2010/2011

ANNUAL REPORT AND ACCOUNTS

dotDigitalGroup plc

OUR VALUES

Professional, expert and fun

Creative and geeky with the human touch

Approachable, sociable, welcoming and client-centric

Fast-paced but quality driven

Corporate but cool

Business-like, entrepreneurial but still a family

OUR MISSION

Empowering clients to punch above their weight by providing the world's best digital marketing products.

CONTENTS

OUR VALUES

Passionate about our client/supplier partnerships and cakes!

Awesome is the required standard

An unhidden agenda about clients success

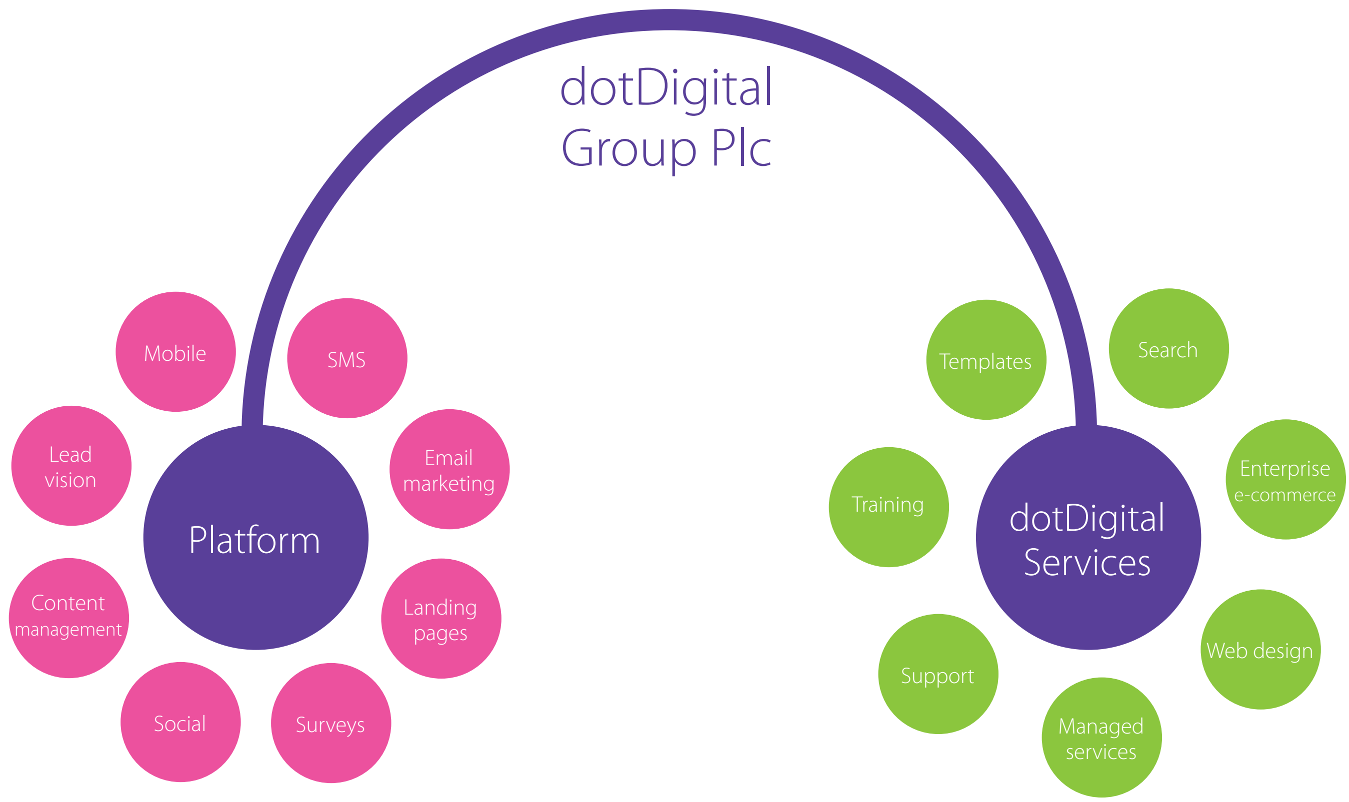
Motivated, inspirational, innovative and accomplished

Committed to giving back to staff and society

Easy to use space-age technologies

BUSINESS SUMMARY

dotDigital is an award-winning digital marketing specialist with over 4,000 clients generating strong recurring revenues from the provision of an integrated suite of digital marketing products and value added services:



49%
increase in turnover

43%
increase in expenses

- Turnover up 49%
- Operating profits up 68% before AIM admission costs
- Profits after tax up 166% after exceptional items
- Cash £2.6m up from £1.3m
- Considerable investment in hardware and product R&D
- Continued strong growth in new client acquisition
- 1,470 new customers added in the period
- Considerable product enhancement delivered
- Total staff headcount grown from 103 to 142

68%
increase in operating profit before exceptionals

140%
increase in profit before tax

166%
increase in profit after tax

FINANCIAL OVERVIEW

	12m to 30.06.11	12m to 30.06.10	Period 1.05.08 to 30.06.09	2011 % Growth
Turnover	**9.0**	6.0	4.7	49%
Expenses	**6.6**	4.6	3.7	43%
Operating Profit (before exceptional items)	**2.3**	1.4	1.0	68%
AIM Admission	**(0.1)**	-	-	-
Finance Income	**1.1**	-	-	-
Profit before tax	**3.3**	1.4	1.0	140%
Profit after tax	**3.0**	1.1	0.9	166%

The Group has enjoyed another strong year of profitable growth, slightly ahead of analyst's expectations.

On turnover up 49% to £9.0m operating profits before exceptional items (AIM admission costs) grew 68%.

In accordance with IFRS 3 we have reviewed the likely final payment in October 2012 to the vendors of Netcallidus based on the Board's estimated financial outturn of the business for the year ended 30th June 2012.

This has resulted in a reduction of the estimated total consideration by £1.1m and in accordance with the IFRS 3 this is shown as finance income in the consolidated income statement. The inclusion of this £1.1m means profit before tax has grown 140%.

Overall the Board is delighted with the progress made over the year which reflects a continued focus on organic growth through new client acquisition and investment in new products and services.

Whilst the Group has been focused on achieving significant growth in recurring revenues and profitability, investment has continued in people and product development for the future. To ensure the on-going development of existing products and strengthening of the competitive position with new products and services, the Company has continued to commit significant resources to the underlying technical infrastructure which supports its products. The total investment this year has amounted to £150k of capital expenditure in hardware and £630k of research and development activity in products and services.

INTEGRATION OF NETCALLIDUS ACQUISITION

Integration of Acquisition

The Group acquired Netcallidus, an SEO (Search Engine Optimisation) business in 2010. The business is based in Northampton with a wholly owned operation in Minsk.

Excellent progress has been made on the integration of Netcallidus. All accounting and management information is now handled by our central finance team and sales teams across all of the Group businesses have been trained in the sale of SEO with cross sales from existing customers, forming a valuable source of new business. Towards the end of the financial period the Board agreed to rebrand all of the search marketing activity as dotSearch.

In the year, search marketing contributed over £1.2m of revenue compared to £0.1m in the previous year and is now a significant focus for the sales team.

Minsk, Belarus

In October 2010 the Company announced the opening of a new facility in Minsk initially employing fifteen staff to provide strengthened operational capability for search marketing and at the same time removing the requirement for outsourced services from India.

During the year, this team grew significantly and by the end of the financial year the headcount in Minsk stood at 45. The majority of staff are involved in search marketing, although a number are engaged in a pilot operation to provide technical support for the whole Group.

GROWTH STRATEGY

dotDigital won the National Business Awards best growth strategy award in 2009. This was in recognition of the Company's organic growth strategy in pursuing new client acquisition. This was achieved by a culmination of online marketing, attendance at trade shows and through an increased level of cross-sell to existing clients through focused account management and provision of complimentary and adjacent services.

By focusing on search engine optimisation on the Company's own behalf across a wide range of keywords and through the implementation of a comprehensive CRM system, dotDigital has continued to see high levels of organic growth with new client numbers increasing by 1,470 in the year.

During this time the Company has continued its strategy of building the business by focusing on four key areas:

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

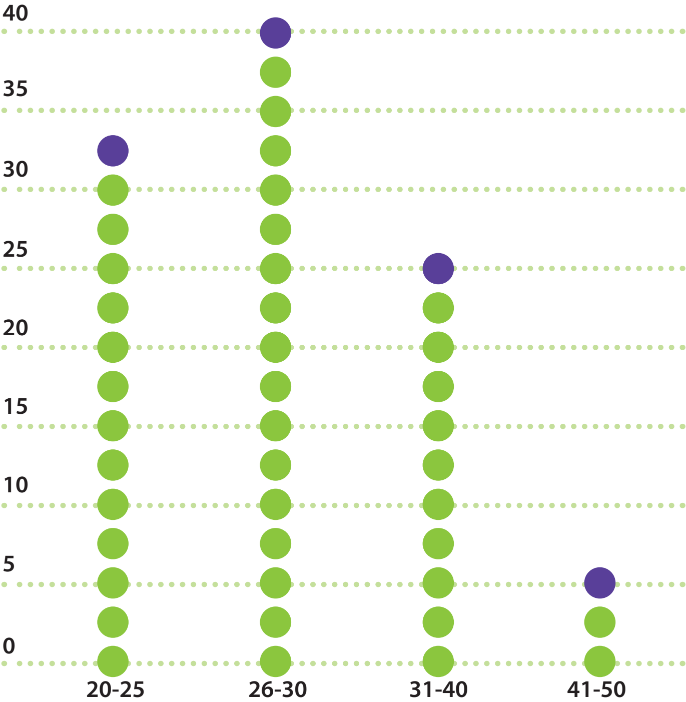
Through the provision of an integrated suite of digital marketing products backed up by excellent services, the Company believes that its business is uniquely positioned to enable clients to exceed their marketing capacity, grow their business and achieve a visible return on investment.

STAFF

As a technology business we acknowledge that our people are critical to our success. We have a young team, whose average age is 29 (excluding Directors). The team has taken on extra responsibilities, learned new skills and responded to new challenges in the 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.

AGE OF EMPLOYEES (BY NUMBER OF EMPLOYEES)



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.

Once again the Board would like to thank all of the management and staff for their continued hard work, dedication and commitment to the business during the past year.

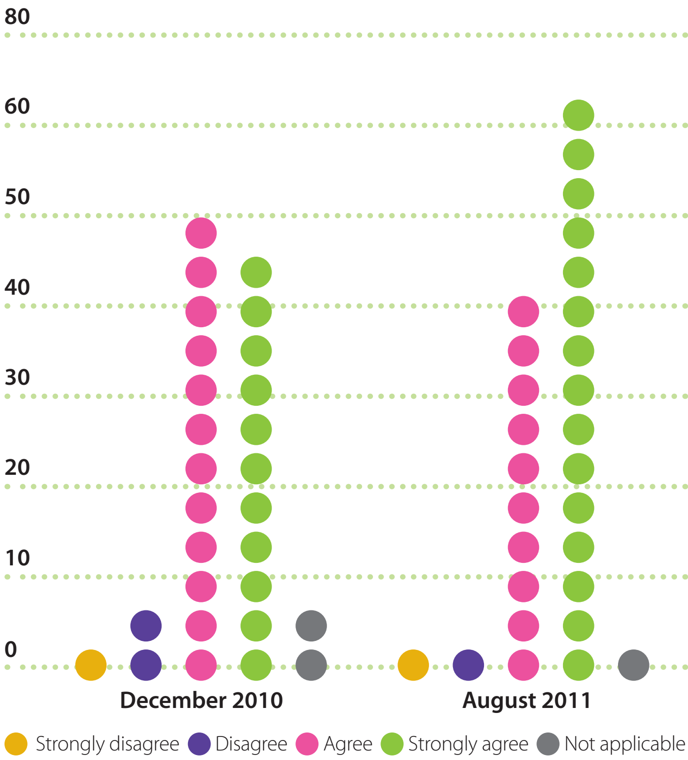
With this in mind we aim to share the success of the Group with the staff through bonus payments and share options. The Directors are open about the business objectives and senior managers actively engage with their teams so that everyone understands how their efforts contribute to the overall success of the business.

