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Dillistone Group Plc

UNAUDITED INTERIM REPORT

FOR THE SIX MONTHS ENDED

30 JUNE 2014

Company No. 4578125

Dillistone Group Plc

Contents

Dillistone Group Plc

Highlights to the unaudited interim report for the six months ended 30 June 2014:

- *Revenue up 10% to £4.20m*
  - *Recurring revenues up 19% to £2.86m*
  - *Non-recurring revenues down 6% to £1.13m*
  - *Third party revenues up 5% to £0.21m*
- *Adjusted EBITDA[1] up 2% to £1.09m*
- *Adjusted operating profits[2] down 4% to £0.82m*
- *Results adversely impacted by exchange rates*
- *Applying 2013 monthly exchange rates, adjusted profit before tax[4] would have been £0.065m higher – a 4% increase*
- *Adjusted basic EPS[3] down 4% to 3.55p*
- *The Group continues to be debt free; cash of £1.19m at 30 June 2014 (2013: £1.90m)*
- 4% increase in interim dividend to 1.3p (2013: 1.25p)

Commenting on the results, Mike Love, Non-Executive Chairman, said:

"This is another solid set of results delivering growth in revenue and EBITDA. The Group is in a strong position, with excellent early feedback on the FileFinder Anywhere product launch. We also expect the acquisition of ISV Software, announced today, will benefit the business in a number of ways, not least of which will be its positive effect on our projected earnings per share.

"A prudent approach to new product roll-outs, to ensure a high standard of client care, will see us limit the number of implementations that we will complete over the next few months and, as a result, we anticipate that our performance in 2014 will be similar to that delivered in 2013. Despite the short term impact of this approach, our confidence in the future has allowed us to declare a further increase in our Interim dividend."

Dr Mike Love, Chairman

[1] *Adjusted EBITDA is adjusted operating profit with depreciation and amortisation added back.*

[2] *Adjusted operating profit is statutory operating profit before acquisition costs, related intangible amortisation, movements in deferred consideration and other one-off costs relating to acquisitions.*

[3.] *Adjusted earnings per share is computed from statutory profits after tax adjusted to exclude the post-tax effect of acquisition costs, related intangible amortisation, movements in deferred consideration and other one-off costs relating to acquisitions.*

[4] *Adjusted profit before tax is statutory profit before tax and before acquisition costs, related intangible amortisation, movements in deferred consideration and other one-off costs relating to acquisitions.*

Dillistone Group Plc

Chairman's Statement

The Group has made good progress in the first half with the integration of FCP now complete and meeting expectations. Dillistone continues to pursue a growth strategy of investment in its technology coupled with making complementary acquisitions. The contribution of FCP and the encouraging early feedback on the new FileFinder Anywhere suite are testament to that strategy.

Revenues have benefited from the acquisition of FCP. This benefit has been, in part, offset by the impact of a higher proportion of sales being on a subscription model and the impact of foreign exchange movements. The subscription model sales tend to compromise short term revenue in favour of longer term revenue visibility. As a result of this, total revenues have increased by 10% and recurring revenues by 19%, to now represent 68% of total revenues.

Strength of management remains a priority to support the business going forward. As such, administration expenses have risen in H1 2014, not only through the acquisition of the FCP business which was not part of the Group in H1 2013, but also through certain appointments to strengthen the management team. This investment ensures that the integration of ISV Software will be managed without the need for additional senior hires, despite the retirement of the CEO of ISV on completion of the acquisition.

Operating profits before acquisition related items are marginally down on 2013 having been adversely impacted by movements in exchange rates. Based on 2013 exchange rates, we would have reported an increase in such operating profits of approximately 4%.

The recent announcement of the launch of FileFinder Anywhere with further new product enhancements due in the coming months is a demonstration of our strategy in practise.

