example, been able to withstand the decline in the financial services sector and its inevitable impact on our data services business, precisely because we also have strong digital agencies, and an even stronger eCommerce division.

Unsurprisingly, in 2009/10 many of our clients undertook significant budget cuts and decision-making became painfully slow. Despite the inexorable shift of media budgets away from traditional channels in favour of digital and mobile, some elements of marketing spend through these channels were also hit through recession.

Nevertheless, our digital businesses proved extremely competitive, particularly those where our products and services helped clients become more cost effective and efficient.

For example, our eCommerce and technology business, 20:20 Technology (formerly CyberDMG) grew 51.7% year on year in 2009/10 to achieve PBT of £1.57m (£1.03m 2008/9).

This business, based as it is on expert knowledge of digital technology, is fundamentally scalable. It helps our clients lessen their reliance on 'bricks and mortar' retail chains and enables them to sell products more cost effectively online. This business has been relatively recession proof and is continuing to exceed our expectations. 20:20 Technology at the gross profit line now represents 17.9% of our total business, and we anticipate it will become at least 25% within 2 to 3 years.

We also envisage an increased emphasis on digital technologies in our proposition to clients and prospects. In time our business will become a better balance of technology, marketing and data analytics skills. Our ownership and understanding of digital technology helps us sell the multi-channel marketing service we call Digital Brain, but perhaps more importantly it also generates revenues that are visible and recurring.

Our commitment to digital technology as a means of helping us achieve sustainable organic growth also extends to other areas of our business. As consumers and businesses increasingly expect a personal and tailored service from brands, software and analytics will increasingly fill the void left by downsized marketing departments. In this environment, excellent, decision-based, action-oriented analytics will drive competitive advantage. As part of our Digital Brain platform, we launched Digital Brain:Search in July 2009. It is now a world-class search marketing management and analytics suite using business intelligence software. It combines a best-in-class analytics package and our own exceptionally complex mathematical models.

There are four modules within DigitalBrain:Search:

- **Reporter:** turnkey, integrated automated reporting from all the major search engines and advertising tracking providers in one intuitive web-based dashboard. The model is easily extended to include other non-search data sources, such as customer data and site analytics.
- **Glossary:** an automated keyword and match type management recommendation engine which extends the number of keywords available to be purchased and so cuts cost per acquisition.
- **Optimiser:** identifies keywords that contribute to a sale, but are not actually clicked on. It provides automated bid price recommendations for keywords, which drives significant cost savings or performance enhancements.

- **Forecaster:** 'What if' analysis using real-time search, spend, inventory and sales data.

Digital Brain:Search is now used extensively by 20:20 Media & Analytics on all its new clients and is being adopted by all of the Group's search marketing clients.

Our digital agency network has also proved remarkably resilient in a difficult economic environment. The companies previously trading as DigforFireDMG, InboxDMG and GraphicoDMG all declined slightly year on year, but made combined operating profit before tax and share based payments of £3.4 million versus £3.7 million in the previous year. This underlying strength of performance should give our shareholders real confidence for the future particularly when client confidence and marketing spend recovers, as it inevitably will in time.

As mentioned above, the only significant area of weakness in our business occurred in our data services business where the economic crisis had a significant impact on its financial services clients and contributed to a substantial fall in overall revenues. None of the major financial services brands undertook substantial initiatives in the data services area in 2009/10 and falling applications for personal borrowing have impacted product revenues. Marketing spend has also reduced across the board in the financial services sector, given lower customer acquisition targets. Consolidation and restructuring of clients in the Banking sector also reduced opportunities to counter these factors through new business growth. Many of our clients spent the financial year 2009/10 focused on internal reorganisation and as a consequence data sales slumped across the industry. Our major competitors in this sector also reported significant declines in annual revenues in the UK in 2010 citing challenging market conditions created by restrained capital expenditure in the financial services sector. In addition, JaywingDMG's new product developments have taken longer to gain traction in a climate of budget reductions resulting in delays to expected new product revenues. The effect of the economic downturn in this sector resulted in gross profit at JaywingDMG falling by 46% down from £12.9 million to £7.0 million.

During the year we decided to consolidate our business further and reduced our nine operating units down to two pillars. The business unit has now been integrated along with GasboxDMG and DigforFire into one pillar business ('DMG'). The DMG pillar will specialise in multi-channel marketing, a process we term Digital Brain. The integration of three businesses into this pillar has enabled us to eliminate duplicative management resource, and will improve the cross selling of Digital Brain solutions which will in turn result in increased success for all three businesses. This DMG pillar now represented 54% of our total Gross Profits in 2009/10 versus 61% in 2008/09.

Our digital businesses have also been consolidated into one pillar ('20:20') and this now represents 46% of our total gross profits, versus 39% in 2008/09. 20:20 now trades as one entity [www.weare2020.com](http://www.weare2020.com), is led out of our newly acquired business in London, and has recently promoted and hired significant new talent reflecting both the vibrancy of our offering and the confidence the Board has in its future. We now have a new generation of dynamic leaders in 20:20 who are fully committed to the future growth of the company and are working hard within our organisation to build shareholder value.

The segmental performance of our business, now shown in two pillars (20:20 and DMG) is shown below. The 20:20 pillar includes operating units previously known as InboxDMG, HyperlaunchDMG, GraphicoDMG, CyberDMG, CheezeDMG, and 20:20 London.

The DMG pillar includes DigforFireDMG, JaywingDMG and GasboxDMG.