Staff who have completed their probation period are eligible to be granted share options managed through an HMRC approved employee share option scheme.

Despite becoming a much larger enterprise, the Directors firmly believe that maintaining the entrepreneurial culture that was so fundamental to the success of the Company in its initial stages, remains critical in achieving success today. The communication of these ideas is essential to dotDigital and it uses a number of channels and tools to ensure that a common vision exists across the Group. This in turn promotes a sense of belonging to the business.

During the year we have undertaken two surveys of all staff to ascertain the levels of job satisfaction. The Board has also engaged an interim HR Director to progress a variety of initiatives focussed on talent development, communication and ensuring dotDigital is a great place to work.

DOTDIGITAL IS A GOOD PLACE TO WORK



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

dotMailer – powerful email marketing made easy , by the second largest and fastest growing email agency and ESP in the UK and the number 1 choice of over 18,000 business users. Uniquely designed to meet the needs of every size and type of organisation in the market.

dotCommerce – our ecommerce experts deliver stunning, flexible and cutting-edge ecommerce sites. Powered by our proprietary back-office system that puts users in complete control, dotCommerce solutions help to transform the way our clients sell online.

dotEditor – the uniquely flexible content management system that powers most of our clients' websites and lets them manage their own website content, SEO, menus, banners and URLs. It's so flexible it even lets them paste features and functions straight into their pages.

dotSearch – Our search marketing agency, specialists in taking a highly analytical and bespoke approach to SEO and PPC, to repeatedly win our clients top Google rankings, search category domination and major market share.

dotSurvey – perfectly branded online surveys, created in minutes with our latest online survey tool. Built for total usability, dotSurvey makes it fantastically easy for users to create fully branded, professional online surveys and web forms that look just like they're part of their website.

"WOW WOW WOW! Love it."

Hayley
Lema publishing

"dotMailer provides Brit Insurance with a professional, reliable and high quality platform for our email marketing. I have been consistently impressed with every aspect of our relationship with them from the product itself through to the phone support and account management. I love the fact that the product is always evolving and that finding smart new ways of helping clients deliver great emails is at the heart of what they do. I regard them as a very safe pair of hands."

Katherine Hesketh
Brit Insurance, London

49%

Increase in revenue in 2011

OUR COMMITMENT TO EXCEPTIONAL CLIENT SERVICE

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

The business is structured to ensure that all customers receive client service and support appropriate to their needs and the revenue they generate. During the year, a number of new initiatives were introduced to ensure our products and services meet and exceed customer needs, including:

- Expanding the friendly and effective telephone support teams as well as employing new technologies such as Live Chat to enhance the overall customer experience;
- Boosting our team of user-experience specialists to enhance even further the usability of our products;
- In-depth client interviews to understand how our service can be improved further with ongoing surveys to get quantitative data on client needs;
- The use of user groups, forums and social media to obtain first-hand feedback from customers about new product features.

IT INFRASTRUCTURE

The Group has made significant investment in its IT infrastructure during the period. As part of the strategy to ensure the business 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;
- Fully documenting systems and security policies;
- Increasing resilience by eliminating single points of failure and implementing mirroring technology;
- Ongoing extensive security audits, including external penetration testing and responding to recommendations.

> "dotCommerce identified this as a significant area where Pineapple could improve on the web experience for customers. After looking at relevant data from Google Analytics we agreed on a solution, which was delivered on time, with immediate results."
>
> **Caleb Newman**
> Pineapple

"dotMailer has been a great service for 2degrees both to gain new members of our community and to communicate with them. The reporting on the success of each campaign is excellent, the managing of our address books is simple and now the introduction of the Easy Editor has meant we are finding it easy to produce better looking campaigns all the time."

Simon Barnard
2degrees Ltd, Oxford

IMPROVING GROSS MARGIN ON BESPOKE PROJECTS

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

The Directors are pleased to report that this approach has increased profitability, gives greater flexibility of scheduling, and ensures a greater capacity to scale to meet client demands.

PRODUCT DEVELOPMENT

The Board has a clear strategy to increase the proportion of income derived from products with recurring revenues. The development team working on product development has been significantly strengthened during the year. Throughout the year, a significant number of new features and usability improvements for the email marketing product, dotMailer, including the release of an innovative, market leading visual editor, were introduced. Other product developments, included new versions of our content management tool, and a new survey tool.

STRATEGY FOR THE COMING YEAR

We are entering the second year of our three year business plan that the Board believes will continue to deliver growth whilst investing in the business to provide a springboard for significant growth in future years.

We plan to streamline the organisation structure and operationally the business will be separated into a products division based around the dotMailer platform and a services division providing, search, ecommerce, web design, digital strategy and managed service.

Some key elements of the plan are as follows:

- dotDigital recognises that dynamic growth in this market is occurring worldwide. Part of the Group's short term objective is to identify the geographic areas in which the Company could make the maximum impact without adding significantly to the cost base;
- Progress the programme of international expansion of the product ranges utilising third party channel partners and reseller agreements with suitably qualified overseas partners, allowing us to grow our sales cost effectively;
- Explore consolidation opportunities in the email marketing sector;

"dotMailer has been providing Saffery Champness with effective solutions and support to our e-marketing campaigns since 2009. The system is constantly being developed and improved, coupled with the dedicated support agents and account management team, dotMailer constantly delivers a quality service in a timely and cost efficient way."

Nicola Brooks
Saffery Champness, London

'...we believe we are in a strong position as the trend in shifting away from traditional promotion to digital marketing continues..'

- Further increase the resources focused on dotDigital's own search engine optimisation and business marketing, expanding the use of social media marketing, PR, educational client events and reviewing our branding. To further expand the technical development resources both in the UK and internationally to focus on the delivery of innovative new products and services which compliment our existing offerings. We will continue to add innovative new features to our existing products, ensuring we maintain technical leadership in the market;
- Expand the strategy of building Application Programming Interface (API), driven connectors to CRM platforms, such as Microsoft Dynamics, and utilising CRM integrators as a distribution channel for our email marketing platform.

DIVIDEND POLICY

Whilst consideration is routinely given to the commencement of dividend payments, it is the Board's intention to achieve capital growth on the strength of continued investment in new products and identifying further earning enhancing acquisitions. Accordingly, it is not the Board's intention to recommend the payment of dividends at this time.

OUTLOOK

The market for the Company's products and services continues to remain buoyant despite the world economic crisis. Moreover, the growth in the number of customers remains unabated as they continue to embrace the power of digital marketing.

With a growing customer base we plan to focus on cross-selling our suite of products and services to existing customers. Evidence thus far demonstrates that this is a very cost effective way to grow sales and we expect this trend to continue.

Our cash position remains strong, even after the acquisition of Netcallidus and we expect the business to continue to be cash generative. Because of this we believe we are well placed to continue to invest in hardware, research and development and further acquisitions.

Brand recognition of the Group's products continues to grow and through this strong awareness, combined with customer testimonials, increased marketing activity and continuously improving products will position the business well in securing new clients in the future.

We look forward to the new financial year with confidence.

Frank Beechinor-Collins
Chairman
12th October 2011

Peter Simmonds
Chief Executive
12th October 2011

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Average new client wins per month

Google Pay Per Click and email marketing using the dotMailer system are two crucial strategies used by internet marketing specialists Brand New Way to help companies to attract and keep valuable customers. The dotMailer system is both simple to use and provides many advanced features to help get great results for companies big and small. My only regret is the system wasn't available 10 years earlier!

Peter Hawtin
Brand New Way Limited

When asked by other UK based broadcast platforms why I use dotMailer for my clients, I say the same thing." If you can guarantee me the same level of support, always seek ways to keep my costs down and continually strive to improve the system, then yes I'll consider using you". End of conversation.

Ross Piggott
RP Databases Ltd, Wandsworth

After an extensive search for a new email provider Ashburton Investment Managers chose dotMailer in May 2011. We are extremely happy with this decision, not only have we benefited from their expertise in the field of email marketing, in terms of design templates and reporting tools, but we've also found the online system is very easy to use with the excellent support of our account manager, Matt. We also wanted to improve our event RSVP process, after providing a brief, not only did DotMailer deliver an online booking form as requested, but they also developed trigger emails to add to recipients calendars, all automated therefore relieving the burden of an in-house manual RSVP process. We look forward to working closely dotMailer to help us continue to improve our marketing communication to our clients.

Lizzie Fancourt
Ashburton Investment Managers, Jersey

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 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 instill confidence in all who do business with us.

SUPPORT FOR THE 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, Stonewall, MacMillan Cancer Support and Shelter. dotDigital is committed to providing the very highest possible services and quality products to charities at an affordable rate.

"Giving Something Back"

dotDigital are determined to support our local communities and have introduced a Business Volunteering Scheme for employees who are doing a variety of community-based projects. As well as this new scheme, dotDigital continue to donate funds to MacMillan Cancer Support through our "Big Pink" initiative.

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 Direct Marketing Association (DMA) and Internet Advertising Bureau (IAB) to promote this message. Email marketing is a viable paper-free alternative to direct mail and leafleting.

dotDigital continues to make 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 this in use;
- Reduced cooling need, resulting in lower use of air conditioning plant;
- More rapid redeployment of new systems to meet client needs;

The working environment is a fun, friendly, innovative, exciting and intellectually challenging culture...

The Board firmly believes that the prerequisite for achieving a successful and sustainable business is integrity in dealing with customers and business partners.

- More processors per rack resulting in less space demands in crowded city computer rooms.

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 major issues 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 whole of the business keep colleagues from other parts of the business up-to-date with issues and news. Employees are also invited to attend regular informal lunch events with the Directors where they are actively encouraged to pose any questions they may have.

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 its 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 eligible 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 11.4m shares or 4% of the total shares in issue.

dotDigital is also committed to talent development through the professional and personal development of our staff combined with the ability to recruit and develop the best graduates throughout their career. This commitment goes beyond our existing staff with the search for new talent being the driver for dotDigital offering internship and work placement positions for students.

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 and everyone's views and contributions are actively encouraged and respected.

