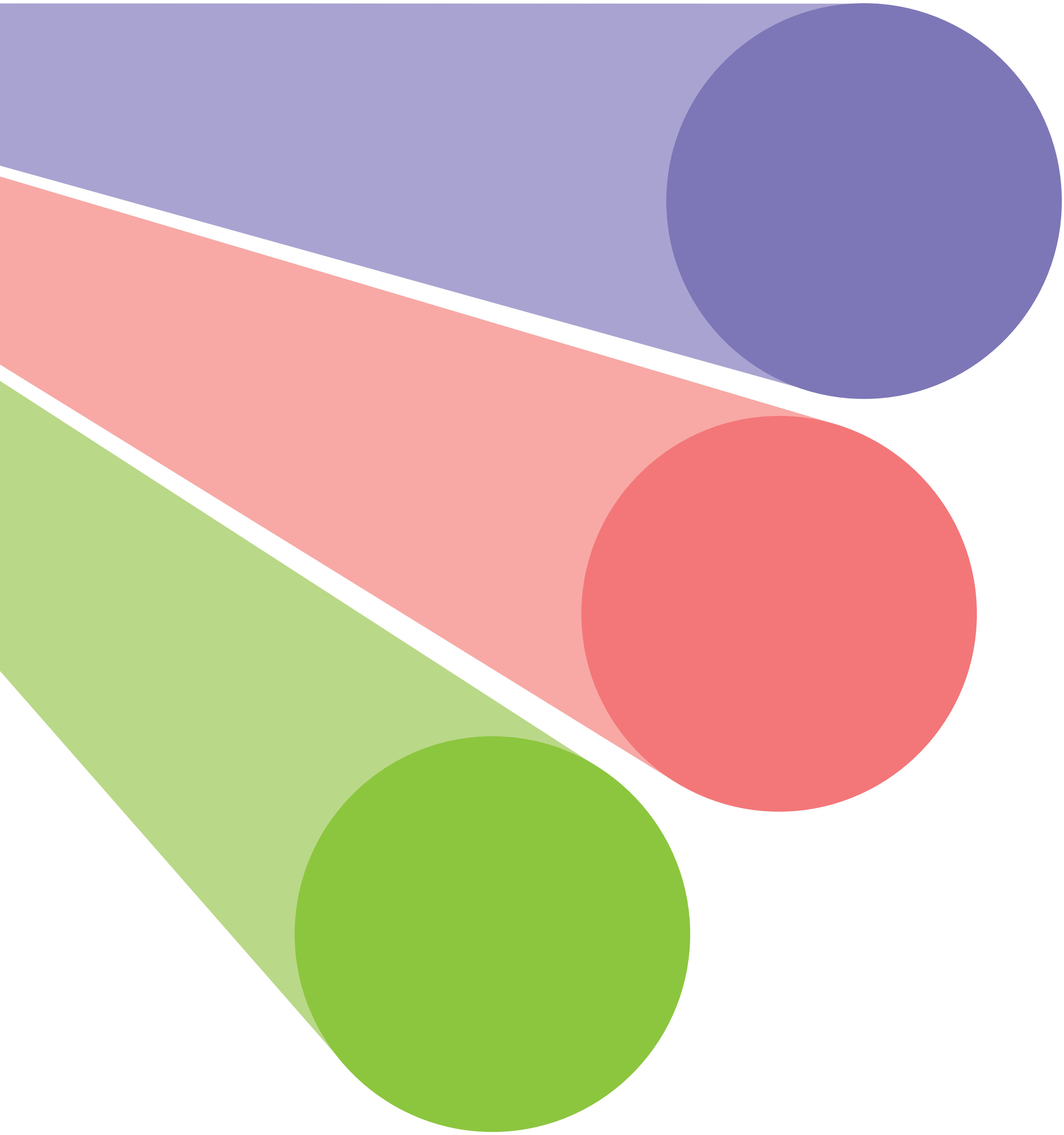
dotDigitalGroup plc®

Annual Report and Accounts 2009/2010



dotDigital is an award-winning digital marketing specialist with over 3500 clients generating strong recurring revenues from the provision of digital marketing services such as:

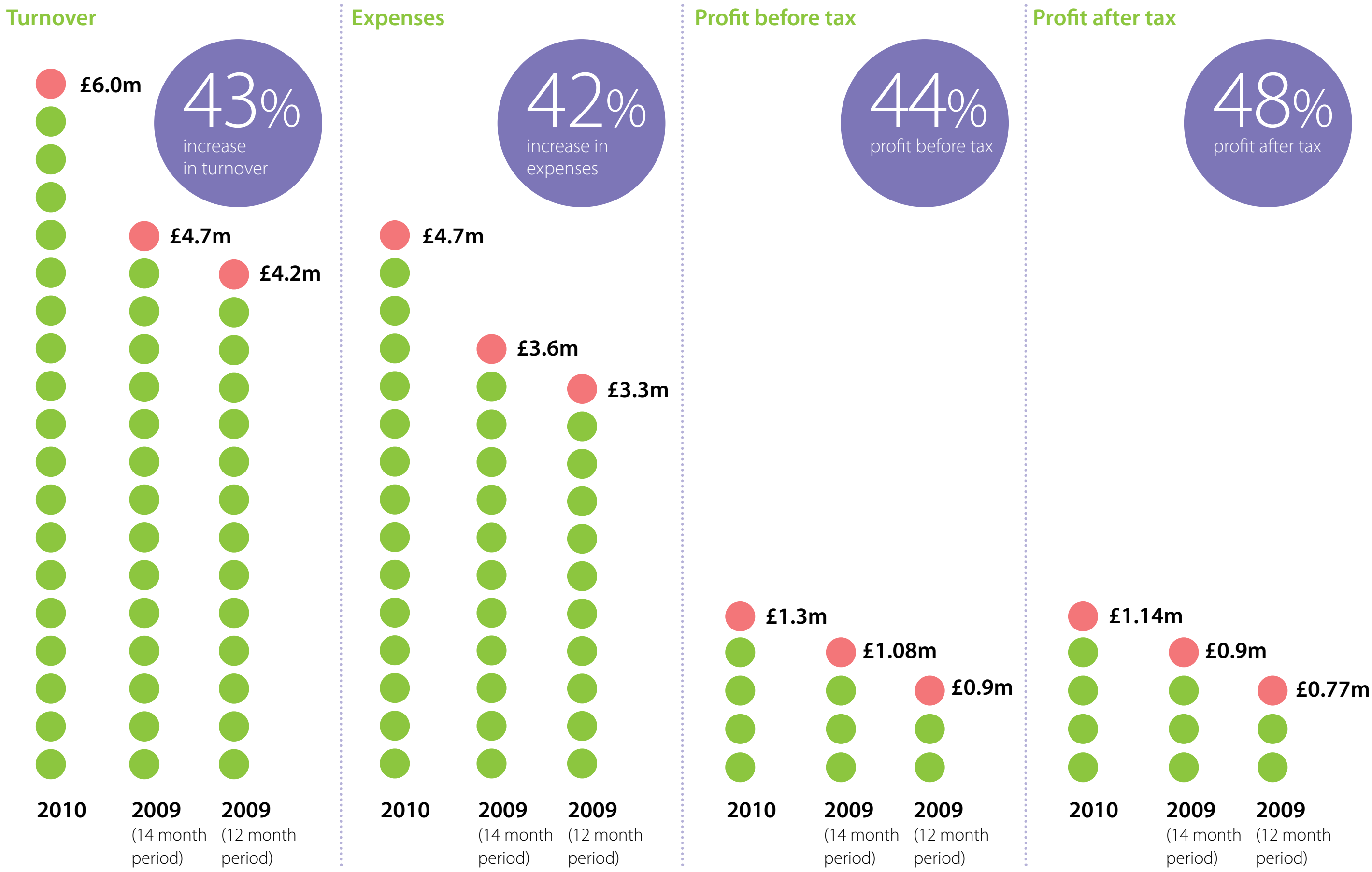
- **Email Marketing**
- **Search Engine Optimisation**
- **E-Commerce**
- **Website Design and Optimisation**

The Group now employs 103 staff across offices in Croydon, London Bridge, Manchester, Northampton and recently Minsk, Belarus.

Contents

Key highlights

- Like for like profits growth of 48% on turnover up 43%
- Cash on account as at 30 June 2010 was approximately £1.3m
- National Business Awards winner - Best Growth Strategy
- Acquisition of Netcallidus to strengthen SEO services
- Considerable investment in hardware and R&D
- Continued strong client growth
- Strengthened competitive position in the Digital Marketing Sector
- Post year end: opening of offices in Minsk, employing 15 staff
- Total staff headcount grown from 62 to 103



Last year's results to June 2009 covered a 14 month period enabling the accounts for dotMailer Limited to become coterminous with those of dotDigital Group plc. As these accounts cover a twelve month period and to provide a meaningful comparison of performance on a like-for-like basis, the Directors have provided a summary above of the previous year's income statements restated for a 12 month period.

Accordingly, all of the comparisons in the commentary are based on a comparison of results for the 12 months ended June 2010 with the 12 months ended June 2009.

The Group has enjoyed a strong year of profitable growth. On turnover up 43% to £6.0m (12 months ended June 2009: £4.2m), post-tax profits grew 48% to £1.14m (12 months ended June 2009: £0.77m).

This pleasing result is slightly ahead of our target and reflects our continued focus on new client acquisition and investment in new products and services.

In addition to achieving significant growth in profitability, we have continued to invest for the future. For example, to strengthen our competitive position we have committed resources to the underlying technical infrastructure which supports our products and more particularly, significant sums have been invested in further product development. Our total investment this year has amounted to £92k of capital investment in hardware and £338k of research and development activity in products and services.

Added to our internal investment, we committed funds to the acquisition of Netcallidus Limited ("Netcallidus") in May as part of the strategy to increase our presence and profits from the provision of search engine optimisation (SEO) services. As the acquisition took place very late in our financial year the impact of consolidation of the Netcallidus profits on the Group profit for the year has been minimal. In line with IFRS3 the costs of acquisition have been expensed in the current financial year.

Acquisition strategy

Since admission to the Plus market, as well as driving the business forward with an aggressive organic growth strategy, the Board have approved an acquisition strategy that it believes will deliver long-term shareholder value.

The target sectors selected for potential acquisitions are:

- SEO;
- Mobile;
- Word of Mouth Marketing;
- Surveys;
- Analytics;
- Usability testing;
- Research.

The 'ideal' criteria agreed for acquisition targets are as follows:

- High proportion of recurring revenues ideally minimum 40% of total;
- No more than 10% of revenue from one client;
- Strong technology with ownership of IP;
- Not dependant on one (few) key person(s);
- Client base closely matches the dotMailer/Group client profiles;
- Turnover £1m plus or potential to be £1m plus inside two years;
- Total consideration ideally 3-7 PE Ratio;
- Deferred consideration to ensure goal alignment to dotDigital shareholders;
- Consideration ideally no more than 50% cash with the remainder payable in shares.

Strict enforcement of the above criteria will inevitably restrict the number of available targets and the Board approval process has flexibility to vary these criteria when an opportunity arises with considerable potential future earnings growth, or where the target can provide a technology platform of value to the existing customer base.

Acquisition of Netcallidus

In 2009 the Board agreed that a strategic priority was to bring SEO under our own roof where in the past we had provided this service through a joint venture with a third party. During the course of 2009 we formed dotSEO to commence provision of this service in house and we engaged in negotiations with four potential acquisition targets during 2009 before finally acquiring Northamptonshire based Netcallidus. Netcallidus is a highly successful and fast-growing search marketing business (which met all of our acquisition criteria) in May 2010.

To overcome the challenge of valuing a young fast-growing profitable business in a burgeoning market sector but during a global downturn both we and Netcallidus agreed that the most appropriate deal structure would be through an earn-out scheme linked to a multiple of Netcallidus's post-tax profit in 2009/10, 2010/11 and 2011/12, with an initial cash consideration.

The Board believes that this arrangement will achieve goal alignment between the Directors of Netcallidus, the Board and shareholders of dotDigital. The final consideration paid to the original shareholders of Netcallidus will be three times the profit after tax for the year ended 30 June 2012, and will be made up of both cash and dotDigital Ordinary Shares. If the targets in the business plan are met, the profits from Netcallidus will have significantly increased the profits of the Group and in the opinion of the Board will be earnings accretive and value enhancing.

Our business is split into five main brands and business units, each with high level expertise:

dotMailer – In the Directors' opinion, a market leading email marketing platform with exceptional features and ease of use. It is delivered and supported by a team of dedicated and passionate professionals.

dotCommerce – The Group's latest ecommerce solution considered by the Directors to provide a unique and compelling proposition to online sellers; a flexible bespoke build experience, for the cost of an off-the-shelf package.

dotSEO – dotSEO undertakes detailed keyword analysis to identify the primary keywords and phrases visitors are using to find your products and services, develops a SEO strategy to maximise traffic and conversion and focuses on generating maximum ROI from your online marketing.

dotAgency – An in-house creative agency team specialising in website design, build, digital marketing strategy and search engine optimisation.

netcallidus – Netcallidus has been helping all types of businesses harness the power of Internet Marketing Services since its inception. With over 100 clients across B2B and B2C Netcallidus have the expertise to achieve great results from search engine optimisation and management of pay per click campaigns.

Chairman's & Chief Executive's report continued

43%
Increase
in revenue
in 2010

The Group has made excellent progress with the integration of Netcallidus. All accounting and management information is now handled by our central finance team and sales teams across all of the dotDigital business have now been trained in the sale of SEO. Moreover, the Directors of Netcallidus have agreed a business plan with the Board and operational processes for sale and support of clients using SEO services have been harmonised.

Netcallidus deferred consideration

IFRS3 (Revised) requires the deferred consideration payable in October 2011 and October 2012 based on multiples of profit after tax for years ended 30 June 2011 and 30 June 2012 to be estimated and included in the accounts as part of the fair value of the acquisition.

The calculation of fair value has been based upon deferred consideration that has been based upon a range of scenarios of possible future profits.

Taking in to account the uncertainties inherent in forecasting the revenues and profits of a relatively newly established business that had been part of the Group for only 6 weeks at the year end and which is operating in a fast changing market place it should be noted there is a very high likelihood that the actual profits for the year ended June 2012 could be at variance with these estimates.

In arriving at and negotiating the structure of the acquisition the Board were mindful of the need to ensure the proposed deferred consideration did not create liquidity risk for the Group. The structure of the deferred consideration element is such that under all the scenarios which could be envisaged the cash flows generated by the profit stream of the Netcallidus business will be sufficient to fund the cash element of the deferred consideration.

Minsk, Belarus

In October 2010 we announced the opening of a new facility in Minsk employing 15 staff initially to provide strengthened operational capability to Netcallidus and at the same time removing the requirement for outsourcing to India. So far we have been pleased with the outcome of this exercise and have plans to use further talented Belorussian staff across other areas of the Group.

Organic growth strategy

Last November dotDigital won the National Business Awards Best Growth Strategy award. This was in recognition of our organic growth strategy of pursuing new client acquisition through a mixture of online

"Thanks for creating such a superb website. It's a joy to look at and use. I'm particularly impressed by the amount of work that's been done in such a short period of time."