### Segmental performance

#### For the year ended 31 March 2010

	20:20 £'000	DMG £'000	Unallocated £'000	Total £'000
Revenue from external customers	27,832	21,322	(690)	48,464
Direct costs	(11,382)	(2,160)	538	(13,004)
Gross profit	16,450	19,162	(152)	35,460
Other operating income	7	1,702	-	1,709
Operating expenses excluding depreciation, amortisation and charges for share based payments	(12,572)	(15,511)	(739)	(28,822)
<b>Operating profit before depreciation, amortisation and charges for share based payments</b>	<b>3,885</b>	<b>5,353</b>	<b>(891)</b>	<b>8,347</b>

#### For the year ended 31 March 2009

	20:20 £'000	DMG £'000	Unallocated £'000	Total £'000
Revenue from external customers	28,229	30,053	(1,628)	56,654
Direct costs	(12,194)	(4,535)	1,628	(15,101)
Gross profit	16,035	25,518	-	41,553
Other operating income	192	-	-	192
Operating expenses excluding depreciation, amortisation and charges for share based payments	(11,984)	(18,899)	(1,574)	(32,457)
<b>Operating profit before depreciation, amortisation and charges for share based payments</b>	<b>4,243</b>	<b>6,619</b>	<b>(1,574)</b>	<b>9,288</b>

### Liquidity review

The Group has £11.2 million of banking facilities and at 31 March 2010 had available £3.9 million of undrawn facilities. The Group's facilities mature in October 2011 and it is the Group's intention to begin the process of renewal of these facilities before the end of this financial year.

During the year the Group purchased 20:20 London for £2.0 million which was financed out of the Group's existing facilities. Full details of the acquisition are given in note 6. We also settled £600,000 of deferred consideration for the acquisition of CyberDMG Limited.

The consolidated cash flow statement shows the Group to have generated cash from operating activities of £4.8 million (2009: £8.4 million).

We paid £2.4 million in tax (2009: £2.2 million) which is up on the previous year because of timing issues and certain Group companies moving to a quarterly payment on account basis. In addition, we repaid £1.8 million of borrowings (2009: £2.3 million).

As at 31 March 2010, the Group had net debt of £7.3 million.

## **Impairment**

As required by IAS 38 we have carried out an impairment review of the carrying value of our intangible assets and goodwill. We calculate our weighted average cost of capital with reference to long term market costs of debt and equity and the Company's own cost of debt and equity, adjusted for the size of the business and risk premiums. Based on this calculation the rate of 12.9% has been derived. This is applied to cash flows for each of the business units using growth rates in perpetuity of 2% from 2017. As a result of these calculations the Board have reviewed the carrying value of intangible assets and goodwill on the Group's balance sheet and have decided to take an impairment of £3.8 million (2009: £nil).

## **Contingent payments**

The Group has been built through organic growth and by acquisition. The estimate of payments to be made for past acquisitions is £4.2 million (2009: £4.4 million). £2.4 million for the purchase of CyberDMG has crystallised and is due for payment in July 2012, subject to the management being in the Group's employment at that time. £500,000 is due for the purchase of 20:20 London and is subject to performance criteria being met. The balance of £1.3 million will be determined at the end of July 2010, however based on management information the Board does not anticipate that this will be payable.

## **Key performance indicators**

At the beginning of 2009/10 the board agreed the following KPIs for the business:

- Each business was to focus on balancing costs against lower levels of gross profits than previously anticipated.
- Increased centralisation of non client facing functions as part of our ongoing integration plan.
- Continued recognition as the UK's No 1 digital agency.
- Roll out the launch of Digital Brain:Search and DemographDMG.
- Creation of new routes to market through the hiring of people with specific skills or through selective acquisition.

I am therefore pleased to be able to report the following:

- Salary costs were reduced by £2.5m, or 9.3% year on year.
- We have consolidated nine separate businesses into two pillars.
- We were recognised as the UK's No 1 Digital Agency for the second year in succession.
- Sales of Digital Brain:Search proved to be slightly slower than anticipated in 2009/10 as the lead times involved in getting clients to switch Pay Per Click suppliers were longer than expected, however, we won a significant contract from Swinton Insurance. The appointment of new leadership within the business unit formerly known as CheezeDMG and its relaunch as 20:20 Media&Analytics focused on sales of Digital Brain:Search will, we believe, aid new business and also help the unit recover from the loss of the Holiday Cottages Group account.
- From its launch in July 2009 DemographDMG has developed a strong client base and has an emerging reputation in the digital research sector. DemographDMG has undertaken large scale projects for a range of blue chip clients including HSBC and Carphone Warehouse. We now have a strong cross sector client base and are already seeing repeat business from many clients we have worked with.

Our digital research specialism has meant that the bulk of our revenue has come from this emerging sector and DemographDMG is developing specialisms in website usability testing, online research, technology insight and social media research. An aggressive new business push in these emerging markets is leading to an accelerated growth in these areas and a healthy new business pipeline for 2010/11.

- The acquisition of 20:20 London gives us access to new clients in new areas, particularly mobile marketing. The hiring of new management within our Bristol office, will make our business much more successful in social media and online PR.

In 2010/11 as we slowly emerge from recession, the KPIs will be:

- Recovery in our data services division within the DMG pillar.
- Winning of blue chip digital accounts through the new 20:20 pillar.
- Increased sales of Digital Brain: Search as well as more profitable social media marketing assignments.
- Emergence of 20:20 Mobile as a significant revenue generator, focused on applications, mobile content, games and commerce.