CUSTOMERS AND BUSINESS PARTNERS

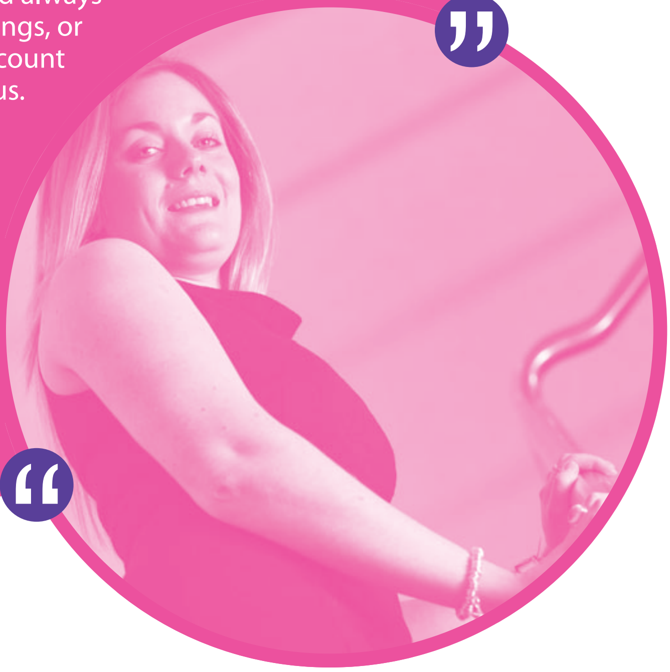
The Board firmly believes that the prerequisite for achieving a successful and sustainable business is integrity in dealing with customers and business partners. This principle governs all aspect of the business and is incorporated into the Company's values.

The Company is passionate about 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.

Renault Trucks UK Ltd has been using dotMailer for nearly two years. The online technology is extremely intuitive and easy to use, and it is constantly being updated and improved. All members of the customer support line are friendly and approachable and always on hand to help with queries on how to do things, or to fix the things I can't, there and then. Our account manager does a fantastic job of looking after us. Matt's very easy going and has a great happy to help attitude, with much humour along the way!

Liz Menday
Renault Trucks UK Ltd, Dunstable



The new site is brilliant. Not only are we increasing basket value, but converting more visitors and driving more traffic. dotCommerce are just blowing our socks off!"

Maria Hatzistefanis
Rodial

PETER SIMMONDS FCCA, AGED 53
CHIEF EXECUTIVE AND FINANCE DIRECTOR

Peter Simmonds commenced his career in 1976 as a trainee accountant with Unilever Plc and has nearly 30 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 at 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 businesses.

SIMON BIRD, AGED 36,
CHIEF TECHNICAL OFFICER

Simon Bird has developed an in depth technical knowledge of the internet and its applications. Prior to co-founding dotDigital Group he assisted in the development of a major internet access provider. He has provided services to a number of well known companies and organisations in helping create websites, intranets, extranets, content management systems and other online solutions.

"TINK " IAN TAYLOR, AGED 39,
CHIEF OPERATING OFFICER

Tink Taylor 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 the chair of the DMA partnership hub of the email council and also a member of the Internet Advertising Bureaus E-communications Council. Tink having judged the DMA awards since 2008, he is now a group leader/chair of the mail category.

"SKIP" GORDON FIDURA, AGED 42,
CLIENT SERVICES DIRECTOR

Skip Fidura joined dotDigital Group in January 2009 with a remit to build our digital strategy services offering. Skip's been in marketing for over 14 years, most recently as Email Partner at OgilvyOne London and prior to that as the Director of European Operations for Acxiom Digital. He has worked with clients such as BT, Kodak, hp, Intel, and Travelocity.co.uk. Skip is also Vice-Chairman of the UK DMA Email Marketing Council and was listed by Revolution Magazine as one of the 50 most influential people in new media.

OUR NON-EXECUTIVE DIRECTORS

FRANK BEECHINOR-COLLINS, AGED 47
NON-EXECUTIVE CHAIRMAN

Frank Beechinor-Collins, was for 11 years, CEO of One Click HR, an AIM quoted IT/Human Resources business of which he was a Co-founder. The Company operated in the UK and North America and had around 200 employees. Frank oversaw the successful sale of the business to ADP, a $4bn NYSE listed company, for US $25m. In notable addition, Frank was for 5 years, Operations Director of GMCS, part of Grand Metropolitan, a UK based training services provider, with several thousand employees. Frank brings a great deal of corporate experience to the Board, gained over 25 years of working for and running public and private companies. Frank has a strong track record in M&A and brings with him a quality network of contacts in the fields of managed services and Software as a Service (SaaS).

RICHARD KELLETT-CLARKE, AGED 56
NON-EXECUTIVE DIRECTOR

Richard Kellett-Clarke brings to the Board over 25 years of management experience in the turn round and strategic repositioning and recovery of creative businesses in CMCG, media, electronics and software industries. He was a founder of AFX NEWS Limited, now part of Thomson Reuters, and Sealed Media, now owned by Oracle. He has held numerous CFO roles in subsidiaries of large PLC's as well as the role of IT Director at Financial Times Information. He was part of the team as CFO which brought Picwick Group PLC to the main market and Brady Plc to AIM. He is currently the CEO of Idox Plc an AIM listed specialist software, solutions and KM consultancy business.

NICHOLAS NELSON, AGED 46
NON-EXECUTIVE DIRECTOR

Nicholas Nelson commenced his career in 1985 as a dealer on the floor of the London Stock Exchange and over the subsequent thirteen years developed his knowledge of the stock market and its drivers through roles in securities trading and investment management.

From 1998 his City career continued within the corporate communications industry, during which time he has assisted numerous smaller companies with their Financial PR campaigns and IPO programmes. He is currently Managing Director of Hansard Communications Ltd, a financial PR consultancy.

dotMailer underlies our success - Equinet is a content marketing agency and became a dotMailer White Label customer in 2009. Email is a vital element of the content marketing service that we provide to our clients and the absolutely first class technology, support and service that we get from dotMailer have become a key component of our on-going success. Extraordinary Account Management - In the three years Nyree has been looking after our account we have witnessed customer service at its best. Nyree is relentlessly good natured, perseveringly patient and a pitch perfect professional. Frankly, if you could bottle her I'd have ten.

Jeremy Knight
Equinet Media Ltd, Bedford

The Board have decided to provide 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 dotDigital Group Plc (the "Group") has applied the principles and the extent to which the provisions in the Code have been complied with appears below.

COMPLIANCE STATEMENT

(a) Directors

The details of the Group's board, together with the audit and remuneration committees, are set out on page 21 and 22.

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 year end there were four Executive Directors, two independent Non-Executive Directors and an independent Non-Executive Chairman.

The current constitution of the remuneration committee and the audit committee is shown on page 21 and 22.

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

The service contracts of the Executive Directors are less than one year and determinable by six months notice.

It has been great working with you over the last year or so and great to have an account manager at Dot Agency who has also been a good laugh along the way. You have always been willing to help me when I have had no clue and to sort me out with issues which have been above the normal work load, and I can't thank you enough for that as it has helped me and SeeAbility out a lot. You are one of Dot Agency's star staff members. (and you can quote me on that) :-)

Helen Moore
Seeability

(b) Directors' remuneration

As set out on page 23 and 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. The remuneration committee use both financial and non-financial benchmarks to determine the Executive Director bonuses.

(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 Chief Executive's statement. The Board uses this and the Directors' report on pages 24 to 28 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 27.

(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 year ended 30th June 2011 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 Frank Beechinor-Collins and Nicholas Nelson and is chaired by Richard Kellett-Clarke. 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.

Having worked in e-marketing since the early days when we wanted to pick a new E-CRM system to use we certainly did our market research. We found the dotMailer White Label system to be the best out there, excellent support, superb account management and a progressive ongoing development schedule, all of that alongside a competitive pricing system made it an excellent choice for Idealogy and our clients.

Simon Johnson
Idealogy Group Ltd, Southampton

When we first decided to offer permission-based email marketing services, finding the right partner was crucial and dotMailer impressed us from the start. With a dedicated, and helpful, account manager we had one individual contact to discuss our needs and to get us through the initial learning curve. Whether using dotMailer templates, or building campaigns from scratch, the system was easy for our designers and copywriters to work together to create targeted and effective campaigns. Safeguards are built in to ensure mailing lists are compliant and local and global suppression facilities are great features to protect our (and our client's) reputations. Clients love the cost saving, speed, personalisation, regular performance reports and measurable ROI – and you don't get that with Direct Mail. Email marketing is now one of our most popular client services and the demand is growing. What makes dotMailer a winner for us? Ease of use, value for money and great support.

Nick Spiteri
Positive Advertising Ltd

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 Company'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 of Nicholas Nelson, Frank Beechinor-Collins and Richard Kellet-Clarke. The Chairman of the Audit Committee is Richard Kellett-Clarke. The Committee meets separately with the external auditors without management being present.

The Secretary to the committee is Milan Patel, the Company Secretary.

MAIN ACTIVITIES OF THE AUDIT COMMITTEE

At its meeting on the 27th September 2011 the Committee reviewed the Group's preliminary announcement of its results for the financial year 30th June 2011 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, qualification, expertise and resources, and effectiveness of their audit process.

The Audit Committee also reviewed the effectiveness of the Company'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. Our 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 ended 30th June 2011 which appeared both prudent and realistic in the context of the Group's ambitions.

On behalf of the Committee:

Richard Kellett-Clarke
Chairman of the Audit Committee

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 confirms that it has complied with the Combined Code. The Committee comprised Frank Beechinor-Collins (Chairman), Richard Kellett-Clarke, Nicholas Nelson and Peter Simmonds. Peter Simmonds being an Executive Director cannot comment upon his own remuneration.

The Secretary to the committee is Milan Patel, the Company Secretary

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 caliber executives.

SERVICE CONTRACTS

On 7th January 2009, the Executive Directors each entered into a service contract with the Group, the terms of which commenced upon Admission to PLUS Markets on the 2nd of February 2009. Each appointment runs for one year from that date and is terminable by six months' notice by either party to expire at the end of that year or at any time thereafter. The agreement contains restrictive covenants. Upon termination, no benefits (other than those accruing during the notice period) are due to the Director.

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 grant. The board considers the performance of staff in conjunction with the performance of staff in conjunction with 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

Frank Beechinor-Collins
Chairman of Remuneration Committee

DIRECTORS' EMOLUMENTS

Executive Director	Salary/Fees	Benefits	12m period ended 30.6.11 Bonus	Pension	Total
P Simmonds	100,834	5,523	60,000	10,817	177,173
I Taylor	102,500	6,757	45,000	10,458	164,715
S Bird	102,500	6,757	55,000	10,458	174,715
G Fidura	76,000	4,200	21,000	2,280	103,480
	381,834	**23,237**	**181,000**	**34,013**	**620,083**

Executive Director	Salary/Fees	Benefits	12m period ended 30.6.10 Bonus	Pension	Total
P Simmonds	88,000	7,103	25,000	8,808	128,911
I Taylor	95,000	6,757	30,000	9,500	141,257
S Bird	95,000	6,757	10,000	9,500	121,257
G Fidura	76,000	4,200	6,250	-	86,450
	354,000	**24,817**	**71,250**	**27,808**	**477,875**

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 below:

Executive Director	No. of Shares held as at 30.06.11	% holding
P Simmonds*	19,943,333	7.25%
I Taylor	60,860,000	22.13%
S Bird	52,860,000	19.22%
	133,663,333	**48.6%**

* 4.90% of Peter Simmonds holdings/voting rights has been held by Frank Nominees Limited who acts as the 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

Under the Group's executive share option scheme the following Directors have the right to acquire Ordinary shares.

Executive Director	Grant Date	No. of Share option Granted	Option price (Pence)	Date first Exercisable	Expiry Date
G. Fidura	22/10/2009	800,000	5.0	01/07/2010	01/02/2019
	11/11/2010	800,000	5.13	01/05/2012	31/12/2015

The Directors present their report with the financial statements of the Company and the Group for the year ended 30th June 2011.

