



**dealgroupmedia plc**

more performance more return

annual report and accounts 2006



**Deal Group Media plc** is a leading independent online marketing group that uses three key online channels through its operation: search engine marketing, affiliate marketing and online banner advertising.

Our mission is to provide online marketing products and services, managed and delivered through talented teams that result in a direct and quantifiable return on our clients' online marketing investment.

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## chairman's statement



### Performance during 2006

2006 was a significant year for Deal Group Media plc as we adjusted our UK business structure to compete more effectively in the marketplace, expanded our overseas businesses and delivered a stable technology environment upon which to base our growth.

Results for the year ended 31 December 2006 are broadly in line with expectations with gross profit of £7.15 million (2005: £6.69 million) and EBITDA (before share-based payments) of £(0.56) million (2005: £1.09 million). Turnover for the period was £22.97 million (2005: £20.56 million). The operating loss for the period of £2.11 million was principally the result of technology costs of £1.8 million (of which £700,000 is non-recurring), which, in line with our accounting policies, have been expensed rather than capitalised. The loss of a key customer in addition to an increasingly competitive marketplace in 2006, also impacted the performance of the UK business.

The success of sales activity in the Asia Pacific region was very encouraging in 2006 and has highlighted the opportunity in this region where the markets are growing at a fast pace, online advertising budgets are high and competition low relative to Europe.

We have significantly reduced both our UK operational and central cost base in the final quarter of 2006. The benefits of this should be seen in the current financial year.

### Board changes and senior management

Adrian Moss was reappointed as Chief Executive Officer in December 2006. Adrian founded the business in 1999 with £350,000 of seed funding. He is an acknowledged industry expert and a key strategic and operational driver for the Group going forward.

Andrew Dickson stepped down from the Board in December 2006 and I would like to thank him for his contribution during his tenure.

### Strategy

The Group has put in place a number of initiatives in order to set the foundations for DGM's future growth, both in the existing UK market and overseas.

In the UK, this includes an aggressive relaunch in the second quarter of 2007 of the core product offerings both as individual elements and as a complete customer acquisition strategy. This evolution has been facilitated by our material investment in technology in 2006.

Overseas the Group's further evolution will be achieved through a new base in Singapore. The Board anticipates that approximately £1 million of investment will be required to successfully enter this market over the next year. Having successfully set up DGM in the UK in 1999 with a considerably smaller budget we believe that our ambitions for the region are achievable.

To this end, the Board intends to rename Deal Group Media plc as DGM Holdings Plc in order to reflect the new business structure which will incorporate new overseas

subsidiaries and separate the distinct UK operating brands from the PLC. A resolution to that effect will be included in the Notice of Annual General Meeting which is to be sent to shareholders later this month.

#### Financing and offer talks

DGM announced in December 2006 that it had received commitment to a £1.05 million fund raising through a Placing to facilitate the ongoing growth of the Group.

The Group has ceased all offer talks to focus on organic expansion and the Board is confident that pursuing the Group's growth strategy should deliver superior returns to shareholders.

#### Market

2006 saw strong growth in e-commerce and internet advertising across Europe and Asia. As internet and broadband penetration continues to increase, users are spending a greater amount of time online (Jupiter Research, Oct 06). There were 37 million internet users in 2006 in the UK (Internetworldstats) and they are becoming more sophisticated in their knowledge of the internet. In addition, consumer purchasing trends have shown a significant increase in online shopping. As a result advertisers are allocating increasing proportions of their budgets towards the internet. This positively affects the online advertising expenditure which in Europe increased by 41.2% to £2.07 billion in 2006 (Internet Advertising Bureau and Price Waterhouse Coopers, March 07).

The Asia Pacific region shows an even higher level of anticipated growth going forward. For example, in July 2006 there were 137 million internet users in China (i.research) alone and in response to this, advertisers have allocated larger budgets to online spend.

#### Prospects

DGM is well positioned to recapture a strong market position in the UK and successfully launch into new territories, taking a market leading position in the Asia Pacific region.



**John Porter**  
Chairman

## chief executive's report



### Introduction

Since my reappointment as Chief Executive Officer in December 2006 the Board has taken stock of the Group's performance in the year to 31 December 2006.

The underlying performance of the Group in 2006 has been more encouraging than the EBITDA suggests with the high margin UK business that was lost towards the end of 2005 being replaced by growth in the overseas operations. The central cost base is more closely controlled and the operational costs in the UK considered more appropriate to the lower margins experienced in the core business areas.

We continue to have a firm belief in our ability to deliver real value to shareholders and my commitment to participate in the recently announced Placing.

A strategic committee, involving the Board and senior management, has identified key tactics on how this will be achieved.

DGM's main goals for 2007 are:

- to reassert the Group's strong position in the UK online marketing sector;
- to leverage our experience in Australia to create a strong market position in the Asia Pacific region as a whole.

### UK operations

DGM works with advertisers, agencies and media owners to help them achieve their e-business objectives – whether it is more sales or leads, increased traffic or brand awareness.

The offering in the UK consists of:

- Affiliate Marketing;
- Search Engine Marketing;
- Advertising Network.

Whereas the first two are strategies focused on delivering return from an advertiser's online ad spend, the advertising network acts as an outsourced sales team selling banner inventory on behalf of media owners looking to maximise their revenue generation. The UK market has become highly competitive in all areas resulting in increased margin pressure over the last year, however it is still growing and margins appear to have now stabilised.

Despite this, and the technology issues encountered in 2005, the UK operation was EBITDA positive in the second half, successfully retained 90% of its clients over the period and has won significant new clients.

The affiliate business represents the majority of our UK operation and I am pleased to report that we set new records in 2006 for the level of commission payout to our affiliates.

Going forward, the focus will be on increasing sales of our existing core product channels, and expanding our offering into strategically related areas including the provision of complete online marketing solutions for advertisers in addition to a technology only offering which will give advertisers and agencies the ability to track their own marketing campaigns more accurately.

#### Overseas operations

From a break even position in 2005 the overseas operations have become a material part of the Group's performance in 2006.

The offering consists of:

- Affiliate Marketing;
- Search Engine Marketing;
- Strategic Media planning and buying.

All three areas work individually or as part of a co-ordinated offering, focused on delivering advertisers' objectives from their online ad spend.

Our Australian office is very important to the Group both because of its financial delivery potential and also strategically, as part of our Asia Pacific growth strategy.

In Q3 of 2006 the Group launched a small operation in South Africa which is expected to generate positive cash flow in the first half of 2007.

We will continue with a low cost entry strategy into fast growing key markets initially servicing international agencies where our considerable experience and historic delivery, combined with our distinct approach to customer servicing can put us at an advantage over local and less experienced competitors.

To this end I will be dividing my time between Singapore and our existing operating businesses and going forward much of the strategic and other management functions will be located in Singapore. It is anticipated that up to £1 million will be invested in evolving an Asia Pacific regional operation during the current financial year to take advantage of the considerable opportunity that exists.

## chief executive's report continued

### Employees

In the aftermath of a turbulent period in the Group's evolution I am committed to establishing strategies to retain and develop our employees. We acknowledge that we are a people business and a clear strategy in this area is vital to our future success.

We have reviewed staff participation in the Group's equity and have revised the current share option scheme to include all permanent staff, from all offices.

Two significant senior management appointments have recently been made.

We have retained an HR Director, Danielle Tasker, with 15 years' relevant experience to ensure that our retention and development strategies are as effective as possible.

Martin Chalmers has been appointed as Group Finance Director, bringing eighteen years experience in senior financial positions, most recently as Regional Finance Director for Europe at Allied Domecq PLC. He will be responsible for the management and evolution of the Group's financial functions.

We were pleased to see the success of our graduate training scheme and intend to run it again in 2007.

### Technology

In 2006 the Group invested £1.8 million in technology, of which £700,000 is non-recurring. This investment was necessary to rebuild the core affiliate product and replace the DB2 infrastructure with SQL server. I am pleased to report that this project was successful and is now complete.

The development of DGM's technology over the last year has provided the Group with a stable technology platform to service our international affiliate marketing business.

In addition we have developed our tracking ability and are now able to work with advertisers across multiple routes to customers to deliver their objectives from online advertising and provide more accurate reporting.

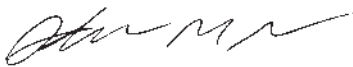
This provides us with the ability to further increase our customers' return on investment for their online marketing spend and therefore enables DGM to better service its customers.



### Prospects

Much of the ground work is now in place for the Group to deliver growth in existing markets and establish itself as a market leader in new markets by applying its industry expertise. Despite increased competition, the UK market is still growing and continues to offer considerable opportunities for winning new business as more advertisers are looking to the internet for their marketing.

