

**Company Number 4020844**

**DM PLC**

**REPORT AND FINANCIAL STATEMENTS  
FOR PERIOD ENDED  
31 DECEMBER 2004**

**DM plc**  
**(“DM”, “Company” or the “Group”)**

**RESULTS**  
**FOR PERIOD ENDED 31 DECEMBER 2004**

DM plc, the Direct Marketing Group specialising in home gaming, presents its results for the period ended 31 December 2004. Key highlights include:

- Group consolidated profit before tax for the year ended 31 December 2004 of £1.317 million (2003: £1.208 million) on turnover of £4.201 million (2003: £5.470 million)
- Acquisition of Strike Lucky Games Limited (“Strike Lucky”) for up to £15.68 million
- Acquisition of Purely Creative Limited (“Purely Creative”) on 30 March 2005 for £50,000 in cash, plus interest and potential earn-out of up to £2 million over two years
- Early satisfaction of earn-out obligation in relation to Purely Creative acquisition for £300,000 in cash on 6 May 2005
- Name change from Hawthorn Holdings plc to DM plc
- Change in Group accounting reference date to 31 December

Adrian Williams, Chairman and Chief Executive commented:

*“The acquisition of Strike Lucky and subsequently Purely Creative have laid the foundations for the Company. We have already enjoyed substantial synergies from the consolidation of Purely Creative and Strike Lucky. DM’s combined database of nearly five million customers is now one of the largest in our sector. Database exploitation continues to become a more important part of our profits.*”

*We are investing in our database by adding further information which will make the database attractive to Banks and Major Financial Institutions who are the largest users of Direct Mail. We are also now exploring other methods of generating initial client contacts.”*

**DM plc**  
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## DM plc

### CHAIRMAN'S STATEMENT

#### Introduction

DM plc ("DM" "Company" or the "Group"), the Direct Marketing Group specialising in home gaming is pleased to report its results for the period ended 31 December 2004. In the period, DM has changed its name from Hawthorn Holdings plc and has changed its year end from 30 June to 31 December to bring the Group reporting date in line with the main trading subsidiary Strike Lucky Games Limited ("Strike Lucky").

#### Financial results

The acquisition of Strike Lucky was completed on 6 October 2004. The terms of the acquisition were such that although DM is the legal parent of Strike Lucky, the substance of the combination was that Strike Lucky acquired DM in a reverse acquisition.

The results presented for the Group, therefore represent those of Strike Lucky for the year ended 31 December 2004 and consolidate the results of DM for the period from 6 October 2004 to 31 December 2004. Information has also been presented relating to DM as a single entity for the period from 30 June 2003, when statutory accounts were last presented, to 31 December 2004. The previously reported consolidated results of DM for the year ended 30 June 2003 are also included.

For the year ended 31 December 2004, the Group reported a consolidated profit before tax of £1.317 million (2003: £1.208 million) on turnover of £4.201 million (2003: £5.470 million).

#### Business Review

The disposal of the trading subsidiaries of Poptones Group plc was concluded on 8 July 2003. The costs of these disposals were reflected in the results reported for the year ended 30 June 2003. This left the company, renamed Hawthorn Holdings plc, as an AIM listed non-trading cash shell. On 29 July 2004, the terms of the acquisition of Strike Lucky were announced, which completed on 6 October 2004.

The acquisition of Strike Lucky has given the Group a highly profitable core business operating in the direct marketing industry. This was further enhanced by the acquisition in 2005 of Purely Creative Limited ("Purely Creative"), which produces and distributes marketing competitions and promotions. Although, there were substantial costs in the year involved with the reverse takeover of Strike Lucky, the trading results and outlook of the newly constituted group are very promising.

The Group acquired by way of a reverse takeover all the shares in Strike Lucky on 6 October 2004. The acquisition cost was £14.184 million plus a three year earn out agreement of up to £1.5 million, payable in loan notes, based on the profitability of Strike Lucky over the three financial years ending 31 December 2006. The results of Strike Lucky for the year ended 31 December 2004, has given rise to the issue of £1.078 million of loan notes, redeemable six months from issue. This represents 71.9 per cent. of the maximum £1.5 million payable under the earn-out. Subject to the full discharge of the earn-out loan notes, the Board intends to commence the payment of dividends and operate a progressive dividend policy when it is commercially prudent to do so.

On 31 March 2005, the Board of DM announced that it had acquired the entire issued share capital of Purely Creative for £50,000 in cash, plus interest since 7 October 2004. As a consequence of this acquisition an earn-out of up to £2 million may have become payable to Thus plc subject to the future performance of Purely Creative (“the Earn-Out Obligation”).