PRINCIPAL ACTIVITY

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

REVIEW OF BUSINESS

During the year the Group has shown significant growth in customer numbers, sales, and profits. Revenues grew from £6.0m in the year ended June 2010 to £9.0m for the year ended June 2011, an increase of 49%.

Post-tax profits grew from £1.14m in 12m to June 2010 to £1.81m (excluding exceptional items) for the year ended June 2011, an increase of 59%.

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 are:

	2009	2010	2011
Revenue	4.7m	6.0m	9.0m
Research and development expenses	0.2m	0.3m	0.6m
Adjusted EPS	-	0.44p	0.78p
Email sends volume	422m	663m	1,045m
Email sends value	2.4m	3.5m	5.0m
New customers in the year	905	1,150	1,470

KEY RISKS & 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.

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 provides 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 emails 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 attract 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.

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.

During the year the Group has shown significant growth in customer numbers, sales, and profits. Revenues grew from £6.0m in the year ended June 2010 to £9.0m for the year ended June 2011, an increase of 49%.

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.

DIVIDENDS

No dividends will be distributed for the year ended 30th June 2011.

It is the Directors strategy to achieve capital growth on the strength of a consistent cash generative trading performance. During the last financial year cash reserves grew as a result of strong trading performance. Accordingly, the Directors believe that it is inappropriate to propose a dividend based on this strategy to invest in further growth.

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 UK economy. The Board believes that our widespread brand recognition and strong product range will continue to present opportunities to expand and diversify profitability in the coming year.

SHARE CONSOLIDATION

All shareholdings quoted in financial statements reflect the effect of the share consolidation undertaken by the Group on 10th February 2011(see note 16). The consolidation has been applied from 1st July 2009 for comparative purposes and therefore the prior period figures have been amended.

DIRECTORS

The Directors shown below have held office during the whole of the period from 1st July 2010 to the date of this report.

- S Bird
- N C P Nelson
- P A Simmonds
- I Taylor
- G Fidura

Other changes in Directors holding office are as follows:

- D J Pacy - resigned 31st December 2010
- R Kellett-Clarke - appointed 13th June 2011
- F Beechinor-Collins - appointed 5th May 2011

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 2011 are as follows:-

Directors	30.6.11 Number of shares held	Percentage Shareholding %	30.6.10 Number of shares held	Percentage Shareholding %
S Bird	52,860,000	19.22	52,860,000	20.45
I Taylor	60,860,000	22.13	60,860,000	23.36
P Simmonds	19,943,333*	7.25	13,060,000	5.01
N Nelson	4,075,000	1.48	5,525,000	2.12
D Pacy (resigned 31 December 2010)	7,500,002	2.73	7,500,000	2.88
G Fidura	-	-	-	-
F Beechinor-Collins	674,194**	0.25	-	-
R Kellett-Clarke	-	-	-	-

* Frank Nominees Limited hold 4.90% in respect of Peter Simmonds holding/voting rights act as nominee for Alliance Trust Pensions Limited. 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.

** The 674,194 shares shown as being held by Mr Beechinor-Collins are owned by the Curra Trust, a trust established for the benefit of his children and in which he has no beneficial interest.

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 30th June 2011 are as follows:-

Executive Directors	30.6.11 Number of options held	30.6.10 Number of options held
P Simmonds	-	8,333,333
G Fidura	800,000	800,000

During the year P Simmonds exercised the options held with the share price on the date of exercise being 7p. See note 16 regarding the Ordinary Shares issued in exchange for the options.

> When considering our email provider, dotMailer stood out from the rest, not only in terms of quality and feature set, but the support received initially through Christian and this last year or so through Matthew, who has helped us to use the system effectively, providing our customers with a reflected service offering, making our company look extremely professional. We can't speak highly enough of Matthew or the email platform.
>
> **Daniel Lack**
> Intelligent VC, Hertfordshire

SUBSTANTIAL INTERESTS

On 26th September 2011, the following parties had notified the Group of a beneficial interest that represents 3% or more of the Group's issued share capital at that date:

Shareholders	2011 Number of shares held	Percentage Shareholding %
I Taylor	53,860,000	19.59
S Bird	45,860,000	16.68
Newedge Group SA	31,400,000	11.42
Legal and General Group PLC	28,500,000	10.36
BlackRock Inc.	26,428,430	9.61
P Simmonds	19,943,333	7.25
BlackRock Smaller Companies Trust PLC	10,275,494	3.74
C Potts	10,000,000	3.64

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 payments terms with its suppliers at the time it enters in to 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 days credit for the year is 25 (2010 – 25 days).

PUBLICATION OF ACCOUNTS ON COMPANY WEBSITE

Financial statements are published on the Company's website. The maintenance 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 directors and officers insurance 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 INSTRUMENTS

Details of the Group's risk management objectives and policies together with it's exposure to financial risk are set out in note 21 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 enquires, 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 the going concern basis when preparing the financial statements.

EVENTS AFTER THE REPORTING PERIOD

There are no events after the date of this report or the date the financial statements were approved by the Board of Directors which impact on the figures as presented.

LISTING

The Group's Ordinary Shares have been traded on London Alternative Investment Market (AIM) since 29th March 2011. Zeus Capital are the Group's nominated advisors and together with Charles Stanley Securities are the joint brokers. The closing mid market share price at 30th June 2011 was 7.125p (2010: 5.25p after adjusting the price for the share consolidation made reference to in the notes.)

STATEMENT OF DIRECTORS' RESPONSIBILITIES

The Directors are responsible for preparing the Report of the Directors and the financial statements in accordance with applicable laws 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 financial statements in accordance with International Financial Reporting Standards as adopted by 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 judgements and accounting estimates that are reasonable and prudent;
- State whether the Group and parent Company financial statements have been prepared in accordance with IFRS's as adopted by the European Union subject to any material departures disclosed and explained in the financial statements;
- Prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

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.

AUDITORS

The auditors, Jeffreys Henry LLP, will be proposed for re-appointment at the forthcoming Annual General Meeting.

On behalf of the Board

Peter Simmonds
Director
12th October 2011

"Email marketing has become an integral part of our business and helps us communicate important environmental messages whilst raising our profile. It also allows to reach a huge client database. We have been using dotMailer since 2009 and have enjoyed the ease and excellent standard of creating and sending newsletters and tracking the results. Matthew has been our account manager for over a year and has been a consistently helpful and always willing to solve any problems that we have encountered."

Ruqayya Ferry
Global Action Plan , London

We have audited the financial statements of dotDigital Group Plc for the year ended 30th June 2011, which comprise the consolidated income statement, consolidated statement of comprehensive income, consolidated statement of changes of equity, company statement of changes in equity, consolidated statement of financial position, company statement of financial position, consolidated statement of cash flows, company statement of cash flows and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by 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 an auditors report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITORS

As explained more fully in the Statement of Directors' Responsibilities, 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 presentation of the financial statements. In addition, we read all the financial and non-financial information in the Chairman's and Chief Executive's report, Corporate Social Responsibility report, Corporate Governance report, Audit Committee report, Remuneration Committee report and Directors report to identify material inconsistencies with the audited financial statements. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

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 30th June 2011 and of the Group's profit and Group's and Parent Company's cash flow for the year then ended;
- Have been properly prepared in accordance with IFRSs as adopted by the European Union;
- The parent Company financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union and as applies 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.

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, Statutory Auditor
Chartered Accountants and Registered Auditors
Finsgate 5-7 Cranwood Street, London, EC1V 9EE

12th October 2011

CONSOLIDATED INCOME STATEMENT
FOR THE YEAR ENDED 30TH JUNE 2011

	Notes	30.6.11 £	30.6.10 £
CONTINUING OPERATIONS			
Revenue		8,952,488	6,014,101
GROSS PROFIT		**8,952,488**	**6,014,101**
Administrative expenses		(6,647,493)	(4,638,328)
OPERATING PROFIT BEFORE EXCEPTIONAL ITEMS		**2,304,995**	**1,375,773**
Exceptional items: Cost relating to listing on AIM		(119,826)	-
OPERATING PROFIT		**2,185,169**	**1,375,773**
Finance costs	5	(1,468)	(1,607)
Finance income	5	1,127,862	3,088
PROFIT BEFORE INCOME TAX	6	**3,311,563**	**1,377,254**
Income tax expense	7	(273,743)	(233,104)
PROFIT FOR THE YEAR		**3,037,820**	**1,144,150**
Profit attributable to:			
Owners of the parent		**3,037,820**	**1,144,150**
Earnings per share expressed in pence per share:	9		
Basic		1.16	0.44
Adjusted		0.78	0.44
Diluted		0.72	0.41

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED 30TH JUNE 2011

	30.6.11 £	30.6.10 £
PROFIT FOR THE YEAR	**3,037,820**	**1,144,150**
OTHER COMPREHENSIVE INCOME	-	-
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	**3,037,820**	**1,144,150**
TOTAL COMPREHENSIVE INCOME ATTRIBUTABLE TO:		
OWNERS OF THE PARENT	**3,037,820**	**1,144,150**

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
FOR THE YEAR ENDED 30TH JUNE 2011

	Notes	30.6.11 £	30.6.10 £
ASSETS			
NON-CURRENT ASSETS			
Goodwill	10	4,120,561	4,120,561
Intangible assets	11	990,557	559,082
Property, plant and equipment	12	238,124	173,120
		5,349,242	**4,852,763**
CURRENT ASSETS			
Trade and other receivables	14	1,658,044	1,234,645
Cash and cash equivalents	15	2,568,265	1,277,617
		4,226,309	**2,512,262**
TOTAL ASSETS		**9,575,551**	**7,365,025**
EQUITY ATTRIBUTABLE TO THE OWNERS OF THE PARENT			
Called up share capital	16	1,374,861	1,292,500
Share premium	17	4,737,053	4,533,754
Unissued share capital	17	-	152,660
Reverse acquisition reserve	17	(4,695,465)	(4,695,465)
Other reserves	17	70,160	29,493
Retained earnings	17	5,734,342	2,696,522
TOTAL EQUITY		**7,220,951**	**4,009,464**
LIABILITIES			
NON-CURRENT LIABILITIES			
Trade and other payables			
Financial instruments	19	1,243,492	2,366,320
Financial liabilities – borrowings			
Interest bearing loans	22	-	6,319
CURRENT LIABILITIES			
Trade and other payables	18	1,007,743	668,764
Financial liabilities - borrowings			
Interest bearing loans and borrowings	19	6,076	12,151
Tax payable		97,289	302,007
		1,111,108	982,922
TOTAL LIABILITIES		**2,354,600**	**3,355,561**
TOTAL EQUITY AND LIABILITIES		**9,575,551**	**7,365,025**

The financial statements were approved and authorised for issue by the Board of Directors on 12th October 2011 and were signed on its behalf by

Peter Simmonds
Director

Company registration number: 06289659 (England and Wales)