The Group expects to continue to see the full benefit from last year's cost control programme over the course of 2007 and, despite the anticipated investment in new markets, improved performance over the course of 2007 from its existing operations.



**Adrian Moss**  
Chief Executive

## directors and advisers



**John Porter**  
**Executive Chairman**

John is also chairman of i-spire Plc, a new media investment company with investments in the Ministry Of Sound, Cheapflights.com and Deal Group Media Plc.

As a founder of Redbus Interhouse Plc he served as Chairman during its early stages and in November 2005 the company was merged with Teleticity. John was also an early investor in Demon Internet Limited, which was later sold to Thus Telecom.

John is a graduate of Oxford University, Institut d'Etudes Politiques, Paris and Stanford University. He serves on the Advisory Board of the Saïd Business School, Oxford.



**Lord Stone of Blackheath**  
**Deputy Chairman (Non Executive)**

Lord Stone of Blackheath was raised to the peerage as Baron Stone of Blackheath in 1997. He joined Marks and Spencer plc as a trainee in 1966 and retired his position as joint managing director of the company in 1999. He is currently a director of several non-government organisations, a retail company and is involved in several charities. He also chairs the charity DIPEX that helps patients gain information on their condition and their options.



**Adrian Moss, ACA**  
**Chief Executive**

Adrian qualified as a chartered accountant with Price Waterhouse in 1996. After working in corporate finance at Price Waterhouse he became head of strategy and securitisation for I-Group Limited and was responsible for group budgeting, negotiating funding lines and managing the securitisation of mortgage receivables. In 1999 he founded The Deal Group Limited, now known as dealgroupmedia (UK) Limited and has since developed the business as Chief Executive Officer.



**Keith Lassman, LLB, MSI**  
**Non Executive Director**

Keith is a senior partner in the corporate finance department of London law firm, Howard Kennedy. Keith brings considerable experience to the Board in a broad range of corporate finance transactions including acquisitions, disposals and capital raising. He is also a non-executive director of Greatfleet plc (whose shares are traded on AIM), deputy chairman of the EIS Association and a member of the Securities Institute.



**Dominic Trigg**  
**Non Executive Director**

Dominic is Vice President of Search and Directories for Infospace Europe. He has a strong background in online and traditional media advertising. Previous roles include director of advertising operations for Yahoo! Europe and Advertising Director for Microsoft's MSN UK, Hotmail UK and Expedia as well as ad manager for BT's Internet portfolio. During 2001 he took a foray into Digital TV as media director at Music Choice Europe plc, returning to web and Yahoo! in 2003. Previous to his online career he held roles as ad manager to Gruner & Jahr's Focus magazine and BBC Worldwide magazine.

**Directors****John Porter**

Executive Chairman

**Lord Stone of Blackheath**

Deputy Chairman (Non Executive)

**Adrian Moss**

Chief Executive

**David Lees**

Non Executive

**Dominic Trigg**

Non Executive

**Paul Alexander**

Non Executive

**Keith Lassman**

Non Executive

**Company Secretary**

Keith Lassman

**Registered office**19 Cavendish Square  
London W1A 2AW**Nominated advisers and brokers****Evolution Securities Ltd**100 Wood Street  
London EC2V 7AN**Registrars****Capita Registrars**The Registry  
34 Beckenham Road  
Beckenham  
Kent BR3 4TU**Auditor****Grant Thornton UK LLP**London Thames Valley Office  
Churchill House  
Chalvey Road East  
Slough  
Berks SL1 2LS**Solicitors****Howard Kennedy**19 Cavendish Square  
London W1A 2AW**Memery Crystal**31 Southampton Row  
London WC1B 5HT**Bankers****Barclays Bank plc**27 Soho Square  
London W1D 3QR**David Lees, ACA****Non Executive Director**

David is a qualified chartered accountant with many years' experience in the public company arena. He has been a founding director of several public companies (such as Medeva Plc, Skypharma Plc, Names.co Internet Plc) and a director of many other successful companies. He is currently a director of NamesCo Limited, Triple Plate Junction Plc, Rift Oil Plc, Metis Biotechnologies Plc, Network Estates Limited and Accident Exchange Plc.

**Paul Alexander****Non Executive Director**

Paul Alexander joined the Board of DGM as a Non Executive Director in June 2006. Paul is Chief Executive Officer of Wigborough, a data technology & IP investment organisation. Paul is also Chairman of Intelligence Information Systems Limited. Prior to forming Wigborough Paul was Global Head of Consumer Markets for dunnhumby, a company most famous for its work with the Tesco Clubcard. Paul has had extensive experience in media and advertising and was formerly general manager of TBWA and Tequila (Australia), and prior to that was global media director for M&C Saatchi and Walker Media, with responsibility for the British Airways and the oneworld Alliance accounts.

## corporate governance

for the year ended 31 December 2006

The Company is committed to applying the highest principles of corporate governance commensurate with its size.

### Compliance

As the Company is listed on the Alternative Investment Market, it is not required to comply with the provisions set out in the Combined Code prepared by the committee on corporate governance, nor is it required to comment on its compliance with such provisions.

However, the following information is provided, which describes how the principles of corporate governance are applied by the Company.

### Directors

The Company supports the concept of an effective Board leading and controlling the Group. The Board is responsible for approving Group policy and strategy. It meets monthly and has a schedule of matters specifically reserved to it for decision. Executive management supply the Board with appropriate and timely information and the Directors are free to seek any further information they consider necessary. All Directors have access to advice from the Company Secretary and independent professionals at the Company's expense. Training is available for new Directors and other Directors as necessary.

The Board consists of two Executive Directors, who hold key operational positions in the Company and five Non Executive Directors, who bring a breadth of experience and knowledge. This provides a balance whereby an individual or small group cannot dominate the Board's decision making. Certain Non Executive Directors have interests in shares of the Company and all the Non Executive Directors hold share options. The Non Executive Directors have each considered their independence in light of the above interests and other business relationships as laid out in note 22. The Directors and the Board as a whole consider that these factors do not impinge upon their objectivity or independence and so, all Non Executive Directors are considered to be independent from the Group and management.

The Chairman of the Board is John Porter. David Lees is the Senior Independent Non Executive Director. The Board members are described on pages 8 and 9. All Directors are subject to re-election every three years and at the first Annual General Meeting (AGM) after their appointment. The Board has not appointed a Nomination Committee.

### Relations with shareholders

The Company values the views of its shareholders and recognises their interest in the Company's strategy and performance, Board membership and quality of management. It therefore holds regular meetings with its institutional shareholders to discuss objectives.

The AGM is used to communicate with private investors and they are encouraged to participate. The Chairman of the Audit and Remuneration Committees is available to answer questions. Separate resolutions are proposed on each issue so that they can be given proper consideration and there is a resolution to approve the Annual Report and Accounts. The Company counts all proxy votes and will indicate the level of proxies lodged on each resolution after it has been dealt with by a show of hands.

### Accountability and audit

The Board presents a balanced and understandable assessment of the Group's position and prospects in all interim and price sensitive reports and reports to regulators, as well as in the information required to be presented by statutory requirements.

The Audit Committee meets as required and comprises David Lees (Chairman), Keith Lassman and Lord Stone of Blackheath all of whom are Independent Non Executive Directors. The terms of reference of the Committee include keeping under review the scope and results of external audits and their cost effectiveness. The Committee reviews the independence and objectivity of the external auditors. This includes reviewing the nature and extent of non-audit services supplied by the external auditors to the Group, seeking to balance objectivity and value for money.

### Internal controls

The Board is responsible for maintaining a sound system of internal control to safeguard both the shareholders' investment and the Group's assets.

#### Internal controls (continued)

The Board has reviewed its risk management framework and identified areas where procedures need to be changed or installed.

The Board has considered the need for an internal audit function but has decided that the size of the Group does not justify this at present. However, it will keep the decision under review. The Board has reviewed the operation and effectiveness of the Group's system of internal control for the financial period and the period up to the date of approval of the financial statements.

The Directors are responsible for the Group's system of internal control and reviewing its effectiveness. The system of internal control is designed to provide reasonable, but not absolute, assurance against material misstatement or loss.

The key features of the Group's system of internal control are as follows:

#### Steps taken to ensure an appropriate control environment

The Board, acting through the Audit Committee, has put into place an organisational structure with clearly defined responsibilities for internal financial control.

#### Process used to identify major business risks and to evaluate their financial implications

The identification of major business risks is carried out in conjunction with operational management and steps are taken to mitigate or manage these risks where possible.