Divisional review

Dillistone Systems (www.dillistone.com) saw revenues fall by £0.219m to £2.302m (2013: £2.51m). This is partially due to the negative impact of currency movements described above. Applying historic 2013 monthly currency rates, revenue in the Division would have been £0.108m higher. Although the number of new business contract wins remained the same as in H1 of 2013, we have seen a fall in the average order size as well as an increasing number of our clients purchasing on the subscription model. The latter clearly has a negative impact on our short term revenues, but benefits the Group in the longer term.

Since the close of the first half, Dillistone Systems has seen a strengthening order book with incoming orders expected to be ahead of the previous three quarters. Contract wins include the implementation of a global project on behalf of a Fortune 50 company. The Division was also gratified to see the results of a recent survey which reconfirmed that more than 50% of the UK's largest *executive search firms are clients. Dillistone Systems continues to work with clients in around 60 countries around the World.*

On September 1, Dillistone Systems announced the launch of FileFinder Anywhere. The FileFinder Anywhere suite is unique in the executive search market, in that it allows users to access critical business information through a diverse range of delivery models, devices and technologies. Early feedback on the product has been extremely positive with contracts already received. The Directors believe that the new platform will positively impact on revenues generated from both existing and new clients.

Voyager Software (www.voyagersoftware.com) has also enjoyed a good trading period with revenue ahead of 2013. It has benefited from the impact of the FCP acquisition which took place in July 2013 however, even on a like for like basis, excluding FCP, underlying revenue would still have been ahead by nearly 8% at £1.408m (2013: £1.307m).

The Division has invested in additional staff to strengthen its depth of management and hence operating profits have not yet achieved comparable growth and are therefore up marginally on 2013. This investment will, however, allow us to bring ISV into the Group without additional management costs.

Financial Performance

Revenue in the six months ended 30 June 2014 increased by 10% to £4.198m (2013: £3.814m). Recurring revenues increased by 19% to £2.861m over the comparable period last year (2013: £2.410m) and represented 68% of total revenues (2013: 63%). Non recurring revenues decreased 6% to £1.129m (2013: £1.206m), in part due to the move to subscription type models. Foreign exchange rates have also had an impact on the results. Applying historical 2013 monthly rates, revenues would have been £0.125m higher with the impact mainly in the Dillistone Systems division where international sales represent a greater proportion of revenues.

Costs of sales increased to £0.548m (2013: £0.446m) mainly due to the inclusion of FCP. Excluding acquisition related costs, administrative costs increased by 12% to £2.825m (2013: £2.512m). This is in part due to the FCP costs and also due to the investment made by the Voyager division in staffing to strengthen its depth of management. Depreciation, excluding amortisation of acquisition intangibles, increased by 24% to £0.265m (2013: £0.213m). Administrative costs also include £0.128m (2013: £0.045m) relating to the amortisation of acquisition intangibles.

Profit before tax and acquisition related items fell by 4% to £0.824m (2013: £0.856m). Profit before tax and after acquisition related items fell by 21% to £0.646m (2013: £0.817m). Applying 2013 monthly rates, profit before tax and acquisition related items would have been £0.065m higher – a 4% increase.

The tax charge fell slightly to £0.132m in the period to 30 June 2014 (2013: £0.172m). This gave an effective global tax rate of 20.4% (2013: 21.0%). The 2013 and 2014 rates have been reduced by a claim in the UK for research and development tax credits reflecting the continuing development of our products. The falling UK tax rates have also had a positive impact on the charge which is offset by the higher rates of corporation tax payable in the US and Australia.

Adjusted basic EPS fell 4% to 3.55p (2013: 3.69p) before acquisition related items and fell 20% to 2.82p after such amortisation.

Cash generated from operating activities increased by 10% to £1.179m (2013: £1.074m). Total cash flow in the 6 months ended 30 June 2014 showed a net cash outflow of £0.198m (2013: inflow £0.229m). The main elements of non-operating expenditure related to dividends paid in the period of £0.475m (2013: £0.455m) and investment in new product development of £0.324m (2013: £0.339m) and deferred consideration payments in respect of Voyager and FCP totalling £0.550m (2013: £0.026m). The Company also paid out £0.715m in the second half of 2013 in respect of the FCP acquisition. At 30 June 2014 we had cash reserves of £1.193m (2013: £1.903m) and no borrowings.