## **Outlook**

Current market conditions appear to be improving slowly and we expect the recovery to be modest and more pronounced in 2011/12 than in 2010/11.

Group M recently forecast a 4.2% growth in media spend in the UK in 2010. Publicis recently forecast organic growth of 3.0% this year, whilst Aegis also forecast UK adspend to grow at 2.9% in 2010.

We anticipate our 20:20 digital business will exceed these levels of growth, and are expected to be similar to the 10.0% levels forecast by Aegis for digital media.

The creation of the 20:20 pillar is already impacting on our new business performance with wins across the digital marketing spectrum. We have recently won significant eCommerce contracts and are looking to expand our 20:20 Technology business in London and India. We have won design and build projects for Quinn Direct and Sealife and digital campaigns for DVLA and Defra. Our new 20:20 mobile business is already engaged on iPhone applications for brands as diverse as Hula Hoops and Bounty. Recent 20:20 social media wins include Airmiles, Nivea and Warburtons. We have also recently won viral campaigns/games for William Hill and Freesat and won new work from existing blue chip clients such as the Mountain Dew UK launch and V Water campaigns for PepsiCo.

Recovery in our DMG pillar and in particular our data services division is however linked to the speed of recovery in the financial services sector. Experian recently forecast 'gradual recovery' and our sentiment is the same. Our data services business is expected to improve slowly this year following the re-focusing of the company's lead generation effort which took place in the second half of 2009/10. Revenues from 'marketing' propositions in our data service division have now increased to former levels and mirror a corresponding rise in our data services sales pipeline (adjusted 3 months). Financial Services lending activity is slowly on the increase. There are also new entrants in the banking sector (Virgin Money, MetroBank, Walton&Co, Tesco) coupled with interest from Private Equity investment in the banking sector. All of this should help our data services business recover. Strategically, the increased use of online channels has flooded clients across all business sectors with data they find difficult to turn into actionable insight. However, KPIs on these channels are worsening with cost per sale figures rising quite rapidly. The key to this problem is multi-channel optimisation to achieve optimal customer recruitment and acquisition levels. DMG is the best placed business in the UK to handle clients with multi-channel marketing requirements and will benefit when clients begin to re-invest.

## Long term strategic vision

- Despite our under-performing and significantly undervalued stock we continue to believe that the shift in spending in favour of online and mobile channels and away from traditional media remains part of a favourable long term trend. Our position as the UK market leader means we are well placed to take advantage of the upturn in spend on consumer marketing.
- Our focus as a business has however had to change as a result of the recession and its impact on the financial services business, and our data services company in particular. Our business will gradually move away from its over dependence on the financial services sector in our data services business and move towards an increased emphasis across the group on technology and integrated multi-channel selling. This multi-channel message will integrate our technology, marketing and data skills.
- Consistent with the theme of technology-driven integration, we remain committed to further integration in our own business. We now have two pillars where we previously had nine operating units, and we will continue to look for ways to consolidate further and eliminate unnecessary cost or duplication.
- We believe that a re-balancing of our business towards technology-driven solutions will also help us win more recurring revenues from clients as our services will become more 'business critical'.
- Critically, we believe that the market should recognise this re-balancing of our company's proposition and enable us to benefit from the valuation levels enjoyed by businesses less robust and less digitally and technologically skilled than ours.

Ben Langdon  
Chief Executive  
1 July 2010

## Consolidated statement of comprehensive income

For the year ended 31 March		2010	2010	2010	2009
Continuing operations	Note	£'000	£'000	£'000	£'000
		Before impairment of goodwill and intangible assets	Impairment of goodwill and intangible assets	Total	Total
<b>Revenue</b>	1	48,464	-	48,464	56,654
Direct costs		(13,004)	-	(13,004)	(15,101)
<b>Gross profit</b>		35,460	-	35,460	41,553
Other operating income	2	1,709	-	1,709	192
Amortisation		(1,938)	-	(1,938)	(1,863)
Operating expenses	3	(32,321)	(3,787)	(36,108)	(36,161)
<b>Operating (loss)/profit</b>		2,910	(3,787)	(877)	3,721
Finance income		2	-	2	97
Finance costs		(534)	-	(534)	(704)
<b>Net financing costs</b>		(532)	-	(532)	(607)
<b>(Loss)/profit before tax</b>		2,378	(3,787)	(1,409)	3,114
Tax expense	4	(576)	-	(576)	(1,674)
<b>(Loss)/profit for the year attributable to equity holders of the parent</b>		1,802	(3,787)	(1,985)	1,440
<b>Other comprehensive income:</b>					
Cash flow hedging					
Current year gains		65	-	65	(286)
<b>Total comprehensive income for the period attributable to equity holders of the parent</b>		1,867	(3,787)	(1,920)	1,154
<b>Earnings per share</b>	5				
From continuing operations					
- basic		2.61p	-	(2.88)p	2.15p
- diluted		2.37p	-	(2.88)p	1.92p