#### Major information systems that are in place

There are comprehensive financial management reporting systems in place, which involve the preparation of detailed annual budgets by the Group and longer term financial forecasting. The budgets are generated by the responsible member of the management team and passed to the Board for approval. The Board monitors performance against budget on a monthly basis.

#### Main control procedures, which address the financial implications of the major business risks

The Group maintains financial controls and procedures appropriate to the business environment conforming to overall standards and guidelines, which are set by the Board.

#### Monitoring system the Board uses to check the system is operating effectively

The external auditors review the control procedures to the extent necessary for expressing their audit opinion, and report on any weakness arising during the course of their audit work. The Board has reviewed the operation and effectiveness of the Group's system of internal financial control for the financial period and for the period up to the date of the approval of these financial statements.

#### Going concern

After making appropriate enquiries, the Directors have a reasonable expectation that the Group has adequate resources to continue in operational existence for the foreseeable future. For this reason, they continue to adopt the going concern basis in preparing the financial statements.



**John Porter**  
Chairman

## report on remuneration

for the year ended 31 December 2006

### Directors' remuneration

The Board recognises that Directors' remuneration is of legitimate concern to shareholders and is committed to following current best practice. The Group operates within a competitive environment and its performance depends on the individual contributions of the Directors and employees and it believes in rewarding vision and innovation. The Board has decided to present this remuneration report for shareholder approval so that the shareholders can approve the policy set out in this report.

### Policy on executive directors remuneration

The policy of the Board is to provide an executive remuneration package designed to attract, motivate and retain Directors of the calibre necessary to maintain the Group's position and to reward them for enhancing shareholder value and return. It aims to provide sufficient levels of remuneration to do this, but to avoid paying more than is necessary. The remuneration should also reflect the Directors' responsibilities and include incentives to deliver the Company's objectives. The notice period for termination of the Executive Directors' service contracts is between three and twelve months.

The Remuneration Committee has responsibility for making recommendations to the Board on the Company's general policy on Executive remuneration and also specific packages for individual Directors. It carries out the policy on behalf of the Board.

The membership of the committee is as follows:

David Lees (Chairman)  
John Porter  
Lord Stone of Blackheath

David Lees and Lord Stone of Blackheath are Independent Non Executive Directors. Neither of them have any personal financial interest in the matters to be decided (other than as shareholders, share option holders, and those disclosed in note 24 related party transactions), potential conflicts of interest arising from cross directorships nor any day-to-day involvement in running the business.

The Committee meets as required to determine executive remuneration policy.

### Main elements of executive remuneration

There are four main elements of the Executive Directors' remuneration package:

- i. Fees
- ii. Annual bonus payments
- iii. Share option incentives
- iv. Pension contributions

### Fees

Each Executive Director's basic salary is reviewed by the Committee. In deciding upon appropriate levels of remuneration, the Committee believes that the Group should offer average levels of base pay reflecting individual responsibilities compared to similar jobs in comparable companies, as well as internal factors such as performance.

### Annual bonus payments

The Committee establishes the objectives, which must be met for a bonus to be paid. A performance related award scheme incorporating audited earnings per share, share price performance and Group profitability has been established which recognises the success of the business for which the Executive Directors are responsible for a bonus to be awarded. Bonus payments are non-pensionable.

### Pensions

All pension entitlements for the Directors are disclosed in note 2.

### Non-executive directors

The Executive Directors, within the limits set out in the Articles of Association, determine the remuneration of the Non Executive Directors. A share option scheme specific to the Non Executive Directors was implemented in February 2004. Non-Executive Directors do not have contracts of service.

### Share options incentives

The interests of Directors' in the Company's share option scheme are detailed in note 14 of the financial statements.

### Details of directors' remuneration

This report should be read in conjunction with notes 2, 14 and 24 to the financial statements, which also form part of this report. Full details of all elements of the remuneration package of each Director are given in note 2 to the financial statements. Details of Directors' share interests are given in note 14 to the financial statements.

### David Lees

Chairman of the Remuneration Committee

# report of the directors

for the year ended 31 December 2006

The Directors present their report together with financial statements for the year ended 31 December 2006.

## Principal activity

The Group is principally engaged in the provision of online marketing services including performance based marketing, search engine positioning and optimisation and the sale of advertising space.

## Business review

A review of the business during the period and an indication of likely future developments may be found in the Chairman's statement.

The loss for the financial year after taxation amounted to £4,043,000 (2005: £494,000). In view of the historic losses the Directors cannot recommend payment of a dividend. The Directors are considering a capital reconstruction to allow the future payment of dividends.

## Key performance indicators

The Directors consider turnover, gross profit and earnings before share-based payments, interest, tax, depreciation and amortisation as key performance indicators in measuring Group performance. The Chairman's Statement includes details of performance against these indicators.

## Directors

The Directors of the Company and their interests in the shares of the Company at the start of the year or when appointed and at the end of the year or on resignation are set out in note 14.

In accordance with the terms of Article 113.1 of the Company's Articles of Association, Adrian Moss, Paul Alexander and Davis Lees will retire and will offer themselves for re-election at the AGM.

## Payment policy

It is the Group's policy to agree the terms of payment with each supplier. Trade creditors at the year end amount to 57 days (31 December 2005: 55 days) average supplies for the period.

## Financial risk management objectives and policies

The Directors constantly monitor the financial risks and uncertainties facing the Group with particular reference to the exposure to price, credit, liquidity and cash flow risk. They are confident that suitable policies are in place and that all material financial risks have been considered. More detail is given in note 24 to the financial statements.

## Substantial shareholders

At 27 March 2007 the following had notified the Company of disclosable interests in three per cent or more of the nominal value of the Company's shares, save for the Directors whose interests are disclosed in note 14.

	Shareholding	%
I-Spire Corporation Limited	85,055,360	20.3%
The Bank of New York	32,735,000	8.6%
Pershing Keen Nominees Limited	24,562,582	6.4%



#### Directors' responsibilities for the financial statements

The Directors are responsible for preparing the Annual Report and financial statements in accordance with applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice). United Kingdom company law requires the Directors to prepare financial statements for each financial period, which give a true and fair view of the state of affairs of the Company and the Group and of the profit or loss of the Group for that period. In preparing those financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements;
- prepare the financial statements on a going concern basis unless it is inappropriate to presume that the Group will continue in business.

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

In so far as the Directors are aware, there is no relevant audit information of which the Company's auditor is unaware and the Directors have taken all steps, that they ought to have taken to make themselves aware of any relevant audit information and to establish that the auditor is aware of that information.

#### Website

A copy of the financial statements is placed on the Company's website. The maintenance and integrity of the website is the responsibility of the Directors and the work carried out by the auditor does not involve consideration of those matters. Accordingly, the auditor accepts no responsibility for any changes that may have occurred to the financial statements since they were initially presented on the website.

#### Auditor

Grant Thornton UK LLP offer themselves for reappointment as auditor in accordance with Section 385 of the Companies Act 1985.

On behalf of the Board

**Adrian Moss**  
Chief Executive  
10 April 2007

## report of the independent auditor

to the members of deal group media plc

We have audited the Group and parent Company financial statements of Deal Group Media plc for the year ended 31 December 2006 which comprise the principal accounting policies, the consolidated profit and loss account, the consolidated and Company balance sheets, the consolidated cash flow statement, statement of total recognised gains and losses and notes 1 to 26. These financial statements have been prepared under the accounting policies set out therein.

This report is made solely to the Company's members, as a body, in accordance with Section 235 of the Companies Act 1985. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

### Respective responsibilities of directors and auditors

The Directors' responsibilities for preparing the Annual Report, and the financial statements in accordance with United Kingdom law and Accounting Standards (United Kingdom Generally Accepted Accounting Practice) are set out in the statement of Directors' responsibilities.

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

We report to you our opinion as to whether the financial statements give a true and fair view and whether the financial statements have been properly prepared in accordance with the Companies Act 1985. We also report to you whether in our opinion the information given in the Directors' report is consistent with the financial statements.

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

We read other information contained in the Annual Report and consider whether it is consistent with the audited financial statements. The other information comprises only the Directors' report, the Directors' remuneration report, the corporate governance report and the Chairman's statement. The information given in the Directors' report includes that specific information presented in the Chairman's statement that is cross referred from the business review section of the Directors' report. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. Our responsibilities do not extend to any other information.

#### Basis of audit opinion

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

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

#### Opinion

In our opinion:

- the financial statements give a true and fair view, in accordance with United Kingdom Generally Accepted Accounting Practice, of the state of the Group and the Company's affairs as at 31 December 2006 and of the Group's loss for the year then ended;
- the financial statements have been properly prepared in accordance with the Companies Act 1985; and
- the information given in the Directors' report is consistent with the financial statements.

