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Dillistone Group Plc

UNAUDITED INTERIM REPORT
FOR THE SIX MONTHS ENDED
30 JUNE 2011

Company No. 4578125

Dillistone Group Plc

Contents

Dillistone Group Plc

Highlights to the unaudited interim report for the six months ended 30 June 2011

- *Revenue up 16% to £2.277m*
    - *Non-recurring revenues up 18% to £0.893m*
    - *Recurring revenues of £1.384m up 14%*
- *Pre tax profit up 8% to £0.551m*
- *Basic earnings per share up 5% to 2.34p*
- *Cash of £2.138m at 30 June 2011*
- *The Group continued to be debt free throughout the period*
- *Increase in subscription based sales - offering increased confidence and visibility of future revenues*
- *Dividend policy maintained, with interim payment of 1.1667p per share due in November*
- *Launch of new FileFinder software platform – FileFinder 10*
- *Early contract wins for FileFinder 10 include clients taken from direct competitors in both the United Kingdom and the United States*
- *Launch of new website at www.dillistone.com*
- *2 for 1 share bonus issue completed*

"Against an unsettled economic climate, these results represent continued strong progress. We flagged up prior to the launch of our new technology platform that we would be taking a cautious approach to delivery and roll out and stated that we did not expect to see the full impact of our new product prior to 2012. Whilst this remains our approach, we consider these numbers to be very encouraging.

We are also delighted to announce the acquisition of Woodcote Software Limited and its subsidiaries, Voyager Software Ltd and Voyager Software (Australia) Pty Ltd. We consider this acquisition to be transformational, in that it takes the Group from the executive search niche into a far larger market. We believe that the acquisition will benefit the Group immediately, however, the real value will come from the growth opportunities and synergies which we have identified and which we anticipate will materialise over the coming years. Full details of this acquisition are provided in a separate announcement."

Dr Mike Love, Chairman

Chairman's Statement

I am delighted to report on another strong set of results from the Group. During a period of economic uncertainty, we have delivered revenue, profit and earnings growth whilst also undertaking substantial work behind the scenes which, we believe, will help us to deliver shareholder value in the years to come.

In March, we announced the launch of FileFinder 10 – the new generation of Dillistone Systems' FileFinder software platform. FileFinder 10 is an entirely new product, delivered from scratch over more than a two year period by a newly hired development team to take advantage of the latest technologies.

Since the launch of the product, we have sold systems to approximately 60 firms in around 20 countries. These include firms who will be replacing products developed by our direct competitors with our new system.

Developing a new product of this scale involves a substantial investment in terms of research and development, but also has a significant impact across the wider business. Thousands of pages of supporting documentation, weeks of internal training and the creation of entirely new marketing and support documentation (including a new website at www.dillistone.com) are just three examples of this.

This level of disruption would normally be expected to have a significant impact on the performance of any company. I am delighted, therefore, that against this backdrop, we have been able to deliver results which represent a healthy improvement on those achieved in the first half of 2010, with growth in revenue, pre-tax profits and earnings per share all delivered.

Shareholders approved the two for one bonus issue of the Company's shares at the annual general meeting in June. The aim of this was to increase liquidity, reduce the bid-offer spread and have a positive impact on share price. I'm delighted to report that early signs are that this proved to be successful on all counts.

We are pleased to announce that an interim dividend payment of 1.1667p per share will be payable in November. This is in line with the interim dividend paid in respect of 2010. On a related topic, we have identified a technical issue with the payment of dividends between 2006 and 2010. Dividends are paid out of available profits in the holding company and by reference to the last filed annual accounts unless interim accounts are required and have been filed. Although there were sufficient distributable reserves within the Group, those distributable reserves were not in the holding company itself at the appropriate time and the required interim accounts were not filed. Having taken legal advice, we plan to resolve this technical issue by holding a general meeting on 29 November 2011 to consider the necessary resolutions and, assuming these are passed, to regularise the position. Full details will be contained in a notice of meeting which will be sent to shareholders by 14 October 2011.

We are also delighted to announce the acquisition of Woodcote Software Limited and its subsidiaries, Voyager Software Ltd and Voyager Software (Australia) Pty Ltd. We consider this acquisition to be transformational, in that it takes the Group from the executive search niche into a far larger market. We believe that the acquisition will benefit the Group immediately, but the real value of this acquisition will come from the growth opportunities and synergies which we have identified and which we anticipate will materialise over the coming years.