COMPANY STATEMENT OF FINANCIAL POSITION
FOR THE YEAR ENDED 30TH JUNE 2011

	Notes	30.6.11 £	30.6.10 £
ASSETS			
NON-CURRENT ASSETS			
Investments	13	8,704,468	8,704,468
		8,704,468	**8,704,468**
CURRENT ASSETS			
Trade and other receivables	14	25,746	4,826
Cash and cash equivalents	15	235,274	385,332
		261,020	**390,158**
TOTAL ASSETS		**8,965,488**	**9,094,626**
EQUITY ATTRIBUTABLE TO THE OWNERS OF THE PARENT			
Called up share capital	16	1,374,861	1,292,500
Share premium	17	4,737,053	4,533,754
Unissued share capital	17	-	152,660
Other reserves	17	70,160	29,493
Retained earnings	17	498,060	(329,205)
TOTAL EQUITY		**6,680,134**	**5,679,202**
LIABILITIES			
NON-CURRENT LIABILITIES			
Financial liabilities - borrowings			
Interest bearing loans and borrowings	19	1,243,492	2,366,320
CURRENT LIABILITIES			
Trade and other payables	18	1,041,862	1,049,104
TOTAL LIABILITIES		**2,285,354**	**3,415,424**
TOTAL EQUITY AND LIABILITIES		**8,965,488**	**9,094,626**

The financial statements were approved and authorised for issue by the Board of Directors on 12th October 2011 and were signed on its behalf by

Peter Simmonds
Director

Company registration number: 06289659 (England and Wales)

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 30TH JUNE 2011

	Share capital £	Retained earnings £	Share premium £
BALANCE AT 1ST JULY 2009	1,292,500	1,552,372	4,533,754
Profit for the year	-	1,144,150	-
Total comprehensive income	-	1,144,150	-
BALANCE AT 30TH JUNE 2010	**1,292,500**	**2,696,522**	**4,533,754**
Issue of share capital	67,467	-	65,533
Reclassification of equity	14,894	-	137,766
Transactions with owners	82,361	-	203,299
Profit for the year	-	3,037,820	-
Transactions with owners	-	3,037,820	-
BALANCE AT 30TH JUNE 2011	**1,374,861**	**5,734,342**	**4,737,053**

	Unissued share capital £	Reverse acquisition reserve £	Other reserves £	Total equity £
BALANCE AT 1ST JULY 2009	-	(4,695,465)	5,302	2,688,463
Share based payment	-	-	24,191	24,191
Equity on acquisition	152,660	-	-	152,660
Transactions with owners	152,660	-	24,191	176,851
Profit for the year	-	-	-	1,144,150
Total comprehensive income	-	-	-	1,144,150
BALANCE AS AT 30TH JUNE 2010	**152,660**	**(4,695,465)**	**29,493**	**4,009,464**
Issue of share capital	-	-	-	133,000
Share based payment	-	-	40,667	40,667
Reclassification of equity	(152,660)	-	-	-
Transactions with owners	(152,660)	-	40,667	173,597
Profit for the year	-	-	-	3,037,820
Total comprehensive income	-	-	-	3,037,820
BALANCE AT 30TH JUNE 2011	**-**	**(4,695,465)**	**70,160**	**7,220,951**

- 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 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 Limited
- The reverse acquisition reserve relates to the adjustment required to account the reverse acquisition in accordance with International Financial Reporting Standards.
- Other reserves relate to the charge for the share based payment in accordance with International Financial Reporting Standard 2.

COMPANY STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 30TH JUNE 2011

	Share capital £	Retained earnings £	Share premium £
BALANCE AT 1ST JULY 2009	1,292,500	(148,728)	4,533,754
Deficit for the year	-	(180,477)	-
Total comprehensive income	-	(180,477)	-
BALANCE AT 30TH JUNE 2010	**1,292,500**	**(329,205)**	**4,533,754**
Issue of share capital	67,467	-	65,533
Reclassification of equity	14,894	-	137,766
Transactions with owners	82,361	-	203,299
Profit for the year	-	827,265	-
Total comprehensive income	-	827,265	-
BALANCE AT 30TH JUNE 2011	**1,374,861**	**498,060**	**4,737,053**

	Unpaid Share capital £	Other reserves £	Total equity £
BALANCE AT 1ST JULY 2009	-	5,302	5,682,828
Share based payment	-	24,191	24,191
Equity on acquisition	152,660	-	152,660
Transactions with owners	152,660	24,191	176,851
Deficit for the year	-	-	(180,477)
Total comprehensive income	-	-	(180,477)
BALANCE AT 30TH JUNE 2010	**152,660**	**29,493**	**5,679,202**
Issue of share capital	-	-	133,000
Reclassification of equity	(152,660)	-	-
Share based payment	-	40,667	40,667
Transactions with owners	(152,660)	40,667	173,667
Profit for the year	-	-	827,265
Total comprehensive income	-	-	827,265
BALANCE AT 30TH JUNE 2011	**-**	**70,160**	**6,680,134**

- 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 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 Limited
- Other reserves relate to the charge for the share based payment in accordance with International Financial Reporting Standard 2.

CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 30TH JUNE 2011

	Notes	30.6.11 £	30.6.10 £
CASH FLOWS FROM OPERATING ACTIVITIES			
Cash generated from operations	26	2,462,734	1,275,938
Interest paid		(1,468)	(1,607)
Tax paid		(478,461)	(182,614)
NET CASH GENERATED FROM OPERATING ACTIVITIES		**1,982,805**	**1,091,717**
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchase of goodwill		-	(1,000,000)
Purchase of intangible fixed assets		(657,172)	(405,725)
Purchase of tangible fixed assets		(160,624)	(115,556)
Interest received		5,034	3,088
Funds acquired from acquisition		-	41,407
NET CASH USED IN INVESTING ACTIVITIES		**(812,762)**	**(1,476,786)**
CASH FLOWS FROM FINANCING ACTIVITIES			
Loan repayments in period		(12,395)	(11,912)
Amount withdrawn by Directors		-	(3,304)
Share issues		133,000	-
NET CASH GENERATED FROM FINANCING ACTIVITIES		**120,605**	**(15,216)**
INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS		**1,290,648**	**(400,285)**
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	27	1,277,617	1,677,902
CASH AND CASH EQUIVALENTS AT END OF YEAR	27	**2,568,265**	**1,277,617**

COMPANY STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 30TH JUNE 2011

		30.6.11 £	30.6.10 £
CASH FLOWS FROM OPERATING ACTIVITIES			
Cash generated from operations	28	(257,589)	(139,637)
NET CASH FROM OPERATING ACTIVITIES		**(257,589)**	**(139,637)**
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchase of fixed asset investments		-	(1,000,000)
NET CASH FROM INVESTING ACTIVITIES		**-**	**(1,000,000)**
CASH FLOWS FROM FINANCING ACTIVITIES			
Loan from/(to) Group		(25,469)	960,438
Share issue		133,000	-
NET CASH FROM FINANCING ACTIVITIES		**107,531**	**960,438**
DECREASE IN CASH AND CASH EQUIVALENTS		**(150,058)**	**(179,199)**
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	29	385,332	564,531
CASH AND CASH EQUIVALENTS AT END OF YEAR	29	**235,274**	**385,332**

1. GENERAL INFORMATION

dotDigital Group Plc ("dotDigital") is a company Incorporated England and Wales and quoted on the AIM Markets. The address of the registered office is disclosed on inside back cover of the financial statements. The principle activity of the Group is described on page 24.

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 company operations.

The following interpretations to published standards is mandatory for accounting periods beginning on or after 1st July 2010.

IFRS 3 (revised), 'Business combinations' and consequential amendments to IAS 27, 'Consolidated and separate financial statements', IAS 28, 'Investments in associates' and IAS 31, 'Interests in joint ventures', effective prospectively to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after 1st 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 statement of comprehensive income. There is a choice on an acquisition-by-acquisition basis to measure the minority interest in the acquiree either at fair value or at the minority interest's proportionate share of the acquiree's net assets. All acquisition-related costs should be expensed. This amendment will have no impact on the Company.

IAS 27 (revised), 'Consolidated and separate financial statements', (effective from 1st July 2009). The revised standard requires the effects of all transactions with non-controlling interests to be recorded in equity if there is no change in control and these transactions will no longer result in goodwill or gains and losses. The standard also specifies the accounting when control is lost. Any remaining interest in the entity is re-measured to fair value, and a gain or loss is recognised in profit or loss. This amendment will have no impact on the Company.

IAS 38 (amendment), 'Intangible assets'. The amendment is part of the IASB's annual improvements project published in April 2009 and the Company will apply IAS 38 (amendment) from the date IFRS 3 (revised) is adopted. The amendment clarifies guidance in measuring the fair value of an intangible asset acquired in a business combination and it permits the grouping of intangible assets as a single asset if each asset has a similar useful economic life. The amendment will not result in a material impact on the Company's financial statements.

IAS 32 (amendment), 'Financial instruments: presentation - classification of rights issue', is effective from annual periods beginning on or after 1st February 2010 and amended the definition of a financial liability in order to classify rights issues (and certain options or warrants) as equity instruments in cases where such rights are given pro-rata to all of the existing owners of the same class of an entity's non-derivative equity instruments, or to acquire a fixed number of the entity's own equity instruments for a fixed amount in any currency. This amendment will have no impact on the Company after initial application.

IFRS 2, Share-based Payment: Group Cash-settled Share-based Payment Transactions effective 1st January 2010. The IASB issued an amendment to IFRS2 that clarified the scope and the accounting for Group cash-settled share-based payment transactions. The Company adopted this amendment as of 1st January 2010. It did not have an impact on the financial position or performance of the Company.

IAS 39 Financial Instruments: Recognition and Measurement – Eligible Hedged Items effective 1st July 2009. The amendment clarifies that an entity is permitted to designate a portion of the fair value changes or cash flows variability of a financial instrument as a hedged item. This also covers the designation of inflation as a hedged risk or portion in particular situations. The Company has concluded that the amendment will have no impact on the financial position or performance of the Company, as the Company has not entered into such hedges.

The following new standards, amendments to standards and interpretations are mandatory for the first time for the financial year beginning 1st May 2010, but are not currently relevant for the Company:

IFRIC 17, 'Distributions of non-cash assets to owners', effective for annual periods beginning on or after 1st July 2009. This is not currently applicable to the Company, as it has not made any non-cash distributions.

IFRIC 18, 'Transfers of assets from customers', effective for transfers of assets received on or after 1st July 2009. This is not relevant to the Company, as it has not received any assets from customers.

Standards, interpretations and amendments to published standards that are not yet effective

The following new standards, amendments to standards and interpretations have been issued, but are not effective for the financial year beginning 1st July 2010 and have not been early adopted:

IAS 24 (Amendment), 'Related party transactions'. The amended standard is effective for annual periods beginning on or after 1st January 2011. It clarified definition of a related party to simplify the identification of such relationships and to eliminate inconsistencies in its application. The revised standard introduces a partial exemption of disclosure requirements for government-related entities. The Company does not expect any impact on its financial position or performance.

IFRIC 14 (Amendment), 'Prepayments of a minimum funding requirement'. The amendment to IFRIC 14 is effective for annual periods beginning on or after 1st January 2011 with retrospective application. The amendment provides guidance on assessing the recoverable amount of a net pension asset. The amendment permits an entity to treat the prepayment of a minimum funding requirement as an asset. The amendment is deemed to have no impact on the financial statements of the Company.

IFRS 9, 'Financial instruments: classification and measurement', as issued reflects the first phase of the IASB work on the replacement of IAS 39 and applies to classification and measurement of financial assets as defined in IAS 39. The standard is effective for annual periods beginning on or after 1st January 2013. In subsequent phases, the IASB will address classification and measurement of financial liabilities, hedge accounting and derecognition. The completion of this project is expected in early 2011. The adoption of the first phase of IFRS 9 might have an effect on the classification and measurement of the Company's assets. At this juncture it is difficult for the Company to comprehend the impact on its financial position and performance.