#### Grant Thornton UK LLP

##### Registered Auditors

Chartered Accountants, London Thames Valley Office, Slough

# consolidated profit and loss account

for the year ended 31 December 2006

	Notes	2006		2005 (restated)	
		£'000	£'000	£'000	£'000
<b>Turnover</b>	1		<b>22,965</b>		20,561
<b>Cost of sales</b>			<b>(15,828)</b>		(13,876)
<b>Gross profit</b>			<b>7,137</b>		6,685
<b>Administrative expenses</b>					
– amortisation of intangible assets		<b>(1,010)</b>		(1,149)	
– depreciation of tangible fixed assets		<b>(385)</b>		(292)	
– share based payments	15	<b>(298)</b>		(181)	
– other administrative expenses		<b>(7,697)</b>		(5,593)	
			<b>(9,390)</b>		(7,215)
<b>Operating loss</b>	1		<b>(2,253)</b>		(530)
<b>Net interest</b>	3		<b>16</b>		36
<b>Loss on ordinary activities</b>			<b>(2,237)</b>		(494)
<b>Taxation</b>	4		<b>(1,806)</b>		—
<b>Total loss after taxation for the period</b>			<b>(4,043)</b>		(494)
Basic loss per share	5		<b>(1.06p)</b>		(0.13p)

All operations are continuing.

The accompanying accounting policies and notes form part of these financial statements.

# consolidated balance sheet

as at 31 December 2006

		2006		2005 (restated)	
	Notes	£'000	£'000	£'000	£'000
<b>Fixed assets</b>					
Intangible assets	8		5,014		5,857
Tangible assets	9		582		647
Fixed asset investments	10		171		—
			5,767		6,504
<b>Current assets</b>					
Debtors	11	4,962		6,150	
Cash at bank and in hand		584		1,682	
		5,546		7,832	
<b>Creditors:</b>					
Amounts falling due within one year	13	(5,039)		(4,317)	
<b>Net current assets</b>					
			507		3,515
<b>Total assets less current liabilities</b>					
			6,274		10,019
<b>Creditors:</b>					
Amounts falling due after more than one year	13		—		(65)
			6,274		9,954
<b>Capital and reserves</b>					
Called up share capital	14	3,816		3,798	
Capital redemption reserve	16	13,188		13,188	
Share-based payments reserve	16	527		229	
Share premium account	16	21,505		21,458	
			39,036		38,673
Profit and loss account	16	(32,762)		(28,719)	
Shareholders' funds	17		6,274		9,954

The financial statements were approved by the Board of Directors and signed on their behalf on 10 April 2007.

**Adrian Moss**  
Director

# company balance sheet

as at 31 December 2006

	Notes	2006		2005 (restated)	
		£'000	£'000	£'000	£'000
<b>Fixed assets</b>					
Intangible assets	8		—		224
Tangible assets	9		12		16
Fixed asset investments	10		7,276		7,095
			7,288		7,335
<b>Current assets</b>					
Debtors	11	349		382	
Cash at bank and in hand		120		9	
		469		391	
<b>Creditors:</b>					
Amounts falling due within one year	13	(1,100)		(52)	
<b>Net current (liabilities)/assets</b>			631		339
<b>Total assets less current liabilities</b>			6,657		7,674
<b>Creditors:</b>					
Amounts falling due after more than one year	13		—		(32)
			6,657		7,642
<b>Capital and reserves</b>					
Called up share capital	14	3,816		3,798	
Capital redemption reserve	16	13,188		13,188	
Share premium account	16	21,505		21,458	
			38,509		38,444
Profit and loss account	16		(31,852)		(30,802)
Shareholders' funds	17		6,657		7,642

The financial statements were approved by the Board of Directors and signed on their behalf on 10 April 2007.

**Adrian Moss**  
Director

## consolidated cash flow statement

for the year ended 31 December 2006

	Notes	2006		2005	
		£'000	£'000	£'000	£'000
<b>Net cash (outflow)/inflow from operating activities</b>	21		<b>(585)</b>		32
<b>Returns on investments and servicing of finance</b>					
Interest received		27		40	
Interest paid		(11)		(4)	
			16		36
<b>Taxation</b>			<b>(3)</b>		(44)
<b>Capital expenditure and financial investments</b>					
Purchase of tangible fixed assets		(396)		(454)	
Purchase of fixed asset investments		(119)		—	
Sale of tangible fixed assets		32		—	
Purchase of intangible assets		(158)		(44)	
			(641)		(498)
Net cash outflow before financing			<b>(1,213)</b>		(474)
<b>Financing</b>					
Advances in respect of ordinary share capital		203		279	
Capital element of hire purchase payments		(43)		(15)	
Repayment of loan notes		(45)		(45)	
			115		219
Decrease in cash	22		<b>(1,098)</b>		(255)

## statement of total recognised gains and losses

for the year ended 31 December 2006

	2006 £'000	2005 £'000
Loss for the financial year	<b>(4,043)</b>	(313)
<b>Total recognised gains and losses relating to the year</b>	<b>(4,043)</b>	(313)
Prior year adjustment (as explained in note 7)	<b>(181)</b>	
<b>Total gains and losses recognised since last Annual Report</b>	<b>(4,224)</b>	

# accounting policies

## Basis of preparation

The financial statements have been prepared in accordance with applicable accounting standards, including a true and fair override as described below, and under the historical cost convention.

The principal accounting policies of the Group are set out below and have remained unchanged from the previous year, except as noted below. The Directors have reviewed the accounting policies adopted by the Group and consider them to be the most appropriate. Financial Reporting Standard 20 'Share-Based Payments' has been adopted for the first time this year. Note 15 illustrates the effect on the Group's financial statements.

The Group financial statements incorporate the financial statements of the Company and its subsidiaries. The companies make up their accounts to the same date.

## Turnover

Turnover is the total amount receivable by the Group for goods supplied and services provided, excluding VAT.

Income for services, which are invoiced in advance, is deferred and recognised in the period in which the services are provided. Income from other services and products is recognised at the point of sale and when any obligation has been fulfilled.

## Goodwill

Goodwill represents the excess of the fair value attributed to investments in businesses or subsidiary undertakings over the fair value of the underlying net assets at the date of their acquisition and is amortised over its useful economic life, of five to ten years. Goodwill is assessed for impairment when any impairment indicators arise.

## Depreciation

Depreciation is calculated to write down the cost of all tangible fixed assets over their expected economic useful lives.

The periods generally applicable are:

Leasehold improvements	Over the term of the lease
Computer equipment	33% – 50% per annum
Fixtures and fittings	25% per annum
Motor vehicles	25% – 33% per annum

## Contributions to defined contribution pension schemes

The pension costs charged against profits represents the amount of the contributions payable to the scheme in respect of the accounting period.

## Share-based payments

Share-based payments that are within the scope of FRS 20 have been recognised in the financial statements in accordance with that standard.

All goods and services received in exchange for the grant of any share-based payment are measured at their fair values. Where employees are rewarded using share-based payments, the fair values of employees' services are determined indirectly by reference to the fair value of the instrument granted to the employee. This fair value is appraised at the grant date and excludes the impact of non-market vesting conditions (for example, profitability and sales growth targets).

All equity-settled share-based payments are ultimately recognised as an expense in the income statement with a corresponding credit to equity.

If vesting periods or other non-market vesting conditions apply, the expense is allocated over the vesting period, based on the best available estimate of the number of share options expected to vest. Estimates are subsequently revised if there is any indication that the number of share options expected to vest differs from previous estimates. Any cumulative adjustment prior to vesting is recognised in the current period. No adjustment is made to any expense recognised in prior periods if share options ultimately exercised are different to that estimated on vesting.

Upon exercise of share options the proceeds received net of attributable transaction costs are credited to share capital, and where appropriate share premium.



#### Deferred tax

Deferred tax is recognised on all timing differences where the transactions or events that give the Group an obligation to pay more tax in the future, or a right to pay less tax in the future, have occurred by the balance sheet date. Deferred tax assets are recognised when it is more likely than not that they will be recovered.

Deferred tax is measured on an undiscounted basis using rates of tax that have been enacted or substantively enacted by the balance sheet date.

#### Software development

Development costs, both internal and external, associated with the Group's services are written off as incurred. Income generating additions to websites are capitalised as tangible fixed assets.

#### Leased assets

Assets held under finance leases and hire purchase contracts are capitalised in the balance sheet and depreciated over their estimated useful economic lives. The interest element of leasing payments represents a constant proportion of the capital balance outstanding and is charged to the profit and loss account over the period of the lease. All other leases are regarded as operating leases and the payments made under them are charged to the profit and loss account on a straight-line basis over the lease term.