On 6 May 2005, the Group settled the Earn-Out Obligation in full by the immediate payment to Thus plc of the sum of £300,000 in cash, which the Board considered to be in the interests of DM shareholders as a whole.

The unaudited draft management accounts for Purely Creative for the period ended 31 December 2004 reported a turnover of £2.1 million and net profit of £0.49 million. The unaudited net asset value for Purely Creative at 31 December 2004 was £0.54 million. These results are not consolidated in the Group results.

Following the divestment of Purely Creative from Thus plc on 7 October 2004, the management of Purely Creative has been under the direction of DM management. In the six months from 7 October 2004 to 31 March 2005, prior to the completion of the acquisition of Purely Creative by DM, the unaudited draft management accounts of Purely Creative reported a turnover of £3.9 million and net profit of £0.79 million. The earnings of Purely Creative since 7 October 2004, were retained and acquired by the Group on completion of the acquisition of Purely Creative.

Purely Creative designs, produces and distributes marketing competitions and promotions principally through the UK print media, managing high volume player response levels via telephone, SMS and post. Purely Creative is a subsidiary of Strike Lucky and trades as a separate entity.

### **Board appointment**

I am delighted to announce the appointment of Mark Winter, age 41, to the Board as Finance Director. Mark has been providing financial consultancy to the Group since 1 November 2004, and will be a valuable addition to the Board. Mark qualified as a chartered accountant with KPMG in 1992 and worked as a financial controller in several companies. He was Finance Director at Minerva International Holdings Ltd from 1998 to 2001 and of Regency Group, part of South Staffordshire Group PLC, from 2002 to 2003. Since then, he has been an associate at the financial consultancy, FDUK where he has had experience of a range of roles including fast growing businesses.

There are no further disclosures for Mr. Winter under Schedule 2, paragraph (f) of the AIM rules.

### **Board and Management**

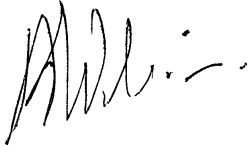
With the completion of the reverse takeover of Strike Lucky, the then existing directors resigned and were replaced by new board members. The Board now consists of Adrian Williams as Chairman and Chief Executive, Wendy Ruck as Operations Director, Mark Winter as Finance Director and John Gommès as Non-Executive Director.

### **Outlook**

Despite acquiring two profitable and cash generative companies in the past year, DM currently has no bank debt, no further Earn-Out Obligations in relation to Purely Creative and will have issued £1.078 million of loan notes out of the maximum £1.5 million payable under the terms of the Strike Lucky acquisition.

The addition of Purely Creative has substantially added to the activities of the Group and the year has started positively. The trading results of the newly acquired subsidiary company were good and I anticipate continuing to exploit synergies between the Group companies, which should feed through to improved overall gross margins in this financial year.

I would like to thank everybody at DM for their contribution and look forward to a successful 2005.

A handwritten signature in black ink, appearing to read 'A J Williams', with a flourish at the end.

**A J Williams**  
Chairman

Date: 17<sup>th</sup> June 2005

## **DM plc**

### **THE BOARD OF DIRECTORS**

#### **Adrian John Williams (aged 47) – *Chairman and Chief Executive***

Adrian studied Economics and Marketing at University before joining a computer software company in Ross on Wye in 1981. He then became Marketing Director of a fire protection company prior to leading a management buy-in of a toy and gift company in 1990. In 1992 Adrian founded Scenic Maps Limited, which provided 3-D Maps of town and city centres. Adrian founded Strike Lucky Games Limited in 1993.

#### **Wendy Elaine Ruck (aged 46) – *Operations Director***

Wendy has enjoyed a sales career within both the public and private sectors. Furthermore, Wendy has managed recruitment and training within the UK for direct sales companies. Wendy now manages these functions for Strike Lucky Games Limited, whilst also directing the prize fulfilment operations.

#### **Mark Winter (aged 41) – *Finance Director***

Mark qualified as a chartered accountant with KPMG in 1992 and worked as a financial controller in several companies. He was finance director at Minerva International Holdings Ltd from 1998 to 2001 and of Regency Group, part of South Staffordshire Group PLC, from 2002 to 2003. Since then, he has been an associate at the financial consultancy, FDUK where he has had experience of a range of roles including fast growing businesses.

