DSG
Dillistone Group Plc

# UNAUDITED INTERIM REPORT
# FOR THE SIX MONTHS ENDED
# 30 JUNE 2017

**Company No. 4578125**

# Dillistone Group Plc

## Contents

# Dillistone Group Plc

**Highlights to the unaudited interim report for the six months ended 30 June 2017**

**Operational:**

- *Announcement of phase one launch of GatedTalent, the innovative global executive database.*

- *Funding arrangement of £400k agreed via Directors' convertible loan notes to help continue GatedTalent marketing, development and rollout - to be drawn down during Q4 2017.*

**Financial:**

- *Revenue up 0.4% to £4.829m*
- *Recurring revenue up 10% to £3.711m*
- *Recurring revenues represent 77% of total revenue*
- *Recurring revenues cover 90% of administrative and product development cost base*
- *Both Dillistone Systems and Voyager Software divisions profitable*
- *Loss for period after acquisition related items and costs charged against profit in respect of GatedTalent*
- *Cash balances of £1.114m at 30 June 2017 (2016: £1.611m) and debt of £0.072m (2016: £0.242m)*
- *No interim dividend proposed (2016: 1.375p) to support funding of GatedTalent product development*

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

*"As previously announced, trading in the first few months of the year was challenging, although we have seen some improvement in incoming orders since then.*

*We are pleased that recurring revenues in both divisions are at record levels providing good forward visibility of cash flows and largely covering the Group's administrative and product development cost base.*

*"The early response to our new product GatedTalent is extremely positive and we are excited at its potential. This new product is essentially a start up being developed within the auspices of an established business. We believe that it has the potential to transform the nature of our business and to deliver significant shareholder value.*

*“As clear evidence of our belief in the opportunity, I am pleased to report that the Directors and PDMRs have entered into an agreement to subscribe for convertible loan notes of £400,000.  The Group received several indicative offers of funding from both existing and new investors.  These offers included both debt and equity options. The Directors and PDMRs’ loan is in financial terms equivalent to the best offer received but without any of the constraints on the business. This money will be used to help fund the development and rollout of GatedTalent.  No Interim dividend will be paid at this time and future dividends will depend on the performance of the Group.”*

*Dr Mike Love, Chairman*

## *Chairman's Statement*

*As our financial results show and as previously announced, the Group has had a challenging first half to the year with revenue growth not keeping pace with increased costs.*

*The continuing move to SaaS related products from outright purchase models has contributed to a 10% growth in recurring revenue and a corresponding £0.256m reduction in non-recurring revenue. Recurring revenues were positively impacted by exchange rates but importantly grew in each of our divisions at a local currency level. This shift in revenue type is beneficial to the Group in the longer term.*

*The cost increase is due in part to our investment in GatedTalent (loss of £0.182m) which we do not expect to start generating revenue until 2018.*

*Total revenue increased by 0.4% to £4.829m. Recurring revenues represented 77% of revenues. Loss after tax, which includes the GatedTalent expenditure, was £0.024m (2016 profit: £0.489m).*

*Despite this, we are pleased that recurring revenues in both divisions are at record levels providing good forward visibility and largely covering the Group's administrative and product development cost base.*

*The Board is pleased to report that the Directors and PDMRs have agreed to put in place a £0.400m convertible loan note to provide the continued funding for GatedTalent. The loan notes carry an interest rate of 8.15% and a conversion price of 71.6p. The loan note has a 3-year duration but with various rights for early conversion or repayment. Further details are included in the press release issued on 28 September 2017.*

*As announced in June, the Group has been informed that a contract with a major client is likely to expire later this year or early next. This contract, which is with a client using a legacy product acquired as a result of an acquisition made several years ago, is worth in the region of £600,000 per annum in contribution terms to the Group. An amendment to the contract has been agreed which will give the client the rights to terminate at 3 months' notice during the contract term to 30 November 2018 (which can be extended by agreement). At this stage, the timing of the exit is unclear and so no impairment has been recognised in these interim statements nor has a detailed review been carried out of the remaining useful economic life. A full and comprehensive review will be carried out at the yearend when the position should be clearer. Any required adjustment will have no impact on cash.*

### *Divisional review*

*Dillistone Systems had a slow start to the year but we have seen improvement since then in terms of the volume and value of new business wins. However, a significant majority of our new clients have been new or young businesses, with relatively few users, purchasing on a subscription, as opposed to a licence model, which made it* *impossible for the business to catch up on the poor start. The Board is pleased to note that the division is currently in talks with a number of larger potential clients.*

*The introduction of GDPR in May 2018 and the launch of GatedTalent (www.Gatedtalent.com), which will link directly with FileFinder, are both expected to result in an improvement in sales over the next 12 months.*

*Dillistone Systems (www.dillistone.com) reported revenues of £2.244m (2016: £2.265m) with recurring revenues up 14% to £1.833m and non-recurring revenues down 37% to £0.411m.*

*As anticipated, Divisional profits are down to £0.030m in the period as cost increases exceeded growth in revenue.*

*Voyager Software (www.voyagersoftware.com) has seen revenue grow by 2% in the period to £2.585m (2016: £2.546m) with recurring revenue up 6% to £1.878m.*