## Consolidated balance sheet

As at 31 March	Note	2010 £'000	2009 £'000	2008 £'000
<b>Non-current assets</b>				
Property, plant and equipment	7	1,752	2,057	2,215
Goodwill	8	45,653	47,051	39,449
Other intangible assets	9	14,272	16,116	13,324
		<b>61,677</b>	<b>65,224</b>	<b>54,988</b>
<b>Current assets</b>				
Inventories		212	196	790
Trade and other receivables		11,832	10,683	9,582
Cash and cash equivalents		7,399	12,227	12,004
		<b>19,443</b>	<b>23,106</b>	<b>22,376</b>
<b>Total assets</b>		<b>81,120</b>	<b>88,330</b>	<b>77,364</b>
<b>Current liabilities</b>				
Bank overdraft	10	6,443	8,806	6,901
Other interest-bearing loans and borrowings	10	1,691	1,691	1,122
Financial derivatives		416	481	195
Trade and other payables		12,741	15,678	17,168
Current tax liabilities		254	1,475	1,242
Provisions		187	147	133
		<b>21,732</b>	<b>28,278</b>	<b>26,761</b>
<b>Non-current liabilities</b>				
Other interest-bearing loans and borrowings	10	6,522	7,612	3,797
Provisions		-	-	225
Deferred tax liabilities		4,133	4,661	3,882
		<b>10,655</b>	<b>12,273</b>	<b>7,904</b>
<b>Total liabilities</b>		<b>32,387</b>	<b>40,551</b>	<b>34,665</b>
<b>Net assets</b>		<b>48,733</b>	<b>47,779</b>	<b>42,699</b>
<b>Equity attributable to owners of the parent</b>				
Share capital	11	34,026	33,689	32,655
Share premium		6,608	6,608	5,954
Hedging reserve		(416)	(481)	(195)
Shares to be issued		-	-	536
Capital redemption reserve		125	125	-
Share option reserve		419	5,810	-
Retained earnings		7,971	2,028	3,749
<b>Total equity</b>		<b>48,733</b>	<b>47,779</b>	<b>42,699</b>

## Consolidated cash flow statement

For the year ended 31 March

	2010	2009
	£'000	£'000
<b>Note</b>		
<b>Cash flow from operating activities</b>		
(Loss)/profit after tax	(1,985)	1,440
Adjustments for:		
Depreciation, amortisation and impairment	6,299	2,531
Loss on disposal of property, plant and equipment	28	-
Movement in provision	40	-
Financial income	(2)	(97)
Financial expenses	534	704
Share-based payment expense	2,874	2,814
Taxation	576	1,674
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<b>Operating cash flow before changes in working capital and provisions</b>	<b>8,364</b>	<b>9,066</b>
(Increase)/decrease in trade and other receivables	(1,034)	1,631
(Increase)/decrease in inventories	(16)	594
Decrease in trade and other payables	(2,543)	(2,929)
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<b>Cash generated from operations</b>	<b>4,771</b>	<b>8,362</b>
Interest received	2	97
Interest paid	(482)	(530)
Tax paid	(2,355)	(2,207)
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<b>Net cash flow from operating activities</b>	<b>1,936</b>	<b>5,722</b>
<b>Cash flow from investing activities</b>		
Proceeds from sale of property, plant and equipment	4	6
Acquisitions of subsidiaries, net of cash acquired	6 (1,632)	(7,610)
Payment of contingent consideration for prior year acquisitions	(600)	(3,566)
Acquisition of intangible assets	(694)	(105)
Acquisition of property, plant and equipment	(301)	(283)
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<b>Net cash outflow from investing activities</b>	<b>(3,223)</b>	<b>(11,558)</b>
<b>Cash flows from financing activities</b>		
Proceeds from new loan and draw down of bank facilities	600	6,600
Repayment of borrowings	(1,778)	(2,268)
Payments to redeem share capital	-	(178)
	<hr/>	<hr/>
<b>Net cash (outflow)/inflow from financing activities</b>	<b>(1,178)</b>	<b>4,154</b>
Net decrease in cash and cash equivalents	(2,465)	(1,682)
Cash and cash equivalents at beginning of year	3,421	5,103
	<hr/>	<hr/>
<b>Cash and cash equivalents at end of year</b>	<b>956</b>	<b>3,421</b>
	<hr/>	<hr/>
<b>Cash and cash equivalents comprise:</b>		
Cash at bank and in hand	7,399	12,227
Bank overdrafts	(6,443)	(8,806)
	<hr/>	<hr/>
<b>Cash and cash equivalents at end of year</b>	<b>956</b>	<b>3,421</b>
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## Consolidated statement of changes in equity

	Share capital £'000	Share premium £'000	Hedging reserve £'000	Shares to be issued £'000	Capital redemption reserve £'000	Share option reserve £'000	Retained earnings £'000	Total attributed to the owners of the parent £'000
At 1 April 2008	32,655	5,954	(195)	536	-	-	3,749	42,699
Allotment of 50p Ordinary shares	1,159	667	-	-	-	-	-	1,826
Transfer	-	(13)	-	-	-	-	13	-
Credit in respect of share-based payments	-	-	-	-	-	-	2,814	2,814
Transfer to share option reserve	-	-	-	-	-	5,810	(5,810)	-
Share buy back	(125)	-	-	-	-	-	(53)	(178)
Capital redemption reserve	-	-	-	-	125	-	(125)	-
Release of reserve	-	-	-	(536)	-	-	-	(536)
Transactions with owners	1,034	654	-	(536)	125	5,810	(3,161)	3,926
Profit for the year	-	-	-	-	-	-	1,440	1,440
Other comprehensive income:								
Cash flow hedges	-	-	(286)	-	-	-	-	(286)
Total comprehensive income for the year	-	-	(286)	-	-	-	1,440	1,154
At 31 March 2009	33,689	6,608	(481)	-	125	5,810	2,028	47,779
Allotment of 5p Ordinary shares	337	-	-	-	-	(337)	-	-
Credit in respect of share-based payments	-	-	-	-	-	-	2,874	2,874
Transfer to share option reserve	-	-	-	-	-	(5,054)	5,054	-
Transactions with owners	337	-	-	-	-	(5,391)	7,928	2,874
Loss for the year	-	-	-	-	-	-	(1,985)	(1,985)
Other comprehensive income:								
Cash flow hedges	-	-	65	-	-	-	-	65
Total comprehensive income for the year	-	-	65	-	-	-	(1,985)	(1,920)
At 31 March 2010	34,026	6,608	(416)	-	125	419	7,971	48,733

## **Notes to the preliminary announcement of results**

### **Principal accounting policies**

Digital Marketing Group plc is a Company incorporated in the UK.