#### **John Gommès (aged 64) – *Non Executive Director***

From 1963 to 1975 John was a director of a number of companies in the banking sector. In 1977 John established Chartsearch plc as a publisher of newsletters and books. Chartsearch plc was floated on the Unlisted Securities Market in 1987 and acquired by means of a reverse takeover by Burford plc, which was admitted to the official List in 1989. In 1991 John established Carnell plc as a publisher of mainly health related titles. Carnell plc was admitted to the Unlisted Securities Market in 1994 and was subsequently acquired in 1996 by means of a reverse takeover by Columbus Press, which itself was taken over by Highbury House Communications plc in 2000. John continued to manage the Carnell subsidiary until 2001 since which time he has been an adviser to various direct marketing publishers.

**DM plc**  
**ADVISERS**

**Registered Office**

King's Buildings, Lydney, Gloucestershire GL15 5HE.

Registered in England and Wales under Company Number 4020844.

**Nominated Adviser**

Altium Capital Limited, 5 Ralli Courts, West Riverside, Manchester M3 5FT.

**Broker**

Rowan Dartington & Co Limited, Colston Tower, Colston Street, Bristol BS1 4RD.

**Solicitors**

Davies and Partners, 135 Aztec West, Almondsbury, Bristol, BS32 4UB.

**Accountants**

Wildin & Co, King's Buildings, Lydney, Glos GL15 5HE.

**Auditors**

Horwath Clark Whitehill LLP, Arkwright House, Parsonage Gardens, Manchester, M3 2HP.

**Bankers**

National Westminster Bank Plc, PO Box 666, Ashton House, Waterloo Street, Bolton BL1 8FH.

**Registrars**

Capita Registrars, Northern House, Woodsome Park, Fenay Bridge, Huddersfield HD8 0LA.

## DM plc

### DIRECTORS' REPORT

The Directors present their report and audited accounts covering the 18 months ended 31 December 2004.

#### Principal Activity

The principal activity of the Group during the period was that of prize games and database rental. The company's record label business ceased at the commencement of this period.

#### Change of Name

The Company changed its name on 8 July 2003 from Poptones Group plc to Hawthorn Holdings plc. On 7 October 2004 its name was changed to DM plc.

#### Results and Dividends

The Company changed its accounting reference date to 31 December, by the extension of its accounting year of 30 June 2004.

As explained in note 1, the Company has adopted reverse acquisition accounting in respect of the acquisition of Strike Lucky. Accordingly, the results of the Group are those of Strike Lucky for the year, together with those of DM from the date of the reverse acquisition.

The consolidated profit and loss account is set out on page 14 and the profit and loss account of DM as a single entity is set out on page 16. The previously reported consolidated profit and loss account of DM for the year ended 30 June 2003 has also been included.

#### Business review and future developments

A review of the business and future developments can be found in the Chairman's Statement on Page 3.

#### Post Balance Sheet Events

On 31 March 2005, the Company acquired the entire issued share capital of Purely Creative Limited. Details are set out in note 23 to the accounts.

#### Directors

The Directors who served on the Board during the period and their beneficial interests in the issued share capital of the Company at the beginning and end of the period were as follows:-

	Shareholding at 1 July 2003 Ordinary Shares of	Shareholding at 31 December 2004 Ordinary Shares of	% of Issued Share Capital at 31 December 2004
J M Blackburn (resigned 6/10/04)	145,000	145,000	0.1%
A J McGee (resigned 8/7/03)	2,212,161	1,832,161	1.5%
J Richer (resigned 6/10/04)	459,999	459,999	0.4%
J M Edelson (resigned 6/10/04)	196,891	-	0%
I Aspinall (resigned 6/10/04)	-	-	0%
A J Williams (appointed 6/10/04)	-	117,014,565	94.1%
W E Ruck (appointed 6/10/04)	-	1,181,965	1.0%

**DM plc**

**DIRECTORS' REPORT (continued)**

**Share capital**

Changes in share capital during the year are shown in Note 14 to the accounts.

**Creditor payment policy**

It is the Group's policy to fix the terms of payment with suppliers when agreeing the terms of each transaction and the Group abides by these terms of payment. At 31 December 2004, the average number of Group creditor days outstanding was 30 days.

**Auditors**

On 1 April 2004, Horwath Clark Whitehill transferred substantially all of their business into a Limited Liability Partnership. Consequently, Horwath Clark Whitehill resigned and the directors appointed Horwath Clark Whitehill LLP as auditors to the company.

Horwath Clark Whitehill LLP are willing to continue in office and a resolution to reappoint them as auditors will be proposed at the Annual General Meeting.

**Annual General Meeting**

The notice convening the Annual General Meeting to be held on (to be advised) included in this document.

By order of the Board



**T P Brennan**  
Company Secretary

## DM plc

### CORPORATE GOVERNANCE

The requirements of the combined code of principles of corporate governance set out in the listing rules of the Financial Services Authority are not mandatory for companies traded on AIM. However, the Directors intend to comply with requirements of the combined code where appropriate.