Jules Griffith,
Director of Communications,
Somerset House

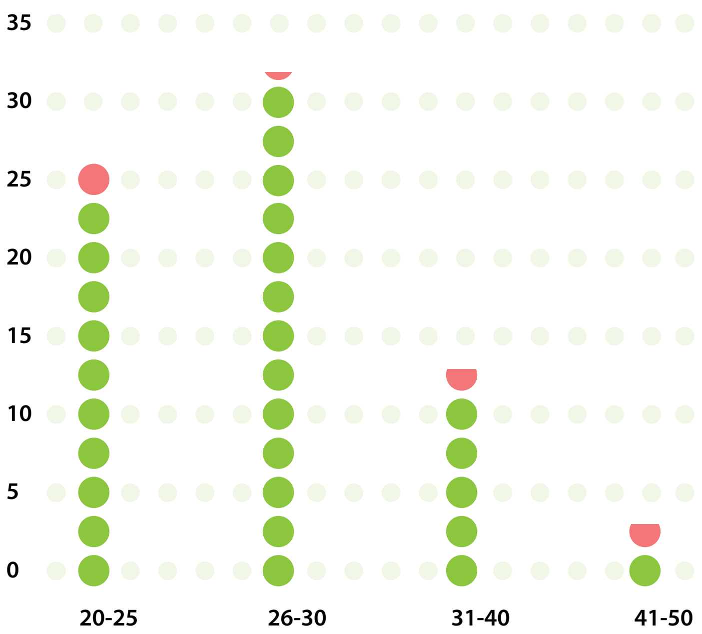
"Our website went live and it was a much smoother transition than I thought! The dotAgency team have been extremely helpful and supportive."

Tracy Wheeler
Throgmorton

"I'd tried 2 other ecommerce solutions providers before I found dotCommerce. Use them."

Paul Bennett
Fastfixdirect.co.uk

Age of employees (by number of emplyees)



marketing and attendance at trade shows and through increasing the level of cross-sell to existing clients through focused account management and provision of complimentary and adjacent services.

By focusing on our own search engine optimisation and through the implementation of a comprehensive CRM system we have high levels of organic growth with client numbers increasing at the rate of around 100 new clients per month. Continuous training of our sales and account management teams has resulted in cross selling of other adjacent digital marketing services to our client base. This is becoming a significant source of new revenue which we expect will continue to grow, particularly with the added expertise of Netcallidus.

The Directors believe that by focussing on four key areas, growth will continue within the business:

- Highly focused marketing activity delivering high quality sales leads to a fully motivated and goal aligned sales team;
- Recruitment of the best available talent in all areas of business;
- Designing and building innovative products that are intuitive to use and deliver high levels of functionality to assist our clients in beating their business objectives;
- Outstanding levels of support and client care.

By focusing on all aspects of our clients' digital marketing needs, we believe the business is uniquely positioned to provide companies with solutions to fulfil their requirements and provide a positive return on investment.

Staff

The Board would like to thank all of the management and staff for their hard work, dedication and commitment to the business during the past year. We have a very young team, whose average age is 26 (excluding Directors). Many of those young people have taken on extra responsibilities, learned new skills and taken up leadership challenges during the past year.

The quality and commitment of our team is one of the factors which gives the Board great confidence that we can continue to grow even in difficult economic times. We believe in giving employees sufficient autonomy to make good decisions about everything from product design to dealing with customer service issues. It is because of the quality of our staff that we have continued to grow our customer base and deliver great new products and services to our clients.

With this in mind we aim to share the success of the Group with the staff through bonus payments and share options. The Directors are open about the business objectives and senior managers actively engage with their teams so that everyone understands how their efforts contribute to the overall business success. All staff who have completed their probation are eligible for a performance and profit related bonus scheme and are eligible for share options managed through an HMRC approved employee share option scheme.

Irwin and Jordan

"You provided a fantastic platform to allow us designers to do what we are good at - making clothes look good! dotCommerce's systems allow us to display our collection in an elegant and sophisticated way!"

www.irwinandjordan.com

Despite becoming a much larger business, the Directors firmly believe that maintaining the entrepreneurial culture that was fundamental to the success of the business in its early days, is still critical to achieving success today. The Group adopts a wide range of formal and informal communication tools to ensure ideas are shared. The vision is shared and that people have a sense of belonging to the business.

Our commitment to exceptional client service

The Board firmly believes that the key to a long-term sustainable growing business emanates from delighting our customers. Everyone in the business is customer driven and we are striving to develop a culture that is passionate about customer service.

The business is structured to ensure that all customers receive client service and support appropriate to their needs and we have introduced a number of new initiatives to ensure we continue to evolve and develop products and services which delight our clients.

During the year there have been considerable activity aimed at continually improving the service we provide to our customers, including:

- The appointment of Skip Fidura as Group Client Services Director;
- Expanding our friendly and effective telephone support teams;
- Introducing video-based usability testing and tracking techniques to improve user experience of our products;
- In-depth client interviews to understand how our service can be improved still further simple surveys to get quantitative data on client needs;
- User Groups to obtain first-hand feedback from customers about new product features.

IT infrastructure

The Group has made significant investments in its IT infrastructure. As part of the strategy to ensure the Company is well positioned to exploit future growth opportunities, the Board has approved capital expenditure on a number of projects including:

- Ensuring future scalability through the use of latest blade server technology and SAN data storage systems;
- Creating a full-scale test facility;
- Reducing dependencies on single suppliers;
- Reducing environmental impact by selecting low power consumption hardware;

We aim to share the success of the Company with the staff...

Chairman's & Chief Executive's report continued

- Fully documenting systems and security policies;
- Increasing resilience by eliminating single points of failure and implementing mirroring technology;
- Extensive security audits, including external penetration testing.

Improving gross margin on bespoke projects

Following successful trials during the year the Group has modified its approach to managing bespoke projects carried out on behalf of clients. Whilst project management, project specification and client management are still carried out by employees based in the UK, much of the development activity will be carried out by partner organisations operating with a lower cost and fixed prices to ensure margins are managed.

The Directors are confident that this change in approach will improve profitability, give greater flexibility of scheduling, and ensure a greater capacity to scale to meet client demands.

Product development

The Board has a clear strategy to increase the proportion of Group revenues that will be derived from recurring revenues based on products sold on a Software as a Service ("SaaS") basis. The development team working on product development has been significantly strengthened during the year and following changes made to the delivery of client bespoke projects further development resource will be focused on product development during 2010/2011.

The Group is focusing on developing significant new features and enhanced usability for its email marketing product, dotMailer. Future planned product development will include new versions of the content management tool, a new survey tool and a SaaS version of the successful E-Commerce platform known as dotCommerce.

Strategy for the coming year

The Board has agreed a business plan for the coming year that it believes will continue to deliver growth in both profits and revenues and position the business soundly for growth in future years.

Some key elements of the plan are as follows:

- To complete the integration of Netcallidus and focus all our sales teams on identifying profitable SEO opportunities from within our client base;
- We recognise the dynamic growth in this market is occurring worldwide and part of the Group's short-term objective is to identify the areas in which we could make the maximum impact;
- To initiate a programme of international expansion of our core services. This may involve overseas acquisitions and/or franchising agreements to suitably qualified overseas partners;
- Increase the resources focused on our own search engine optimisation and business marketing, expanding the use of social media marketing, PR and educational client events and reviewing our branding;

'The market for our products and services continues to remain buoyant despite the world economic crisis. The growth of our customer base remains unabated as they continue to embrace the power of digital marketing.'

- To further expand the technical development resources focused on the delivery of innovative new products and services which are complimentary and adjacent to our existing offerings. Continuing to add innovative new features to our existing products;
- To extend the use of usability testing and user experience techniques to ensure our products enjoy maximum take-up by new trial users and by testing the concept of "freemium" versions of our products to widen the user base;
- We aim to start development of SaaS version of dotCommerce aimed at providing a fully featured easy to use E-Commerce application for the smaller end of the SME market;
- We plan to launch a new version of dotMailer with a brand-new step process and highly intuitive and innovative drag-and-drop editing tool.

Dividend policy

It is the Board's intention to achieve capital growth on the strength of continuing to grow the business, investment in new products and identifying further earning enhancing acquisitions. Although the business is cash flow positive the Directors believe that it is inappropriate to propose a dividend during this phase of planned high growth.

Outlook

The market for our products and services continues to remain buoyant despite the world economic crisis. The growth of our customer base remains unabated as they continue to embrace the power of digital marketing.

After settling the initial acquisition consideration for Netcallidus, our cash position remains strong and we believe we are well placed to continue to invest in hardware, research and development and further acquisitions.

Recognition of the dotDigital Group brands has continued to grow during the past year and this strong brand awareness combined with customer testimonials, increased marketing activity and continuously improving products will position the business well to win new clients into the future.

We look forward to the New Year with confidence.

David Pacy
Chairman
11 November 2010

Peter Simmonds
Chief Executive
11 November 2010

Corporate social responsibility report

The Group is committed to achieving a long-term successful and sustainable business as a leading provider of digital marketing solutions.

dotDigital's products are used by hundreds of charities worldwide who have enjoyed our special charity rates.

The Board believes in the importance of social responsibility and sustainability within the business. A responsible approach to the environment, health and safety and fair treatment of our people, our customers, our suppliers, our local communities and other key stakeholders is embedded in our Group culture and values. In a nutshell, dotDigital recognises its obligations to all those with whom it has dealings and our good reputation is vital to instil confidence in all who do business with us.

Support for not for profit sector

The UK charity sector has always been a key focus for the business. dotDigital has a pre-determined pricing model for registered charities and has worked with some of the country's leading charities including Fairtrade, Wateraid and WRC. dotDigital is committed to providing the very highest possible services and quality products to charities at an affordable rate.

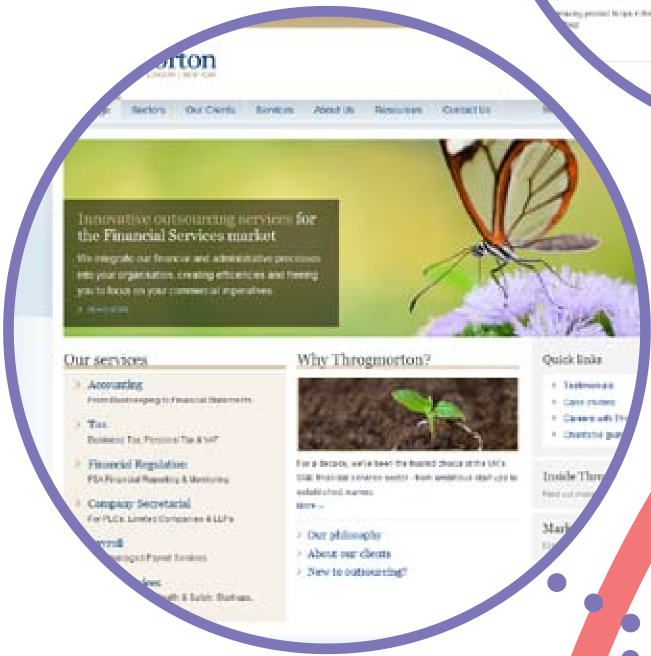
Sustainability and the environment

dotDigital has been quick to accentuate the environmentally friendly role of digital marketing in its thought leadership and media outreach and has worked with both the DMA and IAB to promote this message. Email marketing is a viable paper-free alternative to direct mail and leafleting.

dotDigital has made a significant investment in the virtualisation, storage technology and modern blade hardware to continue to deliver high levels of customer service to dotDigital Group customers whilst dramatically reducing the environmental impact of running a large data-centre. The key benefits include:

- Increased resilience of our key infrastructure;
- Server consolidation from many independent computers to far fewer;
- Unified server management to ensure maximum efficiency and performance;
- Reduced power consumption through less processors and better utilisation of those in use;
- Reduced cooling need, resulting in lower use of air conditioning plant;
- More rapid deployment of new systems to meet client needs;
- More processors per rack resulting in less space demands in crowded city computer rooms.

Rodial – Renowned across the beauty world for their revolutionary plumpers and fixes, Rodial came to dotCommerce for help 'plumping up' their site. The result? A site who's customers now put twice as much into their basket!
www.rodial.co.uk



Throgmorton – We built Throgmorton's site from the ground up and implemented several different news services and RSS feeds to ensure Throgmorton's clients and prospects can utilise their accounting and financial news service. The result is a clean, easy to use site that visitors love.
www.throgmorton.co.uk

HMV Curzon – We worked closely with Curzon and Winkreative to deliver a stylish and easy to use site which amalgamates data from various different sources. The website has surpassed Curzon's expectations and they are delighted with the marriage of Winkreative's design and dotAgency's consultation and expertise in building a flexible site. We continue to work with Curzon Cinemas on a variety of projects, some of which utilise cutting edge technological trends.
www.hmvcurzon.co.uk

dotDigital is also committed to talent development through its work experience and graduate recruitment schemes.

Our investment in the latest and most powerful virtualisation technology is consistent with our offering clients leading digital solutions whilst genuinely demanding fewer resources. Everyone at dotDigital Group Plc is focused on recycling and conserving power, but our new equipment really makes a significant positive contribution. Over the next few years, data-centre power and cooling demands will become a major issue and we are pleased to be at the forefront of addressing the challenge.

Commitment to employees

The Board recognises that the Group's employees are critical to the overall delivery of its business strategy. All employees are kept informed of progress against the Group's strategic plan through regular meetings, regular newsletters and informal Friday afternoon "Rah rah" sessions, where teams from across the business keep colleagues from other parts of the business up-to-date with issues and news.

The Directors firmly believe that relations with staff are based on respect and trust. The Board is committed to creating a working environment where there is mutual trust and where everyone is accountable for their own actions and takes full responsibility for the performance and reputation of the business.

The Board has a policy to ensure that at all times there are equal opportunities for all employees with no discrimination on account of race, age, gender, sexual orientation, disability and political or religious beliefs. Our philosophy is to ensure that ability, contribution to the business and potential to develop are the determining factors in the selection, training, career development and promotion of all employees.

The Company operates in a highly competitive environment; therefore recruitment and retention of first-class employees is critical to the continued growth of the business. As a result of this need to recruit the best, the Company strives to ensure it's salary packages are competitive and that there are opportunities for employees to earn bonuses linked to their performance and the Company's performance. Every employee that has passed their probationary period is entitled to participate in the Company's employee share option scheme. Excluding Directors, the total number of options available to employees at the end of the financial year amounts to 24m shares or 2% percentage of the total shares in issue.

dotDigital is also committed to talent development through its work experience and graduate recruitment schemes.

Health and safety

dotDigital is committed to providing a safe and high-quality working environment for its staff. The Group engages an external health and safety consultancy firm to carry out periodic reviews of its offices and is committed to adopting any recommendations arising. The Group has complied with all applicable legislation and has not been subject to sanctions or fines for environmental, health and safety or other infringements.

Business ethics

The Board believes that operating ethically is vital to the long-term success of the business and to the well-being of all employees and stakeholders. All new employees are provided with formal codes of ethical behaviour as part of their contract of employment. The code provides guidelines covering personal conduct and gives advice on recognising and dealing with conflict of interest, business gifts, bribery and corruption.

All employees are encouraged to report any suspected unethical behaviour to the Board. If necessary, there is an alternative channel of communication to the senior independent Director, should this be more appropriate.

The Directors strive to ensure that the Company has a fair and very open culture where everyone's views and contributions are actively encouraged and respected.

Customers and business partners

The Board firmly believes that the prerequisite for achieving a successful and sustainable business is integrity in dealing with customers and business partners. This principle governs all aspects of the business. The Company values its customers and at all times strives to safeguard the trust they have provided in the business by complying with all relevant laws and contractual commitments.