The financial information set out in this preliminary announcement does not constitute statutory information as defined in section 434 of the Companies Act 2006.

The consolidated balance sheet at 31 March 2010 and the consolidated statement of comprehensive income, consolidated cash flow statement, consolidated statement of changes in equity and associated notes for the year then ended have been extracted from the Group's 2010 statutory financial statements upon which the auditor's opinion is unmodified and does not include any statement under section 498 (2) or (3) of the Companies Act 2006.

Those financial statements have not yet been delivered to the registrar of companies.

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, except for certain financial instruments that are held at fair value.

The accounting policies which remained unchanged from the previous year, unless otherwise stated, have been applied consistently to all periods presented in those 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 13.

### **Changes in accounting policy**

#### **Effective in the year 31 March 2010**

A revised IAS 1 'Presentation of Financial Statements' was issued in September 2007 and has been adopted in these financial statements. The revision is aimed at improving users' ability to analyse and compare the information given in the financial statements, and will mean a significant change to the format of the primary statements.

IFRS 8 'Operating Segments' has been adopted during the year. This IFRS required entities to disclose information to enable users of its financial statements to evaluate the nature and financial effects of the business activities in which it engages. This may result in additional disclosure for the Group but does not materially impact the results of the Group.

The Group has adopted the amendments to IFRS 7, 'Financial Instruments' and has categorised financial instruments held at fair value into a three level fair value hierarchy. The Group has taken advantage of the transitional provisions and has not provided comparative information.

#### **Going concern**

The Directors have reviewed the forecasts for 2010/11 and 2011/12 which have been adjusted to take account of the current trading environment. The Directors consider the forecasts to be prudent and have assessed the impact of them on the Group's cash flow, facilities and headroom within its banking covenants. Further, the Directors have assessed the future funding requirements of the Group and compared them with the level of available borrowing facilities. Based on this work, the Directors are satisfied that the Group has adequate resources to continue in operational existence for the 12 months from the date of these accounts. For this reason they continue to adopt the going concern basis in preparing the financial statements.

#### **Segmental reporting**

The Group reports its business activities on a two pillar basis identified as DMG and 20:20 and is therefore organised on this basis. In previous years this has been reported on a vertical business activity basis. The comparative information has been amended to reflect this change of management reporting.

## 1. Segmental analysis

The Group reports its business activities on a two pillar basis identified as DMG and 20:20 and is therefore organised on this basis. In previous years this has been reported on a vertical business activity basis. The comparative information has been amended to reflect this change of management reporting.

The entity derives its revenue from the provision of digital marketing services.

### For the year ended 31 March 2010

	20:20 £'000	DMG £'000	Unallocated £'000	Total £'000
Revenue from external customers	27,832	21,322	(690)	<b>48,464</b>
Direct costs	(11,382)	(2,160)	538	<b>(13,004)</b>
Gross profit	16,450	19,162	(152)	<b>35,460</b>
Other operating income	7	1,702	-	<b>1,709</b>
Operating expenses excluding depreciation, amortisation and charges for share based payments	(12,572)	(15,511)	(739)	<b>(28,822)</b>
Operating profit before depreciation, amortisation and charges for share based payments	3,885	5,353	(891)	<b>8,347</b>
Depreciation	(204)	(345)	(25)	<b>(574)</b>
Amortisation	(1,010)	(928)	-	<b>(1,938)</b>
Impairment	(2,519)	(1,254)	(14)	<b>(3,787)</b>
Charges for share based payments	(22)	(1,381)	(1,522)	<b>(2,925)</b>
<b>Operating profit/(loss)</b>	<b>130</b>	<b>1,445</b>	<b>(2,452)</b>	<b>(877)</b>
Finance income				<b>2</b>
Finance costs				<b>(534)</b>
Loss before tax				<b>(1,409)</b>
Taxation				<b>(576)</b>
<b>Loss for the period from continuing operations</b>				<b>(1,985)</b>

### For the year ended 31 March 2009

	20:20 £'000	DMG £'000	Unallocated £'000	Total £'000
Revenue from external customers	28,229	30,053	(1,628)	56,654
Direct costs	(12,194)	(4,535)	1,628	(15,101)
Gross profit	16,035	25,518	-	41,553
Other operating income	192	-	-	192
Operating expenses excluding depreciation, amortisation and charges for share based payments	(11,984)	(18,899)	(1,574)	(32,457)
Operating profit before depreciation, amortisation and charges for share based payments	4,243	6,619	(1,574)	9,288
Depreciation	(255)	(391)	(22)	(668)
Amortisation	(990)	(873)	-	(1,863)
Charges for share based payments	(132)	(1,092)	(1,812)	(3,036)
Operating profit	<b>2,866</b>	<b>4,263</b>	<b>(3,408)</b>	<b>3,721</b>
Finance income				97
Finance costs				(704)
Profit before tax				3,114
Taxation				(1,674)
Profit for the period from continuing operations				<b>1,440</b>