IFRS 7, 'Financial instruments: disclosures (amendment), is effective for annual periods beginning on or after 1st July 2011. The amendments requires additional quantitative and qualitative disclosures relating to transfers of financial assets, where financial assets are derecognised in their entirety, but where the entity has a continuing involvement in them and where financial assets are not derecognised in their entirety. The adoption of this will have no effect on the financial statements of the Company.

IFRIC 19, 'Extinguishing financial liabilities with equity instruments', is effective for annual periods beginning on or after 1st July 2010. The interpretation clarifies that equity instruments issued to a creditor to extinguish a financial liability qualify as consideration paid. The equity instruments issued are measured at their fair value. In case that this cannot be reliably measured, the instruments are measured at the fair value of the liability extinguished. Any gain or loss is recognised in profit or loss. The adoption of this interpretation will have no effect on the financial statements of the Company.

IAS 12, 'Income taxes (amendment) - Deferred taxes: recovery of underlying assets', is effective for annual periods beginning on or after 1st January 2012. It introduces a rebuttable presumption that deferred tax on investment properties measured at fair value will be derecognised on a sale basis, unless an entity has a business model that would indicate the investment property will be consumed in the business. If consumed a use basis would need to be adopted. The amendments also introduce the requirement that deferred tax on non-depreciable assets measured using the revaluation model in IAS16 should always be measured on a sale basis. The adoption of this interpretation will have no effect on the financial statements of the Company.

IFRS 10 Consolidated Financial Statements is effective from 1st January 2013. It introduces a new control model which applies to all entities, including those that were previously considered 'special purpose entities'. Understanding the purpose and design of an investee is critical to the assessment of control. The adoption of this will have no effect on the financial statements of the Company.

IFRS 11 Joint Arrangements is effective from 1st January 2013. The core principle of the standard is that a party to a joint arrangement determines type of joint arrangements in which it is involved by assessing the rights and obligations and accounts for those rights and obligations in accordance with the type of joint arrangement. Joint ventures now must be accounted for using the equity method. Joint operator which is a newly defined term recognises its assets, liabilities, revenues and expenses and relative shares thereof. The adoption of this will have no effect on the financial statements of the Company.

IFRS 12 Disclosures of Interests with Other Entities is effective from 1st January 2013. It requires increased disclosure about the nature, risks and financial effects of an entity's relationship with other entities along with its involvement with other entities. The adoption of this will have no effect on the financial statements of the Company.

IFRS 13, 'Fair Value Measurement' is effective from 1st January 2013. It defines fair value, sets out in a single IFRS a framework for measuring fair value and requires disclosures about fair value measurements. It includes a three-level fair value hierarchy which priorities the inputs in a fair value measurement. The adoption of this will have no effect on the financial statements of the Company.

IFRS 10, 'Consolidated Financial Statements', IFRS 11 Joint Arrangements, IFRS 12 Disclosures of Interests with Other Entities along with related amendments to IAS 27 Separate Financial Statements and IAS 28 Investments in Associates and Joint Ventures will have an effective date of 1st January 2013. Early adoption of these standards is permitted, but only if all five are early adopted together.

Improvements to IFRS (issued in May 2010). The IASB issued improvement to IFRSs, an omnibus of amendments to its IFRS standards. The amendments have not been adopted as they become effective for annual periods on or after 1st January 2011 or 1st July 2010. The amendments listed below, are considered to have a reasonable possible impact on the Company:

IFRS 3 Business combinations

IFRS 7 Financial instruments: disclosures

IAS 1 Presentation of financial statements

IAS 27 Consolidated and separate financial statements

IFRIC 13 Customer loyalty programmes

IAS 34 Interim Financial Reporting

The Company expects no impact from the adoption of the above amendments on its financial position or performance.

Basis of consolidation

In the period ended 2009 the Company acquired via a share for share exchange the entire issued share capital of dotMailer Limited, whose principle 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 30th 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 year ended 30th 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 Plc:
- The assets and liabilities of dotDigital Plc are recognised and measured in the consolidated financial statements at their fair value at the date of acquisition.
- 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.

2. ACCOUNTING POLICIES CONTINUED

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 of 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 be reliably measured and it is probable that the future economic benefits will flow to the entity. The Group bases it's estimates on historical results, taking in to 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 percentage of completion method based on a 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

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 separable, 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 at the following annual rates' 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 components of 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.

Capital risk management

The Group manages it's capital to ensure it is able to continue as a going concern while maximising the return to stakeholders through the optimisation of the debt and equity balance. The capital structure of the Group consists of, cash and cash equivalents, short term finance and equity attributable to the owners of the parent as disclosed in the Statement of Changes in Equity.

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 taxation
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.

Foreign currency translation
Assets and liabilities in foreign currencies are translated into sterling at the rates of exchange ruling at the balance sheet date. Transactions in foreign currencies are translated into sterling at the rate of exchange ruling at the date of transaction. Exchange differences are taken into account in arriving at the operating result.

Operating leases
Leases in terms of which the Group 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 Group'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:

- ***Impairment of non financial assets (excluding goodwill)***

  At each balance sheet date, the Group reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where the asset does not generate cash flows that are independent from other assets, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs. An intangible asset with an indefinite useful life is tested for impairment annually and whenever there is an indication that the asset may be impaired.

  Recoverable amount is the higher of fair value less costs to sell and value in use. 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 for which the estimates of future cash flows have not been adjusted.

  If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised as an expense immediately, unless the relevant asset is carried at a re-valued amount, in which case the impairment loss is treated as a revaluation decrease.

  Where an impairment loss subsequently reverses, the carrying amount of the asset (cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (cash-generating unit) in prior years. A reversal of an impairment loss is recognised as income immediately, unless the relevant asset is carried at a revalued amount, in which case the reversal of the impairment loss is treated as a revaluation increase.

- ***Plant and equipment, intangible assets and impairment of goodwill***

  Intangible assets excluding goodwill and plant and equipment are amortised or depreciated over their useful lives. Useful lives are based on management's estimates of the period that the assets will generate revenue, which are periodically reviewed for continued appropriateness. Changes to the estimates used can result in significant variations in the carrying value.

  The Group assesses the impairment of plant and equipment and intangible assets subject to amortisation or depreciation whenever events or changes in circumstances indicate that the carrying value may not be recoverable.

2. ACCOUNTING POLICIES CONTINUED

Additionally, goodwill arising on acquisitions is subject to impairment review. The Group's management undertakes an impairment review of goodwill annually or more frequently if events or changes in circumstances indicate that the carrying value may not be recoverable.

The complexity of the estimation process and issues related to the assumptions, risks and uncertainties inherent in the application of the Group's accounting estimates in relation to plant and equipment and intangible assets affect the amounts reported in the financial statements, especially the estimates of the expected useful economic lives and the carrying values of those assets. If business conditions were different, or if different assumptions were used in the application of this and other accounting estimates, it is likely that materially different amounts could be reported in the Group's financial statements.

The Directors have carried out a detailed impairment review in respect of goodwill. The Group assesses at each reporting date whether there is an indication that an asset may be impaired, by considering the net present value of discounted cash flows forecasts which have been discounted at 5%. The cash flow projections are based on the assumption that the Group can realise projected sales. A prudent approach has been applied with no residual value being factored. At the period end, based on these assumptions there was no indication of impairment of the value of goodwill.

However, if the projected sales do not materialise there is a risk that the value of the intangible assets shown above would be impaired.

- ***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 corresponding adjustment to equity.

- ***Contingent considerations***

The future consideration payable to the vendors of Netcallidus in respect to the contingent consideration (earnouts) is based on the Directors' best estimate 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 the 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. Reviews of the fair values are undertaken at each period end with any resulting adjustments being made through the Groups 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 profit targets) 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 25).

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 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 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.

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.

3. SEGMENTAL REPORTING

The Groups' primary reporting format is business segments and its second 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

	30.6.11 £	30.6.10 £
Wages and salaries	3,437,503	2,639,741
Social security costs	393,270	270,902
Other pension costs	36,178	23,111
	3,866,951	**2,933,754**

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

	30.6.11	30.6.10
Directors	6	6
Sales	27	21
Web designers and developers	88	31
Administration	12	16
	133	**74**

5. NET FINANCE INCOME

	30.6.11 £	30.6.10 £
Finance income:		
Exceptional item (see note 13)	1,122,828	-
Deposit account interest	5,034	3,088
	1,127,862	**3,088**
Finance costs:		
Loan	1,125	1,607
Interest payable	343	-
	1,468	1,607
NET FINANCE INCOME	**1,126,394**	**1,481**

The exceptional item outline above under finance income relates to the revision of the contingent consideration due in relation to the acquisition of Netcallidus Limited in the previous reporting period. IFRS 3 relating to business combinations directs that any revaluations to the consideration should be credited to the income statement as financial income. See note 13 for further details.

6. PROFIT BEFORE INCOME TAX

COSTS BY NATURE

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

	30.6.11 £	30.6.10 £
Staff related costs (inc Directors emoluments)	4,020,736	3,084,799
Operating leases: Land and buildings	321,463	227,285
Operating leases: Other	42,795	19,726
Audit remuneration	59,878	24,505
Amortisation of intangibles	225,697	106,318
Depreciation charge	95,621	66,634
Legal, professional and consultancy fees	381,275	284,544
Outsourcing costs	235,629	-
Computer expenditure	244,502	200,086
Research costs	-	12,822
Marketing costs	355,427	239,835
Bad debts	142,268	55,140
Foreign exchange (gains)/losses	(18,035)	2,591
Travelling	131,037	48,309
Office running	109,978	80,602
Other costs	299,222	185,132
TOTAL ADMINISTRATION EXPENSES	**6,647,493**	**4,638,328**

6. PROFIT BEFORE INCOME TAX- CONTINUED

AUDIT REMUNERATION

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

	30.6.11 £	30.6.10 £
Fees payable to the Group's auditor for the audit of annual accounts	35,000	24,506
Under provision of fees paid to Group's auditor in relation to the audit of the previous period's annual accounts	18,000	-
Non audit related fees: All other services	6,787	-
	59,787	**24,506**

7. INCOME TAX

ANALYSIS OF THE TAX CHARGE

	30.6.11 £	30.6.10 £
Current tax:		
Tax	273,743	233,104
TOTAL TAX CHARGE IN INCOME STATEMENT	**273,743**	**233,104**

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:

	30.6.11 £	30.6.10 £
Profit on ordinary activities before tax	3,311,563	1,377,254
Profit on ordinary activities multiplied by the standard rate of corporation tax in the UK of 28% (2010 - 28%)	927,238	385,631
Effects of:		
Expenses not deductible	(205,576)	24,036
Research and development enhanced claim	(291,397)	(165,365)
Effect of profits within marginal rate	(9,314)	-
Expenditure permitted on exercising options	(136,184)	-
Capital allowances in excess of depreciation	(11,024)	(11,198)
TOTAL INCOME TAX	**273,743**	**233,104**

8. PROFIT/(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 profit for the financial year was £827,265 (2010 – loss £180,477).