The Company is continually seeking customer feedback through a variety of formal and informal channels such as user Groups, customer service surveys, in-depth customer interviews and client events.

Stonewall – Stonewall's youth programme offers an intensive mentoring programme and they needed a site that young people would engage with. Cue Young Stonewall, fresh, new and vibrant, which lets mentors and volunteers work together online.
www.youngstonewall.org.uk

WaterAid – "Thank you so much. The new website is a truly outstanding piece of work that we are very happy with. Well done all of you".
www.wateraid.org/uk

Muscians Benevolent Fund – In 2010, this venerable musicians charity appointed dotAgency to design and build their brand new website, and chose dotCommerce to provide a complete new ecommerce solution for their online shop. The result was music to their eyes.
www.helpmusicians.org.uk

Our Board of Directors

Peter Simmonds FCCA, aged 52,
Chief Executive and Finance Director
Peter Simmonds commenced his career in 1976 as a trainee accountant with Unilever Plc and has over 20 years of experience at senior management and Board level, principally in the areas of banking, insurance, finance, IT and outsourcing. He has considerable business entrepreneurial experience having been involved in the start up or early stage of a number of companies in various industry sectors including consultancy services, vehicle leasing, computer software and internet solutions sectors.

Peter also has experience of business acquisition and post acquisition integration and management of acquired businesses.

Simon Bird, aged 35,
Technical Director
Simon is a founding Director of dotDigital with a strong technical bias. His technical expertise stretches back to the beginning of his career when he was integral to the formation of a major internet access provider. Passionate about web software engineering, he strives to ensure the Group is always ahead of the technology game enabling dotDigital to build world class products for its customers.

Tink Taylor, aged 38,
Business Development Director
Tink Taylor a founding Director has many years experience in the field of interactive electronic communications. Tink has wide ranging experience in introducing the concept of digital marketing to companies large and small. He is an elected member of the Direct Marketing Association's Email Marketing Council and also a member of the Internet Advertising Bureaus E-communications Council. Tink is a judge for the Emails and Virals category at the DMA awards.

"Skip" Gordon Fidura, aged 41,
Client Services Director

Gordon Fidura (Skip) brings to dotDigital extensive global experience and expertise in digital and direct marketing. A Director with Warehouse Marketing Limited since 2006, Skip is also Vice Chairman of the Email Marketing Council, part of the Direct Marketing Association in the UK. Prior to joining dotDigital in January 2009 as a senior manager, Skip launched the Email Marketing & Digital Dialogue consultancy within OgilvyOne Worldwide in London. Here he grew the consultancy team whilst successfully developing the agency's email and digital practice.

Skip has also held senior management roles within Digital Impact, a leading US digital marketing solutions agency, becoming Director of European Operations after helping establish the first overseas office in the UK.

David Pacy, aged 67,
Non Executive Chairman

David Pacy founded MetroVideo Group in 1979, which was sold to WPP Group Plc in 1986 in addition to subsequently setting up Stockroom Archive Management Limited which specialises in the storage and retrieval of film and video material.

David was also a founder of DigiReels, one of the UK's earliest commercially available video on demand services, a joint venture between WPP Group Plc and Cable and Wireless Plc. He subsequently became a founder Director of ChillBean Limited, the digital asset management company hosting SohoSoho.tv, created specifically for the media world. David is a Director of Clockwork Capital a joint venture with WPP involved in equipment finance for the television industry.

Nicholas Nelson, aged 45,
Non Executive Director

Nicholas Nelson commenced his career in 1985 as a trainee dealer on the floor of the London Stock Exchange accumulating approximately thirteen years experience as both dealer and investment manager. He has for the past twelve years continued his City career, working in corporate communications during which time he has assisted on many PLUS and AIM flotations. He is currently Managing Director of Nexus Finance Limited, a City of London based financial public relations consultancy.

Corporate governance report

Throgmorton

"Our website went live and it was a much smoother transition than I thought! The dotAgency team have been extremely helpful and supportive."

www.throgmorton.co.uk

The Board provides corporate governance disclosures in accordance with the principles and provisions of "The Combined Code: Principles of Good Governance and the Code of Best Practice" ("the Code"). As part of this process, Turnbull guidelines set out in "Guidance for Directors on the Combined Code" have also been reviewed and are covered under "Internal control" below. An explanation of how the Company has applied the principles and the extent to which the provisions in the Code have been complied with also appears below.

Compliance statement

(a) Directors

The details of the Group's Board, together with the Audit and Remuneration Committees, are set out on pages 18 and 20 respectively.

The Board meets monthly and is responsible for strategy, performance, approval of major capital projects and the framework of internal controls. The Board has a formal schedule of matters reserved for specific review and decision. To enable the Board to discharge its duties, all Directors receive appropriate and timely information. Briefing papers are distributed to all Directors in advance of Board meetings. All Directors have access to the advice and services of the Company Secretary, who is responsible for ensuring that Board procedures are followed and that applicable rules and regulations are complied with. At the period end there were four Executive Directors, one independent Non Executive Director and an independent Non Executive Chairman.

The current constitution of the Audit and Remuneration Committees are shown on pages 18 and 20 respectively.

Appointments to the Board are nominated by an Executive Director and then considered by the full Board.

(b) Director's remuneration

As set out on pages 20 and 21, the remuneration of the Executive Directors is determined by the Remuneration Committee whilst that of the Non Executives is determined by the whole Board. The Directors are conscious of the importance of the performance related incentives and bonuses are paid based on performance as deemed appropriate by the Remuneration Committee.

(c) Relations with shareholders

The Group encourages two-way communications with all its shareholders and responds quickly to all requests or queries received. All Shareholders have at least twenty one working days' notice of the Annual General Meeting at which all of the Directors and the Chairman are normally available for questions. Comments and questions are encouraged from the Shareholders at the meeting.

(d) Accountability and audit

(i) Financial reporting

Detailed reviews of the performance and financial position of the Group are included in the Chairman's and Chief Executive's statement.

The Board uses this and the Directors' report on pages 22 to 27 to present a balanced and understandable assessment of the Group's position and prospects. The Directors' responsibility for the financial statements is described on page 26.

(ii) Internal control

The Board confirms that it has established the procedures necessary to implement the guidance set out in "Internal Control: Guidance for Directors on the Combined Code". The process of risk identification, evaluation and management has been considered by the Board. It is the intention that this will continue to be kept under constant review and will be considered at each Board meeting in the future. The Board is continuing to take steps to embed internal control and risk management further into the operations of the business and to deal with areas of improvement which come to management and the Board's attention.

The Directors acknowledge their responsibilities for the Group's system of internal financial control. Such a system can provide reasonable but not absolute assurance against material misstatement or loss. The Board confirms that the procedures necessary to comply with the provisions of the code, including the guidance of Turnbull, have been in place throughout the period ended 30 June 2009 and up to the date of the Directors' report. It has considered the major business risks and the control environment. Important control procedures, in addition to the day to day supervision of the business, include comparison of monthly management accounts to the budget.

(iii) Audit Committee and Auditors

The Audit Committee comprises Tink Taylor and David Pacy and is chaired by Nicholas Nelson. The Auditors of the Group may also attend part or all of each meeting and they have direct access to the committee for independent discussions, without the presence of the Executive Director if required. The Audit Committee may examine any matters relating to the financial affairs of the Group, and to the Group's audit. This includes reviews of the annual accounts and announcements, accounting policies, compliance with accounting standards, the appointment and fees of auditors and such other related functions as the Board may require.

(iv) Going concern basis

After making enquiries, the Directors have formed a judgment, at the time of approving the financial statements, that there is a reasonable expectation that the Group has adequate resources to continue in operational existence for the foreseeable future. For this reason the Directors continue to adopt the going concern basis in preparing the financial statements.

Audit Committee report

Toys and Playthings

Toys 'n' Playthings is one of six websites that publishing group Lema Publishing commissioned with dotAgency. We ensure that each site has prominent sign ups to the newsflash which is powered by dotMailer and allows the magazines to keep in frequent touch with their readers.

www.toysnplaythings.co.uk

Role of the Audit Committee

The Audit Committee is a sub-committee of the Board whose responsibilities include:

- Reviewing the half-yearly and full year accounts and results announcements of the Company and any other formal announcements relating to the Group's financial performance and recommending them to the Board for approval;
- Reviewing the Group's systems for internal financial control and risk management;
- Monitoring and reviewing the effectiveness of the Group's internal accounting function and considering regular reports which arise;
- Considering the appointment of the external auditors, overseeing the process for their selection and making recommendations to the Board in relation to their appointment to be put to shareholders for approval at a general meeting;
- Monitoring and reviewing the effectiveness and independence of the external auditors, agreeing the nature and scope of their audit, agreeing their remuneration, and considering their reports on the Group's accounts, reports to shareholders and their evaluation of the systems of internal financial control and risk management.

Composition of the Audit Committee

The Audit Committee comprises the two independent Non Executive Directors, Nicholas Nelson and David Pacy and an Executive Director, Ian Taylor. The Chairman of the Audit Committee is Nicholas Nelson. The Committee meets separately with the external auditors. The Company Secretary is secretary to the Audit Committee.

Main Activities of the Audit Committee

At its meeting on the 9 November 2010 the Committee reviewed the Group's preliminary announcement of its results for the financial year 30 June 2010 and the draft report and accounts for that year. The Committee received reports from the external auditors on the conduct of their audit, their review of the accounts; including accounting policies and areas of judgment, and their comments on risk management and control matters. The Group's corporate social responsibility reporting arrangements and procedures were also reviewed.

The external auditors also presented their proposed fees and scope for the forthcoming year's audit. The Committee also reviewed the performance of both the internal accounting function and external auditors. The review of the external auditors was used to confirm the appropriateness of their reappointment and included assessment of their independence, qualifications, expertise, resources and effectiveness of their audit process.

The Audit Committee also reviewed the effectiveness of the Group's systems for internal financial control and risk management. The Committee reviewed the Group's credit control procedures and risks concerning IT controls.

Independence of external auditors

Both the Board and the external auditors have safeguards in place to avoid the possibility that the auditors' objectivity and independence could be compromised. dotDigital's policy in respect of services provided by the external auditors is as follows:

- Audit related services – the external auditors are invited to provide services which, in their position as auditors, they must or are best placed to undertake. This includes formalities relating to borrowings, shareholders' and other circulars, various other regulatory reports and work in respect of acquisitions and disposals.

Tax consulting – in cases where they are best suited, we use the external auditors. All other significant tax consulting work is put out to tender.

- General consulting – in recognition of public concern over the effect of consulting services on auditors' independence, our policy is that the external auditors are not invited to tender for general consulting work.

Internal management accounting

The Audit Committee reviewed the performance of the internal accounting function, the department's resource requirements and also approved the internal budgets for the year ending 30th June 2011, which appeared both prudent and realistic in the context of the Group's ambitions.

On behalf of the Committee:

Nicholas Nelson

Nicholas Nelson
Chairman of the Audit Committee

Want the Look

Want The Look use us for their development, email marketing and search engine optimisation. The fact that everything is driven through one specialised agency is a major plus for owner Oliver.

www.wantthelook.com

Remuneration Committee report

The Remuneration Committee

The Remuneration Committee was established to keep under review the remuneration and terms of employment of Executive Directors and to recommend such remuneration and terms and changes thereof to the Board. The Committee's composition, responsibilities and operation comply with the Combined Code. In forming its remuneration policy, the Committee has endeavoured to comply with the Combined Code. The Committee comprised of Nicholas Nelson (Chairman), David Pacy and Peter Simmonds. Peter Simmonds being an Executive Director cannot comment upon his own remuneration.

Remuneration policy

The Group's executive remuneration policy objectives are:

(a) To ensure that individual rewards and incentives are directly aligned with the performance of the Group and that of the interests of the shareholders; and

(b) To maintain a competitive program which enables the Group to attract and retain high calibre executives.

Service contracts

On 7 January 2009, the Executive Directors each entered into a service contract with the Company, the terms of which commenced upon Admission to PLUS on the 2 February 2009. After an initial appointment of 12 months from admission each contract is terminable by the Company or the Director by six months notice. The agreement contains restrictive covenants. Upon termination, no benefits (other than those accruing during the notice period) are due to the Director.

Directors' interests

The respective interests, all of which are beneficial, in the shares of the Company for the members of the Board at the year end and subsequent to that date are stated opposite.

Directors' Interests in Share Options

Under the Group's executive share option scheme the following Directors have the right to acquire Ordinary Shares (shown opposite).

The options that were originally granted to Peter Simmonds on 1 April 2008 which were for Ordinary Shares in dotMailer Limited have been converted on 1 February 2009 upon the reverse acquisition of dotDigital Group Plc formerly known as West End Ventures PLC and are exercisable on or before 31 December 2012.

The options for Gordon Fidura were granted as part of his performance based remuneration under the employee EMI approved option scheme.

Employee Incentive Schemes

The Group has awarded Share Options under EMI approved Share Option Schemes to key employees who had completed their probation period at the date of the reverse acquisition. The Board considers the performance of staff in conjunction with the performance of the Group during the bi-annual review process. Discretionary bonuses are awarded based on individual and Group performance.

Approved by the Remuneration Committee

Signed on its behalf by

Nicholas Nelson
Chairman of Remuneration Committee

Directors' emoluments

Executive Directors	Salary/Fees £	Benefits £	Bonus £	Pension £	Payment in Lieu of holiday £	Total £
			12 month period ended 30 June 2010			
P Simmonds	88,000	7,103	25,000	8,808	4,230	133,141
I Taylor	95,000	6,757	30,000	9,500	3,598	144,855
S Bird	95,000	6,757	10,000	9,500	-	121,257
G Fidura	76,000	4,200	6,250	-	-	86,450
D Ivy (resigned 10/9/09)	35,249	-	-	-	-	35,249
	354,000	**24,817**	**71,250**	**27,808**	**7,828**	**520,952**

Executive Directors	Salary/Fees £	Benefits £	Bonus £	Pension £	Payment in Lieu of holiday £	Total £
			14 month period ended 30 June 2009			
P Simmonds	102,667	13,356	25,000	3,667	-	144,690
I Taylor	98,380	-	20,000	7,269	-	125,649
S Bird	98,380	-	20,000	7,269	-	125,649
G Fidura	13,367	-	-	-	-	13,367
D Ivy	98,380	-	20,000	7,269	-	125,649
	411,184	**13,356**	**85,000**	**25,474**	**0**	**535,014**

Non Executive Directors' emoluments

Non Executive Directors	Salary/Fees £	Benefits £	Bonus £	Pension £	Payment in Lieu of holiday £	Total £
			12 month period ended 30 June 2010			
N Nelson	20,000	-	-	-	-	20,000
D Pacy	20,000	-	-	-	-	20,000
	40,000	**-**	**-**	**-**	**-**	**40,000**

Non Executive Directors	Salary/Fees £	Benefits £	Bonus £	Pension £	Payment in Lieu of holiday £	Total £
			14 month period ended 30 June 2009			
N Nelson	23,333	-	-	-	-	23,333
D Pacy	23,333	-	-	-	-	23,333
	46,666	**-**	**-**	**-**	**-**	**46,666**

Directors' interests

Executive Director	No. of Shares held as at 30.06.10	% holding
Frank Nominees Ltd*	65,300,000	5.05%
I Taylor	304,300,000	23.54%
S Bird	264,300,000	20.45%
	633,900,000	**49.04%**

* Frank Nominees Limited acts as nominee for Alliance Trust Pensions Limited, which is the trustee of a SIPP established by Peter Anthony Simmonds. Frank Nominees is the vehicle used by Kleinwort Benson Limited to hold securities for clients, trusts, SIPP's etc. The beneficiary of the SIPP is Peter Anthony Simmonds.