**Year ended 31 March 2010**

	<b>20:20 £'000</b>	<b>DMG £'000</b>	<b>Unallocated £'000</b>	<b>Group Total £'000</b>
Assets	<b>35,175</b>	<b>27,707</b>	<b>18,238</b>	<b>81,120</b>
Liabilities	<b>(10,227)</b>	<b>(5,137)</b>	<b>(17,023)</b>	<b>(32,387)</b>
Capital employed	<b>24,948</b>	<b>22,570</b>	<b>1,215</b>	<b>48,733</b>

**Year ended 31 March 2009**

	<b>20:20 £'000</b>	<b>DMG £'000</b>	<b>Unallocated £'000</b>	<b>Group Total £'000</b>
Assets	35,768	31,164	21,399	88,331
Liabilities	(10,734)	(8,069)	(21,749)	(40,552)
Capital employed	25,034	23,095	(350)	47,779

Unallocated assets and liabilities consist predominantly of cash, external borrowings and deferred tax liabilities on intangible assets which have not been allocated to the business segments.

**Capital additions; Property, plant and equipment**

	<b>20:20 £'000</b>	<b>DMG £'000</b>	<b>Unallocated £'000</b>	<b>Group Total £'000</b>
<b>Year ended 31 March 2010</b>	<b>73</b>	<b>228</b>	<b>-</b>	<b>301</b>
Year ended 31 March 2009	115	160	8	283

**2. Other operating income**

	<b>2010 £'000</b>	2009 £'000
Other operating income	<b>1,709</b>	192

During the year to 31 March 2010 the Group received part settlement from the administrator of a client for a contractual obligation to perform services on their behalf. It is anticipated there may be further distributions in the future but the Board is unaware of the quantum or timing of these potential receipts.

**3. Other operating expenses**

	<b>2010 £'000</b>	2009 £'000
Wages and salaries	<b>21,961</b>	24,310
Share based payments	<b>2,925</b>	3,036
Administration	<b>7,435</b>	8,815
Impairment of intangible assets and goodwill	<b>3,787</b>	-
	<b>36,108</b>	36,161

#### 4. Tax expense

	2010 £'000	2009 £'000
Recognised in the consolidated statement of comprehensive income:		
Current year tax	1,134	2,160
Origination and reversal of temporary differences	(558)	(486)
Total tax charge	<u>576</u>	<u>1,674</u>
Reconciliation of total tax charge:		
(Loss)/profit before tax	<u>(1,409)</u>	<u>3,114</u>
Taxation using the UK Corporation Tax rate of 28% (2009: 28%)	(395)	872
Effects of:		
Non deductible expenses	94	160
Impairment of goodwill	892	-
Share based payment charges	804	788
Schedule 23 deductions	(805)	-
Other	(68)	(5)
Prior year adjustment	54	(32)
Utilisation of tax losses	-	(109)
Total tax charge	<u>576</u>	<u>1,674</u>

#### 5. Earnings per share

	2010 Pence per Share	2009 Pence per Share
Basic	(2.88)p	2.15p
Diluted	<u>(2.88)p</u>	<u>1.92p</u>

Earnings per share have been calculated by dividing the profit attributable to shareholders by the weighted average number of ordinary shares in issue during the year. As the basic earnings per share is a loss a dilution does not take place.

The calculations of basic and diluted earnings per share are:

	2010 £'000	2009 £'000
(Loss)/profit for the year attributable to shareholders	<u>(1,985)</u>	<u>1,440</u>

Weighted average number of ordinary shares in issue:

	2010 Number	2009 Number
Basic	69,009,912	66,851,000
Adjustment for share options	6,934,553	7,105,000
Adjustment for warrants	-	66,000
Adjustment for shares to be issued	-	168,000
Adjustments for contingent shares	-	625,000
Diluted	<u>75,944,465</u>	<u>74,815,000</u>

## Adjusted earnings per share

	2010 Pence per Share	2009 Pence per Share
From continuing and discontinued operations		
Basic adjusted earnings per share	8.77p	8.76p
Diluted adjusted earnings per share	<u>7.97p</u>	<u>7.82p</u>

Adjusted earnings per share have been calculated by dividing the profit attributable to shareholders before amortisation and charges for share options by the weighted average number of ordinary shares in issue during the year. The numbers used in calculating the basic and diluted adjusted earnings per share are reconciled below:

	2010 £'000	2009 £'000
(Loss)/profit before tax	(1,409)	3,114
Amortisation	1,938	1,863
Impairment of carrying value of goodwill and intangibles	3,787	-
Charges for share options	<u>2,874</u>	<u>3,036</u>
Adjusted profit attributable to shareholders	7,190	8,013
Current year tax charge	<u>(1,134)</u>	<u>(2,160)</u>
	<u>6,056</u>	<u>5,853</u>

## 6. Acquisitions

On 11 December 2009 the Company acquired the trade and assets of 20:20 London. The net assets acquired, consideration paid, and goodwill arising on this acquisition is detailed below:

	Acquirees' book value £'000	Fair value adjustments £'000	Acquisition amounts £'000
Acquirees' net assets at the acquisition date:			
Trade and other receivables	49	-	<u>49</u>
Net identifiable assets and liabilities	<u>49</u>	<u>-</u>	<u>49</u>
Goodwill on acquisition			<u>2,083</u>
			<u>2,132</u>
Cash consideration paid (including legal and professional fees of £132,000)			1,632
Contingent consideration payable in cash or cash and shares (note 12)			<u>500</u>
			<u>2,132</u>
Summary of net cash outflow from acquisitions:			
Cash paid			1,632
Cash acquired			<u>-</u>
Net cash outflow from acquisitions in the year			<u>1,632</u>

The acquired business contributed revenues of £402,000 and contributed net profit, before amortisation and share based charges, of £75,000 to the Group for the period from 11 December 2009 to 31 March 2010. Had the acquisition occurred on 1 April 2009, the contribution to group revenue would have been £1.0 million. This has been based on the management accounts and information of 20:20 London operating as an unincorporated business.

## 7. Property, plant and equipment

	Freehold land and buildings £'000	Leasehold improvements £'000	Motor vehicles £'000	Office equipment £'000	Total £'000
<b>Cost</b>					
At 1 April 2008	1,150	270	6	1,482	2,908
Acquisitions of subsidiaries	-	39	-	194	233
Additions	-	-	-	283	283
Disposals	-	(7)	-	(3)	(10)
At 31 March 2009	1,150	302	6	1,956	3,414
Additions	-	6	12	283	301
Disposals	-	(80)	(6)	(291)	(377)
<b>At 31 March 2010</b>	<b>1,150</b>	<b>228</b>	<b>12</b>	<b>1,948</b>	<b>3,338</b>
<b>Depreciation</b>					
At 1 April 2008	22	61	5	605	693
Depreciation charge for the year	29	62	1	576	668
Depreciation on disposals	-	(1)	-	(3)	(4)
At 31 March 2009	51	122	6	1,178	1,357
Depreciation charge for the year	29	54	-	491	574
Depreciation on disposals	-	(53)	(6)	(286)	(345)
<b>At 31 March 2010</b>	<b>80</b>	<b>123</b>	<b>-</b>	<b>1,383</b>	<b>1,586</b>
<b>Net book value</b>					
<b>At 31 March 2010</b>	<b>1,070</b>	<b>105</b>	<b>12</b>	<b>565</b>	<b>1,752</b>
At 31 March 2009	1,099	180	-	778	2,057
At 1 April 2008	1,128	209	1	877	2,215

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

## 8. Goodwill

	Goodwill £'000
<b>Cost and net book value</b>	
At 1 April 2008	39,449
Acquisitions through business combinations	7,602
At 31 March 2009	47,051
Reduction in deferred contingent consideration	(294)
Impairment	(3,187)
Acquisitions through business combinations	2,083
<b>At 31 March 2010</b>	<b>45,653</b>

## 9. Other intangible assets

Customer  
relationships,  
trademarks and  
development costs  
£'000

### Cost

At 1 April 2008	15,052
Additions during the year	105
Acquisitions through business combinations	<u>4,550</u>
At 31 March 2009	19,707
Additions during the year	<u>694</u>
<b>At 31 March 2010</b>	<b><u>20,401</u></b>

### Amortisation

At 1 April 2008	1,728
Amortisation charge for the year	<u>1,863</u>
At 31 March 2009	3,591
Impairment	600
Amortisation charge for the year	<u>1,938</u>
<b>At 31 March 2010</b>	<b><u>6,129</u></b>

### Net book amount

<b>At 31 March 2010</b>	<b><u>14,272</u></b>
At 1 April 2009	<u>16,116</u>
At 1 April 2008	<u>13,324</u>

The cost of customer relationships was determined as at the date of acquisition of the subsidiaries by professional valuers. The valuations used the discounted cash flow method, assuming rates of customer attrition at 10% and sales growth at 2% each year. The discount rate applied to the future cash flows were specific to each subsidiary and were all in the range 14.6% to 15.5%.

Goodwill and other intangible assets have been tested for impairment. On the basis of this review it has been decided to impair the carrying value of these intangible assets.

## 10. Bank and overdraft, loans and borrowings

	2010 £'000	2009 £'000	2008 £'000
Summary			
Bank overdraft	6,443	8,806	6,901
Borrowings	8,213	9,303	4,919
	<b>14,656</b>	<b>18,109</b>	<b>11,820</b>
Borrowings are repayable as follows:			
Within one year			
Bank overdraft	6,443	8,806	6,901
Borrowings	1,865	1,984	1,453
Total payments due within one year	8,308	10,790	8,354
Less future interest	(174)	(293)	(331)
Total due within one year	<b>8,134</b>	<b>10,497</b>	<b>8,023</b>
In more than one year but not more than two years	6,596	1,928	1,373
In more than two years but not more than three years	-	6,021	1,299
In more than three years but not more than four years	-	-	952
In more than four years but not more than five years	-	-	112
Over five years	-	-	645
Total payments due in more than one year	6,596	7,949	4,381
Less future interest	(74)	(337)	(584)
Total due in more than one year	<b>6,522</b>	<b>7,612</b>	<b>3,797</b>

Average interest rates at the balance sheet date were:	£'000	%	%	%
Overdraft	6,443	2.75	5.00	7.50
Term loan	1,813	1.96	2.96	7.30
Term loan	1,000	2.46	3.46	-
Revolver loan	5,400	2.33	3.46	-
Mortgage	-	-	-	7.00

As the loans are at variable market rates their carrying amount is equivalent to their fair value.