#### **Board of Directors and Board Committees**

Following the reverse acquisition of Strike Lucky and name change to DM, the Board of Directors, consisted of two executive and one non-executive Directors, and is responsible for the Group's system of corporate governance. Mark Winter has recently been appointed as the third executive director. The role of the non-executive Director is to bring independent judgement to Board discussions and decisions.

The Board met regularly throughout the period. It has a schedule of matters referred to it for decision, which includes Group strategy and future developments, allocation of financial resources, investments, annual and interim results, and risk management. The Company has two Board committees, which operate within defined terms of reference.

#### **Audit Committee**

The Audit Committee reviews half year and full year results. In addition, the Audit Committee monitors the framework of internal control.

#### **Remuneration Committee**

The Remuneration Committee reviews the remuneration of the executive Directors and senior executives of the Group and considers the grant of options and payment of performance related bonuses.

#### **Internal Financial Control**

The Directors are responsible for ensuring that the Company maintains a system of internal financial control to provide them with reasonable assurance regarding the reliability of financial information used within the business and for publication and that assets are safeguarded. There are inherent limitations in any system of internal financial control. On the basis that such a system can only provide reasonable but not absolute assurance against material misstatement or loss and that it relates only to the needs of the business at the time, the system as a whole was found by the Directors at the time of approving the accounts to be generally appropriate to the size of the business.

#### **Going Concern**

The Directors have a reasonable expectation that the Group have adequate resources to continue in operational existence for the foreseeable future and they have therefore adopted a going concern basis in preparing the accounts.

## **DM plc**

### **STATEMENT OF DIRECTORS' RESPONSIBILITIES**

Company law requires the Directors to prepare accounts for each financial year which give a true and fair view of the state of affairs of the Company and of the Group and of the profit and loss of the Group for that period. In preparing those accounts the Directors are required to:-

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

The Directors are responsible for ensuring that proper accounting records are kept which disclose with reasonable accuracy at any time the financial position of the Group and to enable them to ensure that the accounts are in accordance with applicable law and United Kingdom Accounting Standards. They are also responsible for safeguarding the assets of the Group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The Directors are responsible for ensuring that the Directors' Report and other information included in the Annual Report is prepared in accordance with Company Law in the United Kingdom. They are also responsible for ensuring that the Annual Report includes information required by AIM rules.

## DM plc

### INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS OF DM PLC

We have audited the accounts of DM plc for the period ended 31 December 2004 on pages 14 to 18 which have been prepared under the accounting policies set out on page 19.

This report is made solely to the Company's shareholders, as a body, in accordance with Section 235 of the Companies Act 1985. Our audit work has been undertaken so that we might state to the Company's shareholders 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 shareholders as a body, for our audit work, for this report, or for the opinion we have formed.

#### **Respective responsibilities of directors and auditors**

The Directors' responsibilities for preparing the Annual Report and the accounts in accordance with applicable law and United Kingdom Accounting Standards are set out in the Statement of Directors' Responsibilities.

Our responsibility is to audit the accounts in accordance with relevant legal and regulatory requirements and United Kingdom Auditing Standards.

We report to you our opinion as to whether the accounts give a true and fair view and are properly prepared in accordance with the Companies Act 1985. We also report to you if, in our opinion, the Directors' Report is not consistent with the accounts, if the Company has not kept proper accounting records, if we have not received all of the information and explanations we require for our audit, or if information specified by law regarding Directors' remuneration and transactions with the Company is not disclosed.

We consider other information contained in the annual report and consider whether it is consistent with the audited financial statements. The other information comprises the Directors' Report, Chairman's Statement and the corporate governance statement and we consider the implications for our report if we become aware of any apparent misstatements within it. Our responsibilities do not extend to any other information.

#### **Basis of opinion**

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

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

DM plc

**INDEPENDENT AUDITORS' REPORT TO THE  
SHAREHOLDERS OF DM PLC – Continued**

**Unqualified opinion**

In our opinion the accounts give a true and fair view of the state of affairs of the Company and of the Group at 31 December 2004 and of the profit of the Group for the year then ended and of the loss of the Company for the eighteen month period then ended have been properly prepared in accordance with the Companies Act 1985.

