

Date: 27 June 2007
On behalf of: Digital Marketing Group plc (the “Company” or the “Group”)
Embargoed: 0700hrs

Digital Marketing Group plc Preliminary Results 2007

Digital Marketing Group plc (AIM: DIGI), the digital direct marketing specialists, today announced its maiden results for the year ended 31 March 2007.

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.

Commenting on the maiden results, Stephen Davidson, Chairman of Digital Marketing Group plc, said:

“These are early days for our Group, but all 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. We are confident of sustaining high levels of organic growth and, selectively, attracting further complementary companies to the Digital Marketing Group.”

Ben Langdon, Chief Executive, added:

“In 2006 we set out to create an innovative, highly focused group of companies providing personalised communications for clients across all digital and direct channels. The market context for the decision to create this business was (and remains) extremely encouraging”.

“Digital Marketing Group has now acquired four well established, profitable and fast growing businesses. In short; much achieved, much opportunity.”

Enquiries:

Digital Marketing Group plc
Ben Langdon, Chief Executive

www.digitalmarketinggroup.co.uk
Tel: 01491 615 306

Cenkos Securities
Adrian Hargrave / Max Hartley

Tel: 020 7397 8900

Redleaf Communications
Emma Kane/Sanna Lehtinen/Susan Quigley

Tel: 020 7822 0200

Notes to Editors:

- Publication quality photographs are available via Redleaf Communications.
- 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.
- Digital Marketing Group aims to provide a range of integrated digital direct marketing services, coupled with database marketing skills. By doing this Digital Marketing Group offers clients the ability to coordinate their

"online" and "offline" direct marketing strategy, thereby generating more effective digital direct marketing, higher brand-consumer loyalty and improved profitability.

- Its strategy is to grow organically and by acquiring businesses with complementary skills in digital direct marketing.

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 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
- includes 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 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 Bob 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
26 June 2007

Strategic Review

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; 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.

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.com 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.

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 now start to benefit from our own proprietary integrated Digital and Direct Marketing Platform “Digital Brain”. In effect, Digital Brain is a combination of our individual agency technologies allowing 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

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
- £6.05m EBITDA for the four trading businesses before charges for group share options up 38.4% on the previous year
- £5.2m EBITDA after annualised parent 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.

	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 aforementioned 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.

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 May 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.

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.

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 three 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 every month 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 like this:

Communications Agency Network	Technical Platforms	Content Division	Digital Ad Network
Integrated group of digital direct marketing agencies providing personalised communications across digital and direct channels	“Digital Brain” and other technology-driven services that provide a platform for digital campaigns	Using existing skills to create our own websites or content where we retain the IP	Combination of DMG-owned sites (built by the content division) and third-party sites with intelligent advertising driven by “Digital Brain”

Since our admission to AIM in October 2006 Digital Marketing Group has completed a great deal. We have:

- Acquired four 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
26 June 2007

Consolidated Income Statement

	Note	Year ended 31 March 2007		Period ended 31 March 2006	
		Before exceptional item £000	Exceptional items (see note 3) £000	Total £000	Total £000
Continuing operations					
Revenue	2	13,057	-	13,057	-
Direct costs		(4,668)	-	(4,668)	-
Gross profit		8,389	-	8,389	-
Other operating income		16	-	16	-
Amortisation		(321)	-	(321)	-
Operating expenses		(6,568)	(336)	(6,904)	-
Operating profit	2	1,516	(336)	1,180	-
Financial income		99	-	99	-
Financial expenses		(205)	-	(205)	-
Net financing costs		(106)	-	(106)	-
Profit before tax		1,410	(336)	1,074	-
Taxation		(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				(103)	123
Earnings per share					
	4				
From continuing and discontinued operations					
- basic				(0.55)p	1.90p
- diluted				(0.51)p	1.90p
From continuing operations					
- basic				2.87p	1.90p
- diluted				2.62p	1.90p

Consolidated Balance Sheet

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

Consolidated Cash Flow Statement

	Year ended 31 March 2007 £000	Period ended 31 March 2006 £000
Cash flows from operating activities		
Loss for the year	(103)	(213)
<i>Adjustments for:</i>		
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	(20,662)	-
Acquisition of property, plant and equipment	(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	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

Notes

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

Notes

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 8.

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 Hyperinflationary 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.

Notes

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.

Notes

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.

Notes

2 Segmental reporting

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

Continuing operations

	Year ended 31 March 2007				Unallocated £000	Group total £000
	Outbound telemarketing and online marketing £000	Direct marketing services £000	Media planning and buying £000	Data services and consultancy £000		
Revenue	3,111	3,906	3,501	2,539	-	13,057
Direct costs	(90)	(97)	(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)
EBITDA	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						99
Finance costs						(205)
Profit before tax						1,074
Taxation						(537)
Profit for year from continuing operations						537

Notes

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

	Assets		Liabilities		Capital employed	
	2007 £000	2006 £000	2007 £000	2006 £000	2007 £000	2006 £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.

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 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

Notes

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	<u>(103)</u>	<u>123</u>
Weighted average number of shares in issue:		
Basic	18,686	6,433
Adjustment for share options, warrants and contingent shares	1,788	-
Diluted	<u>20,474</u>	<u>6,433</u>

	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	<u>(3.13)p</u>	<u>2.62p</u>	<u>1.90p</u>

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

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

Notes

5 Acquisitions of subsidiaries

During the year the Group made four acquisitions of subsidiary undertakings. A summary of the net assets acquired, consideration paid, and goodwill upon acquisition of these subsidiary undertakings is shown below:

Summary of all four acquisitions

	Acquiree's book values £000	Fair value adjustments £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.

Notes

6 Borrowings

	2007 £000	2006 £000
Overdraft	2,664	-
Bank borrowings	10,813	-
	<u>13,477</u>	<u>-</u>

Borrowings are repayable as follows:

Within 1 year	<u>4,138</u>	<u>-</u>
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	<u>9,339</u>	<u>-</u>

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 balance. No hedging facility was in place at the period end.

7 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.

8 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 7.

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.