Financial Performance

Revenue in the 6 months ended 30 June 2011 increased by 16% to £2.277m (2010: £1.968m) with profit before tax showing an increase of 8% to £0.551m (2010: £0.512m). Administrative costs increased by 16% to £1.595m (2010: £1.370m), with the increase due mainly to higher depreciation and amortisation *costs (increase of £0.020m), and higher salary related costs and associated provisions of £0.204m.*

Recurring revenues increased by 14% to £1.384m over the comparable period last year (2010: £1.213m) and by 5% over the £1.323m of recurring revenues earned in the second half of 2010. Recurring revenues in the 6 months to 30 June 2011 accounted for 61% of total revenues (2010: 62%).

Non recurring revenues saw an 18% growth to £0.893m (2010: £0.755m). This reflects a significant year-on-year improvement in new contract wins and event revenues.

Regionally, our European division saw an increase in revenues of 4% and Asia Pacific saw a 28% increase. The UK, Middle East and Africa ("UKMEA") business increased revenues by 20% and the US division showed an increase of 12% in revenues for the same period.

Cash flow in the 6 months ended 30 June 2011 showed a net cash outflow of £0.008m (2010: inflow £0.098m). The main elements of expenditure related to dividends in the period of £0.396m (2010: £0.396m), investment in new product development of £0.303m (2010: £0.279m) and taxes paid of £0.114m (2010: £0.035m). At 30 June 2011 we had cash reserves of £2.138m (2010: £1.912m) and no borrowings.

The tax provision increased to £0.154m in the period to 30 June 2011 (2010: £0.134m). This gives an effective global tax rate of 28.0% (2010: 26.2%). The 2010 and 2011 rates have been reduced by a claim in the UKMEA for research and development tax credit reflecting the continuing development of our products.

Basic earnings per share amounted to 2.34p (2010: 2.22p). The Board has decided to maintain the interim dividend for 2011 at the same level as was paid in respect of 2010 and accordingly, a dividend of 1.1667p per share (2010: 1.1667p) will be paid on 4 November 2011 to holders on the register on 7 October 2011. Shares will trade ex-dividend from 5 October 2011. Comparative earnings per share and dividend per share are restated to reflect the effect of the two for one bonus issue.

Outlook

The Group has made a strong start to the year. Although we continue to follow a cautious approach to the delivery of our new software platform, the early signs are that the product has been well received by potential buyers. Whilst economic conditions remain uncertain in the short term, the acquisition of Woodcote Software Limited gives the Directors further confidence in the long term growth potential of the Group.

Mike Love

20 September 2011

Independent Review Report

Introduction

We have been engaged by the Company to review the condensed set of financial statements in the half-yearly financial report for the six months ended 30 June 2011 which comprises specifically the primary financial statements and the related explanatory notes that have been reviewed. We have read the other information contained in the half-yearly financial report and considered whether it contains any apparent misstatements or material inconsistencies with the information in the condensed set of financial statements.

This report is made solely to the Company in accordance with the terms of our engagement to assist the Company in meeting the requirements of the London Stock Exchange's AIM Rules for Companies. Our review has been undertaken so that we might state to the Company those matters we are required to state to it in this 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 for our review work, for this report, or for the conclusions we have reached.

Directors' responsibilities

The half-yearly financial report is the responsibility of, and has been approved by, the directors. The directors are responsible for preparing the half-yearly financial report in accordance with the AIM Rules for Companies.

As disclosed in note 1, the annual financial statements of the Group are prepared in accordance with IFRSs as adopted by the European Union. The condensed set of financial statements included in this half-yearly financial report has been prepared in accordance with International Accounting Standard 34, "Interim Financial Reporting," as adopted by the European Union.

Our responsibility

Our responsibility is to express to the Company a conclusion on the condensed set of financial statements in the half-yearly financial report based on our review.

Scope of review

We conducted our review in accordance with International Standard on Review Engagements (UK and Ireland) 2410, "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the Auditing Practices Board for use in the United Kingdom. A review of interim financial information consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing (UK and Ireland) and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the condensed set of financial statements in the half-yearly financial report for the six months ended 30 June 2011 is not prepared, in all material respects, in accordance with International Accounting Standard 34 as adopted by the European Union and the AIM Rules for Companies.