In 2007 the Group purchased an interest rate swap of 6.19% for the period 2007 to 2012 for £4,000,000 of its borrowings.

The borrowing facilities available to the Group at 31 March 2010 was £11.24 million (2009: £13.02m) and, taking into account cash balances within the Group companies, there was £3.99 million (2009: £6.92m) of available borrowing facilities.

A Composite Accounting System is set up with the Group's bankers, which allows debit balances on overdraft to be offset across the Group with credit balances.

### Reconciliation of net debt

	1 April 2009 £'000	Cash Flow £'000	Non-cash items £'000	31 March 2010 £'000
Cash and cash equivalents	12,227	(4,828)	-	7,399
Overdraft	(8,806)	2,363	-	(6,443)
	3,421	(2,465)	-	956
Borrowings	(9,303)	1,178	(88)	(8,213)
Net Debt	<b>(5,882)</b>	<b>(1,287)</b>	<b>(88)</b>	<b>(7,257)</b>

The non-cash movement relates to the pre-paid loan fees on the Group's term loans.

## 11. Share capital

On 4 September 2009, by way of a special resolution, the Company reorganised and enlarged its authorised share capital of £50,049,999 consisting of 100,000,000 ordinary shares of 50 pence each and 49,999 redeemable preference shares of £1.00 each into authorised share capital of £55,000,000 consisting of 200,000,000 ordinary shares of 5 pence each and 100,000,000 deferred shares of 45 pence each and cancelling 49,999 redeemable preference shares of £1.00 each.

### Authorised:

	50p ordinary shares £'000	£1.00 redeemable preference shares £'000	45p deferred shares £'000	5p ordinary shares £'000
Authorised share capital at 31 March 2009	50,000	50	-	-
Cancelled	-	(50)	-	-
5p Ordinary	(5,000)	-	-	5,000
45p Deferred	(45,000)	-	45,000	-
Increase in authorised share capital	-	-	-	5,000
<b>At 31 March 2010</b>	<b>-</b>	<b>-</b>	<b>45,000</b>	<b>10,000</b>

### Allotted, issued and fully paid

	50p ordinary shares Number	45p deferred shares Number	5p ordinary shares Number	£'000
Issued share capital at 31 March 2008	65,309,782	-	-	32,655
Issue of ordinary shares during the year	2,318,738	-	-	1,159
Shares repurchased	(250,000)	-	-	(125)
Issued share capital at 31 March 2009	67,378,520	-	-	33,689
Conversion	(67,378,520)	67,378,520	67,378,520	-
Issue of ordinary shares during the year	-	-	6,742,985	337
<b>At 31 March 2010</b>	<b>-</b>	<b>67,378,520</b>	<b>74,121,505</b>	<b>34,026</b>

The 5 pence ordinary shares have the same rights (including voting and dividend rights and rights on a return of capital) as the previous 50 pence ordinary shares. Holders of the 45 pence deferred shares do not have any right to receive notice of any general meeting of the Company or any right to attend, speak or vote at any such meeting. The deferred share holders are not entitled to receive any dividend or other distribution and shall on a return of assets in a winding up of the Company entitle the holders only to the repayment of the amounts paid up on the shares after the amount paid to the holders of the new ordinary shares exceeds £1,000,000 per new ordinary share. The deferred shares will also be incapable of transfer and no share certificates will be issued in respect of them.

The shares issued in the year were as a result of the exercise of share options by employees and Directors.

## 12. Contingent liabilities

Some acquisitions by the Group involve an earn-out agreement whereby the consideration payable includes a deferred element of cash or shares or both which is contingent on the future financial performance of the acquired entity.

The maximum liability is £9,000,000 (2009: £9,100,000) and the Directors have assessed the likely payments based on forecasts and have provided £4,225,000 (2009: £4,425,000), leaving £4,775,000 (2009: £4,675,000) as an unprovided liability.

The amounts provided for are payable as follows:

	2010 £'000	2009 £'000
In one year or less	-	600
In more than one year but less than five years	4,225	3,825
	<b>4,225</b>	<b>4,425</b>

The amounts provided have not been discounted.

### **13. Accounting estimates and judgements**

#### **Accounting estimates**

##### **Impairment of goodwill**

The carrying amount of goodwill is £45,653,000 (2009: £47,051,000). The Directors are confident that the carrying amount of goodwill is fairly stated, and have carried out an impairment review.

##### **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.

##### **Share-based payment**

The share based payment charge consists of two charges.

A charge for the fair value at the date of grant of the share based remuneration calculated using the BlackScholes method, in previous years a trinomial pricing model was adopted. In considering an appropriate charge the Directors have used an internally generated calculation to derive an appropriate charge. Based on these calculations a charge of £2,874,000 has been made. In previous years the Directors commissioned an independent valuation from American Appraisal UK Limited and adopted their findings, in the year ended 31 March 2009 a charge of £2,814,000 was made.

During the previous year the Group transferred the liability to settle the Employer's NI from the share option holder to the Group. As a result the Group has charged £51,000 (2009: £222,000) in the year as an additional Share Based Payment charge. The future Employers NI liability has been discounted over the three year period using a discount rate of 10%.

##### **Fair values on acquisition**

The Directors have assessed the fair value of assets and liabilities on the acquisition of the subsidiary companies.

##### **Deferred consideration**

The Directors have provided an estimate of the amount payable in respect of deferred contingent consideration. See note 12.

#### **Accounting judgements**

##### **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.