

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

PRELIMINARY RESULTS
FOR YEAR ENDED 31 DECEMBER 2005

DM plc (“DM” or the “Group”), the direct marketing group specialising in response oriented competitions, announces its preliminary results for the period ended 31 December 2005.

Overview:

- Substantial growth achieved via acquisition
- Group consolidated turnover up 149 per cent. to £10.48 million (2004: £4.20 million)
- Group consolidated profit before tax up 81 per cent to £2.39 million (2004: £1.32 million)
- Earnings per share up 100 per cent. to 1.4 pence (2004: 0.7 pence)
- Established position in direct mail industry, building on core capabilities of response oriented competitions and database ownership and management
- Joint Venture with Cornhill beginning to produce revenue
- Acquisition of Purely Creative Limited in March 2005, followed by early satisfaction of earn-out obligation, for a total cash consideration of £350,000
- Acquisition of Cyberdyne Entertainment Limited in December 2005, for an initial consideration of £150,000
- Proposed £9 million acquisition, announced today, of Dodd Marketing Limited, a specialist promoter of games and competitions to UK consumers via addressed mail

DM Chairman, Adrian Williams said:

“2005 was an important year in the continued development of the DM Group. The key acquisition of Purely Creative has strengthened our presence in marketing competitions and promotions, complementing Strike Lucky’s response oriented products. The acquisition of Cyberdyne in December 2005, takes DM into the internet betting market commencing our strategy to extend our activities into new areas where we can leverage our home gaming expertise.

In addition to the progress we made during 2005, the proposed acquisition of Dodd Marketing, announced today, will give the Group further critical mass and bring in-house additional database management skills and associated list brokerage revenue. With this acquisition we look forward to another strong year in the Group’s development.”

CHAIRMAN'S STATEMENT

DM, the direct marketing group specialising in generating revenue through the provision of response oriented competitions, announces its preliminary results for the period ended 31 December 2005. In addition the Group has today also announced the proposed acquisition of specialist competition promoter and list broker, Dodd Marketing Limited ("Dodd Marketing"), for a maximum consideration of £9 million in cash.

During 2005, we successfully built a platform for future growth with the acquisition and successful integration of Purely Creative Limited ("Purely Creative"). The acquisition of Cyberdyne Entertainment Limited ("Cyberdyne") will allow us to expand into the growing internet betting market. Furthermore, the progress the Group has made during 2005 has also been effectively translated into impressive financial performance, resulting in a 149 per cent. increase in turnover and almost doubling of the profitability for the period.

The proposed acquisition of Dodd Marketing, announced today, will further enhance DM's position in the direct marketing industry and allow us to benefit from operational synergies and cross selling opportunities. Dodd Marketing is the holding company of McIntyre & Dodd Marketing Limited ('McIntyre') which is a specialist promoter of games and competitions to UK consumers via addressed mail and a successful list broker which currently acts as one of the list brokers to the Group.

Financial results

For the period ended 31 December 2005, the Group reported a consolidated turnover of £10.48 million (2004: £4.20 million), an increase of 149 per cent on 2004. Consolidated profit before tax increased 81 per cent to £2.39 million (2004: £1.32 million). Earnings per share for the period increased 100 per cent to 1.4 pence (2004: 0.7 pence). These figures only include nine months contribution from Purely Creative and less than one month's contribution from Cyberdyne.

Business Review

The Group's core business currently consists of Strike Lucky Games Limited ("Strike Lucky"), which develops and promotes a proprietary range of games of skill and chance and Purely Creative, a producer and distributor of marketing competitions and promotions, managing high volume response levels via phone, internet and post. Strike Lucky and Purely Creative generate revenue by respondents telephoning premium rate lines or responding by text and through the rental via list brokers of respondents' details from the Group's database of over 3 million customers.

During the period, DM entered into an agreement to supply data for up to five years with Cornhill Direct a trading division of Allianz Cornhill Insurance plc. Under the terms of the agreement DM will supply Cornhill Direct with its database of customer details to conduct targeted direct marketing programmes for insurance products such as home insurance, home contents and motor insurance. Commissions will be paid to DM depending upon the levels of new business generated by Cornhill Direct. It is the Group's intention that following the proposed acquisition of Dodd Marketing the Group will look at new ways to further exploit DM's substantial customer databases.

The Group currently outsource the majority of its business services, including its media space procurement, database placement and printing and production of games while retaining (in-house) the design and development of games. Following the proposed acquisition of Dodd Marketing, database management is expected to be brought in house.