#### Financial instruments

Financial assets are recognised in the balance sheet at the lower of cost or net realisable value. Provision is made for diminution in value where appropriate. Interest receivable is accrued and credited to the profit and loss account in the period in which it relates.

#### Liquid resources

Cash held on greater than 24 hours notice is disclosed as liquid resources in the cash flow statement.

#### Foreign currencies

Foreign currency transactions arising from normal trading activities are recorded in local currency at current exchange rates. Monetary assets and liabilities denominated in foreign currencies at the year-end are translated at the year-end exchange rate. Foreign currency gains and losses are credited or charged to the profit and loss account as they arise. The profit and loss accounts of overseas subsidiary undertakings are translated into pounds sterling at average exchange rates and the year-end net assets of these companies are translated at year-end exchange rates.

#### True and fair override on carrying value of subsidiary undertaking

Immediately following the acquisition of Webgravity Limited by Deal Group Media plc (then IBNet plc), the trade, assets and liabilities of that Company were transferred to IBNet plc at their book value. The cost of the Company's investment in its subsidiary undertaking reflects the underlying fair value of the net assets acquired at that time. As a result of this transfer, the cost of the Company's investment is greater than the net asset value of the subsidiary company.

Schedule 4 of the Companies Act 1985 required that the investment be written down accordingly and that the amount be charged as a loss in the Company's profit and loss account. However, the Directors considered that, as there has been no overall loss to the Group, it would fail to give a true and fair view to charge such diminution to the Company's profit and loss account.

Accordingly, the cost of investment was transferred to goodwill and is amortised over its useful economic life of five years from the date of acquisition. This affects only the Company's profit and loss and balance sheet and has no impact on the consolidated financial statements.

#### Investments

Investments are held at cost less amounts written off.

# notes to the financial statements

for the year ended 31 December 2006

## 1 Turnover and operating loss

The turnover is attributable to the principal activity, which is mainly carried out in the United Kingdom, Europe and Australia.

An analysis of turnover and operating loss by geographical market is given below:

	Turnover		Operating (loss)/profit	
	2006 £'000	2005 (restated) £'000	2006 £'000	2005 (restated) £'000
United Kingdom	16,159	18,551	1,454	3,363
Overseas	6,806	2,010	1,116	84
Central costs	—	—	(4,823)	(3,977)
	22,965	20,561	(2,253)	(530)

The presentation of the segmental analysis has been adapted from the previous year as the Directors feel this gives a more appropriate analysis of the Group's performance in the markets it operates in.

No segmental analysis of net assets has been provided, as the assets and liabilities attributable to overseas sales are not separately identified.

Operating loss is stated after charging:

	2006		2005	
	£'000	£'000	£'000	£'000
Auditor's remuneration				
– audit services	44		33	
– other assurance services	7		4	
– transaction services	—		9	
– taxation services	17		9	
– other services	12		22	
		80		77
Operating lease rentals				
– land and buildings	205		109	
– fixtures, fittings and equipment	53		110	
		258		219
Loss on foreign exchange		1		9
Depreciation and amortisation				
– tangible assets (owned)	385		272	
– tangible assets (held under hire purchase contracts)	—		20	
– loss on disposal of fixed assets	43		13	
– goodwill amortisation	1,010		1,149	
		1,438		1,454

## 2 Directors and employees

Staff costs during the year were as follows:

	2006 £'000	2005 £'000
Wages	3,474	3,017
Social security costs	379	292
Pension costs	54	25
Sums paid to third parties in respect of Directors fees	—	40
	<b>3,907</b>	<b>3,374</b>
Average number of employees (excluding Directors)	<b>84</b>	<b>71</b>

### Directors' emoluments

	Directors' salaries and fees		Compensation for loss of office		Pension contributions		Total	
	2006 £'000	2005 £'000	2006 £'000	2005 £'000	2006 £'000	2005 £'000	2006 £'000	2005 £'000
<b>Executive Directors</b>								
A. Moss	135	125	—	—	6	6	141	131
A. Dickson (resigned 19 December 2006)	119	78	55	—	6	—	180	78
J. Porter	—	—	—	—	—	—	—	—
<b>Non Executive Directors</b>								
Lord Stone of Blackheath	15	23	—	—	—	—	15	23
D. Lees	15	17	—	—	—	—	15	17
K. Lassman	15	15	—	—	—	—	15	15
D. Trigg	15	15	—	—	—	—	15	15
P. Alexander (appointed 1 June 2006)	9	—	—	—	—	—	9	—
	<b>323</b>	<b>273</b>	<b>55</b>	<b>—</b>	<b>12</b>	<b>6</b>	<b>390</b>	<b>279</b>

During the year two (2005: one) Directors participated in money purchase pension schemes.

# notes to the financial statements

for the year ended 31 December 2006

## 3 Net interest

	2006 £'000	2005 £'000
Interest payable and other similar charges	(11)	(4)
Interest receivable and other similar income	27	40
	16	36

## 4 Taxation

	2006 £'000	2005 £'000
UK Corporation tax	—	—
Foreign tax	82	—
Deferred tax	1,724	—
	1,806	—

A reconciliation of the reported loss for the year to the tax charge is given below:

At 31 December 2006 the Group has unutilised tax losses of £7,953,000 (2005: £7,136,000) available to offset against future taxable trading profits. These losses represent an unrecognised deferred tax asset of £2,386,000 (2005: £2,140,000) at a tax rate of 30%. See also note 12.

	2006 £'000	2005 £'000
Loss on ordinary activities before taxation	(2,237)	(494)
Loss on ordinary activities before taxation multiplied by corporation tax rate of 30%	(671)	(148)
Effect of:		
Surplus of depreciation compared to capital allowances	105	46
Tax deduction in respect of share options	(2)	(413)
Amortisation of goodwill	303	345
Other expenses not deductible	102	92
Loss carried forward to be offset against future taxable trading profits	269	104
Accumulated losses utilised in the year	(24)	(29)
Other differences	—	3
Current tax charge for the period	82	—

### 5 Loss per share

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

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

	2006	2005 (restated)
Loss on ordinary activities after tax £'000	(4,043)	(494)
Weighted average number of shares	380,831,210	376,573,277
Amount of loss per share in pence	(1.06)	(0.13)

In view of the loss for the year, options in issue have no dilutive effect.

### 6 Loss of parent company

As permitted by Section 230 of the Companies Act 1985, the profit and loss account of the parent Company is not shown separately as part of these accounts. The parent Company's loss for the financial period amounted to £1,050,000 (2005: £954,000).

### 7 Prior year adjustment

As a result of adopting FRS 20, comparatives have been restated to reflect the effect of accounting for share-based payments. The prior year operating loss has been increased by £181,000.

### 8 Intangible fixed assets

Group

	Purchased goodwill £'000
<b>Cost</b>	
At 1 January 2006	9,518
Additions	167
<b>At 31 December 2006</b>	<b>9,685</b>
<b>Amortisation</b>	
At 1 January 2006	3,661
Provided in year	1,010
<b>At 31 December 2006</b>	<b>4,671</b>
<b>Net book value</b>	
<b>At 31 December 2006</b>	<b>5,014</b>
At 31 December 2005	5,857

Additions to goodwill during the year were as a result of a number of small acquisitions, not considered material enough to be disclosed separately.

# notes to the financial statements

for the year ended 31 December 2006

## 8 Intangible fixed assets (continued)

Company

	Purchased goodwill £'000
<b>Cost</b>	
At 1 January 2006 and at 31 December 2006	2,326
<b>Amortisation</b>	
At 1 January 2006	2,102
Provided in year	224
<b>At 31 December 2006</b>	<b>2,326</b>
<b>Net book value</b>	
<b>At 31 December 2006</b>	<b>—</b>
At 31 December 2005	224

On 17 October 2003, the Company acquired the entire share capital of dealgroupmedia (UK) Limited (formerly The Deal Group Limited) for a consideration of £7,000,100 satisfied by the issue of 205,221,335 ordinary shares of 1p each. The goodwill arising on acquisition is amortised over its useful economic life which is ten years, the remainder of the goodwill is in respect of the acquisition of Webgravity in 2002 and is amortised over its useful economic life which is five years.