Saffery Champness
Chartered Accountants

Beaufort House
2 Beaufort Road
Clifton
Bristol
BS8 2AE

20 September 2011

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CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	6 Months ended 30 June		*Year ended 31 December*
	2011	***2010***	***2010***
	Unaudited	***Unaudited***	***Audited***
	£000	***£000***	***£000***
Revenue	2,277	1,968	4,251
Cost of sales*	(148)	(87)	(187)
Gross profit	2,129	1,881	4,064
Administrative expenses*	(1,595)	(1,370)	(2,889)
Result from operating activities	534	511	1,175
Financial income	17	1	7
Profit before tax	551	512	1,182
Tax expense	(154)	(134)	(310)
Profit for the period/year	397	378	872
Other comprehensive income:			
Currency translation differences	10	(14)	59
Total comprehensive income for period/year	407	364	931
Earnings per share (pence)			
Basic**	2.34	2.22	5.13
Diluted**	2.33	2.22	5.12

** Cost of sales in the 6 months to 30 June 2010 have been increased by £27,000 with a corresponding reduction in administrative costs to ensure results are reported consistently across all periods.*
*** The comparative earnings per share have been adjusted to reflect the effect of the two for one bonus issue.*

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CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	As at 30 June		As at 31 December
	2011	**2010**	**2010**
	Unaudited	**Unaudited**	**Audited**
ASSETS	**£000**	**£000**	**£000**
Non-current assets			
Intangible assets	1,915	1,394	1,689
Property plant & equipment	71	83	71
Trade and other receivables	44	-	68
	2,030	1,477	1,828
Current assets			
Inventories	14	28	55
Trade and other receivables	1,353	1,242	1,346
Cash and cash equivalents	2,138	1,912	2,147
	3,505	3,182	3,548
Total assets	5,535	4,659	5,376
EQUITY AND LIABILITIES			
Equity			
Share capital	850	283	283
Share premium	30	30	30
Share option reserve	22	12	12
Retained earnings	1,618	1,889	2,184
Translation reserve	175	92	165
Total equity	2,695	2,306	2,674
Liabilities			
Non current liabilities			
Deferred tax	199	141	197
Current liabilities			
Trade and other payables	2,511	2,117	2,408
Current tax payable	130	95	97
Total liabilities	2,840	2,353	2,702
Total liabilities and equity	5,535	4,659	5,376

The interim report was approved by the board of directors and authorised for issue on 20 September 2011.

They were signed on its behalf by:

J S Starr J P Pomeroy

CONSOLIDATED STATEMENT OF CASH FLOWS

Dillistone Group Plc

	6 months ended 30 June		Year ended 31 December
	2011	***2010***	***2010***
	Unaudited	***Unaudited****	***Audited****
	£000	***£000***	***£000***
Operating Activities			
Profit from operations	534	511	1,175
Less taxation paid	(114)	(35)	(149)
Adjustment for			
Depreciation	112	93	183
Share option expense	10	2	2
Operating cash flows before movements in working capital	542	571	1,211
Decrease / (Increase) in receivables	24	8	(49)
Decrease / (Increase) in inventories	41	28	1
(Decrease) / Increase in payables	103	192	336
Net cash generated from operating activities	710	799	1,499
Investing Activities			
Interest received	16	1	7
Purchases of property plant and equipment	(35)	(28)	(56)
Investment in product development	(303)	(279)	(623)
Net cash used in investing activities	(322)	(306)	(672)
Financing Activities			
Dividends paid	(396)	(396)	(595)
Net cash used by financing activities	(396)	(396)	(595)
Net change in cash and cash equivalents	(8)	97	232
Cash and cash equivalents at beginning of the period	2,147	1,820	1,820
Effect of foreign exchange rate changes	(1)	(5)	95
Cash and cash equivalents at end of period	2,138	1,912	2,147

**prior period amounts have been adjusted to reflect the effects of exchange rates on cash and cash equivalents*

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CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Share capital £000	***Share premium £000***	***Share option reserve £000***	***Retained earnings £000***	***Foreign exchange £000***	***Total £000***
Balance at 31 December 2009	283	30	10	1,907	106	2,336
Profit for the 6 months ended 30 June 2010	-	-	-	378	-	378
Share option charge	-	-	2	-	-	2
Exchange differences on translation of overseas operations	-	-	-	-	(14)	(14)
Dividends paid	-	-	-	(396)	-	(396)
Balance at 30 June 2010	283	30	12	1,889	92	2,306
Profit for the 6 months ended 31 December 2010	-	-	-	*494*	-	*494*
Issue of share capital	-	-	-	-	-	-
Share option charge	-	-	-	-	-	-
Exchange differences on translation of overseas operations	-	-	-	-	*73*	*73*
Dividends paid	-	-	-	*(199)*	-	*(199)*
Balance at 31 December 2010	283	30	12	2,184	*165*	2,674
Profit for the 6 months ended 30 June 2011	-	-	-	397	-	397
Bonus issue of shares	567	-	-	(567)	-	-
Share option charge	-	-	10	-	-	10
Exchange differences on translation of overseas operations	-	-	-	-	10	10
Dividends paid	-	-	-	(396)	-	(396)
Balance at 30 June 2011	850	30	22	1,618	175	2,695