Corporate Activity

Strike Lucky

Under the terms of the acquisition of Strike Lucky in 2004, a three year earn-out agreement of up to £1.5 million was 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, gave rise to the issue of £1.078 million of loan notes, which were redeemed in December 2005. Based on the audited results for Strike Lucky for the period ended 31 December 2005, the remaining £422,000 of loan notes payable under the Strike Lucky earn-out will now be issued. Following the issue and redemption of these loan notes there will be no further liabilities in respect of the Strike Lucky acquisition.

Purely Creative

On 30 March 2005, DM acquired the entire issued share capital of Purely Creative for £50,000 in cash, and in May 2005, the Group settled in full an earn-out obligation in respect of the acquisition by the payment of £300,000 in cash. The early satisfaction of the earn-out obligation has led to a one-off profit of £248,000 in the period due to the reduction in the earn-out liability accrued at the date of acquisition.

Cyberdyne

On 14 December 2005, DM announced the acquisition of the entire issued share capital of online betting and gambling company, Cyberdyne for an initial consideration of £150,000. The initial consideration comprised of £90,000 in cash with the balance satisfied by the issue of 685,714 ordinary shares. The consideration shares are subject to a 12-month lock-in restriction and orderly market provision thereafter. Subject to the collection of a doubtful debt owed to Cyberdyne, a maximum further sum of £24,384 may become payable in cash to the vendors.

Cyberdyne's online gambling business specialises in receiving worldwide fixed odds bets upon the outcome of lotteries from around the world. Bets are placed through websites operated by Cyberdyne including www.lotteryuniverse.com. Bets on lotteries are subject to a maximum payout by Cyberdyne of \$1,000,000, which is subject to insurance arrangements. Further expansion is planned into betting in respect of additional overseas lotteries. Cyberdyne has a UK bookmakers permit and since it began trading on 1 January 2004 it has built a client base of approximately 33,000 customers.

Dodd Marketing

The Board of DM have today announced the proposed acquisition of the entire issued share capital of Dodd Marketing for £9 million, payable in cash. The proposed acquisition is a related party transaction under the AIM Rules and is a transaction regulated by section 320 of the Companies Act, which requires the prior approval of shareholders. Accordingly, the proposed acquisition is conditional on shareholder approval at an Extraordinary General Meeting. The acquisition will be funded by £9 million of newly agreed banking facilities from Barclays Bank plc. Via its trading subsidiary McIntyre, Dodd Marketing operates in the direct mail industry, specialising in promoting home gaming and competitions to UK consumers. McIntyre has developed a range of products and services to generate clients and profit from their subsequent responses. McIntyre also own or rent a number of large response driven databases from which they generate rental income via their list brokers, including in house broker, £ist\$® (www.lists.co.uk). Currently, a proportion of DM's database revenue is generated via McIntyre's list broking services.

McIntyre's audited accounts for the 8 months to 31 December 2005, reported pre-tax profits of £1.26 million on turnover of £3.41 million. The balance sheet at 31 December 2005 showed net assets of £0.56 million. DM intends to continue to use the McIntyre brands and actively develop synergies including using £ist\$® to market Strike Lucky and Purely Creative's databases.

Further details of the proposed acquisition are set out in the announcement made today and the shareholder circular in relation to the acquisition.

Outlook

2005 was an important year for DM, and we have seen the business grow substantially over the last twelve months, primarily, through the acquisition and subsequent turnaround of Purely Creative, which has now been successfully integrated into the Group. This growth has been reflected in the financial performance of the Group with turnover up by 149 per cent and pre-tax profitability up by 81 per cent. The acquisition of Cyberdyne at the end of 2005 and proposed acquisition of Dodd Marketing will further build the Group's resources and skill base, and consequently the opportunities open to the Group. We look forward to another successful year during 2006.

A J Williams
Chairman

**CONSOLIDATED PROFIT AND LOSS ACCOUNT
FOR THE YEAR ENDED 31 DECEMBER 2005**

	Continuing Operations			Total 31 December 2004
	31 December 2005	Acquisitions 31 December 2005	Total 31 December 2005	
	£000	£ 000	£000	£000
Group turnover	1,797	8,684	10,481	4,201
Cost of sales	(1,088)	(6,124)	(7,212)	(2,610)
Gross profit	<u>709</u>	<u>2,560</u>	<u>3,269</u>	<u>1,591</u>
Administrative expenses	(259)	(878)	(1,137)	(345)
Other operating income	-	295	295	-
Operating profit	<u>450</u>	<u>1,977</u>	<u>2,427</u>	<u>1,246</u>
Interest payable			(58)	-
Interest receivable			19	71
Profit on ordinary activities before tax for the financial period			<u>2,388</u>	<u>1,317</u>
Taxation			(647)	(426)
Profit on ordinary activities after tax for the financial period			<u>1,741</u>	<u>891</u>
Dividends			-	(3,500)
Retained profit/(loss) for the year			<u>1,741</u>	<u>(2,609)</u>
Earnings per share – basic	3		<u>1.40p</u>	<u>0.7p</u>
Earnings per share – diluted	3		<u>1.40p</u>	<u>0.7p</u>