## 9 Tangible fixed assets

Group

	Leasehold Improvements £'000	Fixtures, fittings and equipment £'000	Motor vehicles £'000	Total £'000
<b>Cost</b>				
At 1 January 2006	301	994	61	1,356
Additions	4	390	—	394
Disposals	—	(230)	(61)	(291)
<b>At 31 December 2006</b>	<b>305</b>	<b>1,154</b>	<b>—</b>	<b>1,459</b>
<b>Depreciation</b>				
At 1 January 2006	122	560	27	709
Provided in year	61	315	9	385
Elimination on disposal	—	(181)	(36)	(217)
<b>At 31 December 2006</b>	<b>183</b>	<b>694</b>	<b>—</b>	<b>877</b>
<b>Net book value</b>				
<b>At 31 December 2006</b>	<b>122</b>	<b>460</b>	<b>—</b>	<b>582</b>
At 31 December 2005	179	434	34	647

## 9 Tangible fixed assets (continued)

Company

	Fixtures, fittings and equipment £'000
<b>Cost</b>	
At 1 January 2006 and at 31 December 2006	16
<b>Depreciation</b>	
At 1 January 2006	4
Provided in year	4
<b>At 31 December 2006</b>	<b>4</b>
<b>Net book value</b>	
<b>At 31 December 2006</b>	<b>12</b>
At 31 December 2005	16

## 10 Fixed asset investments

Group

	Cost and Net book value £'000
<b>Other investments</b>	
As at 1 January 2006	—
Additions	171
<b>As at 31 December 2006</b>	<b>171</b>

During the year the Group acquired an interest in the share capital of DC Storm for a consideration of £171,000.

Company

	Other investments £'000	Subsidiaries £'000	Total £'000
Cost and net book value as at 1 January 2006	—	7,095	7,095
Additions	171	10	181
<b>As at 31 December 2006</b>	<b>171</b>	<b>7,105</b>	<b>7,276</b>

# notes to the financial statements

for the year ended 31 December 2006

## 10 Fixed asset investments (continued)

As at 31 December 2006 the undertakings in which the Company held 20% or more of the share capital were:

Name of undertaking	Country of incorporation	Class of shares held	Proportion held	Nature of business
dealgroupmedia (UK) Limited	England and Wales	Ordinary	100%	Online search and marketing services
Deal Group Media SL	Spain	Ordinary	100%	Online search and marketing services
Deal Group Media Pty Limited	Australia	Ordinary	100%	Online search and marketing services
Fuel Ad Network	South Africa	Ordinary	100%	Online search and marketing services
Zapa (Publishing) Ltd	England and Wales	Ordinary	100%	Dormant
Rorkes Limited	Jersey	Ordinary	100%	Holding Company
Escremie Limited	England and Wales	Ordinary	100%	Online search and marketing services
The Web Finder Limited	England and Wales	Ordinary	100%	Online search and marketing services
Mister Pink Publishing Limited	England and Wales	Ordinary	100%	Online search and marketing services
Finance-Direct.com Limited	England and Wales	Ordinary	100%	Online search and marketing services

## 11 Debtors

	Group		Company	
	2006 £'000	2005 £'000	2006 £'000	2005 £'000
Trade debtors	4,213	3,638	—	—
Amounts owed by Group undertakings	—	—	326	297
Deferred taxation (refer note 12)				
– less than one year	—	570	—	—
– more than one year	—	1,154	—	—
Other debtors	162	197	—	60
Prepayments and accrued income	587	591	23	25
	4,962	6,150	349	382

## 12 Deferred taxation

As at 31 December 2005, the Group had a deferred tax asset of £1,724,000. The Directors feel it is prudent to write off the balance in total, due to the uncertainty of being able to utilise brought forward tax losses against future taxable profits. As at 31 December 2006 the Company has an unrecognised deferred tax asset of £2,386,000 (2005 £2,140,000).



## 13 Creditors

	Group		Company	
	2006 £'000	2005 £'000	2006 £'000	2005 £'000
<b>Amounts falling due within one year</b>				
Loan notes	32	45	32	45
Amounts owed to Group undertakings	—	—	822	—
Trade creditors	3,666	2,599	—	—
Corporation tax	85	6	—	—
Social security and other taxes	392	445	—	—
Other creditors	205	1	203	—
Accruals and deferred income	659	1,211	43	7
Amount due under hire purchase contracts	—	10	—	—
	<b>5,039</b>	<b>4,317</b>	<b>1,100</b>	<b>52</b>
<b>Amounts falling due after more than one year</b>				
Loan notes	—	32	—	32
Amounts due under hire purchase contracts	—	33	—	—
	<b>—</b>	<b>65</b>	<b>—</b>	<b>32</b>

All amounts fall due after one and within five years.

The loan notes represent part of the consideration for the acquisition of Webgravity Limited. The loan notes are interest free and unsecured.

Subsequent to the acquisition, a loan note repayment schedule was approved by the Board to discharge this liability by monthly instalments by August 2007.

## 14 Share capital

	2006 £'000	2005 £'000
<b>Authorised capital</b>		
881,152,000 ordinary shares of 1p each	8,812	8,812
54,952,000 deferred shares of 24p each	13,188	13,188
	<b>22,000</b>	<b>22,000</b>
<b>Allotted, called up and fully paid capital</b>		
381,586,866 ordinary shares of 1p each	3,816	3,798

# notes to the financial statements

for the year ended 31 December 2006

## 14 Share capital (continued)

Allotments during the year

During the period the Company allotted the following ordinary shares:

	Number of shares	Issue price	Share capital £'000	Share premium £'000
New share issues	20,000	£0.0380	—	—
	69,850	£0.0356	1	2
	202,079	£0.0124	2	—
	1,538,481	£0.0400	15	45
	1,830,410		18	47

The market price of the ordinary shares at 31 December 2006 was 3.25p and the range during the year was 2.13p to 5.5p.

## Directors' interests

The beneficial interests of the Directors holding office at 31 December 2006 and 31 December 2005 in the shares of the Company are set out below:

	Ordinary shares of 1p each 2006	2006 %	Ordinary shares of 1p each 2005	2005 %
A. Moss	44,419,144	11.6%	44,419,144	11.7%
A. Dickson (resigned 19 December 2006)	100,000	0.0%	100,000	0.0%
D. Lees	5,511,456	1.4%	5,511,456	1.5%
D. Trigg	60,000	0.0%	60,000	0.0%
J. Porter (see below)	85,055,360	22.3%	85,055,360	22.4%
K. Lassman	1,323,294	0.3%	1,323,294	0.4%
Lord Stone of Blackheath	150,000	0.0%	150,000	0.0%
P. Alexander (appointed 1 June 2006)	—	0.0%	—	0.0%

J. Porter has an indirect interest in the Group as he is a Director and shareholder of I-Spire Plc, a Company which holds shares in Deal Group Media Plc. J. Porter was appointed on 21 November 2005 and his indirect holding on appointment was 85,055,360 shares.

Executive share options schemes	Exercise price (pence)	Issue date	Held at 31 Dec 05	Granted during year	Exercised during year	Expired, lapsed, cancelled	Held at 31 Dec 06
A. Moss	3.5650	Dec 02	2,400,000	—	—	—	2,400,000
	11.5000	Nov 04	15,000,000	—	—	—	15,000,000
A. Dickson (resigned 19 December 2006)	11.3750	Nov 04	1,000,000	—	—	(1,000,000)	—
	20.4300	Apr 05	1,000,000	—	—	(1,000,000)	—
	4.1250	Jan 06	—	4,000,000	—	(4,000,000)	—
Lord Stone of Blackheath (Non Executive)	19.7500	Jan 05	500,000	—	—	—	500,000
D. Lees (Non Executive)	6.7500	Feb 04	750,000	—	—	—	750,000
D. Trigg (Non Executive)	6.7500	Feb 04	750,000	—	—	—	750,000
K. Lassman (Non Executive)	6.7500	Feb 04	750,000	—	—	—	750,000
P. Alexander (Non Executive)	3.7500	Jun 06	—	750,000	—	—	750,000
			22,150,000	4,750,000	—	(6,000,000)	20,900,000