Directors' Interests in share options

Executive Director	Grant date	No. of share options granted	Option price (Pence)	Date first exercisable	Expiry date
P Simmonds	01/04/2008	41,666,667	0.24	01/06/2008	31/12/2012
G Fidura	01/04/2008	4,000,000	1.0	01/07/2010	01/02/2019

Report of the Directors'

The Directors present their report with the financial statements of the Company and the Group for the year ended 30 June 2010.

Principal activity

The principal activity of the Group in the period under review was that of digital marketing.

Business review and future developments

During the year the Group has shown significant growth in customer numbers, sales, and profits. Revenues grew from £4.2m in the 12 months ended June 2009 to £6.0m for the year ended June 2010, an increase of 43%. (See table on page 1).

Post-tax profits grew from £0.77m in 12m to June 2009 to £1.14m for the year ended June 2010, an increase of 48%. (See table on page 1).

Key performance indicators

The operations as a whole and the individual business units are managed and controlled using a variety of key performance indicators appropriate to the goals they have been set. Examples of key performance indicators include:

- New client wins;
- Sales targets by individual and business unit;
- Customer satisfaction;
- Headcount;
- Renewal and retention rates of customers;
- Product features released;
- Control of working capital.

Key risks and uncertainties

(i) Supplier, computer hardware and internet reliability related risks

The Group rents space for its servers located at hosting centres and purchases bandwidth from service providers in the UK to run the software and services it supplies. Although, it spreads the risk of computer hardware failure across multiple servers in multiple hosting centres and to date, there have been no significant failures, there is no assurance of continuity of supply. An event resulting in a hosting centre going off-line for any significant period of time or the termination of provision of services by one of those hosting centres for any reason may result in significant loss of revenues and therefore materially harm the Group's business, operating results and financial condition.

Similarly, events preventing or obstructing the servers from communicating over the internet, such as the future availability of a finite number of IP addresses, may restrict the capacity of the business.

(ii) ISP reputation related risks

A significant proportion of the Group's revenue is currently derived by charging a price per email for sending marketing emails on behalf of commercial marketing departments. The largest volume senders of emails tend to be companies sending to consumers. Consequently some of dotMailer's largest customers send large numbers of emails to consumers.

The EU anti-spam regulations and US CAN_SPAM laws place restrictions on what and when companies are allowed to send marketing emails to consumers. dotMailer rents the use of its software and servers for clients to upload their own email lists and send their email marketing campaigns. dotMailer acts as the data processor in all instances and neither owns lists nor provide third parties with data and is therefore not directly liable for any breaches of the EU or US anti-spam regulations. However, where clients are considered by email recipients to be sending unwanted emails, there is an inherent mechanism within most email clients to make a complaint against the sender. The level or number of complaints is recorded by the larger ISP's (Hotmail, Yahoo, AOL etc) against the IP address of the server sending the email; this complaint rate record establishes the reputation of each IP address. An IP address with a poor reputation may not get a high level of delivery of emails.

dotMailer closely monitors the complaint rates for each of its clients and reacts quickly and accordingly to stop rogue campaigns. However if too many new clients create and send campaigns which attracted high complaint rates, the reputation of dotMailer's sending IP addresses could be diminished. This diminished reputation could affect dotMailer's ability to win or retain new clients and therefore could significantly affect its planned growth in revenues.

‘Post-tax profits grew from £0.77m in 12m to June 2009 to £1.14m for the year ended June 2010, an increase of 48%.’

dotMailer also faces risks from commercial and non-commercial anti spam services. There are a number of organisations who provide a service to individuals and companies to help them reduce spam in their inbox; examples include Spamhaus and Spamcop. These organisations allow individuals to report an email as spam. This reporting can rapidly propagate the blacklisting of an IP address or domain used to send the reported email. This could impact on dotMailer’s ability to deliver emails on behalf of other clients which could in turn impact on revenues.

It is also to be noted that as the ISP communities adopt ever tougher measure to deal with the problem of spam there is a risk that genuine marketing emails could be falsely labelled as spam and do not get delivered to the intended recipients.

(iii) Hacking & information security

Although in the opinion of the Group’s Directors, the technical team at the Group takes sensible precautions against intrusions and loss of data and dotMailer employs a security manager to mitigate this risk, there is a possible risk that a hacking attack could result in a denial of service or loss of data.

(iv) Competitive environment

Although the Group’s revenues have consistently grown year on year, it competes in a competitive sector. Some of its competitors and potential competitors may have advantages over it in terms of financial backing, business size, broader brand recognition and coverage of other geographic markets globally. Their capacity to leverage their marketing expenditures across a broader range of potential customers, form relationships with brand owners or make acquisitions of complimentary products inherently increases the risk to the Group’s business model.

(v) Hire and retain key personnel

The Group depends on the continued contributions of the Group’s senior management and other key personnel. The loss of the services of any of these executive officers or other key employees could harm the Group’s business.

The future success of the Group also depends on its ability to identify, attract and retain highly skilled technical, managerial and sales personnel. The Group faces intense competition for qualified individuals from numerous technology and marketing companies.

(vi) Development of products

The digital marketing industry is fast paced and rapidly adopts developing technologies. In order to stay competitive the Group needs to deploy resources to research and development activity and to constantly innovate.

The Group’s growth will depend upon the development, commercialisation and marketing of new products. If this is not done successfully, then the growth of the Group may be impaired. There is also a risk that this activity may not result in a leading edge or competitive products being brought to market in time to maintain a competitive advantage. The Group may be unsuccessful in its efforts to develop products.

Whilst the Group will continue to strive to ensure it is able to deliver products and services that meet the needs of its target clients, there is a risk that competitors may be first to the market with products that entice clients away from dotMailer.

Future outlook

The Group provides digital marketing services across a range of areas. Each of these areas have shown market growth significantly above that of the general UK economy. The Board believes that our widespread brand recognition and strong product range will continue to present opportunities to expand and diversify profitably in the coming year.

Dividends

It is the Directors strategy to achieve capital growth on the strength of a consistently cash generative trading performance.

During the last financial year cash reserves grew as a result of strong trading performance. However, the acquisition of Netcallidus means that overall cash and cash equivalents at £1.28m are down by approximately £400k compared to June 2009. It is the Board’s intention to utilise this cash to invest in new revenue generating opportunities for the business and to continue to seek further earnings enhancing acquisitions.

Accordingly, the Directors believe that it is inappropriate to propose a dividend based on this strategy to invest in further growth.

Report of the Directors' continued

The Directors during the period under review were:

S Bird	-
D Ivy	Resigned 10.9.09
N Nelson	-
D Pacy	-
P Simmonds	-
I Taylor	-
G Fidura	Appointed 1.7.09

Directors' interests

The Directors who served during the period and their beneficial interests in the shares of the Group as recorded in the register of Directors' interests at 30th June 2010 are as follows:

Directors	30.6.10 Number of shares held	Shareholding %	30.6.09 Number of shares held	Shareholding %
S Bird	264,300,000	20.45	304,300,000	23.36
I Taylor	304,300,000	23.36	304,300,000	23.36
P Simmonds	65,300,000	5.01	65,300,000	5.01
N Nelson	27,625,000	2.12	27,625,000	2.12
D Pacy	37,500,000	2.88	37,500,000	2.88
D Ivy (resigned 10/9/09)	152,300,000	11.8	304,300,000	23.36
G Fidura	-	-	-	-

Peter Simmonds is beneficially entitled to 65,300,000 Ordinary Shares which are owned by Alliance Trust Pensions Limited.

The Directors who served during the period and their beneficial interests in share options in the Group, as recorded in the register of Directors' interests as at 30 June 2010 are as follows:

Executive Directors	30.6.10 Number of options held	Shareholding %	30.6.09 Number of shares held	Shareholding %
P Simmonds	41,666,667	3.10*	41,666,667	3.10
G Fidura	4,000,000	0.30	-	-

* Percentage shareholding represents the percentage of the shares issued and should no more than the existing shares and those exercisable at the reporting period.

Substantial interests

On 30 October 2010, the following parties had notified the Group of a beneficial interest that represents 5% or more of the Company's issued share capital at that date:

Shareholders	30.6.10 Number of shares held	Shareholding %	30.6.09 Number of shares held	Shareholding %
S Bird	264,300,000	20.45	304,300,000	23.54
P Simmonds	65,300,000	5.05	65,300,000	5.05
D Ivy	152,300,000	11.82	304,000,000	23.54
Pershing Nominees Limited	69,769,429	5.40	64,769,429	5.00
I Taylor	304,300,000	23.54	304,300,000	23.54
Newedge Group SA	192,000,000	14.85	-	-

Report of the Directors' continued

Frank Nominees Limited act as nominee for Alliance Trust Pensions Limited which is the trust of a SIPP established by Peter Anthony Simmonds. Frank Nominees is a vehicle used by Kleinwort Benson Limited to hold securities for clients, trusts, SIPP's etc. The beneficiary of the SIPP is Peter Anthony Simmonds.

Newedge Group are holding the shares on behalf of the Helium Special Situations Fund, a single manager hedge fund focussing on UK long-bias small and micro caps.

Group's Policy on payment of creditors

The Group does not have a formal code that it follows with regard to payments to suppliers. It agrees payment terms with its suppliers at the time it enters into binding purchasing contracts for the supply of goods and services. The Company seeks to abide by these payment terms whenever it is satisfied that the supplier has provided the goods or services in accordance with agreed terms and conditions. The average credit days for the year is 34 (2009: 25 days).

Publication of accounts on company website

Financial statements are published on the Company's website. The maintenance in and integrity of the website is the responsibility of the Directors. The Directors responsibility also extends to the financial statements contained therein.

Indemnity of officers

The Group purchases insurance to cover its Directors and Officers against their costs in defending themselves in legal proceedings taken against them in that capacity, and in respect of damages resulting from the unsuccessful defence of any proceedings.

Financial Instrument

Details of the Group's risk management objectives and policies together with its exposure to financial risk are set out in note 22 to the financial statements.

The purpose of the policies is to ensure that adequate cost-effective funding is available to the Group and exposure to financial risk, interest rate, liquidity and credit risk, is minimised.

Research and development

In the markets in which the Group operates, effective research and development is vital to maintaining competitive advantage and securing future income streams.

Going concern

After making appropriate enquiries, the Directors consider that the Company and the Group has adequate resources to continue in operational existence for the foreseeable future. For this reason they continue to adopt a going concern basis in the preparation of financial statements.

Auditors

The auditors, Jeffreys Henry LLP, will be proposed for reappointment at the forthcoming annual general meeting.

Statement of Director's responsibilities

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

Company law requires the Directors to prepare financial statements for each financial year. Under that law, the Directors have elected to prepare the Group and parent Company financial statements in accordance with International Financial Reporting Standards as adopted for use in the European Union. Under company law, the Directors must not approve the financial statements unless they are satisfied that they 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 these financial statements, the Directors are required to:

- Select suitable accounting policies and then apply them consistently;
- Make judgments and accounting estimates that are reasonable and prudent;
- Prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Group and Parent Company will continue in business;
- State whether the Group and parent Company Financial statements have been prepared in accordance with IFRSs as adopted by the European Union subject to any material departures disclosed and explained in the financial statements.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's and the Group's transactions and disclose with reasonable accuracy at any time the financial position of the Company and the Group and enable them to ensure that the financial statements comply with the Companies

Act 2006. They are also responsible for safeguarding the assets of the Company and the Group and hence, for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Statement as to disclosure of information to auditors

So far as the Directors are aware, there is no relevant audit information (as defined by Section 418 of the Companies Act 2006) of which the Group's Auditors are unaware, and each Director has taken all the steps that he ought to have taken as a Director in order to make himself aware of any relevant audit information and to establish that the Group's Auditors are aware of that information.

Events after the reporting period

On 17 May 2010 the Company acquired Netcallidus Limited and as part of the purchase agreement an initial cash payment of £1,000,000 and a share issue valuing £152,660 (see note 14). £1,000,000 was transferred into an escrow account to be transferred to the previous owner on the completion of three individual transfer stages.

As at 31 August 2010 two of the three stages had been fulfilled by the previous owners with only the completion of the statutory financial statements remaining £763,000 from the funds in escrow was transferred to the previous owners with the balance of £234,000 remaining in escrow. The final of the three stages was completed after the reporting date and the balance remaining in escrow has been settled.

Given the nature of the transaction and the level of control the Group were involved in the final stage, the Directors have elected to report the entire £1,000,000 investment in goodwill in the report (see note 14). The value of the shares to be issued have been classified as unpaid share capital in the statements of financial position with the shares to be issued mid November 2010.

On behalf of the Board:

Peter Simmonds
Director
11 November 2010

Independent Auditors' report

We have audited the Group and Company financial statements of dotDigital Group Plc for the year ended 30 June 2010 which comprise of the consolidated income statement, consolidated statement of comprehensive income, consolidated statement of financial position, consolidated statement of changes in equity, consolidated statement of cash flows, company statement of financial position, company statement of changes in equity, company statement of cash flows and related notes on pages 36 to inside back cover. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted for use in the European Union, and as regards the parent company financial statements, as applied in accordance with the provisions of the Companies Act 2006.

This report is made solely to the Company's members, as a body, in accordance with chapter 3 of part 16 of the Companies Act 2006. 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 a Report of the auditors 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

As explained more fully in the Statement of Directors' responsibilities set out on page 26, the Directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Group's and the parent Company's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Directors; and the overall presentation of the financial statements.

Opinion on financial statements

In our opinion:

- The financial statements give a true and fair view of the state of the Group's and the parent Company's affairs as at 30 June 2010 and of the Group's profit for the year then ended;
- The Group financial statements have been properly prepared in accordance with IFRSs as adopted for use in the European Union;
- The parent Company financial statements have been properly prepared in accordance with IFRSs as adopted for use in the European Union and as applied in accordance with the provisions of the Companies Act 2006; and
- The financial statements have been prepared in accordance with the requirements of the Companies Act 2006 and as regards the Group financial statement, Article 4 of the IAS regulation.

Opinion on other matter prescribed by the Companies Act 2006

In our opinion the information given in the Report of the Directors for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion:

- Adequate accounting records have not been kept by the parent company, or returns adequate for our audit have not been received from branches not visited by us; or
- The parent Company financial statements are not in agreement with the accounting records and returns; or
- Certain disclosures of Directors' remuneration specified by law are not made; or
- We have not received all the information and explanations we require for our audit.