9. 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:-

		30.6.11	
	Earnings £	Weighted average number of shares	Per share amount pence
BASIC EPS			
Net income attributable to owners of the Parent	3,037,820	261,891,138	1.16
Adjusted EPS			
Effect of exceptional items:			
- Cost relating to listing on AIM	119,862	-	-
- Revisions to financial instrument (see note 13)	(1,122,828)	-	-
ADJUSTED EARNINGS	**2,034,854**	**261,891,138**	**0.78**
Effect of dilutive shares			
Options & Warrants	-	22,268,222	-
DILUTED EPS			
Adjusted earnings	**2,034,854**	**284,159,360**	**0.72**

		30.6.10	
	Earnings £	Weighted average number of shares	Per share amount pence
Basic EPS			
Earnings attributable to Ordinary Shareholders	1,144,150	258,500,000	0.44
Adjusted EPS	-	-	-
ADJUSTED EARNINGS	**1,144,150**	**258,500,000**	**0.44**
Effect of dilutive shares			
Options & Warrants	-	17,886,690	-
DILUTED EPS			
Adjusted earnings	**1,144,150**	**276,386,690**	**0.41**

Earnings per share for this reporting period and respective comparatives have been presented post the share consolidation made reference to in note 16. Had the consolidation not taken place the EPS for the reporting period would be the following:

Basic:	0.14p (2010 – 0.09)
Diluted:	0.13p (2010 – 0.08)

10. GOODWILL

GROUP

	£
COST	
At 1st July 2010	
and 30th June 2011	4,120,561
NET BOOK VALUE	
AT 30TH JUNE 2011	**4,120,561**

	£
COST	
At 1st July 2009	608,503
Additions	3,512,058
At 30th June 2010	4,120,561
NET BOOK VALUE	
AT 30TH JUNE 2010	**4,120,561**

GROUP

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 30th June 2016.

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

Revenue growth rates:	2012	40.00%
	2013	36.00%
	2014	30.00%
	2015	30.00%
	2016	30.00%
Pre tax discount rate:	All years	6.94%
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:	2012	90.00%
	2013	85.00%
	2014	30.00%
	2015	30.00%
	2016	30.00%
Pre tax discount rate:	All years	6.94%
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.

11. INTANGIBLE ASSETS

GROUP

	Computer software £	Development costs £	Domain names £	Totals £
COST				
At 1st July 2010	125,301	579,540	8,836	713,677
Additions	22,654	630,383	4,135	657,172
AT 30TH JUNE 2011	**147,955**	**1,209,923**	**12,971**	**1,370,849**
AMORTISATION				
At 1st July 2010	32,825	117,280	4,490	154,595
Amortisation for year	32,355	190,435	2,907	225,697
AT 30TH JUNE 2011	**65,180**	**307,715**	**7,397**	**380,292**
NET BOOK VALUE				
AT 30TH JUNE 2011	**82,775**	**902,208**	**5,574**	**990,557**

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

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

12. PROPERTY, PLANT AND EQUIPMENT

GROUP

	Short leasehold £	Plant and machinery £	Fixtures and fittings £	Computer equipment £	Totals £
COST					
At 1st July 2010	11,875	5,577	144,974	290,446	452,872
Additions	-	2,959	29,971	127,694	160,624
AT 30TH JUNE 2011	**11,875**	**8,536**	**174,945**	**418,140**	**613,496**
DEPRECIATION					
At 1st July 2010	9,100	1,719	93,719	175,215	279,753
Charge for year	1,026	1,763	26,007	66,823	95,619
AT 30TH JUNE 2011	**10,126**	**3,482**	**119,726**	**242,038**	**375,372**
NET BOOK VALUE					
AT 30TH JUNE 2011	**1,749**	**5,054**	**55,219**	**176,102**	**238,124**

12. PROPERTY, PLANT AND EQUIPMENT CONTINUED

	Short leasehold £	Plant and machinery £	Fixtures and fittings £	Computer equipment £	Totals £
COST					
At 1st July 2009	11,875	-	120,990	198,874	331,739
Additions	-	5,577	23,984	91,572	121,133
AT 30TH JUNE 2010	**11,875**	**5,577**	**144,974**	**290,446**	**452,872**
DEPRECIATION					
At 1st July 2009	6,160	-	67,455	139,072	212,687
Charge for year	2,940	1,719	26,264	36,143	67,066
AT 30TH JUNE 2010	**9,100**	**1,719**	**93,719**	**175,215**	**279,753**
NET BOOK VALUE					
AT 30TH JUNE 2010	**2,775**	**3,859**	**51,255**	**115,231**	**173,120**

13. INVESTMENTS

COMPANY

	Shares in Group undertakings £
COST	
At 1st July 2010 and 30th June 2011	8,704,468
NET BOOK VALUE	
AT 30TH JUNE 2011	**8,704,468**
At 30th June 2010	8,704,468

	Shares in Group undertakings £
COST	
At 1st July 2009	5,183,488
Additions	3,520,980
At 30th June 2010	8,704,468
NET BOOK VALUE	
AT 30TH JUNE 2010	**8,704,468**

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:	Proportion of voting power held %
Ordinary	100.00
Ordinary A	100.00

	30.6.11 £	30.6.10 £
Aggregate capital and reserves	4,872,520	3,645,246
Profit for the year	2,008,026	1,285,966

dotAgency Limited

Nature of business: Dormant

Class of shares:	Proportion of voting power held %
Ordinary	100.00

	30.6.11 £	30.6.10 £
Aggregate capital and reserves	1,000	1,000

dotCommerce Limited

Nature of business: Dormant

Class of shares:	Proportion of voting power held %
Ordinary	100.00

	30.6.11 £	30.6.10 £
Aggregate capital and reserves	1,000	1,000

dotEditor

Nature of business: Dormant

Class of shares:	Proportion of voting power held %
Ordinary	100.00

	30.6.11 £	30.6.10 £
Aggregate capital and reserves	1,000	1,000

dotSEO

Nature of business: Dormant

Class of shares:	Proportion of voting power held %
Ordinary	100.00

	30.6.11 £	30.6.10 £
Aggregate capital and reserves	1,000	1,000

Netcallidus Limited

Nature of business: Internet and website services

Class of shares:	Proportion of voting power held %
Ordinary B, C & D	100.00

	30.6.11 £	30.6.10 £
Aggregate capital and reserves	297,677	236,135
Profit for the year	207,095	230,532

13. INVESTMENTS CONTINUED

Below are the Parent Company's indirect holdings:

INDIRECT HOLDING

Netcallidus Europe Limited

Country of incorporation: England and Wales

Nature of business: Branch company

Class of shares:	Proportion of voting power held %
Ordinary	100.00

	30.6.11 £
Aggregate capital and reserves	(3,566)
Loss for the year	(4,566)

On 17th 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 Group's principle activity is the provision of internet and website services. Obtaining control of Netcallidus Limited allows the Group to incorporate the customer base in to its own while providing additional expertise to further develop and market it's SEO products.

For the 6 weeks Netcallidus Limited has been incorporated in to the results of the previous reporting period the Company contributed £110,012 to the Groups reported revenues and had the acquisition occurred on 1st July 2009, management estimates that the contribution to revenue would have been £671,594 with the associated post tax profit being £216,924. In determining these amounts, management has assumed that the fair value adjustments, determined provisionally, that arose on the date of he acquisition would have been the same if the acquisition had occurred on 1st July 2009.

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

Consideration transferred:	Discounted fair value £
Cash	1,000,000
Equity instruments (14,200,930 shares)	152,660
	1,152,660

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 year end. The number of shares to be issued as contingent consideration is based on the expected present value of the Groups 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:	£
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 related 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 for the previous reporting period.

The contingent consideration arrangement requires the Group to pay the former owners of Netcallidus Limited additional consideration of £1,243,492 (2010- £2,366,320) in a combination of cash and equity in the Group. As made reference to in the previous year's financial statements an interim payment was due to be made on finalising the profit after tax figures based on 4 times the profit after tax in the year ended 30th June 2011 less any amounts that have been paid previously, but the level of the profit after tax generated against the Boards expectations indicated that no additional payment was due and led to a revision of the expected payment due based in the profits generated in the year ended 30th June 2012. IFRS 3 regarding business combinations requires all revisions to the expected payments due on acquisition to be charged to the income statement as finance income therefore £1,122,828 has been charged.

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

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

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

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

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

	Nominal value		Discounted fair value		
	Cash £	Shares £	Cash £	Shares £	Total £
Less than one year	523,576	785,363	497,397	746,095	1,243,492
	523,576	**785,363**	**497,397**	**746,095**	**1,243,492**

14. TRADE AND OTHER RECEIVABLES

	Group		Company	
	30.6.11 £	30.6.10 £	30.6.11 £	30.6.10 £
Current:				
Trade receivables	1,452,776	1,108,231	-	-
Other receivables	34,630	10,986	-	-
VAT	-	-	11,739	-
Prepayments and accrued income	170,638	115,428	14,007	4,826
	1,658,044	**1,234,645**	**25,746**	**4,826**

15. CASH AND CASH EQUIVALENTS

	Group		Company	
	30.6.11 £	30.6.10 £	30.6.11 £	30.6.10 £
Cash in hand	394	124	-	-
Bank accounts	2,567,871	1,277,493	235,274	385,332
	2,568,265	**1,277,617**	**235,274**	**385,332**

16. CALLED UP SHARE CAPITAL

Allotted, issued and fully paid

Number	Class	Nominal value	30.6.11 £	30.6.10 £
274,972,065	Ordinary	£0.005	1,374,861	1,292,500
(2010 – 1,292,500,000 at £0.001 per share)				
			1,374,861	**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.

During the reporting period the Company undertook the following transactions involving the issuing and reclassifying issued share capital:

25,000,000 shares were issued at par. On 29th June 2011 41,666,667 shares were issued at a premium price of 1.2p per share and 800,000 shares were issued at a premium price of 1p per share.*

16. CALLED UP SHARE CAPITAL CONTINUED

On 28th October 2010 the Board of Directors were satisfied that all conditions to the purchase of Netcallidus Limited (see note 13) were complete, therefore the final stage of the consideration due to the previous owners, partly being the issue of 14,894,000 ordinary shares at a premium value of 0 .0125p was resolved. This issue of shares had been provided for in the previous reporting period and therefore a reclassification of equity, see report in changes in equity on page 33.

On 10th February 2011 the Board of Directors passed a resolution to consolidate the issued share capital at rate of 5 Ordinary Shares to 1 and at the same time increasing the nominal value of each share to 0.5p from 0.1p per Ordinary Share.

* All issues of Ordinary Shares were undertaken before the share consolidation was passed by the Board and are therefore quoted at the nominal values at the beginning of the reporting period.