*Horwath Clark Whitehill LLP*

Arkwright House  
Parsonage Gardens  
Manchester  
M3 2HP

Horwath Clark Whitehill LLP  
Chartered Accountants  
& Registered Auditors

Date: 17<sup>th</sup> June 2005

DM plc

**CONSOLIDATED PROFIT AND LOSS ACCOUNT  
FOR THE YEAR ENDED 31 DECEMBER 2004**

	Notes	2004 £000	2003 £000
<b>Group turnover</b>	<b>2</b>	4,201	5,470
Cost of sales		<u>(2,610)</u>	<u>(4,076)</u>
<b>Gross profit</b>		1,591	1,394
Administrative expenses		<u>(345)</u>	<u>(252)</u>
<b>Operating profit</b>	<b>3</b>	1,246	1,142
Interest receivable		<u>71</u>	<u>66</u>
<b>Profit on ordinary activities before tax for the financial period</b>		1,317	1,208
Taxation	<b>6</b>	<u>(426)</u>	<u>(365)</u>
<b>Profit on ordinary activities after tax for the financial period</b>		891	843
Dividends	<b>7</b>	<u>(3,500)</u>	<u>-</u>
Retained (loss)/profit for the year		<u>(2,609)</u>	<u>843</u>
<b>Earnings per share – basic</b>	<b>8</b>	<u>0.7p</u>	<u>0.7p</u>
<b>Earnings per share – diluted</b>	<b>8</b>	<u>0.7p</u>	<u>0.7p</u>

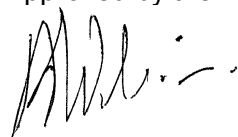
There were no recognised gains or losses for the period other than those stated above.

**These notes on pages 19 - 31 form an integral part of these accounts.**

**DM plc**  
**CONSOLIDATED BALANCE SHEET**  
**AS AT 31 DECEMBER 2004**

	Notes	2004 £000	2003 £000
<b>Fixed assets</b>			
Tangible assets	9	31	34
		31	34
<b>Current assets</b>			
Debtors	11	597	1,683
Cash at bank		795	2,287
		1,392	3,970
<b>Creditors:</b> amounts falling due within one year	12	(1,037)	(701)
		355	3,269
<b>Net current assets</b>		355	3,269
<b>Total assets less current liabilities</b>		386	3,303
<b>Creditors:</b> amounts falling due after more than one year	13	(1,078)	-
		(692)	3,303
<b>Net assets</b>		(692)	3,303
<b>Capital and reserves</b>			
Called up share capital	14	1,244	-
Share premium account	15	55	-
Merger reserve account	15	(2,685)	-
Profit and loss account	15	694	3,303
		(692)	3,303
<b>Shareholders' funds</b>	16	(692)	3,303

Approved by the Board on 17<sup>th</sup> June 2005 and signed on its behalf by:-



**A J Williams**  
Chairman

**The notes on pages 19 - 31 form an integral part of these accounts.**

**DM plc**

**COMPANY PROFIT AND LOSS ACCOUNT  
FOR THE PERIOD ENDED 31 DECEMBER 2004**

	<b>18 months ended 31 December 2004 £000</b>	<b>Year ended 30 June 2003 £000</b>	<b>Consolidated* year ended 30 June 2003 £000</b>
<b>Turnover</b>	-	-	69
Cost of sales	-	-	(125)
<b>Gross profit</b>	-	-	(56)
Impairment of fixed asset investments	(10,716)	-	-
Selling and distribution expenses	-	-	(117)
Administration expenses	(112)	(476)	(337)
<b>Operating loss</b>	(10,828)	(476)	(504)
Share of operating profit of joint ventures	-	-	67
Interest receivable	5	13	13
Provision for loss on sale of subsidiaries	-	-	(64)
<b>Loss on ordinary activities before tax for the financial period</b>	(10,823)	(463)	(488)
Taxation	-	-	-
<b>Loss on ordinary activities after taxation for the financial period</b>	(10,823)	(463)	(488)

\*The consolidated results to 30 June 2003 are of DM plc and its former subsidiary and joint venture interests which were disposed of on 6 July 2003.

There were no recognised gains or losses for the period other than those stated above.

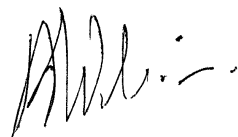
**These notes on pages 19 - 31 form an integral part of these accounts.**

DM plc

COMPANY BALANCE SHEET  
AS AT 31 DECEMBER 2004

	Notes	31 December 2004 £000	30 June 2003 £000
<b>Fixed assets</b>			
Investments	10	4,977	-
<b>Current assets</b>			
Debtors	11	10	8
Cash at bank		22	201
		32	209
<b>Creditors: amounts falling due within one year</b>	12	(368)	(67)
<b>Net current assets</b>		(336)	142
Total assets less current liabilities		4,641	142
<b>Creditors: amounts falling due after more than one year</b>	13	(1,078)	-
<b>Net assets</b>		3,563	142
<b>Share capital and reserves</b>			
Called up share capital	14	1,244	5,721
Merger reserve account	15	2,286	-
Share premium account	15	55	933
Profit and loss account	15	(22)	(6,512)
<b>Shareholders' funds</b>	16	3,563	142

Approved by the Board on 17<sup>th</sup> June 2005 and signed on its behalf by:-



**A J Williams**  
Chairman

The notes on pages 19 - 31 form an integral part of these accounts.