## 14 Share capital (continued)

Other staff	Exercise price (pence)	Issue date	Held at 31 Dec 05	Granted during year	Exercised during year	Expired, lapsed, cancelled	Held at 31 Dec 06
	1.2468	Oct 03	453,638	—	(202,079)	—	<b>251,559</b>
	3.5650	Dec 03	944,851	—	(69,850)	(125,000)	<b>750,001</b>
	2.5000	Apr 04	20,000	—	—	—	<b>20,000</b>
	5.1000	Apr 04	30,000	—	—	—	<b>30,000</b>
	6.5000	Apr 04	350,000	—	—	(225,000)	<b>125,000</b>
	3.8000	Jul 04	40,000	—	(20,000)	—	<b>20,000</b>
	6.6300	Jul 04	950,001	—	(150,000)	(75,000)	<b>725,001</b>
	6.6300	Sep 04	1,075,000	—	—	—	<b>1,075,000</b>
	11.3750	Nov 04	—	—	—	—	—
	11.8750	Dec 04	75,000	—	—	(75,000)	—
	17.1250	Jan 05	75,000	—	—	(75,000)	—
	24.6250	Feb 05	250,000	—	—	(250,000)	—
	22.3750	Mar 05	—	—	—	—	—
	22.1250	May 05	—	—	—	—	—
	21.3750	Jun 05	—	—	—	—	—
	21.3750	Aug 05	—	—	—	—	—
	6.6875	Oct 05	675,000	—	—	(675,000)	<b>1,150,000</b>
	5.0000	Dec 05	5,400,000	—	—	(4,250,000)	—
	4.5000	Jan 06	—	575,000	—	(75,000)	<b>500,000</b>
	4.3800	Feb 06	—	4,075,000	—	(1,775,000)	<b>2,300,000</b>
	4.2500	Apr 06	—	1,450,000	—	(400,000)	<b>1,050,000</b>
	3.7500	Jun 06	—	1,125,000	—	—	<b>1,125,000</b>
	4.2500	Sep 06	—	1,725,000	—	(375,000)	<b>1,350,000</b>
			10,338,490	8,950,000	(441,929)	(8,375,000)	<b>10,471,561</b>

## 15 Share-based payment

During the year 13,700,000 options (2005: 6,325,000) were issued at an average fair value of 1.94 pence per share (2005: 4.17p).

The fair values of the options granted during the year ended were determined using the Binomial valuation model. The valuation was performed by Chiltern plc. The model has been applied to each issue of options at the price prevailing at the time the options were issued. The value of the options has been adjusted for future dividends, the assumption being that they will be paid from 2009. The payment of dividends is to be facilitated by a capital reorganisation.

The model takes into account a volatility rate between 20% – 80%, being the assumed ongoing volatility for the future share based on historical experience and a risk free interest of between 3.8% – 5.1%.

The remaining life of options is assumed on the following basis:

Executives and Non Executives	eight years
Management	six years
Non-management	three and a half years

The amount of employee remuneration expense in respect of the share options granted amounts to £298,000 (2005: £181,000). Prior year figures were restated as set out in note 7.

# notes to the financial statements

for the year ended 31 December 2006

## 16 Share premium account and reserves

Group

	Capital redemption reserve £'000	Share premium accounts £'000	Share-based payment reserve £'000	Profit and loss account £'000
At 1 January 2006 (restated)	13,188	21,458	229	(28,719)
Retained loss for the year	—	—	—	(4,043)
Share-based payments	—	—	298	—
Premium on allotments during the year	—	47	—	—
	13,188	21,505	527	(32,762)

Company

	Capital redemption reserve £'000	Share premium accounts £'000	Share-based payment reserve £'000	Profit and loss account £'000
At 1 January 2006 (restated)	13,188	21,458	—	(30,802)
Retained loss for the year	—	—	—	(1,050)
Premium on allotments during the year	—	47	—	—
	13,188	21,505	—	(31,852)

## 17 Reconciliation of movement in shareholders' funds

	2006 (restated) £'000	2005 (restated) £'000
Shareholders funds as previously stated	10,135	10,036
Prior year adjustment (adoption of FRS 20)	(181)	(48)
Opening shareholders funds as restated	9,954	9,988
(Loss)/profit for the financial period	(4,043)	(494)
Share-based payment	298	181
Issue of shares	65	279
Closing shareholder funds	6,274	9,954

## 18 Capital commitments

There are no capital commitments in the Group at 31 December 2006 (2005: Nil).

## 19 Contingent liabilities

There are no contingent liabilities in the Group at 31 December 2006 (2005: Nil).

## 20 Leasing commitments

The following commitments under non-cancellable operating leases existed:

	Group		Company	
	2006 £'000	2005 £'000	2006 £'000	2005 £'000
Leases which relate to land and buildings which expire:				
– within one year	24	24	—	—
– after one year and within five years	181	181	113	113
Leases which relate to furniture and fittings which expire:				
– after one year and within five years	53	53	53	53
	<b>258</b>	258	<b>166</b>	166

## 21 Net cash flow from operating activities

	2006 £'000	2005 (restated) £'000
Operating loss	(2,253)	(530)
Depreciation	385	292
Loss on disposals of fixed asset	43	13
Amortisation	1,010	1,149
Share-based payment	298	181
Increase in debtors	(538)	(1,399)
Increase in creditors	470	326
Net cash flow from operating activities	<b>(585)</b>	32

## 22 Analysis of changes in net funds

	2005 £'000	Cash flow £'000	2006 £'000
Cash at bank and in hand	1,682	(1,098)	<b>584</b>
Debt	(77)	45	<b>(32)</b>
Finance leases	(43)	43	<b>—</b>
	1,562	(1,010)	<b>552</b>

## 23 Reconciliation of net cash flow to movement in net funds

	2006 £'000	2005 £'000
Decrease in cash in the period	<b>(1,098)</b>	(255)
Cash outflow from debt and leasing financing	88	60
Change in net debt resulting from cash flows	<b>(1,010)</b>	(195)
Adjustment to loan notes	—	—
Inception of finance leases	—	—
Change in net funds during the year	<b>(1,010)</b>	(195)
Net funds as at 1 January 2006	<b>1,562</b>	1,757
Net funds as at 31 December 2006	<b>552</b>	1,562

# notes to the financial statements

for the year ended 31 December 2006

## 24 Related party transactions

During the period the Group entered into the following related party transactions. All transactions were made on an arm's length basis:

### Howard Kennedy

K Lassman, Non Executive Director and shareholder, is a partner of Howard Kennedy Solicitors. During the period the Group paid £5,011 (2005: £10,504) in respect of legal services provided to the Group.

### DC Storm

DC storm is a company which Deal Group Media is a shareholder of. During the year the Group paid £61,595 in respect of software licensing provided to the Group (2005: £Nil).

The Group has taken advantage of the FRS 8 exemption whereby transactions and balances between the Company and its subsidiary companies are not disclosed.

## 25 Pensions

The Group operates a defined contribution pension scheme for the benefit of the employees. The assets of the scheme are administered by trustees, in a fund independent from those of the Group. The pension costs charged for the period are disclosed in note 2.

## 26 Financial instruments

The Group uses financial instruments comprising cash and borrowings that arise from its operations. The main purpose of these financial instruments is to raise finance for the Group's operations.

### Short-term debtors and creditors

Short-term debtors and creditors have been excluded from all the following disclosures, other than the currency risk disclosure.

### Currency risk

The Group operates mainly within the UK and Australia and all transactions are denominated in sterling, euros or Australian dollars. As such the Group is exposed to transaction foreign exchange risk. The mix of currencies and terms of trade is such that the Directors believe that the Group's exposure is minimal and consequently they do not specifically seek to hedge that exposure.

The balances denominated in foreign currencies (in sterling equivalent) outstanding at the year end are detailed below:

	Australian Dollars £'000	Euros £'000
Bank and cash	226	3
Trade debtors	1,682	164
Trade creditors	(1,044)	(108)

### Fair values

The fair values of the Group's instruments are considered equal to the book value.

### Liquidity risk

Liquidity risk is the risk that the Group will have insufficient funds to meet its liabilities as they fall due. The Directors monitor cash flow on a regular basis and at monthly Board meetings in the context of their expectations for the business to ensure sufficient liquidity is available to meet foreseeable needs.

### Interest rate risk

The Directors do not consider that the business is exposed to material interest rate risk. The Group finances its operations through a mixture of cash reserves, finance leases and loan notes. The Group has not used significant interest bearing short-term borrowings.