17. RESERVES

GROUP

	Retained earnings £	Share premium £	Unissued share capital £
At 1st July 2010	2,696,522	4,533,754	152,660
Cash share issue	3,037,820	-	-
Cash share issue	-	65,533	-
Reclassification of equity	-	137,766	(152,660)
AT 30TH JUNE 2011	**5,734,342**	**4,737,053**	**-**

GROUP

	Reverse acquisition reserve £	Other reserves £	Totals £
At 1st July 2010	(4,695,465)	29,493	2,716,964
Profit for the year			3,037,820
Cash share issue	-	-	65,533
Share based payment	-	40,667	40,667
Reclassification of equity	-	-	(14,894)
AT 30TH JUNE 2011	**(4,695,465)**	**70,160**	**5,846,090**

COMPANY

	Retained earnings £	Share premium £	Unissued share capital £	Other reserves £	Totals £
At 1st July 2010	(329,205)	4,533,754	152,660	29,493	4,386,702
Profit for the year	827,265				827,265
Cash share issue	-	65,533	-	-	65,533
Share based payment	-	-	-	40,667	40,667
Reclassification of equity	-	137,766	(152,660)	-	(14,894)
AT 30TH JUNE 2011	**498,060**	**4,737,053**	**-**	**70,160**	**5,305,273**

18. TRADE AND OTHER PAYABLES

	Group		Company	
	30.6.11 £	30.6.10 £	30.6.11 £	30.6.10 £
Current:				
Trade payables	204,894	133,764	71,516	52,527
Amounts due to related parties (see note 23)	-	-	926,596	984,076
Social security and other taxes	272,669	172,089	-	-
Other payables	33,404	18,483	-	2,000
Accruals and deferred income	183,042	112,444	43,750	8,333
VAT	313,734	231,984	-	2,168
	1,007,743	**668,764**	**1,041,862**	**1,049,104**

19. FINANCIAL LIABILITIES - BORROWINGS

	Group		Company	
	30.6.11	30.6.10	30.6.11	30.6.10
	£	£	£	£
Current:				
Bank loans	6,076	12,151	-	-
	6,076	**12,151**	**-**	**-**
Non-current:				
Bank loans - 1-2 years	-	6,319	-	-
Contingent consideration	1,243,492	2,366,320	1,243,492	2,366,320
	1,243,492	**2,372,639**	**1,243,492**	**2,366,320**

Included in non current other financial liabilities is the present value of the contingent consideration due on the purchase of the entire share capital of Netcallidus Limited. The above balance may become due in part of in full over the next 2 years dependent on the subsidiary's ability to meet or exceed predetermined profit targets. See note 13 for further information.

20. LEASING AGREEMENTS

Minimum lease payments under non cancellable operating leases fall due as follows:-

	30.6.11		
	Land and Buildings	Others	Total
	£	£	£
Within one year	134,928	39,774	174,702
Between two to five years	33,155	27,928	61,083
	168,083	**67,702**	**235,785**

	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**

21. 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 and 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 bearing 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 was not exposed to any movement in interest rates in regards to loans and achieved less then 1% interest on cash holdings.

In the previous period 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 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 30th 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. The final payment due based on profits after tax as at 30th June 2011 has been paid.

The Board have assessed the range of outcomes of future profits 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:

The consideration paid was based on 40% cash and 60% equity combination. The shares issued at the mid-market price quoted on the public 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 outlined below in their composite elements.

21. FINANCIAL INSTRUMENTS CONTINUED

Year ended 30th June 2011:

	Nominal value		Discounted fair value		
	Cash £	Shares £	Cash £	Shares £	Total £
Less than one year	523,576	785,363	497,397	746,095	1,243,492
	523,576	**785,363**	**497,397**	**746,095**	**1,243,492**

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 periods will be charged to the income statement.

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.

Liquidity risk

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

As described above the 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 2012.

The final payment in October 2012 will be based on 3 times the profit after tax in the year ended 30th June 2012 less any amounts previously paid. The management 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 was made in October 2011.

The two tranches of deferred consideration were and will be paid in the ratio of 40% cash and 60% equity. The shares will be issued at the mid-market price quoted on public 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 a 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 30th June 2011 there were no significant debts past their due period which had not been provided for. The maturity of the Groups trade receivables is as follows:

	As at 30.06.11 £	As at 30.06.10 £
0-30 days	1,030,966	747,730
30-60 days	268,425	251,565
More than 60 days	188,475	108,936
	1,487,866	**1,108,231**

The Group minimises its credit risk by profiling all new customers and monitoring existing client of the Group for changes in their initial profile. The level of trade receivables past the average collection period consisted of a value of £188,475 of which £142,286 was provided for. The Group felt that the remainder would be collected post June as they were clients 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 counterparts are banks with high credit ratings assigned by international credit ratings.

Details as to maximum fair values of the Group's financial assets and liabilities can be found in the consolidated statement of financial position.

Capital Policy

The Groups 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, risk 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 £6,072 (2010- £12,152) and amounts payable over one year are nil. 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.

22. CAPITAL COMMITMENTS

The Company and Group have no capital commitments as at the year end.

23. RELATED PARTY DISCLOSURES

GROUP

The following transactions were carried out with related parties:

Sales of service

	Group		Company	
	2011 £	2010 £	2011 £	2010 £
SALE OF SERVICES				
Entities controlled by non-executive of the Group				
Stockroom Limited - website services	-	4,795	-	-
Chillibean Limited - email marketing services	-	4,395	-	-
TOTAL	**-**	**9,190**	**-**	**-**

Both the above companies were controlled by D Pacy who was a Non-Executive Director during the financial year.

Purchases of services

	Group		Company	
	2011 £	2010 £	2011 £	2010 £
PURCHASES OF SERVICES				
Entities controlled by non-executive of the Group				
Haggie Financial LLP- Financial PR	5,155	20,701	5,155	-
Nexus Financial Limited - Financial PR	20,709	-	20,709	-
Hansard Communications Limited - Financial PR	2,621	-	2,621	-
TOTAL	**28,485**	**20,701**	**28,485**	**-**

N Nelson a Non-Executive Director of the Group had interests in the above companies. These companies provided financial public relations services to the Company.

Key Management compensation

Key management includes Directors, Associate Directors, Members of the Executive Committee and the Company Secretary. The compensation paid for key management for employee services is shown below:

	Group		Company	
	2011 £	2010 £	2011 £	2010 £
Remuneration and other short term employee benefits	842,523	582,244	42,917	38,333
Share-based payments	7,821	4,680	-	-
TOTAL	**850,344**	**586,924**	**42,917**	**38,333**

Directors & Non-Executive Directors

	Group		Company	
	2011 £	2010 £	2011 £	2010 £
Aggregate emoluments	778,988	531,902	42,917	38,333
Aggregate gains made on the exercise of share options	483,333	-	-	-
Company contributions to money purchase pension scheme	34,013	30,974	-	-
TOTAL	**1,296,334**	**562,876**	**42,917**	**38,333**

The number of Directors for whom retirement benefits are accruing under the money purchased pension schemes amounted to 4 (2010 – 4).

23. RELATED PARTY DISCLOSURES CONTINUED

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

	2011	2010
Salaries	163,500	131,000
Other benefits	757	757
Pension costs	10,458	9,500
TOTAL	**174,715**	**141,257**

Year-end balances arising from sales/purchases of services

	Group		Company	
	2011	2010	2011	2010
RECEIVABLES FROM RELATED PARTIES				
Entities controlled by non-executive Directors of the Group:				
Chillibean Limited	-	4,796	-	-
Stockroom Limited	-	586	-	-
PAYABLES TO RELATED PARTIES				
Entities controlled by non-executive Directors of the Group:				
Haggie Financial LLP	-	-	-	-
Nexus Financial Limited	-	-	-	-
Hansard Communications Limited	2,261	-	2,261	-
Subsidiary				
- dotMailer Limited	-	-	926,596	984,076

Loans to related parties

There were no loans made to related parties during the financial year.

24. ULTIMATE CONTROLLING PARTY

There is no ultimate controlling party of the Group. dotDigital Group PLC acts as the parent Company to dotMailer Limited, Netcallidus Limited, dotAgency Limited (Dormant), dotSEO Limited (Dormant), dotCommerce Limited (Dormant) & dotEditor Limited (Dormant). The Company also indirectly controls Netcallidus Europe Limited.

25. SHARE-BASED PAYMENT TRANSACTIONS

The measurement requirements of IFRS 2 have been implemented in respect of share options that were granted after 7th November 2002. The expense is recognised for share based payments made during the year is £40,667 (2010- £24,191)

Also on 11th November 2010 the Board of Directors also granted 34,000,000 options to employees of the Group exercisable on or after 1st July 2010 until 1st February 2019. Vesting conditions of the options dictate that employees must remain in the employment of the Group for the whole period to qualify.

Movement in issued share options during the year

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

	30.6.11		30.6.10	
	No of options	WAEP	No of options	WAEP
Outstanding at the beginning of the period	18,785,333	0.27p	14,845,333	0.27p
Granted during the year	6,800,000	1.00p	4,250,000	1.00p
Forfeited/cancelled during the period	370,000	1.00p	310,000	1.00p
Exchanged for shares	13,493,333		Nil	
Outstanding at the end of the period	11,722,000	0.42p	18,785,333	0.42p
Exercisable at the end of the period	Nil		Nil	

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	11th November 2010
Number of options granted	6,800,000
Share price at grant date	5.13p
Exercise price at grant date	5.13p
Risk free rate	2.43%
Option life	4.5
Expected volatility	7.83%
Expected dividend yield	0%
Fair value of option	0.25p

Number in options detailed above and the respective comparisons have been restated for the share consolidation undertaken, See note 16 for further details.

26. GROUP RECONCILIATION OF PROFIT BEFORE INCOME TAX TO CASH GENERATED FROM OPERATIONS

	30.6.11 £	30.6.10 £
Profit before income tax	3,311,563	1,377,254
Depreciation charges	321,318	170,338
Share based payment	40,667	24,191
Finance costs	1,468	1,607
Finance income	(1,127,862)	(3,088)
	2,547,154	**1,570,302**
Increase in trade and other receivables	(423,399)	(492,992)
Increase in trade and other payables	338,979	198,628
CASH GENERATED FROM OPERATIONS	**2,462,734**	**1,275,938**

27. GROUP CASH AND CASH EQUIVALENTS

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

YEAR ENDED 30TH JUNE 2011

	30.6.11 £	1.7.10 £
Cash and cash equivalents	2,568,265	1,277,617
	2,568,265	**1,277,617**

YEAR ENDED 30TH JUNE 2010

	30.6.11 £	1.7.10 £
CASH AND CASH EQUIVALENTS	**1,277,617**	**1,677,902**

28. COMPANY RECONCILIATION OF PROFIT/(LOSS) BEFORE INCOME TAX TO CASH GENERATED FROM OPERATIONS

	30.6.11 £	30.6.10 £
Profit/(loss) before income tax	827,265	(180,477)
Share options	40,667	24,191
Finance income	(1,122,828)	-
	(254,896)	**(156,286)**
Increase in trade and other receivables	(9,181)	(2,114)
Increase in trade and other payables	6,488	18,763
CASH GENERATED FROM OPERATIONS	**(257,589)**	**(139,637)**

29. COMPANY CASH AND CASH EQUIVALENTS

The amounts disclosed on the statement of cash flow in respect of cash and cash equivalents are in respect of this statement of financial position amounts:

YEAR ENDED 30TH JUNE 2011

	30.6.11 £	1.7.10 £
Cash and cash equivalents	235,274	385,332

YEAR ENDED 30TH JUNE 2010

	30.6.11 £	1.7.10 £
Cash and cash equivalents	385,332	564,531

30. RESEARCH & DEVELOPMENT

During the period the Group incurred nil (2010- £12,822) in research costs and £630,383 (2010- £337,480) in development investments. All resources utilised in research and development has been categorised as outline in the accounting policy governing this area.

31. POST BALANCE SHEET EVENTS

There are no post balance sheet events with an impact on the Group's financial statements.

COMPANY INFORMATION

DIRECTORS
S Bird
N C P Nelson
P A Simmonds
I Taylor
G Fidura
R Kellett-Clarke (appointed 13 June 2011)
F Beechinor-Collins (appointed 5 May 2011)
D Pacy (resigned 13 December 2010)

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