DM plc

**CONSOLIDATED CASH FLOW STATEMENT  
FOR THE YEAR ENDED 31 DECEMBER 2004**

	Notes	31 December 2004 £000	31 December 2003 £000
<b>Reconciliation of operating loss to net cash outflow from operating activities</b>			
Operating profit		1,246	1,142
Depreciation of tangible fixed assets		5	6
Amortisation of intangible assets		-	5
Decrease/(Increase) in debtors		1,127	(337)
(Decrease)/Increase in creditors		274	(393)
		<hr/>	<hr/>
<b>Net cash inflow from operating activities</b>		<b>2,652</b>	423
<b>Returns on investment and servicing of finance</b>			
Interest received		71	66
<b>Taxation</b>		<b>(364)</b>	(238)
<b>Capital expenditure and financial investment</b>			
Purchase of tangible fixed assets		(2)	-
<b>Acquisition and disposals</b>			
Cash acquired by reverse acquisition		22	-
Purchase of subsidiary undertaking		(371)	-
			-
<b>Dividends paid</b>		<b>(3,500)</b>	-
		<hr/>	<hr/>
<b>(Decrease)/increase in cash for the period</b>	17	<b>(1,492)</b>	251

The notes on pages 19 - 31 form an integral part of these accounts

## DM plc

### NOTES TO THE ACCOUNTS FOR THE PERIOD ENDED 31 DECEMBER 2004

#### 1. ACCOUNTING POLICIES – Company and group

##### **Basis of Preparation**

The accounts are prepared under the historical cost convention and in accordance with applicable accounting standards.

##### **Basis of consolidation – reverse acquisition accounting**

On 6 October 2004 the Company became the legal parent company of Strike Lucky Games Limited in a share-for-share transaction. Due to the relative size of the companies, Strike Lucky Games Limited's shareholders became the majority holders of the enlarged share capital. Further, the Company's continuing operations and executive management were those of Strike Lucky Games Limited. Accordingly, the substance of the combination was that Strike Lucky Games Limited acquired DM plc in a reverse acquisition.

Under the requirements of the Companies Act 1985 it would normally be necessary for the Company's consolidated accounts to follow the legal form of the business combination. In that case, the pre-combination results would be those of DM plc and Strike Lucky Games Limited would be included only in relation to its performance from 6 October 2004. However, this would portray the combination as the acquisition of Strike Lucky Games Limited by DM plc and would, in the opinion of the directors, fail to give a true and fair view of the substance of the business combination. Accordingly, the Directors have adopted reverse acquisition accounting as the basis of consolidation in order to give a true and fair view.

In invoking the true and fair override, the Directors note that reverse acquisition accounting is recognised under International Financial Reporting Standard 3 and that the Urgent Issues Task Force (UITF) of the UK's Accounting Standards Board has considered the subject and concluded that there are instances where it is right and proper to invoke the true and fair override in such a way (UITF Information Sheet 17).

The consolidated results are presented for the year ended 31 December 2004 with the comparative figures shown for the year ended 31 December 2003. This reflects the accounting reference date of Strike Lucky Games Limited. DM plc has now changed its accounting reference date from 30 June to 31 December and therefore the results of DM plc as a single entity are for an eighteen month period and the comparative company balance sheet is at 30 June 2003.

There are a number of effects on the consolidated Financial Statements of adopting reverse acquisition accounting. The principal effect of consolidating using reverse acquisition accounting is that no goodwill arose on consolidation. No goodwill arose as the fair value of DM plc was equal to the book value of £62,000 at the time of acquisition. A merger reserve is created which reflects the difference between the book value of the shares issued by DM plc as consideration for the acquisition of Strike Lucky Games Limited and the share capital of Strike Lucky Games Limited. The merger reserve also reflects additional costs of the acquisition. Under normal acquisition accounting, the goodwill arising on the investment by DM plc in Strike Lucky Games Limited would be shown on the consolidated balance sheet and amortised in accordance with FRS 10. The directors believe that by adopting reverse acquisition accounting, the consolidated profit and loss account more fairly reflects the actual trading results of the group.