We continue to follow a progressive dividend policy and, reflecting this, the Board has decided to increase the interim dividend for 2014 by 4%. Accordingly, a dividend of 1.30p per share (2013: 1.25p) will be paid on 13 November 2014 to holders on the register on 10 October 2014. Shares will trade ex-dividend from 9 October 2014.

Strategy

The Group remains committed to a strategy of both organic and acquisitive growth underpinned by continued investment in our core products. The acquisition of FCP Internet has gone smoothly and it is now fully integrated into the Voyager division.

Acquisition

The Group is today delighted to announce the acquisition of ISV Software Ltd, a UK based supplier of training and testing services, primarily to the recruitment industry. ISV works with 9 of the 10 largest recruitment agencies in the UK (by office numbers) and 7 of the 10 largest by revenue.

The deal will widen the market place of the Group, and generates an opportunity for us to cross sell the various ISV testing products to clients of our Voyager division. Further information on the acquisition may be found in a separate RNS announcement, also issued on 30 September 2014.

Outlook

We believe that the recent launch of FileFinder Anywhere will lead to a continuation in the recent improvement in the Dillistone Systems order book as the year progresses.

We would anticipate that some of these contracts will be realised in the current year, with the remainder improving our pipeline for 2015. However, the introduction of new products necessitates a slower implementation cycle in the first few months and with the continuation of strong pound, the Directors anticipate that adjusted profits are likely to be at a similar level to 2013. Our confidence in the future has allowed us to increase our interim dividend to 1.3p per share, demonstrating our commitment to following a progressive dividend policy, subject to the needs of the business.

Mike Love

29 September 2014

Dillistone Group Plc

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	Note	6 Months ended 30 June 2014 Unaudited £'000	6 Months ended 30 June 2013 Unaudited £'000	Year ended 31 Dec 2013 Audited £'000
Revenue	4	4,198	3,814	8,101
Cost of sales		(548)	(446)	(957)
Gross profit		3,650	3,368	7,144
Administrative expenses		(2,954)	(2,557)	(5,561)
Result from operating activities	4	696	811	1,583
Analysed as:				
Result from operating activities before acquisition related items		*824*	*856*	*1,793*
Acquisition related items	5	*(128)*	*(45)*	*(210)*
Result after acquisition related items		*696*	*811*	*1,583*
Financial income		4	6	8
Financial cost		(54)	-	(68)
Profit before tax		646	817	1,523
Tax expense	6	(132)	(172)	(292)
Profit for the period		514	645	1,231
Other comprehensive income net of tax:				
Currency translation differences		3	(15)	(16)
Total comprehensive income for period net of tax		517	630	1,215
Earnings per share (pence)				
Basic	8	2.82	3.54	6.76
Diluted		2.72	3.42	6.51

Dillistone Group Plc

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	As at 30 June		*As at 31 Dec*
	2014	***2013***	***2013***
	Unaudited	***Unaudited***	***Audited***
ASSETS	***£'000***	***£'000***	***£'000***
Non-current assets			
Goodwill	2,745	2,490	2,745
Intangible assets	4,808	3,177	4,833
Property plant & equipment	117	108	127
	7,670	5,775	7,705
Current assets			
Inventories	59	38	78
Trade and other receivables	1,855	1,960	1,790
Cash and cash equivalents	1,193	1,903	1,399
	3,107	3,901	3,267
Total assets	10,777	9,676	10,972
EQUITY AND LIABILITIES			
Equity			
Share capital	914	910	914
Share premium	498	451	498
Merger reserve	365	365	365
Share option reserve	140	95	121
Retained earnings	3,115	2,718	3,076
Translation reserve	139	137	136
Total equity	5,171	4,676	5,110
Liabilities			
Non current liabilities			
Trade and other payables	55	52	459
Deferred tax	860	576	901
Current liabilities			
Trade and other payables	4,297	4,140	4,313
Current tax payable	394	232	189
Total liabilities	5,606	5,000	5,862
Total liabilities and equity	10,777	9,676	10,972