Sanjay Parmar (Senior Statutory Auditor)
for and on behalf of Jeffreys Henry LLP
Chartered Accountants and Registered Auditors
Finsgate 5-7 Cranwood Street, London, EC1V 9EE

11 November 2010

Consolidated income statement
for the year ended 30 June 2010

	Notes	Year ended 30.6.10 £	Period 1.5.08 to 30.6.09 £
Continuing operations			
Revenue	3	6,014,101	4,718,290
Administrative expenses	6	(4,638,328)	(3,652,199)
Operating profit		**1,375,773**	**1,066,091**
Finance costs	5	(1,607)	(864)
Finance income	5	3,088	15,088
Profit before income tax	6	**1,377,254**	**1,080,315**
Income tax expense	7	(233,104)	(184,808)
Profit for the period		**1,144,150**	**895,507**
Profit attributable to:			
Owners of the parent		**1,144,150**	**895,507**
Earnings per share expressed in pence per share:	10		
Basic		0.09	0.14
Diluted		0.08	0.13

Consolidated statement of comprehensive income
for the year ended 30 june 2010

	Year ended 30.6.10 £	Period 1.5.08 to 30.6.09 £
Profit for the period	**1,144,150**	**895,507**
Other comprehensive income	-	-
Total comprehensive income for the period	**1,144,150**	**895,507**
Total comprehensive income attributable to:		
Owners of the parent	1,144,150	895,507

Consolidated statement of financial position
for the year ended 30 June 2010

	Notes	30.6.10 £	30.6.09 £
Assets			
Non-current assets			
Goodwill	11	4,120,561	608,503
Intangible assets	12	559,082	259,675
Property, plant and equipment	13	173,120	119,052
		4,852,763	987,230
Current assets			
Trade and other receivables	15	1,234,645	655,304
Cash and cash equivalents	16	1,277,617	1,677,902
		2,512,262	2,333,206
Total assets		**7,365,025**	**3,320,436**
Equity attributable to the owners of the parent			
Called up share capital	17	1,292,500	1,292,500
Share premium	18	4,533,754	4,533,754
Reverse acquisition reserve	18	(4,695,465)	(4,695,465`)
Other reserves	18	29,493	5,302
Unissued share capital	18	152,660	-
Retained earnings	18	2,696,522	1,552,372
Total equity		**4,009,464**	**2,688,463**
Liabilities			
Non-current liabilities			
Trade and other payables			
Financial instruments	22	2,366,320	-
Financial liabilities – borrowings			
Interest bearing loands and borrowings	20	6,319	18,228
Current liabilities			
Trade and other payables	19	668,763	416,811
Financial liabilities – borrowings			
Interest bearing loans and borrowings	20	12,152	12,152
Tax payable		302,007	184,782
		982,922	613,745
Total liabilities		**3,355,561**	**631,973**
Total equity and liabilities		**7,365,025**	**3,320,436**

The financial statements were approved and authorised for issue by the Board of Directors on 11 November 2010 and were signed on its behalf by:

Peter Simmonds
Director

Company registration number: 06289659 (England &Wales)

Company statement of financial position
for the year ended 30 June 2010

	Notes	30.6.10 £	30.6.09 £
Assets			
Non-current assets			
Investments	14	8,704,468	5,183,488
		8,704,468	5,183,488
Current assets			
Trade and other receivables	15	4,826	2,712
Cash and cash equivalents	16	385,332	564,531
		390,158	567,243
Total assets		**9,094,626**	**5,750,731**
Equity attributable to the owners of the parent			
Called up share capital	17	1,292,500	1,292,500
Share premium	18	4,533,754	4,533,754
Other reserves	18	29,493	5,302
Unissued share capital	18	152,660	-
Retained losses	18	(329,205)	(148,728)
Total equity		**5,679,202**	**5,682,828**
Liabilities			
Non-current liabilities			
Trade and other payables			
Financial instruments	22	2,366,320	-
Current liabilities			
Trade and other payables	19	1,049,104	67,903
Total liabilities		**3,415,424**	**67,903**
Total equity and liabilities		**9,094,626**	**5,750,731**

The financial statements were approved and authorised for issue by the Board of Directors on 11 November 2010 and were signed on its behalf by:

Peter Simmonds
Director

Company registration number: 06289659 (England &Wales)

Consolidated statement of changes in equity
for the year ended 30 June 2010

	Called up share capital £	Retained earnings £	Share premium £
Balance at 1 May 2008	292,500	775,665	533,754
Changes in equity			
Issue of share capital	1,000,000	-	4,000,000
Dividends	-	(118,800)	-
Total comprehensive income	-	895,507	-
Balance at 30 June 2009	**1,292,500**	**1,552,372**	**4,533,754**
Changes in equity			
Total comprehensive income	-	1,144,150	-
Balance at 30 June 2010	**1,292,500**	**2,696,522**	**4,533,754**

	Unissued share capital £	Reverse acquisition reserve £	Other reserves £	Totals equity £
Balance at 1 May 2008	-	(826,162)	-	775,757
Changes in equity				
Issue of share capital	-	-	-	-
Dividends	-	-	-	(118,800)
Total comprehensive income	-	-	-	895,507
Reverse acquisition	-	(3,896,303)	-	(3,869,303)
Share option charge	-	-	5,302	5,302
Balance at 30 June 2009	**-**	**(4,695,495)**	**5,302**	**2,688,463**
Changes in equity				
Total comprehensive income	-	-	-	1,144,150
Share option charge	-	-	24,191	24,191
Equity on acquisition (see note 14)	152,660	-	-	152,660
Balance at 30 June 2010	**152,660**	**(4,695,495)**	**29,493**	**4,009,464**

- Share capital is the amount subscribed for shares at nominal value.
- Share premium represents the excess of the amount subscribed for share capital over the nominal value of the net of share issue expenses.
- Retained earnings represents the cumulative earnings of the Group attributable to equity shareholders.
- Unissued share capital relate to the shares due to be issued in relation to the acquisition of Netcallidus (see note 14).
- The reverse acquisition reserve relates to the adjustment required to account the reverse acquisition in accordance with International Financial Reporting Standard.
- Other reserves relate to the charge for share based payment in accordance with International Financial Reporting Standard 2.

Company statement of changes in equity
for the year ended 30 June 2010

	Called up share capital £	Retained earnings £	Share premium £
Balance at 1 May 2008	292,500	(85,372)	533,754
Changes in equity			
Issue of share capital	1,000,000	-	4,000,000
Total comprehensive income	-	(63,356)	-
Balance at 30 June 2009	**1,292,500**	**(148,728)**	**4,533,754**
Changes in equity			
Total comprehensive income	-	(180,477)	-
Balance at 30 June 2010	**1,292,500**	**(329,205)**	**4,533,754**

	Unissued share capital £	Other reserves £	Totals equity £
Balance at 1 May 2008	-	-	740,882
Changes in equity			
Issue of share capital	-	-	5,000,000
Total comprehensive income	-	-	(63,356)
Share option charge	-	5,302	5,302
Balance at 30 June 2009	**-**	**5,302**	**5,682,828**
Changes in equity			
Total comprehensive income	-	-	(180,477)
Share option charge	-	24,191	24,191
Equity on acquisition (see note 14)	152,660	-	152,660
Balance at 30 June 2010	**152,660**	**29,493**	**5,679,202**

- Share capital is the amount subscribed for shares at nominal value.
- Share premium represents the excess of the amount subscribed for share capital over the nominal value of the net of share issue expenses.
- Retained earnings represents the cumulative earnings of the Group attributable to equity shareholders.
- Unissued share capital relate to the shares due to be issued in relation to the acquisition of Netcallidus (see note 14).
- Other reserves relate to the charge for share based payment in accordance with International Financial Reporting Standard 2.

The notes form part of the financial statements.

Consolidated statement of cash flows
for the year ended 30 June 2010

	Notes	Year ended 30.6.10 £	Period 1.5.08 to 30.6.09 £
Cash flows from operating activities			
Cash generated from operations	28	1,275,938	948,297
Interest paid		(1,607)	(864)
Tax paid		(182,614)	(180,435)
Net cash generated from operating activities		1,091,717	766,998
Cash flows from investing activities			
Purchase of goodwill		(1,000,000)	(39,183)
Purchase of intangible fixed assets		(405,725)	(295,670)
Purchase of tangible fixed assets		(115,556)	(62,371)
Interest received		3,088	15,088
Funds acquired from acquisition		41,407	765,105
Net cash (used)/generated from investing activities		**(1,476,786)**	**382,969**
Cash flows from financing activities			
New loans in year		-	23,441
Loan repayments in period		(11,912)	-
Amount repaid to Directors		(3,304)	(61,199)
Equity dividends paid		-	(118,800)
Net cash used from financing activities		**(15,216)**	**(156,558)**
(Decrease)/Increase in cash and cash equivalents		**(400,285)**	**993,409**
Cash and cash equivalents at beginning of period	29	1,677,902	684,493
Cash and cash equivalents at end of period	29	**1,277,617**	**1,677,902**

Company statement of cash flows
for the year ended 30 June 2010

	Notes	30.6.10 £	30.6.09 £
Cash flows from operating activities			
Cash generated from operations	28	(139,637)	(112,523)
Net cash used from operating activities		**(139,637)**	**(112,523)**
Cash flows from investing activities			
Purchase of fixed asset investments		(1,000,000)	(183,488)
Interest received		-	15,347
Net cash used from investing activities		**(1,000,000)**	**(168,141)**
Cash flows from financing activities			
Loan from Group		960,438	23,638
Net cash generated from financing activities		**960,438**	**23,638**
Decrease in cash and cash equivalents		**(179,199)**	**(257,026)**
Cash and cash equivalents at beginning of year	29	564,531	821,557
Cash and cash equivalents at end of year	29	**385,332**	**564,531**

The notes form part of the financial statements.

Notes to the consolidated financial statements
for the year ended 30 June 2010

1. General information

dotDigital Group Plc ("dotDigital") is a company incorporated England and Wales and quoted on the PLUS Markets. The address of the registered office is disclosed on inside back cover of the financial statements. The principal of activity of the Group is described on page 22.

2. Accounting policies

Basis of preparation

These financial statements have been prepared in accordance with International Financial Reporting Standards and IFRIC interpretations and with those parts of the Companies Act 2006 applicable to companies reporting under IFRS. The financial statements have been prepared under the historical cost convention.

The Group has applied all accounting standards and interpretations issued by the International Accountancy Standards Board and International Accounting Interpretations Committee effective at the time of preparing the financial statements.

The financial statements are presented in sterling (£), rounded to the nearest pound.

Issued International Financial Reporting Standards (IFRS's) and interpretations (IFRICS) relevant to the Group's operations.

The following interpretations to published standards is mandatory for accounting periods beginning on or after 1 July 2009.

- **IAS 1 (Revised) 'Presentation of financial statements' (effective from 1 January 2010).** Key changes include, the requirement to aggregate information in the financial statements on the basis of shared characteristics, the introduction of a statement of comprehensive income and changes in titles of some of the financial statements.
  a) Preparers of financial statements will have the option of presenting income and expense and components of other comprehensive income either in a single statement or in two separate statements (a separate income statement followed by a statement of comprehensive income).
  b) The new titles for the financial statements (for example 'statement of financial position' instead of balance sheet) will be used in the accounting standards but are not mandatory for use in financial statements.
  c) The expected impact is still being assessed in detail by management as the IASB is involved in discussions to examine more fundamental questions about the presentation of information in financial statements.
- **IFRS 3 (Revised), 'Business combinations' (effective from 1 July 2009).** The revised standard continues to apply the acquisition method to business combinations, with some significant changes. For example, all payments to purchase a business are to be recorded at fair value at the acquisition date, with contingent payments classified as debt subsequently re-measured through the income statement. There is a choice on an acquisition-by-acquisition basis to measure the non-controlling interest in the acquiree either at fair value or at the non-controlling interest's proportionate share of the acquiree's net assets. All acquisition-related costs should be expensed. The Group will apply IFRS 3 (Revised) prospectively to all business combinations from 1 January 2010.

  The revised standard was applied to the acquisition of the entire interest in Netcallidus Limited on 17 May 2010. This acquisition will occur in stages. The revised standard requires goodwill to be determined only at the acquisition date rather then at the relevant stages consideration is calculated with any gain or loss recorded in the income statement. Contingent consideration of £3,518,980 has been recognised at fair value on 17 May 2010 and acquisition related costs of £66,163 have been recognised in the consolidated income statement.
- **IFRS7 'Financial instruments: Disclosures' and the complementary amendment to IAS1 'Presentation of financial statements - Capital disclosures' (effective 1 January 2010).** IFRS 7 introduces new disclosure relating to financial instruments. The standard does not have any impact on the classification and valuation of the Company's financial instruments (see note 22).
- **IFRS 8 (Revised) 'Operating segments' (effective from 1 January 2009).** IFRS 8 replaces IAS 14 and aligns segment reporting with the requirements of the US standard SFAS 131, "Disclosures about segments of an enterprise and related information". The new standard requires a "management approach", under which segment information is presented on the same basis as that used for internal reporting purposes. The expected impact is still being assessed in detail by management, but it appears likely that the number of reportable segments, as well as the manner in which segments are reported, will change in a manner that is consistent with the internal reporting provided to the chief operating decision-maker.

Issued International Financial Reporting Standards (IFRS's) and interpretations (IFRICS) not relevant to Group operations.

The following interpretations to published standards is mandatory for accounting periods beginning on or after 1 July 2009 but are not relevant to the Group's operations:

- **IFRS 2 (Amendment) 'Share based payments' (effective from 1 May 2009).** The amendment considers vesting conditions and cancellations. It clarifies that vesting conditions are service conditions and performance conditions only. Other features of a share based payment are not vesting conditions. As such these features would need to be included in the grant date fair value for transactions with employees and others providing similar services, that is, these features would not impact the number of awards expected to vest or valuation thereof subsequent to grant date. It also specifies that all cancellations, whether by the entity or by other parties, should receive the same accounting treatment.
- **IFRS 5 (Amendment), 'Non-current assets held-for-sale and discontinued operations' (and consequential amendment to IFRS 1, 'First-time adoption') (effective from 1 July 2009).** The amendment is part of the IASB's annual improvements project published in May 2008. The amendment clarifies that all of a subsidiary's assets and liabilities are classified as held for sale if a partial disposal sale plan results in loss of control. Relevant disclosure should be made for this subsidiary if the definition of a discontinued operation is met. A consequential amendment to IFRS 1 states that these amendments are applied prospectively from the date of transition to IFRSs. The Group will apply the IFRS 5 (Amendment) prospectively to all partial disposals of subsidiaries from 1 January 2010.

- **IAS 23 (Revised) 'Borrowing costs' (effective 1 May 2009).** The main change from the version previous the removal of the option of immediately recognising as an expense borrowing costs that relate to assets that take a substantial period of time to get ready for use or sale.
- **IAS 27 Consolidated and separate financial statements (Amendment) (effective 1 July 2009).** Amendment to the valuations of the cost of investment in a subsidiary, joint venture or associate.
- **IAS 32 'Financial instruments: Presentation' and IAS 1 'Presentation of financial statements - Puttable financial instruments and obligations arising on liquidation'.** Amendments to the standards improve the accounting for particular types of financial instruments that have characteristics similar to ordinary shares but are at present classified as financial liabilities for accounting periods on or after 1 January 2009.
- **IAS 39 'Financial instrument: Recognition and measurement' and IAS 7 'Financial Instruments' - Disclosures regarding reclassifications of financial instruments** - These permit an entity to reclassify non-derivative financial assets and assets available for sale under limited circumstances.
- **IFRIC 13 'Customer loyalty programmes'** This clarify that where goods are sold together with a customer loyalty incentive the arrangement is a multiple element arrangement and the consideration receivable from the customer should be allocated between the components of the arrangement in proportion to their fair values.
- **IFRIC 15 'Agreements for the construction of real estates'** The interpretation clarifies which standard should be applied to particular transactions pertaining to construction of real estates.
- **IFRIC 16 'Hedges of a net investment in a foreign operation'.** This clarifies the following:
  a) Whether risk arises from foreign currency exposure to the functional currencies of a foreign operation, or from foreign currency exposure to functional currency of a foreign operation.
  b) How an entity should determine the amounts to be reclassified from equity to profit and loss for both the hedging instrument and the hedged item when an entity disposes the investment.
- **IFRIC 17 'Distributions of non cash assets to owners'.** Standardises practice in the measurement of distributions of non cash assets to owners for accounting periods beginning on or after 1 July 2009.
- **IFRIC 18 'Transfers of assets from customers'.** This clarifies the requirements of IFRS's for the agreements in which an entity receives from a customer an item of property, plant and equipment that the entity must then use either to connect the customer to network or to provide the customer with on going access to a supply of goods or services. This applies to transfers of assets from customers received on or after 1 July 2009.