**DM plc**

**NOTES TO THE ACCOUNTS (continued)  
FOR THE PERIOD ENDED 31 DECEMBER 2004**

**1. ACCOUNTING POLICIES – Company and group (continued)**

The following table indicates the principal effects on the composition of the reserves as at 31 December 2004.

31 December 2004	Reverse acquisition accounting (as disclosed) £000	Normal acquisition accounting £000	Impact of reverse acquisition accounting £000
Share capital	1,244	1,244	-
Share premium	55	55	-
Merger reserve	(2,685)	13,002	(15,689)
Opening P&L and other reserves	3,303	3	3,300
P&L account	(2,609)	(127)	(2,482)
Goodwill	-	15,124	15,124

**Investments**

Fixed asset investments are stated at cost except where, in the opinion of the Directors, there has been an impairment in the value of an investment, in which case an appropriate adjustment is made.

**Tangible fixed assets and depreciation**

Tangible fixed assets are stated at cost less depreciation. Depreciation is provided at rates calculated to write off the cost of fixed assets, less their estimated residual value, over their expected useful lives on the following bases:

Motor vehicles	-	25% reducing balance
Fixtures and fittings	-	15 – 25% reducing balance

The carrying values of tangible fixed assets are reviewed annually and provision for impairment is made if appropriate.

**Operating leases**

Rentals applicable to operating leases where substantially all of the benefits and risks of ownership remain with the lessor are charged to the profit and loss account on the straight line basis over the lease term.

**Deferred taxation**

Provision is made in full for all taxation deferred in respect of timing differences that have originated but not reversed by the balance sheet date, except for gains on disposal of fixed assets which will be rolled over into replacement assets. No provision is made for taxation on permanent differences.

Deferred tax assets are recognised to the extent that it is more likely than not that they will be recovered.

**Foreign Currencies**

Assets and liabilities denominated in foreign currencies are translated at the rate of exchange ruling at the balance sheet date. All exchange differences arising on translation are taken to profit and loss account.

**2. TURNOVER**

Turnover represents the amounts derived from the provision of goods and services which fall within the ordinary activities of the Group, stated net of value added tax. All turnover arose within the United Kingdom and Ireland

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**NOTES TO THE ACCOUNTS (continued)  
FOR THE PERIOD ENDED 31 DECEMBER 2004**

**3. OPERATING PROFIT – group**

	<b>2004 £000</b>	<b>2003 £000</b>
This is stated after charging/(crediting):		-
Directors' remuneration (note 5)	37	8
Auditors' remuneration - audit	15	-
- non-audit	-	
Depreciation of tangible fixed assets	2	6
Difference on foreign exchange	2	(17)
Operating leases – land and buildings	20	20

In addition to the above the auditors received remuneration for non audit services amounting to £43,769 in respect of work in connection with DM plc's acquisition of Strike Lucky Games Limited. These costs have been capitalised as part of the cost of the investment in Strike Lucky Games Limited.

**4. STAFF COSTS**

	<b>2004 £000</b>	<b>2003 £000</b>
Wages and salaries	185	118
Social security costs	13	6
	<u>198</u>	<u>124</u>

The average number of persons employed during the year was made up as follows:

	<b>2004 Number</b>	<b>2003 Number</b>
Directors	3	5
Administration	9	8
	<u>12</u>	<u>13</u>

**5. DIRECTORS' REMUNERATION**

The Company had five Directors up to 8 July 2003, when the Company disposed of its interest in various subsidiary and joint venture companies.

In the period from 8 July 2003 to the date of the reverse acquisition, the Company had four Directors and no remuneration or fees were paid.

Following the reverse acquisition on 6 October 2004, the Directors resigned and a new board was appointed consisting of three Directors. Total emoluments in the year ended 31 December 2004 payable by group companies to the Directors totaled £37,000. In the year ended 31 December 2003 no Directors' emoluments were paid by Strike Lucky Games Limited.