The interim report was approved by the Board of directors and authorised for issue on 29 September 2014. They were signed on its behalf by:

JS Starr J P Pomeroy

Dillistone Group Plc

CONSOLIDATED STATEMENT OF CASH FLOWS

	6 months ended 30 June		*Year ended 31 Dec*
	2014	***2013***	***2013***
	Unaudited	***Unaudited***	***Audited***
	£'000	***£'000***	***£'000***
Operating Activities			
Profit before tax	646	817	1,523
Add taxation repaid	29	(113)	(273)
Adjustment for			
Financial income	(4)	(6)	(8)
Financial cost	54	-	68
Depreciation and amortisation	393	258	621
Share option expense	18	27	53
Other including foreign exchange adjustments arising from operations	1	(14)	14
Operating cash flows before movements in working capital	1,137	969	1,998
Increase in receivables	(57)	(260)	(120)
Decrease / (Increase) in inventories	19	25	(15)
Increase in payables	80	340	259
Net cash generated from operating activities	1,179	1,074	2,122
Investing Activities			
Interest received	4	6	7
Purchases of property plant and equipment	(32)	(31)	(83)
Investment in development costs	(324)	(339)	(747)
Acquisition of subsidiaries net of cash acquired	-	-	(715)
Deferred consideration paid	(550)	(26)	(185)
Net cash used in investing activities	(902)	(390)	(1,723)
Financing Activities			
Proceeds from issue of share capital	-	-	51
Dividends paid	(475)	(455)	(683)
Net cash used by financing activities	(475)	(455)	(632)
Net change in cash and cash equivalents	(198)	229	(233)
Cash and cash equivalents at beginning of the period	1,399	1,643	1,643
Effect of foreign exchange rate changes	(8)	31	(11)
Cash and cash equivalents at end of period	1,193	1,903	1,399

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CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Share capital £'000	Share premium £'000	Merger Reserve £'000	Retained earnings £'000	Share option £'000	Foreign exchange £'000	Total £'000
Balance at 31 December 2012	910	451	365	2,528	68	152	4,474
Comprehensive income							
Profit for the 6 months ended 30 June 2013	-	-	-	645	-	-	645
Other comprehensive income							
Exchange differences on translation of overseas operations	-	-	-	-	-	(15)	(15)
Total comprehensive income	-	-	-	645	-	(15)	630
Transactions with owners							
Share option charge	-	-	-	-	27	-	27
Dividends paid	-	-	-	(455)	-	-	(455)
Balance at 30 June 2013	910	451	365	2,718	95	137	4,676
Comprehensive income							
Profit for the 6 months ended 31 Dec 2013	-	-	-	586	-	-	586
Other comprehensive income							
Exchange differences on translation of overseas operations	-	-	-	-	-	(1)	(1)
Total comprehensive income	-	-	-	586	-	(1)	585
Transactions with owners							
Issue of share capital	4	47					51
Share option charge	-	-	-	-	26	-	26
Dividends paid	-	-	-	(228)	-	-	(228)
Balance at 31 December 2013	914	498	365	3,076	121	136	5,110
Comprehensive income							
Profit for the 6 months ended 30 June 2014	-	-	-	514	-	-	514
Other comprehensive income							
Exchange differences on translation of overseas operations	-	-	-	-	-	3	3
Total comprehensive income	-	-	-	514	-	3	517
Transactions with owners							
Issue of share capital	-	-	-	-	-	-	-
Share option charge	-	-	-	-	19	-	19
Dividends paid	-	-	-	(475)	-	-	(475)
Balance at 30 June 2014	914	498	365	3,115	140	139	5,171

NOTES TO THE UNAUDITED INTERIM REPORT

1. Basis of Preparation

The financial information for the six months ended 30 June 2014 included in this condensed interim report comprises the consolidated statement of comprehensive income, the consolidated statement of financial position, the consolidated statement of cash flows, the consolidated statement of changes in equity and the related notes on pages 12 – 18.