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

**CONSOLIDATED BALANCE SHEET
AS AT 31 DECEMBER 2005**

	31 December 2005	31 December 2004
	£000	£000
Fixed assets		
Intangible assets	80	-
Tangible assets	175	31
	<u>255</u>	<u>31</u>
 Current assets		
Debtors	1,963	597
Cash at bank	3,105	795
	<u>5,068</u>	<u>1,392</u>
 Creditors: amounts falling due within one year	 (4,200)	 (1,037)
Net current assets	<u>868</u>	<u>355</u>
 Total assets less current liabilities	 1,123	 386
 Creditors: amounts falling due after more than one year	 (422)	 (1,078)
Provisions for liabilities	(15)	-
Net assets	<u>686</u>	<u>(692)</u>
 Capital and reserves		
Called up share capital	1,251	1,244
Share premium account	108	55
Merger reserve account	(3,108)	(2,685)
Profit and loss account	2,435	694
Shareholders' funds	<u>686</u>	<u>(692)</u>

**CONSOLIDATED CASH FLOW STATEMENT
FOR THE YEAR ENDED 31 DECEMBER 2005**

	31 December 2005	31 December 2004
	£000	£000
Reconciliation of operating loss to net cash outflow from operating activities		
Operating profit	2,427	1,246
Depreciation of tangible fixed assets	35	5
Decrease in debtors	592	1,127
(Decrease)/Increase in creditors	(46)	274
Net cash inflow from operating activities	<u>3,008</u>	<u>2,652</u>
Returns on investment and servicing of finance		
Interest received	19	71
Interest paid	(58)	-
Taxation	(325)	(364)
Capital expenditure and financial investment		
Purchase of tangible fixed assets	(127)	(2)
Acquisition and disposals		
Cash acquired by reverse acquisition	-	22
Purchase of subsidiary undertaking	(440)	(371)
Cash acquired with subsidiaries	238	-
Dividends paid	-	(3,500)
Cash inflow/(outflow) before financing	<u>2,315</u>	<u>(1,492)</u>
Financing		
Repayment of debt	(1,078)	-
Increase/(Decrease) in cash for the period	<u>1,237</u>	<u>(1,492)</u>

**NOTES TO THE ACCOUNTS
FOR THE YEAR ENDED 31 DECEMBER 2005**

1. This preliminary announcement does not consist of a full set of statutory accounts for the year ended 31 December 2005, within the meaning of section 240 of the Companies Act 1985.

2. **ACCOUNTING POLICIES**

Basis of Preparation

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

Basis of Consolidation

The acquisition of Strike Lucky Games Limited on 6 October 2004 has been accounted for as a reverse acquisition as explained below. The acquisitions of Purely Creative Limited and Cyberdyne Limited have been accounted for using acquisition accounting. The results of companies acquired in the period are consolidated from the date of acquisition.

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. 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 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 2005 with the comparative figures shown for the year ended 31 December 2004 as this reflected the accounting period date of Strike Lucky Games Limited.

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 arises on the consolidation of Strike Lucky Games Limited. 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 account 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.

The following table indicates the principal effects on the composition of the reserves as at 31 December 2005 from the adoption of reverse acquisition accounting for the acquisition of Strike Lucky Games Limited:

	Reverse acquisition accounting (as disclosed) £000	Normal acquisition accounting £000	Impact of reverse acquisition accounting £000
Share capital	1,251	1,251	-
Share premium	108	108	-
Merger reserve	(3,108)	13,002	(16,110)
Opening P&L and other reserves	694	5	689
P&L account	1,741	963	(778)
Goodwill	75	14,273	(14,648)

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.

Amortisation

Amortisation is calculated so as to write off the cost of the intangible asset over their useful economic life as follows:

Goodwill - 20 years

The directors review the carrying value of goodwill if there are indications of impairment and adjustment is made to the carrying value as required.

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.

Deferred tax is measured on an undiscounted basis at the tax rates that are expected to apply in the periods in which timing differences reverse based on tax rates enacted at the balance sheet date.

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.

3. EARNINGS PER SHARE

The calculation of earnings per share is based on the profit for the financial period of £1,741,000 (2004 - £891,000) and a weighted average number of shares in issue during the period of 124,449,337 (2004: 124,417,400) ordinary shares. The share options in issue are non-dilutive.

4. The annual report and accounts will be posted to shareholders as soon as practicable and will be available from the Company's registered office at King's Buildings, Lydney, Gloucestershire, GL15 5HE.