**DM plc**

**NOTES TO THE ACCOUNTS (continued)  
FOR THE PERIOD ENDED 31 DECEMBER 2004**

**6. TAXATION**

	<b>2004</b>	<b>2003</b>
	<b>£000</b>	<b>£000</b>
<b>Analysis of tax charge in year</b>		
UK corporation tax charge on profit of the year	<b>403</b>	364
Adjustments in respect of prior periods	<b>23</b>	1
<b>Total current tax</b>		
<b>Tax on profit on ordinary activities</b>	<b>426</b>	365

**Factors affecting tax charge for year**

The tax assessed for the year is lower than the standard rate of corporation tax in the UK applicable to the Company (30%). The differences are explained below:

	<b>2004</b>	<b>2003</b>
	<b>£000</b>	<b>£000</b>
Profit on ordinary activities before tax	<b>1,317</b>	1,208
Profit on ordinary activities multiplied by the relevant standard rate of corporation tax in the UK of 30% (2003 – 30)	<b>395</b>	362
<b>Effects of:</b>		
Capital allowances for period in excess of depreciation	-	2
Unrelieved losses of parent company	<b>8</b>	-
Adjustments to tax charge in respect of prior period	<b>23</b>	1
<b>Current tax charge for year</b> (see note above)	<b>426</b>	365

During the financial year Strike Lucky Games Limited had an Inland Revenue enquiry which uncovered additional taxes of £7,986, interest and penalties are to be added on to this amount. The company has offered £22,326 as settlement figure. The tax and interest have been agreed by the Inland Revenue, however the penalty is still under review.

**Factors affecting future tax charge**

DM plc (the Company) has taxable losses of £107,359 available to offset against future taxable profits.

These taxable losses cannot be offset against the profits of its subsidiary entities.

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**NOTES TO THE ACCOUNTS (continued)  
FOR THE PERIOD ENDED 31 DECEMBER 2004**

**7. DIVIDENDS**

The dividend was paid to holders of ordinary shares in Strike Lucky Games Limited prior to its acquisition by DM plc.

**8. EARNINGS PER SHARE**

The calculation of earnings per share is based on the profit for the financial period of £891,000 (2003: £843,000) and 124,417,400 ordinary shares for both periods which assumes that the reverse acquisition occurred at the start of the comparative period. The share options in issue are non-dilutive.

**9. TANGIBLE FIXED ASSETS**

	<b>Motor Vehicles £000</b>	<b>Fixtures &amp; Fittings £000</b>	<b>Total £000</b>
<b>Group Cost</b>			
At 1 January 2004	7	54	61
Additions in the period	<u>          </u>	<u>          2</u>	<u>          2</u>
At 31 December 2004	<u>          7</u>	<u>          56</u>	<u>          63</u>
<b>Depreciation</b>			
At 1 January 2004	4	23	27
Charge for the period	<u>          -</u>	<u>          5</u>	<u>          5</u>
At 31 December 2004	<u>          4</u>	<u>          28</u>	<u>          32</u>
<b>Net book value</b>			
At 31 December 2004	<u>          3</u>	<u>          28</u>	<u>          31</u>
At 31 December 2003	<u>          3</u>	<u>          31</u>	<u>          34</u>

At 31 December 2004, the Company did not hold any tangible fixed assets.

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**NOTES TO THE ACCOUNTS (continued)  
FOR THE PERIOD ENDED 31 DECEMBER 2004**

**10. INVESTMENTS**

	<b>£000</b>
<b>Unlisted investments</b>	
<b>Cost</b>	
At 1 July 2003	-
Additions during the period	15,693
At 31 December 2004	15,693
Provisions for impairment	
Charge for the period	10,716
As at 31 December 2004	10,716
<b>Net book value</b>	
At 31 December 2004	4,977
At 30 June 2003	-

The Company disposed of its interest in the joint venture companies on 8 July 2003 and no value was recovered, but provision was made in the year ended 30 June 2003 for all losses.

On 6 October 2004 the Company acquired the entire issued share capital of Strike Lucky Games Limited for a total consideration, including costs, of £14,615,000. The majority of the consideration was satisfied by the issue of 118,196,530 ordinary shares of 1p each, valued at 12p per share. Under the terms of the acquisition agreement, earn out loan notes up to a maximum of £1.5m can also be issued. At 31 December 2004 the results of Strike Lucky Games Limited have created a liability for £1,078,500 of loan notes which have been issued after the year end and are reflected in the cost of the investment.

The directors have reviewed the carrying value of the investment in Strike Lucky Games Limited in accordance with FRS11 and have reduced the value to £4,977,000 being the directors' estimate of its recoverable amount.

Details of the subsidiary undertakings at the balance sheet date, all of which were incorporated in England and Wales, are as follows:-

<b>Name of Company</b>	<b>Class of Share</b>	<b>Nature of Business</b>	<b>Proportion of voting shares held</b>
Strike Lucky Games Ltd	Ordinary	Games	100%
Strike Lucky.com Ltd	Ordinary	Dormant	100%
Name that tune Ltd	Ordinary	Dormant	100%
Bingoline Ltd	Ordinary	Dormant	100%
Strike It Lucky Ltd	Ordinary	Dormant	100%
Poptones Investors Ltd	Ordinary	Dormant	100%

