These interim financial statements have not been audited nor have they been reviewed by the auditors under ISRE 2410 of the Auditing Practices Board. The financial information set out in this report does not constitute statutory accounts as defined by the Companies Act 2006. The comparative figures for the year ended 31 December 2013 were derived from the statutory accounts for that year which have been delivered to the Registrar of Companies. Those accounts received an unqualified audit report which did not contain statements under sections 498(2) or (3) (accounting records or returns inadequate, accounts not agreeing with records and returns or failure to obtain necessary information and explanations) of the Companies Act 2006.

The interim financial statements have been prepared on the basis of the accounting policies set out in the December 2013 financial statements of Dillistone Group Plc and on a going concern basis. They are presented in sterling which is also the functional currency of the parent company. They do not include all of the information required in annual financial statements in accordance with IFRS and should be read in conjunction with the consolidated financial statements of the Group for the year ended 31 December 2013.

Dillistone Group Plc is the Group's ultimate parent company. It is a public listed company and is domiciled in the United Kingdom. The address of its registered office and principal place of business is 3rd Floor, 50-52 Paul Street, London, EC2A 4LB. Dillistone Group Plc's shares are listed on the Alternative Investment Market (AIM).

2. Share Based Payments

The Company operates two share option schemes. The fair value of the options granted under these schemes is recognised as an employee expense with a corresponding increase in equity. The fair value is measured at grant date and spread over the period at the end of which the option holder may exercise the option. The fair value of the options granted is measured using the Black-Scholes model.

3 Reconciliation of adjusted operating profits to consolidated statement of comprehensive income

30 June 2014 and 30 June 2013

	Adjusted operating profits 30 June 2014 £'000	Acquisition related items 2014* £'000	30 June 2014 £'000	Adjusted operating profits 30 June 2013 £'000	Acquisition related items 2013* £'000	30 June 2013 £'000
Revenue	4,198	-	4,198	3,814	-	3,814
Cost of sales	(548)	-	(548)	(446)	-	(446)
Gross profit	3,650	-	3,650	3,368	-	3,368
Administrative expenses	(2,826)	(128)	(2,954)	(2,512)	(45)	(2,557)
Results from operating activities	824	(128)	696	856	(45)	811
Financial income	4	-	4	6	-	6
Financial cost	-	(54)	(54)	-	-	-
Profit before tax	828	(182)	646	862	(45)	817
Tax expense	(180)	48	(132)	(190)	18	(172)
Profit for the year	648	(134)	514	672	(27)	645
Other comprehensive income net of tax: Currency translation differences	3	-	3	(15)	-	(15)
Total comprehensive income for the year net of tax	651	(134)	517	657	(27)	630

Earnings per share – from continuing activities						
Basic	**3.55p**		**2.82p**	**3.69p**		**3.54p**
Diluted	**3.41p**		**2.72p**	**3.56p**		**3.42p**

* *see accounts note 5*

Dillistone Group Plc

31 December 2013

	Adjusted operating profits 31 Dec 2013 £’000	Acquisition related items 2013* £’000	31Dec 2013 £’000
Revenue	8,101	-	8,101
Cost of sales	(957)	-	(957)
Gross profit	7,144	-	7,144
Administrative expenses	(5,351)	(210)	(5,561)
Results from operating activities	1,793	(210)	1,583
Financial income	8		8
Financial cost	-	(68)	(68)
Profit before tax	1,801	(278)	1,523
Tax expense	(346)	54	(292)
Profit for the year	1,455	(224)	1,231
Other comprehensive income net of tax: Currency translation differences	(16)	-	(16)
Total comprehensive income for the year net of tax	1,439	(224)	1,215