Issued International Financial Reporting Standards (IFRS's) and interpretations (IFRICS) that are not yet effective.
At the date of authorisation of these financial statements, the following Standards and Interpretations were in issue, mandatory for the Group's accounting periods beginning on or after 1 July 2009 but not early adopted:

- **IFRS9 'Financial instruments' (effective from 1 January 2013 with early adoption from 2009)** - Introduced to replace IAS 39 'Financial Instrument' Recognition and Measurement. IFRS 9 introduces new requirements for classifying and measuring financial assets. Under the new standard only two possible classifications arise, rather then the four existing classifications currently available under IAS39 and will result in all financial assets being valued at amortised cost or fair value through the income statement. Financial liabilities are excluded from the scope of the standard.
- **IFRIC 19 'Extinguishing financial liabilities' (effective from 1 July 2010)** addresses the accounting by an entity that issues equity instruments in order to settle, in full or part a financial liability.
- **IASB's 2009 annual improvement project.** Each year the Board considers minor amendments to IFRSs in an annual improvements project. The amendments are proposed in an omnibus Exposure Draft.

Basis of consolidation & comparatives
In the prior period the Company acquired via a share for share exchange the entire issued share capital of dotMailer Limited, whose principal activity is that of web and email based marketing.

Under IFRS 3 'Business combinations' the dotMailer Limited share exchange has been accounted for as a reverse acquisition. Although these consolidated financial statements have been issued in the name of the legal parent, the Company it represents in substance is a continuation of the financial information of the legal subsidiary, dotMailer Limited. The following accounting treatment has been applied in respect of the reverse acquisition:

- The assets and liabilities of the legal subsidiary, dotMailer Limited are recognised and measured in the consolidated financial statements at their pre combination carrying amounts, without restatement to their fair value;
- The retained reserves recognised in the consolidated financial statements for the beginning of the prior period reflect the retained reserves of dotMailer Limited to 30 April 2008. However, in accordance with IFRS3 'Business combinations' the equity structure appearing in the consolidated financial statements reflects the equity structure of the legal parent dotDigital Plc, including the equity instruments issued under the share exchange to effect the business combination;
- A reverse acquisition reserve has been created to enable the presentation of a consolidated balance sheet which combines the equity structure of the legal parent with the non statutory reserves of the legal subsidiary;
- Comparative numbers are based upon the consolidated financial statements of the legal subsidiary, dotMailer Limited for the period ended 30 June 2009 apart from the equity structure which reflects that of the parent.
- The following accounting treatment has been applied in respect of the acquisition of dotDigital Group Plc:
- The assets and liabilities of dotDigital Group Plc are recognised and measured in the consolidated financial statements at their fair value at the date of acquisition.

Notes to the consolidated financial statements continued
for the year ended 30 June 2010

2. Accounting policies *continued*

- The cost of an acquisition is measured as the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the acquisition. Identifiable assets acquired and liabilities assumed in a business combination are measured initially at their fair values at the date of acquisition, irrespective of the extent of any minority interest. The excess of the cost of acquisition over the fair value of the Group's share of the identifiable net assets acquired is recorded as goodwill. If the cost of acquisition is less then the fair value of the net assets of the subsidiary acquired, the difference is recognised directly in the income statement.

Subsidiaries
A subsidiary is an entity whose operating and financing policies are controlled by the Group. Subsidiaries are consolidated from the date on which control was transferred to the Group. Subsidiaries cease to be consolidated from the date the Group no longer has control. Intercompany transactions, balances and unrealised gains on transactions between Group companies have been eliminated on consolidation.

As a result of applying reverse acquisition accounting in the prior period, the consolidated IFRS financial information of dotDigital Group Plc is a continuation of the financial information of dotMailer Limited.

Revenue recognition
Revenue comprises the fair value of the consideration received or receivable for the sale of goods and services in the ordinary course of the Group's activities. Revenue is shown net of value added tax, returns, rebates and discounts after eliminating sales within the Group.

The Group recognises revenue when the amount of revenue can reliably measured, it is probable that the future economic benefits will flow to the entity. The Group bases it's estimates on historical results, taking into consideration the type of customer, the type of transaction and the specifics of each arrangement.

The Group sells web based marketing services to other businesses and services are either provided on a usage basis or fixed price bespoke contract. Revenue from contracts are recognised under the percentage of completion method based on the percentage of services performed to date as a percentage of the total services to be performed.

Goodwill
Goodwill represents the excess of the fair value of the consideration over the fair values of the identifiable net tangible and intangible assets acquired.

Under IFRS 3 "Business Combinations" goodwill arising on acquisitions is not subject to amortisation but is subject to annual impairment testing. Any impairment is recognised immediately in the income statement and not subsequently reversed.

Intangible assets (other then goodwill)
Intangible assets are recorded as separately identifiable assets and recognised at historical cost less any accumulated amortisation. These assets are amortised over their useful economic lives (4-5 years), with the charge included in administrative expenses in the income statement.

Intangible assets are reviewed for impairment annually. Impairment is measured by determining the recoverable amount of an asset or cash generating unit (CGU) which is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset or CGU. For the purpose of impairment testing, assets that cannot be tested individually are Grouped together into the smallest Group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or CGU.

- **Domain names**
  Acquired domain names are shown at historical cost. Domain names have a finite life and are carried at cost less accumulated amortisation. Amortisation is calculated using straight line method to allocate the cost of domain names over their useful lives of four years.
- **Software**
  Acquired software and websites are shown at historical cost. They have a finite life and are carried at cost less accumulated amortisation. Amortisation is calculated using straight line method to allocate the cost of software and websites over their useful lives of four years.
- **Product development**
  Product development expenditure is capitalised when it is considered that there is a commercially and viable technically product, the related expenditure is separably identifiable and there is a reasonable expectation that the related expenditure will be exceeded by future revenues. Following initial recognition, product developments are carried at cost less any accumulated amortisation and any accumulated impairment losses. The useful lives of these intangible assets are assessed to have a finite life of five years. Amortisation is charged on assets with finite lives, this expense is taken to the income statement and useful lives are reviewed on an annual basis. Amortisation is provided commencing from the date the asset is developed to a stage at which the Company can receive economic benefits from the asset

Property, plant and equipment
Tangible non current assets are stated at historical cost less depreciation. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

Subsequent costs are included in the assets carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits are associated with the item will flow to the Company and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognised. All other repairs and maintenance are charged to the income statement during the financial period in which they are incurred. Depreciation is provided at the following rates in order to write off each asset over its estimated useful life and are based on the cost of assets less residual value. Significant of components individual assets are assessed and if a component has a useful life that is different from the remainder of that asset, that component is depreciated separately.

Short leasehold	25% on cost
Fixtures and fittings	25% on cost
Computer equipment	25% on cost

The asset's residual values and useful economic lives are reviewed and adjusted, if appropriate, at each balance sheet date. An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater then its estimated recoverable value.

Gains and losses on disposals are determined by comparing the proceeds with the carrying amount and are recognised within other (losses) or gains in the income statement. When revalued assets are sold, the amounts included in other reserves are transferred to retained earnings.

Borrowings

Borrowings are recognised at their fair value net of transaction costs incurred. They are classified as current liabilities unless the Group has an unconditional right to defer the settlement of the liability of at least 12 months after the balance sheet date.

Borrowing costs are recognised in the income statement in the period in which they are incurred.

Taxation

Current taxes are based on the results shown in the financial statements and are calculated according to local tax rules, using tax rates enacted or substantially enacted by the balance sheet date.

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements.

Deferred income tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary difference will be utilised.

Deferred income tax is determined using tax rates that have been enacted or substantially enacted by the balance sheet date and are expected to apply when they related deferred income asset is realised or deferred income tax liability is settled.

Research and development

Research expenditure is recognised as an expense when incurred. Costs incurred on development projects (relating to the design and testing of new or improved products) are recognised as intangible assets when the following criteria are fulfilled:

- It is technically feasible to complete the intangible asset so that it will be available of use or resale;
- Management intends to complete the intangible asset and use or sell it;
- There is an ability to use or sell the intangible;
- It can be demonstrated how the intangible asset will generate possible future economic benefits;
- Adequate technical, financial and other resource to complete the development and to use or sell the intangible asset are available and;
- The expenditure attributable to the intangible asset during its development can be reliably measured.

Other development expenditures that do not meet these criteria are recognised as an expense as incurred. Development costs previously recognised as an expense are not recognised as an asset in a subsequent period. Capitalised development costs are recorded as intangible assets and amortised from the point at which they are ready for use on a straight line basis over its useful life.

Operating leases

Leases in terms of which the Company assumes substantially all the risks and rewards of ownership are classified as finance leases. Upon initial recognition the leased asset is measured at an amount equal to the lower of its fair value and present value of the minimum lease payments. Subsequent to initial recognition, the asset is accounted for in accordance the accounting policy applicable to that asset.

Other leases are operating leases and are not recognised in the Company's statement of financial position on a straight line basis over the term of the lease. Lease incentives received are recognised as an integral part of the total expense, over the term of the lease.

Use of estimates and judgments

The Group makes judgments, estimates and assumptions that effect the application of policies and reported amounts of assets and liabilities, income and expenses. The resulting accounting estimates calculated using these judgments and assumptions will, by definition, seldom equal the related actual results but are based on historical experience and expectations of future events. The estimates and underlying assumptions are reviewed on a ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision effects only that period, or in the period of revision and future periods if the revision affects both current and future periods.

The estimates and assumptions which have a significant risk of causing a material adjustment to the carrying amount of assets and liabilities are discussed below:

(a) Impairment of goodwill

The Group is required to test, at least annually, whether goodwill has suffered any impairment. The recoverable amount is determined based on value in use calculations. The use of this method requires the estimation of future cash flows and the choice of a suitable discount rate in order to calculate the present value of these cash flows. Actual outcomes could vary.

(b) Impairment of intangibles (other than goodwill)

Intangible assets are reviewed for impairment if events or changes in circumstances indicate that the carrying amount may not be recoverable. When a review for impairment is conducted, the recoverable amount is determined based on value in use calculations prepared on the basis of management's assumptions and estimates.

(c) Impairment of property, plant and equipment

Property, plant and equipment are reviewed for impairment if events or changes in circumstances indicate that the carrying amount may not be recoverable. When a review for impairment is conducted, the recoverable amount is determined based on value in use calculations prepared on the basis of management's assumptions and estimates.

(d) Amortisation of intangibles

Amortisation is provided so as to write down the assets to their residual values over their estimated useful lives as set out above. The selection of these residual values and estimated lives requires the exercise of management judgment.

(e) Depreciation of property, plant and equipment

Depreciation is provided so as to write down the assets to their residual values over their estimated useful lives as set out above. The selection of these residual values and estimated lives requires the exercise of management judgment.

Notes to the consolidated financial statements continued
for the year ended 30 June 2010

2. Accounting policies *continued*

(f) Share-based compensation
The fair value of options and warrants are determined by reference to the fair value of the options granted, excluding the impact of any non-market vesting conditions (for example, profitability and sales growth targets). Non-market vesting conditions are included in assumptions about the number of options that are expected to vest. At each balance sheet date, the entity revises its estimates of the number of options that are expected to vest. It recognises the impact of the revision to original estimates, if any, in the income statement, with a corresponding adjustment to equity.

(g) Contingent Considerations
The future consideration payable to the vendors of Netcallidus in respect to contingent consideration (earnouts) is based on the Directors' best estimates of future obligations which are dependent on the future anticipated profits after tax. It is assumed that the operating company improves profits in line with Directors' estimates. When earnouts are to be settled by both cash and equity consideration, the fair value of the consideration is obtained by discounting the amounts expected to be payable in the future to their present value. The Directors' best estimate the future mid-market price of the share to be issued in Ordinary Shares. Reviews of the fair values are undertaken at each period end with any resulting adjustments being made through the Group's Income Statement.

Contingent consideration
Contingent consideration is measured at fair value at the time of the acquisition. If the amount of the contingent consideration changes as a result of a post acquisition event (such as meeting profits target) the accounting for the change in consideration depends on whether the additional consideration is in cash or equity. If it is in equity the original amount is not recalculated but if the change is in cash or other assets the change is recorded in the income statement.

Trade receivables
Trade receivables are recognised initially at the lower of their original invoiced value and recoverable amount. A provision is made when it is likely that the balance will not be recovered in full. Terms on receivables range from 30 to 90 days.

Equity
Share capital is the amount subscribed for shares at their nominal value.

Share premium represents the excess of the amount subscribed for the share capital over the nominal value of the respective shares net of share issue expenses.

Retained earnings represent the cumulative earnings of the Group attributable to equity shareholders.

The reverse acquisition reserve relates to the adjustment required by accounting for the reverse acquisition in accordance with IFRS3 'Business combinations'.

Other reserves relate to the charge for share based payments in accordance with IFRS2 'Share based payments'.

Share based payments
For equity settled share based payment transactions the Group, in accordance with IFRS 2 "Share Based Payments" measuring their value, and the corresponding increase in equity, indirectly, by reference to the fair value of the equity instruments granted. The fair value of those equity instruments is measured at the grant date using the trinomial method. The expense is apportioned over the vesting period of the financial instrument and is based on the number which are expected to vest and the fair value of those financial instruments at the date of grant. If the equity instruments granted vested immediately, the expense is recognised in full.

The assumptions on the expected life of share options, volatility of shares and risk free yield to maturity and expected dividend yield on shares are used in the fair value calculation of the share options outstanding at the year end (see note 28).

Trade payables
Trade payables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method. Terms on accounts payables range from 10 to 90 days.

Functional currency translation

- **Functional and presentation currency**
  Items included in the financial statements if the Company are measured using the currency of the primary economic environment in which the entity operates (functional currency), which is mainly pounds sterling (£) and it is this currency the financial statements are presented in.

- **Transaction and balances**
  Foreign currency transactions are translated in to the presentation currency using exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at the year end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement.

Employee benefit costs
The Company operates a defined contribution pension scheme. Contributions payable by the Company's pension scheme are charged to the income statement in the period in which they relate.

Segment reporting
A business segment is a Group of assets and operations engaged in providing products or services that are subject to risks and returns that are different from those of other business segments. A geographical segment is engaged in providing products or services within a particular economic environment that are subject to risks and returns that are different from those of segments operating in other economic environment.

Pension contributions
The Group operates a defined contribution pension scheme. Contributions payable by the Group's pension scheme are charged to the income statement in the period in which they relate.

3. Segmental reporting

The Group's primary reporting format is business segments and it's secondary format is geographical segments. The Group only operates in a single business and geographical segment. The Group's single line of business is the provision of web based marketing services, whilst the geographical segment in which it operates is currently restricted to the UK. Accordingly no segmental information for business segment or geographical segment is required.