# notice of annual general meeting

of Deal Group Media plc

Notice is hereby given that the Annual General Meeting of Deal Group Media plc will be held on 19 June 2007 at 19 Cavendish Square, London W1A 2AW at 11am. The business of the Meeting will be as follows:

## Resolutions

To consider and, if thought fit, pass the following resolutions 1–7 as ordinary resolutions, and resolutions 8–9 as special resolutions:

1. To receive and adopt the Company's audited accounts for the period ended 31 December 2006, together with the report of the auditors and the Directors thereon.
2. To re-elect Paul Alexander as a Director who retires in accordance with the Company's Articles of Association.
3. To re-elect Martin Chalmers as a Director who retires in accordance with the Company's Articles of Association.
4. To re-elect Adrian Moss as a Director who retires in accordance with the Company's Articles of Association.
5. To re-elect David Lees as a Director who retires in accordance with the Company's Articles of Association.
6. To reappoint Grant Thornton to hold office as auditors of the Company until the conclusion of the next Annual General Meeting at which accounts of the Company are presented and authorise the Directors to determine their remuneration.
- 7.1 That, in accordance with Section 80 of the Companies Act 1985, the Directors be and are hereby generally and unconditionally authorised to exercise all the powers of the Company to allot relevant securities within the terms of the restrictions and provisions following, namely:
  - 7.1.1 this authority shall (unless previously revoked, varied or renewed) expire five years from the date of this resolution, but shall be capable of renewal from time to time by the Company in general meeting for a further period not exceeding five years; and
  - 7.1.2 this authority shall be limited to the allotment of relevant securities up to an aggregate nominal value of £1,260,000.00.
- 7.2 For the purpose of paragraph 7.1 above:
  - 7.2.1 the said authority shall allow and enable the Company to make an offer or agreement before the expiry of that authority which would or might require relevant securities to be allotted after such expiry and the Directors may allot relevant securities in pursuance of such an offer or such agreement notwithstanding the expiry of such power; and
  - 7.2.2 words and expressions defined in or for the purposes of Part IV of the Companies Act 1985 shall bear the same meaning herein.
- 7.3 The authority conferred by paragraph 7.1 above shall be in substitution for all previous authorities conferred upon the Directors to allot relevant securities.
- 8.1 That, in accordance with Section 95 of the Companies Act 1985, the Directors be and are hereby given power to allot equity securities for cash pursuant to the general authority conferred upon the Directors in resolution 7 above as if sub-section (1) of Section 89 of the Companies Act 1985 did not apply to such allotment, provided that the power hereby granted:
  - 8.1.1 shall be limited to:
    - 8.1.1.1 the allotment of equity securities in connection with or pursuant to an offer by way of rights to the holders of ordinary shares in the capital of the Company and other persons entitled to participate therein for cash in proportion (as nearly as may be) to the holdings of ordinary shares of such holders (or, as appropriate, to the numbers of ordinary shares which such other persons are for these purposes deemed to hold), subject only to such exclusions or other arrangements as the Directors may consider necessary or expedient to deal with fractional entitlements or legal or practical problems under the laws of, or the requirements of any recognised regulatory body in any territory; and
    - 8.1.1.2 the allotment (other than pursuant to paragraph 8.1.1.1 of this proviso) of equity securities up to an aggregate nominal amount of £763,000.00.
  - 8.1.2 shall (unless previously revoked, varied or renewed) expire at the conclusion of the Annual General Meeting of the Company next following the passing of this resolution, and in any event on 15 months from this Annual General Meeting.

## notice of annual general meeting

of Deal Group Media plc

- 8.2 The said power shall allow and enable the Company to make an offer or agreement before the expiry of that power which would or might require equity securities to be allotted after such expiry, and the Directors may allot equity securities in pursuance of such an offer or such agreement notwithstanding the expiry of such power.
- 8.3 Words and expressions defined in or for the purposes of Part IV of the Companies Act 1985 shall bear the same meaning herein.
9. That the name of the Company be changed to DGM Holdings Plc.

By order of the Board

**Keith Lassman**

Secretary

25 May 2007

### Notes:

- (i) A Member entitled to attend and vote at the Meeting convened by this Notice is entitled to appoint one or more proxies to attend and, on a poll, to vote in his or her stead. A proxy need not be a Member of the Company, The appointment of a proxy will not preclude a Member from being present at the Meeting and voting in person if he or she should subsequently decide to do so.
- (ii) To be valid, forms of proxy must be lodged with the Company's registrars at

Proxy Processing Centre  
Telford Road  
Bicester  
OX26 4LD

not later than 48 hours before the time appointed for the holding of the Meeting.

- (iii) The following documents will available for inspection at the Company's registered office at

19 Cavendish Square  
London W1A 2AW

during normal business hours on any weekday (public holidays excepted) from the date of this Notice until the date of the Annual General Meeting and at the Annual General Meeting for 15 minutes prior to and during the Meeting:

- (a) the register of Directors' interests in the ordinary shares of the Company kept in accordance with Section 325 of the Companies Act 1985;
- (b) copies of the service contracts and letters of appointment of all Directors of the Company; and
- (c) a copy of the memorandum and Articles of Association of the Company.
- (iv) Pursuant to regulation 41 of the Uncertificated Securities Regulations 2001, the Company has specified that only those holders of the Company's shares registered on the register of members of the Company as at 11am on 17 June 2007, or, in the event that the Meeting is adjourned, on the register of members 48 hours before the time of any adjourned meeting shall be entitled to attend and vote at the aforesaid general meeting in respect of the number of such shares registered in their name at the relevant time. Changes to entries on the register of members after 11am on 17 June 2007 or, in the event that the Meeting is adjourned, on the register of members less than 48 hours before the time of any adjourned Meeting, shall be disregarded in determining the right of any person to attend and vote at the Meeting.



## proxy form

I/We(note 8).....

(block letters)of .....

being a member/members of Deal Group Media plc ("the Company") hereby appoint [ ] or, failing him, the duly appointed Chairman of the Meeting or (note 5) .....

as my/our proxy to vote for me/us and on my/our behalf at the Annual General Meeting of the Company to be held at 11am on 19 June 2007, and at any adjournment thereof, in the manner specified below.

RESOLUTIONS	FOR	AGAINST
1. To receive and adopt the Directors' report and accounts.		
2. To re-elect Paul Alexander as a Director.		
3. To re-elect Martin Chalmers as a Director.		
4. To re-elect Adrian Moss as a Director.		
5. To re-elect David Lees as a Director.		
6. To reappoint Grant Thornton as auditors of the Company and authorise the Directors to determine their remuneration.		
7. To authorise the Directors to allot shares (Section 80 Companies Act 1985).		
8. To authorise the Directors to allot shares other than pro rata to shareholders. (Section 95 Companies Act 1985).		
9. To change the name of the Company to DGM Holdings Plc.		

Signature .....

Dated.....2007

### Notes:

1. Please indicate by an 'X' in the space provided how you wish your votes to be cast. Without such directions the proxy will vote or abstain at his/her discretion.
2. In the case of a corporation, this form of proxy must be given under the common seal, or under the hand of an officer, attorney or other person duly authorised to sign it.
3. In the case of joint holders, the vote of the senior who tenders the vote will be accepted to the exclusion of all others, seniority being determined by the order in which names stand on the Register of Members.
4. To be valid, this form of proxy, duly executed, and the power of attorney or other authority (if any) under which it is executed or a certified copy of such power or authority must be received at the Company's Registrars, Proxy Processing Centre, Telford Road, Bicester OX26 4LD not later than 48 hours before the time appointed for the Meeting.
5. If a member wishes to appoint any other person to act as proxy, insert the name in the space provided and strike out all other appointees. The proxy need not be a member of the Company.
6. Completion of this form will not preclude you from attending and voting at the meeting if you wish.
7. Any alteration to this form of proxy must be initialled.
8. Please insert your name and address.
9. CREST members who wish to appoint a proxy or proxies by utilising the CREST electronic appointment service may do so for the Meeting and any adjournment(s) thereof by utilising the procedures described in the CREST Manual. CREST personal members or other CREST sponsored members and those CREST members who have appointed a voting service provider(s), should refer to their CREST sponsor or voting service provider(s), who will be able to take the appropriate action on their behalf.

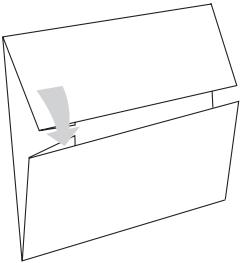
In order for a proxy appointment made by means of CREST to be valid, the appropriate CREST message ("Crest Proxy Instruction") must be properly authenticated in accordance with CREST Co's specifications and must contain the information required for such instructions, as described in the CREST Manual. The message, regardless of whether it constitutes the appointment of a proxy or an amendment to the instruction given to a previously appointed proxy, must, in order to be valid, be transmitted so as to be received by the issuer's agent by the latest time for receipt of proxy appointments specified in the Notice of AGM and in Note 4 of this form of proxy. CREST members and, where applicable, CREST sponsors or voting service providers are referred, in particular, to those sections of the CREST Manual concerning practical limitations of the CREST system and timings.

The Company may treat as invalid a CREST Proxy Instruction in the circumstances set out in Regulation 35(5) of the Uncertificated Securities Regulations 2001.

Business Reply  
Licence Number  
RRHB-RSXJ-GKCY



Proxy Processing Centre  
Telford Road  
Bicester  
OX26 4LD



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