NOTES TO THE UNAUDITED INTERIM REPORT

1. Basis of Preparation

The financial information for the six months ended 30 June 2011 included in this 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 – 15. This statement has been prepared in accordance with IAS 34 "Interim Financial Reporting".

This interim financial information is unaudited but has been reviewed by the auditors and their review opinion is included in this interim report. 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 2010 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 2010 financial statements of Dillistone Group Plc.

50% of the management charges arising in 2010 have been allocated to the results for the 6 month period to 30 June 2010 and the segmental analysis has been accordingly adjusted. This restatement affects only the June 2010 interim accounts

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. Segment reporting

Geographical segments

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

	6 months ended 30 June		***Year ended 31 December***
	2011	***2010***	***2010***
	£000	***£000***	***£000***
UKMEA	1,009	843	1,810
Europe	444	428	823
US	488	434	1051
Asia Pacific	336	263	567
	2,277	1,968	4,251

Business Segment

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

	6 months ended 30 June		Year ended 31 December
	2011	***2010***	***2010***
	£000	***£000***	***£000***
Recurring	1,384	1,213	2,536
Non recurring	893	755	1,715
	2,277	1,968	4,251

Recurring income includes all support services, and web hosting income. Non recurring income includes sales of new licenses, and income derived from installing those licenses including training, installation, and data translation.

Result

	6 Months ended 30 June		Year ended 31 December
	2011	***2010***	***2010***
	£000	***£000***	***£000***
UKMEA	537	410	892
Europe	25	81	138
US	77	23	239
Asia Pacific	105	60	145
	744	574	1,414
Unallocated expenses	(193)	(63)	(239)
Result from operating activities	551	511	1,175

The figures for the period to June 2010 have been restated reflecting a change in the treatment of management charges. Accordingly, 50% of the management charges made in the various subsidiaries during 2010 have been included in 30 June 2010 results.

Total assets	*As at 30 June 2011*	*As at 30 June 2010*	*As at 31 December 2010*
	£000	***£000***	***£000***
UKMEA	3,221	3,252	3,081
Europe	968	742	867
US	848	381	889
Asia Pacific	498	284	539
	5,535	4,659	5,376

The figures for the period to June 2010 have been restated reflecting a change in the treatment of management charges. Accordingly, 50% of the management charges made in the various subsidiaries during 2010 have been included in 30 June 2010 results.

4. Tax

	6 months ended 30 June		*Year ended 31 December*
	2011	***2010***	***2010***
	£000	***£000***	***£000***
Current tax charge	152	86	150
Deferred tax charge	2	48	94
Total	154	134	244

5. Dividends

The Board has decided to pay an interim dividend of 1.1667 p per share (2010: 1.1667p after taking into account the effect of the two for one bonus issue) on 4 November 2011 to holders on the register on 7 October 2011. Shares will trade ex-dividend from 5 October 2011.

6. Share Capital

At the AGM in June 2011, a bonus issue of two new ordinary shares of 5 pence for every one existing ordinary share was approved, together with the necessary capitalisation of reserves.

Accordingly 11,330,882 bonus shares have been issued and reserves totaling £566,544 have been capitalised.

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7. Earnings per Share

	6 months ended 30th June 2011	6 months ended 30th June 2010	Year ended 31 December 2010
Basic earnings per share			
Profit attributable to ordinary shareholders	£397,000	£378,000	£872,000
Weighted average number of shares	16,996,323	16,996,323	16,996,323
Basic earnings per share (pence)	2.34	2.22	5.13
Diluted earnings per share			
Profit attributable to ordinary shareholders	£397,000	£378,000	£872,000
Diluted weighted average number of shares	17,059,655	17,031,975	17,031,975
Diluted earnings per share (pence)	2.33	2.22	5.12

The comparative earnings per share have been adjusted to reflect the effect of the two for one bonus issue

8. 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.

Dividends paid to directors in the period totalled £0.194m.

There were no transactions with any other related parties.