4. Employees and Directors

	Year ended 30.6.10 £	Period 1.5.08 to 30.6.09 £
Wages and salaries	2,639,741	2,057,204
Social security costs	270,902	220,437
Other pension costs	23,111	38,369
	2,933,754	**2,316,010**

The average monthly number of employees during the period was as follows:

	Year ended 30.6.10	Period 1.5.08 to 30.6.09
Directors	6	6
Sales	21	12
Web designers and developers	31	12
Administration	16	25
	74	**55**

Information regarding Directors' emoluments is as follows:

	Year ended 30.06.10 £	Period 1.5.08 to 30.6.09 £
Directors fees	38,333	16,665
Salaries	486,627	482,807
Other benefits	8,185	13,356
Pension costs	36,846	25,474
	569,991	**538,302**

The number of Directors for whom retirement benefits are accruing under the money purchased pension schemes amounted to 3 (2009: 4).

Information regarding the highest paid Director for the year is as follows:

	Year ended 30.06.10 £	Period 1.5.08 to 30.6.09 £
Salaries	131,000	127,666
Other benefits	757	3,667
Pension costs	9,500	13,356
Payment in lieu of holiday	3,598	-
	144,855	**144,689**

Notes to the consolidated financial statements continued
for the year ended 30 June 2010

5. Net finance income

	Year ended 30.6.10 £	Period 1.5.08 to 30.6.09 £
Finance income:		
Deposit account interest	3,088	15,088
Finance costs:		
Bank loan interest	-	192
Loan	1,607	672
	1,607	864
Net finance income	**1,481**	**14,224**

6. Profit before income tax
Costs by nature

Profit from continuing operations has been arrived at after charging/(crediting):-

	Year ended 30.6.09 £	Period 1.5.08 to 30.6.09 £
Staff related costs (inc Directors emoluments)	3,084,799	2,450,858
Operating leases: Land and buildings	227,285	169,242
Operating leases: Other	19,726	12,862
Audit remuneration	24,505	20,000
Amortisation of intangibles	106,318	48,276
Depreciation charge	66,634	69,180
Legal, professional and consultancy fees	284,544	154,381
Computer expenditure	200,086	136,657
Research costs	12,822	20,842
Marketing costs	239,835	275,932
Bad debts	55,140	64,801
Other costs	316,634	229,168
Total administration expenses	**4,638,328**	**3,652,199**

Audit remuneration

During the year period the Group obtained the following services from the Group's auditor at costs detailed below:

	Year ended 30.6.10 £	Period 1.5.09 to 30.6.09 £
Fees payable to the Company's auditor for the audit of parent company and consolidated financial statements	13,506	5,000
Fees payable to the Company's auditor and its associates for other services		
- The audit of Company's subsidiaries pursuant to legislation	11,000	15,000
	24,506	**20,000**

6. Profit before income tax *continued*

Acquisitions

On 17 May 2010 the Company acquired the entire share capital of Netcallidus Limited therefore only 6 weeks of Netcallidus Limited has been consolidated into the Group's consolidated Income Statement.

The total consolidated in the Income Statement for the 6 weeks period was:

	£
Revenue	110,012
Profit after tax	38,800

If the acquisition of Netcallidus had happened at the beginning of the Financial Year (1.7.09) the management estimate that their contribution to the Consolidated Income Statement would have been:

	£
Revenue	671,594
Profit after tax	230,532

In determining the above values the management have assumed that the fair value adjustments, determined provisionally, that arose on the date of the acquisition would have been the same if the acquisition had occurred on 01 July 2009.

7. Income tax

Analysis of the tax charge

	Year ended 30.6.10 £	Period 1.5.08 to 30.6.09 £
Current tax:		
Tax	233,104	184,808
Total tax charge in income statement	**233,104**	**184,808**

Factors affecting the tax charge

The tax assessed for the year is lower than the standard rate of corporation tax in the UK. The difference is explained below:

	Year ended 30.6.10 £	Period 1.5.08 to 30.6.09 £
Profit on ordinary activities before tax	**1,377,254**	**1,080,315**
Profit on ordinary activities multiplied by the standard rate of corporation tax in the UK of 28% (2009 - 28%)	385,631	302,488
Effects of:		
Expenses not deductible	24,036	5,095
Research and development enhanced claim	(165,365)	(118,947)
Effect of profits within marginal rate	-	(3,546)
Capital allowances in excess of depreciation	(11,198)	(282)
Total income tax	**233,104**	**184,808**

8. Loss of Parent Company

As permitted by Section 408 of the Companies Act 2006, the profit and loss account of the parent Company is not presented as part of these financial statements. The parent Company's loss for the financial year was £(180,477) (2009 - £(63,356)).

9. Dividends

	Year ended 30.6.10 £	Period 1.5.08 to 30.6.09 £
Ordinary Shares of £0.01 each		
Interim	**-**	**118,800**

Notes to the consolidated financial statements continued
for the year ended 30 June 2010

10. Earnings per share

Earnings per share data is based on the consolidated profit using and the weighted average number of shares in issue of the parent Company. Basic earnings per share are calculated by dividing the earnings attributable to ordinary shareholders by the weighted average number of Ordinary Shares outstanding during the period.

Diluted earnings per share is calculated using the weighted average number of shares adjusted to assume the conversion of all dilutive potential Ordinary Shares.

Reconciliations are as follows:-

	Year to 30.6.10		
	Earnings £	Weighted average number of shares	Per share amount pence
Basic EPS			
Earnings attributable to owners of the Parent	1,144,150	1,292,500,000	0.09
Effect of dilutive shares			
Options & Warrants	-	89,433,450	-
Diluted EPS			
Adjusted earnings	**1,144,150**	**1,381,933,450**	**0.08**

	1.5.08 to 30.6.09		
	Earnings £	Weighted average number of shares	Per share amount pence
Basic EPS			
Earnings attributable to owners of the Parent	895,507	643,318,750	0.14
Effect of dilutive shares			
Options & Warrants	-	55,121,118	-
Diluted EPS			
Adjusted earnings	**895,507**	**698,439,868**	**0.13**

11. Goodwill

Group

	£
Cost	
At 1 July 2009	608,503
Additions (note 14)	3,512,058
At 30 June 2010	4,120,561
Net book value	
At 30 June 2010	**4,120,561**

Group

	£
Cost	
At 1 July 2008	-
Additions	608,503
At 30 June 2009	608,503
Net book value	
At 30 June 2009	**608,503**

11. Goodwill *continued*

Impairment test for goodwill

Goodwill is allocated to the Group's single cash generating units identified, that being dotMailer Limited and Netcallidus Limited.

dotMailer Limited

The recoverable amount of a cash generating unit is determined based on value in use calculations. These calculations use pre tax cash flow projections based on financial budgets approved by management covering the five year period to 30 June 2015.

The key assumptions use to prepare the financial budgets are as follows:

Revenue growth rates:	2011	26.00%
	2012	25.00%
	2013	20.00%
	2014	20.00%
	2015	20.00%
Pre tax discount rate:	All years	4.00%
Income tax rate:	All years	28.00%

The key assumptions used to prepare the financial budgets are based on a combination of historical experience and current industry knowledge and trends.

Netcallidus Limited

Revenue growth rates:	2011	167%
	2012	84%
	2013	30.00%
	2014	30.00%
	2015	30.00%
Pre tax discount rate:	All years	4.00%
Income tax rate:	All years	28.00%

The key assumptions used to prepare the financial budgets are based on a combination of historical experience and current industry knowledge and trends.

The cash flow forecasts used in the value in use calculations have not been extended beyond the five year period covered by management's financial budgets. Based on the above the Directors are of the opinion that the carrying value of goodwill has not been impaired.

12. Intangible assets

Group

	Computer software £	Development costs £	Domain names £	Totals £
Cost				
At 1 July 2009	57,056	242,060	8,836	307,952
Additions	68,245	337,480	-	405,725
At 30 June 2010	**125,301**	**579,540**	**8,836**	**713,677**
Amortisation				
At 1 July 2009	12,407	33,624	2,246	48,277
Amortisation for year	20,418	83,656	2,244	106,318
At 30 June 2010	**32,825**	**117,280**	**4,490**	**154,595**
Net book value				
At 30 June 2010	**92,476**	**462,260**	**4,346**	**559,082**

Notes to the consolidated financial statements continued
for the year ended 30 June 2010

12. Intangible assets *continued*

	Computer software £	Development costs £	Domain names £	Totals £
Cost				
At 1 May 2008	6,407	-	5,875	12,282
Additions	50,649	242,060	2,961	295,670
At 30 June 2009	**57,056**	**242,060**	**8,836**	**307,952**
Amortisation				
Amortisation for period	12,407	33,624	2,246	48,277
At 30 June 2009	**12,407**	**33,624**	**2,246**	**48,277**
Net book value				
At 30 June 2009	**44,649**	**208,436**	**6,590**	**259,675**

Development cost additions represents resources the Group have invested in the development of unique computer programming with the intention of re sale once complete.

13. Property, plant and equipment

Group

	Short leasehold £	Plant and machinery £	Fixtures and fittings £	Computer equipment £	Totals £
Cost					
At 1 July 2009	11,875	-	120,990	198,874	331,739
Additions	-	5,578	23,984	91,572	121,134
At 30 June 2010	**11,875**	**5,578**	**144,974**	**290,446**	**452,873**
Depreciation					
At 1 July 2009	6,160	-	67,455	139,072	212,687
Charge for year	2,940	1,719	26,264	36,143	67,066
At 30 June 2010	**9,100**	**1,719**	**93,719**	**175,215**	**279,753**
Net book value					
At 30 June 2010	**2,775**	**3,859**	**51,255**	**115,231**	**173,120**

	Short leasehold £	Fixtures and fittings £	Computer equipment £	Totals £
Cost				
At 1 May 2008	8,398	93,760	167,210	269,368
Additions	3,477	27,230	31,664	62,371
At 30 June 2009	**11,875**	**120,990**	**198,874**	**331,739**
Depreciation				
At 1 May 2008	3,738	40,852	98,917	143,507
Charge for period	2,422	26,603	40,155	69,180
At 30 June 2009	**6,160**	**67,455**	**139,072**	**212,687**
Net book value				
At 30 June 2009	**5,715**	**53,535**	**59,802**	**119,052**

14. Investments
Company

	Shares in Group undertakings £
Cost	
At 1 July 2009	5,183,488
Additions	3,520,980
At 30 June 2010	8,704,468
Net book value	
At 30 June 2010	**8,704,468**

	Shares in Group undertakings £
Cost	
At 1 July 2008	
Additions	5,183,488
At 30 June 2009	5,183,488
Net book value	
At 30 June 2009	**5,183,488**

The Group or the Company's investments at the balance sheet date in the share capital of companies include the following:

Subsidiaries
dotMailer Limited

Nature of business: Web and email based marketing

Class of shares:	% holding
Ordinary	100.00
Ordinary A	100.00

	30.6.10 £	30.6.09 £
Aggregate capital and reserves	3,645,246	2,166,978
Profit for the year/period	1,285,966	921,663

dotAgency Limited

Nature of business: Dormant

Class of shares:	% holding
Ordinary	100.00

	30.6.10 £	30.6.09 £
Aggregate capital and reserves	1,000	1,000

Notes to the consolidated financial statements continued
for the year ended 30 June 2010

14. Investments *continued*

dotCommerce Limited

Nature of business: Dormant

Class of shares:	% holding
Ordinary	100.00

	30.6.10 £	30.6.09 £
Aggregate capital and reserves	1,000	1,000
Profit for the period/year	-	-

dotSEO

Nature of business: Dormant

Class of shares:	% holding
Ordinary	100.00

	30.6.10 £	30.6.09 £
Aggregate capital and reserves	1,000	-
Profit for the period/year	-	-

The Company subscribed to 1,000 share of £1 each on 11 March 2010 with a paid up share capital of £1,000

Netcallidus Limited

Nature of business: Internet and website services

Class of shares:	% holding
Ordinary, B, C & D	100.00

	30.6.10 £	30.6.09 £
Aggregate capital and reserves	236,135	49,654
Profit for the year/period	230,532	57,112

Acquisition of dotMailer

On 30 January 2009 the Company acquired via a share for share exchange the entire issued share capital of dotMailer Limited, a Company registered in England and Wales. Details of the purchase consideration and fair values of the assets acquired are outlined below and been calculated using the Group's accounting policies.

	Consideration Value £
Value of equity released in exchange for the entire equity in dotMailer Ltd	5,000,000
Costs directly attributable to the business combination	181,488
	5,181,488

14. Investments *continued*

The fair value of assets and liabilities as of 30 January 2009 arising from the acquisition are as follows:

	Book and Fair Value £
Fixed asset investment	142,305
Trade and other receivables	10,803
Deposits, cash and cash equivalents	740,856
VAT repayable	24,141
Trade and other payables	(214,424)
Net assets	**703,681**

Acquisition of Netcallidus

On 17 May 2010 the Group acquired the entire share capital of Netcallidus Limited a company registered in England and Wales for an initial consideration of £1,152,660 and an additional contingent consideration of £2,366,320 totalling £3,518,980. The Company's principal activity is the provision of internet and website services. Obtaining control of Netcallidus Limited allows the Group to market SEO services to its existing customer base as well as exploiting opportunities with new customers. The knowledge and expertise within Netcallidus will enable it to further develop and market its SEO products and services.

The following summarises the major classes of consideration transferred and the recognised amounts of assets and liabilities assumed at the acquisition date:

Consideration transferred:	Note	Consideration Value £
Cash		1,000,000
Equity instruments (14,200,930 shares)		152,660
		1,152,660
Contingent consideration:		
Cash		641,412
Equity instruments (160,456,559 shares)		1,724,908
		3,518,980

The number of shares to be issued in respect of the consideration transferred is based on the expected list price of 1.075p per share which is the mid market price at the reporting period. The number of shares to be issued as contingent consideration is based on the expected present value of the Group's share price.

Identifiable assets acquired and liabilities assumed:

	Book and Fair Value £
Goodwill	45,000
Property, plant and equipment	2,532
Trade and other receivables	88,349
Deposits, cash and cash equivalents	41,407
Taxation	(84,598)
Trade and other payables	(40,768)
Net assets	**51,922**

Goodwill:	Note	£
Purchase consideration:		3,518,980
Fair value of net assets acquired		(51,922)
Goodwill acquired		3,467,058
Goodwill acquired from purchase of subsidiary		45,000
		3,512,058

The acquisition costs related to external legal fees and due diligence totalling £66,163, have been included in administrative expenses in the consolidated statement of comprehensive income.

Notes to the consolidated financial statements continued
for the year ended 30 June 2010

14. Investments *continued*

The contingent consideration arrangement requires the Group to pay the former owners of Netcallidus Limited an estimated additional consideration of £2,366,320 in a combination of cash and equity in the Group.

The final payment will be based on 3 times the Profit after Tax in the year ended 30 June 2012 less any amounts previously paid. The management's estimates are based on the business plan prepared by the Directors of Netcallidus and reviewed by the Board of dotDigital.

An interim payment will be made on finalising the PAT figures based on 4 times Profit After tax in the year ended 30 June 2011 less any amounts that have previously been paid.

The Board have assessed a range of outcomes of future profit for the years 2011 and 2012. Based on this analysis we have arrived at an estimated future deferred consideration as shown in the table below.