Earnings per share – from continuing activities

Basic	**7.99p**	**6.76p**
Diluted	**7.70p**	**6.51p**

* *see accounts note 5*

4. Segment reporting

	6 Months ended 30 June		Year ended 31 Dec
	2014	2013	2013
	£'000	£'000	£'000
Revenue			
Dillistone Systems	2,302	2,521	4,923
Voyager Software	1,896	1,307	3,202
Less intercompany	-	(14)	(24)
Total revenue	4,198	3,814	8,101

Results by division

	6 Months ended 30 June		Year ended 31 Dec
	2014	2013	2013
	£'000	£'000	£'000
Results from operating activities			
Dillistone Systems	698	811	1,655
Voyager Software	228	220	507
	926	1,031	2,162
Unallocated expenses	(102)	(175)	(369)
Exceptional Charges	(128)	(45)	(210)
Result from operating activities	696	811	1,583

Geographical segments

The following table provides an analysis of the Group's revenues by geographical market.

	6 months ended 30 June		Year ended 31 Dec
	2014	2013	2013
	£'000	£'000	£'000
UK	3,308	2,757	6,188
US	593	674	1,228
Australia	297	383	685
	4,198	3,814	8,101

4. Segment reporting (continued)

Business Segment

The following table provides an analysis of the Group's revenues by business segment.

	6 months ended 30 June		*Year ended 31 Dec*
	2014	***2013***	***2013***
	£'000	***£'000***	***£'000***
Recurring	2,861	2,410	5,271
Non recurring	1,129	1,206	2,428
Third party revenues	208	198	402
	4,198	3,814	8,101

Recurring income includes all support services, software as a service income (SaaS) and hosting income. Non-recurring income includes sales of new licenses, and income derived from installing those licenses including training, installation, and data translation. Third party revenues arise from the sale of third party software.

5 Acquisition related items

	6 months ended 30 June		*Year ended 31 Dec*
	2014	***2013***	***2013***
	£'000	***£'000***	***£'000***
Estimated change in fair value of contingent consideration	-	-	(57)
Amortisation of acquisition intangibles	128	45	172
Fees relating to acquisition	-	-	95
	128	45	210
Unwinding of discount on contingent consideration	54	-	68
Total	182	45	278

6 Tax

	6 months ended 30 June		*Year ended 31 Dec*
	2014	***2013***	***2013***
	£'000	***£'000***	***£'000***
Current tax charge	175	188	308
Deferred tax charge	5	2	38
Deferred tax re acquisition intangibles	(48)	(18)	(54)
Total	132	172	292

The tax charge is impacted by the higher rates of corporation tax payable in the US and Australia partially offset by the R&D tax credits available to both Dillistone Systems and Voyager Software and the reduction in the longer term UK tax rates which impact on provided deferred tax.

7. Dividends

The Board has decided to pay an interim dividend of 1.3 p per share (2013: 1.25p) on 13 November 2014 to holders on the register on 10 October 2014. Shares will trade ex-dividend from 9 October 2014.

8. Earnings per Share

	6 months ended 30 June		*Year ended 31 Dec*
	2014	***2013***	***2013***
Basic earnings per share			
Profit attributable to ordinary shareholders	£514,000	£645,000	£1,231,000
Weighted average number of shares	18,275,120	18,205,190	18,211,321
Basic earnings per share (pence)	2.82	3.54	6.76
Diluted earnings per share			
Profit attributable to ordinary shareholders	£514,000	£645,000	£1,231,000
Diluted weighted average number of shares	19,009,475	18,877,634	18,902,055
Diluted earnings per share (pence)	2.72	3.42	6.51

9. Related party transactions

The Company has a related party relationship with its subsidiaries, its directors, and other employees of the Company with management responsibility. There were no transactions with these parties during the period outside the usual course of business.

There were no transactions with any other related parties.