This consideration will be paid on 40% cash and 60% equity combination. The shares will be issued at the mid-market price quoted on the Plus Markets on the date of the sign off by the Board of Netcallidus' financial statements.

The Board estimate that the split of the payment to be as follows:

	Nominal value		Discounted fair value		
	Cash	Shares	Cash	Shares	Total
	£	£	£	£	£
Less then one year	266,827	400,241	256,565	384,847	641,412
Between one to two years	746,264	1,119,397	689,963	1,034,945	1,724,908
			946,528	**1,419,792**	**2,366,320**

The fair value of the contingent consideration arrangement of £2,366,320 was estimated by applying the income approach utilising a discount rate of 4%. See note 22 for further information on the acquisition of Netcallidus.

15. Trade and other receivables

	Group		Company	
	30.6.10 £	30.6.09 £	30.6.10 £	30.6.09 £
Current:				
Trade receivables	1,108,231	591,199	-	-
Other receivables	10,986	4,098	-	-
VAT	-	-	-	650
Prepayments and accrued income	115,428	60,007	4,826	2,062
	1,234,645	**655,304**	**4,826**	**2,712**

16. Cash and cash equivalents

	Group		Company	
	30.6.10 £	30.6.09 £	30.6.10 £	30.6.09 £
Cash in hand	124	-	-	-
Bank accounts	1,277,493	1,677,902	385,332	564,531
	1,277,617	**1,677,902**	**385,332**	**564,531**

17. Called up share capital

Allotted, issued and fully paid

Number	Class	Nominal value	30.6.10 £	30.6.09 £
1,292,500,000	Ordinary	£0.001	1,292,500	1,292,500
			1,292,500	**1,292,500**

The holders of Ordinary Shares are entitled to receive dividends as declared from time to time, and are entitled to one vote per share at meetings of the Company.

18. Reserves

Group

	Retained earnings £	Share premium £	Unissued Share capital £
As at 1 July 2009	1,552,372	4,533,754	-
Total comprehensive income	1,144,150	-	-
Equity on acquisition			152,660
Balance at 30 June 2010	**2,696,522**	**4,533,754**	**152,660**

	Reverse acquisition reserve £	Other reserves £	Total equity £
Balance at 1 July 2009	(4,695,465)	5,302	1,395,963
Total comprehensive income	-	-	1,168,341
Equity on acquisition	-	-	152,660
Share option fair value	-	24,191	24,191
Balance at 30 June 2010	**(4,695,465)**	**29,493**	**2,716,964**

Company

	Retained earnings £	Share premium £	Unissued share capital £	Other reserves £	Totals £
At 1 July 2009	1,552,372	4,533,754	-	5,302	1,395,963
Profit for the year	1,144,150				1,144,150
Share option fair value	-	-	-	24,191	24,191
Equity on acquisition	-	-	152,660	-	152,660
At 30 June 2010	**2,696,522**	**4,533,754**	**155,660**	**29,493**	**2,716,964**

19. Trade and other payables

	Group		Company	
	30.6.10 £	30.6.09 £	30.6.10 £	30.6.09 £
Current:				
Trade payables	133,764	114,813	52,527	35,543
Amounts owed to Group undertakings	-	-	984,076	23,638
Social security and other taxes	172,089	139,878	-	-
Other payables	18,483	8,069	2,000	-
Accruals and deferred income	112,444	68,210	8,333	8,722
Directors' current accounts	-	3,304	-	-
VAT	231,983	82,537	2,168	-
	668,763	**416,811**	**1,049,104**	**67,903**

Notes to the consolidated financial statements continued
for the year ended 30 June 2010

20. Financial liabilities – borrowings

	Group		Company	
	30.6.10 £	30.6.09 £	30.6.10 £	30.6.09 £
Current:				
Bank loans	12,152	12,152	-	-

	Group		Company	
	30.6.10 £	30.6.09 £	30.6.10 £	30.6.09 £
Non-current:				
Bank loans - 1-2 years	6,319	18,228	-	-
	6,319	**18,228**	**-**	**-**

Terms and debt repayment schedule

Group

	1 year or less £	1-2 years £	Totals £
Bank loans	12,152	6,319	18,471
	12,152	**6,319**	**18,471**

21. Leasing agreements
Minimum lease payments under non cancellable operating leases fall due as follows:-

	As at 30.6.10		
	Land and Buildings £	Others £	Total £
Within one year	160,496	30,567	191,063
Between two to five years	149,986	26,686	176,672
	310,482	**57,253**	**367,735**

	As at 30.6.09		
	Land and Buildings £	Others £	Total £
Within one year	109,207	22,833	132,040
Between two to five years	167,745	27,960	195,705
	276,952	**50,793**	**327,745**

22. Financial instruments
The Group's activities exposes it to a number of financial risks that include credit risk, liquidity risk and cash flow interest rate risk. These risks, and the Group's policies for managing them have been applied consistently throughout the year, are set out below:

The Group hold no financial or non other financial instruments other then those utilised in the working operations of the Group and that listed in this note.

Interest rate risk

The Group's interest rate risk arises from interest baring assets and liabilities. The Group has in place a policy of maximising finance income by ensuring that cash balances earn a market rate of interest; offsetting where possible, cash balances and by forecasting and financing its working capital requirements. As at the end of the reporting period the Group were exposed not exposed to any movement in interest rates in regard to loans and achieved less then 1% interest on cash holdings.

During the year the Group entered in to an agreement to purchase the entire share capital of Netcallidus Limited. The contingent consideration arrangement requires the Group to pay the former owners of Netcallidus Limited an estimated additional consideration of £2,366,320 in a combination of cash and equity in the Group.

22. Financial instruments *continued*

The final payment will be based on 3 times the Profit after Tax in the year ended 30 June 2012 less any amounts previously paid. The management's estimates are based on the business plan prepared by the Directors of Netcallidus and reviewed by the Board of dotDigital. An interim payment will be made on finalising the PAT figures based on 4 times Profit After tax in the year ended 30 June 2011 less any amounts that have previously been paid.

The Board have assessed a range of outcomes of future profit for the years 2011 and 2012. Based on this analysis we have arrived at an estimated future deferred consideration as shown in the table below.

This consideration will be paid on 40% cash and 60% equity combination. The shares will be issued at the mid-market price quoted on the Plus Markets on the date of the sign off by the Board of Netcallidus' financial statements. The notional and fair value of the expected payments to the former owners are outline below in their composite elements. In all cases the post tax discount factor utilised is 4%.

	Year ended 30.6.10:				
	Nominal value		Discounted fair value		
	Cash £	Shares £	Cash £	Shares £	Total £
Less then one year	266,827	400,241	256,565	384,847	641,412
Between one to two years	746,264	1,119,397	689,963	1,034,945	1,724,908
			946,528	**1,419,792**	**2,366,320**

The term "shares" indicates the value of ordinary share capital to be issued should targets be met and discount factors not change. Any changes resulting in revaluations of the consideration due in following reporting period will be charged to the income statement. The Group had no such agreement in the previous period.

Liquidity risk

The Group's working capital requirements are managed through regular monitoring of the overall cash position and regularly updated cash flow forecasts to ensure there are sufficient funds available for its operations. Management forecasts indicate no new borrowing facilities will be required in the upcoming financial period.

As described above Group entered in to an agreement to purchase the entire share capital of Netcallidus Limited. The contingent deferred consideration arrangement requires the Group to pay the former owners of Netcallidus Limited further payments of cash and shares in October 2011 and October 2012.

The final payment in October 2012 will be based on 3 times the Profit after Tax in the year ended 30 June 2012 less any amounts previously paid. The management's estimates of deferred consideration are based on a range of scenarios prepared by the Directors of Netcallidus and reviewed by the Board of dotDigital.

An interim payment will be made in October 2011.

The two tranches of deferred consideration will be paid in the ratio 40% cash and 60% equity. The shares will be issued at the mid-market price quoted on the Plus Markets on the date of the sign off by the Board of Netcallidus' financial statements.

In arriving at and negotiating the structure of the acquisition the Board were mindful of the need to ensure the proposed deferred consideration did not create liquidity risk for the Group. The structure of the deferred consideration element is such that under all the scenarios which could be envisaged the cash flows generated by the profit stream of the Netcallidus business will be sufficient to fund the cash element of the deferred consideration.

Credit risk

Credit risk arises principally from the Group's trade receivables which comprise amounts due from customers. Prior to accepting new customers a credit check is obtained. As at 30 June 2010 there were no significant debts pass their due period which had not been provided for. The maturity of the Groups trade receivables is as follows:

	As at 30.6.10 £	As at 30.6.09 £
0 – 30 days	747,730	500,514
30-60 days	251,565	77,439
More the 60 days	108,936	13,246
	1,108,231	**591,199**

Notes to the consolidated financial statements continued
for the year ended 30 June 2010

22. Financial instruments *continued*

The Group minimises its risk by credit profiling all new customers and monitoring existing clients of the Group for changes in their initial profile. The level of trade receivables passed due the average collection period consisted of a value of £108,936 of which £53,000 was provided for. The Group felt that the remainder would be collected post year end as they were with long standing relationships, the risk of default is considered to be low and write-offs due to bad debts are extremely low. The Group has no significant concentration of credit risk, with the exposure spread over a large number of customers.

The credit risk on liquid funds is low as the counterparties are banks with high credit ratings assigned by international credit rating agencies.

Details as to maximum fair values the Groups financial assets and liabilities can be found in the consolidated statement of financial position (see page 31).

Capital Policy

The Group's objectives when managing capital are to safeguard its ability to continue as a going concern in order to provide optimal returns for shareholders and to maintain an efficient capital structure to reduce the cost of capital.

In doing so the Group's strategy is to maintain a capital structure commensurate with a strong credit rating and to retain appropriate levels of liquidity headroom to ensure financial stability and flexibility. To achieve this, the Group monitors key credit metrics, risks and fixed charge cover to maintain this position. In addition the Group ensures a combination of appropriate short-term and long-term liquidity headroom.

During the year the Group had a short-term loan balance of £12,152 and amounts payable greater than one year of £6,319. The Group had a strong cash reserve to utilise for any short-term capital requirements that were needed by the Group.

The Group has continued to look for further long term investments or acquisitions and therefore to maintain or re-align the capital structure, the Group may adjust when dividends are paid to shareholders, return capital to shareholders, issue new shares or borrow from lenders.

23. Capital commitments

The Group has no capital commitments as at the end of the reporting period.

24. Transactions with Directors

The following transactions were carried out with the Directors of the Company.

	Year ended 30.6.10 £	Period 1.5.08 to 30.6.09 £
Loans from Directors:-		
Beginning of the period	3,304	64,503
Loans advanced in the year	-	-
Loans repaid in the year	(3,304)	(61,199)
End of period	**-**	**3,304**

The above loans are provided to the Group on a interest free basis.

25. Related party disclosures

The following transactions were carried out with related parties during the year:

Purchase of services	Suppliers	30.6.10 £	30.6.09 £
Financial public relations	Haggie Financial LLP	20,701	6,064

N Nelson, a Director, is a partner of Haggie Financial LLP. At the end of the year there was no outstanding fee owed to Haggie Financial LLP.

Supply of services	Customers	30.6.10 £	30.6.09 £
Website	The Stockroom Limited	4,795	-
Email marketing services	Chillibean Limited	4,395	-

D Pacy, a Director, is a Director of the Stockroom Limited and Chillibean Limited. The above transactions were made with dotMailer Limited. At the end of the reporting period, the amount outstanding to dotMailer due from The Stockroom Limited were £4,796 and £586 respectively.

26. Ultimate controlling party

As at the end of the reporting period there was no ultimate controlling party.

27. Share-based payment transactions

The measurement requirements of IFRS 2 have been implemented in respect of share options that were granted after 7 November 2002. The expense is recognised for share based payments made during the year is £24,191 (2009: £5,302)

Also on 20 October 2009 the Board of Directors also granted 21,250,000 options to employees of the Group exercisable on or after 1 July 2010 until 1 February 2019. Vesting conditions of the options dictate that employees must remain in the employment of the Group for the whole period to qualify. Of the options issued in the year 4,000,000 option were issued to G Fidura a Director in the Group.

Movement in issued share options during the yea

The table illustrates the number and weighted average exercise price (WAEP) of, and movements in share options during the period

	30.06.10		30.6.09	
	No of options	WAEP	No of options	WAEP
Outstanding at the beginning of the period	74,226,667	0.27p	25,000,000	0.10p
Granted during the year	21,250,000	1.00p	7,600,000	1.00p
Forfeited/cancelled during the period	1,550,000	1.00p	-	-
Exchanged for options in subsidiary	-	-	41,666,667	0.24p
Outstanding at the end of the period	93,926,667	0.42p	74,226,667	0.27p
Exercisable at the end of the period	-	-	-	-

Of the 93,926,667 options outstanding at the end of the year 25,000,000 (2009: 25,000,000) represent share warrants exercisable on or before 27 June 2012.

The fair value of the options granted in the year have been calculated using the Black Scholes model assuming the inputs shown below:

- Grant date	20 October 2009
- Number of options granted	21,250,000
- Share price at grant date	1.00p
- Exercise price at grant date	1.00p
- Risk free rate	2.55%
- Option life	8.67
- Expected volatility	12%
- Expected dividend yield	0%
- Fair value of option	0.7p

28. Reconciliation of profit before income tax to cash generated from operations
Consolidated

	Year ended 30.6.10 £	Period 1.5.08 to 30.6.09 £
Profit before income tax	1,377,254	1,080,315
Depreciation charges	170,338	117,456
Share options	24,191	5,302
Finance costs	1,607	864
Finance income	(3,088)	(15,088)
	1,570,302	**1,188,849**
Increase in trade and other receivables	(490,992)	(199,833)
Increase/(decrease) in trade and other payables	196,628	(40,719)
Cash generated from operations	**1,275,938**	**948,297**

Notes to the consolidated financial statements continued
for the year ended 30 June 2010

28. Reconciliation of profit before income tax to cash generated from operations *continued*
Company

	30.6.10 £	30.6.09 £
Loss before income tax	(180,477)	(63,356)
Share option	24,191	5,302
Finance income	-	(15,347)
	(156,286)	**(73,401)**
(Increase)/decrease in trade and other receivables	(2,114)	8,091
Increase/(decrease) in trade and other payables	18,763	(47,213)
Cash (used) from operations	**(139,637)**	**(112,523)**

29. Cash and cash equivalents

Consolidated

The amounts disclosed on the cash flow statement in respect of cash and cash equivalents are in respect of these balance sheet amounts:

Year ended 30 June 2010

	30.6.10 £	1.7.09 £
Cash and cash equivalents	1,277,617	1,677,902

Period ended 30 June 2009

	30.6.09 £	1.5.08 £
Cash and cash equivalents	1,677,902	684,493

Company

The amounts disclosed on the cash flow in respect of cash and cash equivalents are in respect of these balance sheet amounts:

Year ended 30 June 2010

	30.6.10 £	1.7.10 £
Cash and cash equivalents	385,332	564,531

Year ended 30 June 2009

	0.6.09 £	1.7.08 £
Cash and cash equivalents	564,531	821,557

30. Research & development

During the period the Group incurred £12,822 (2009: £20,842) in research costs and £337,480 (2009: £242,060) in development investments. All resources utilised in research and development has been categorised as outline in the accounting policy governing this area.

Company information

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P A Simmonds
I Taylor
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D Ivy (Resigned 10 September 2009)

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