*We are continuing to invest in extending our Infinity product, in particular to further support the temporary recruitment sector as well as the universal demand for real-time data analytics by adding native Microsoft Power BI integration. Other investments include adding to our mobile app suite to cover candidate availability and job searching, as well as integrating with the latest ISV Online skills testing and training solution.*

*Divisional profits fell 15% to £0.350m in the period, in part due to increased depreciation and amortisation charges up £0.101m on 30 June 2016.*

*As mentioned GatedTalent (www.Gatedtalent.com) is our new product which will be sold through our wholly owned subsidiary, and new division, GatedTalent Limited. GatedTalent is a new portal designed to allow executives to share their own information with recruiters. Further information is provided in a separate announcement. It is not expected to generate revenue until 2018. In the period, costs of £0.182m were charged against profit and £0.093m was capitalised as development expenditure.*

***Financial Performance***

*Revenue in the six months ended 30 June 2017 increased by 0.4% to £4.829m (2016: £4.811m). Recurring revenues increased by 10% to £3.711m over the comparable period last year (2016: £3.384m) and represented 77% of total revenues (2016: 70%). Non-recurring revenues were down at £0.873m (2016: £1.129m). Revenue benefited slightly from the fall in sterling; using 2016 rates revenue for the period would have been £4.664m*

*Cost of sales increased by 13% in H1 2017 mainly due to the continued roll out of third party data centres for hosting our cloud products. Administration expenses rose 16% in H1 2017, mainly due to increased salary costs and £0.182 million of expenditure associated with the development of GatedTalent. Depreciation and amortisation* *increased 18% to £0.551m (2016: £0.467m). Administrative costs also included £0.189m (2016: £0.189m relating to the amortisation of acquisition intangibles.*

*EBITDA fell 44% to £0.670m (2016: £1.204m). Total depreciation and amortisation, including amortisation of acquisition intangibles, increased to £0.740m (2016: £0.656m) resulting in a loss before tax of £0.075m (2016: profit £0.538m).*

*There is a tax credit for the period of £0.051m (2016: charge £0.049m). The 2016 and 2017 tax charge and credit have benefited from claims in the UK for research and development tax credits reflecting the continuing development of our products and losses generated by GatedTalent.*

*Cash generated from operating activities remained strong at £1.064m (2016: £1.347m). Total cash flow in the 6 months ended 30 June 2017 showed a net outflow of £0.434m (2016: outflow £0.070m). The main elements of non-operating expenditure related to dividends paid in the period of £0.551m (2016: £0.541m) and investment in new product development of £0.595m (2016: £0.539m) and deferred consideration payments in respect of acquisitions £0.220m (2016: £0.212m). At 30 June 2017, we had cash reserves of £1.114m (2016: £1.611m) and £0.072m in borrowings (2016: £0.242m).*

*In view of the fund raising carried out to develop GatedTalent, we have decided not to pay an interim dividend. Future dividends will depend on Group performance.*

**IFRS 15**

*IFRS 15 comes into force on 1 January 2018. The Group is working on fully understanding the implications of this new standard. The major impact is likely to be in respect of various outright licence sales which require a support contract where some of the non-recurring licence income will need to be spread. Other adjustments may be required. The introduction of IFRS 15 is also likely to mean prior year numbers will need to be restated.*

**Strategy**

*The Group believes that the launch of GatedTalent has the potential to be transformational for the Group, taking it from a supplier of CRM solutions in a crowded market to potentially being the custodian of one of the World's largest private pools of executive drafted biographical information. If successful, this new platform has the potential to be highly profitable in its own right, while also delivering a very significant competitive advantage to other Group products.*

**Outlook**

*The introduction of GDPR in May 2018 will drive potentially significant change to the recruitment sector and in particular executive recruitment. With the introduction of GatedTalent, the Group feels well positioned to help existing and new clients manage the changes that GDPR brings. GatedTalent is not expected to realise significant* *revenue before 2018 nor to be profitable before 2020. However, the Board is very excited by its potential and is therefore confident about the long-term success of the Group.*

*The Group continues to invest in its other products to ensure that they remain relevant for the changing market place*

*The Group expects full year operational and statutory results to be in line with market expectations before acquisition related items and any write down of intangibles in respect of the lost contract.*

*Mike Love*

*27 September 2017*

# Dillistone Group Plc

## CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

| | Note | *6 Months ended 30 June* | | *Year ended 31 Dec* |
|---|---|---|---|---|
| | | ***2017*** | ***2016*** | ***2016*** |
| | | ***Unaudited*** | ***Unaudited*** | ***Audited*** |
| | | ***£'000*** | ***£'000*** | ***£'000*** |
| Revenue | 4 | 4,829 | 4,811 | 9,963 |
| Cost of sales | | ( 782) | ( 694) | ( 1,478) |
| Gross profit | | 4,047 | 4,117 | 8,485 |
| Administrative expenses | | ( 4,117) | ( 3,569) | ( 8,073) |
| Result from operating activities | 4 | (70) | 548 | 412 |
| *Analysed as:* | | | | |
| *Result from operating activities before acquisition related items* | | *119* | *737* | *1,463* |
| *Acquisition related items* | 5 | *( 189)* | *( 189)* | *(1,051)* |
| *Result after acquisition related items* | | *(70)* | *548* | *412* |
| Financial income | | 1 | 3 | 3 |
| Financial cost | | ( 6) | ( 13) | ( 23) |
| **(Loss)/profit before tax** | | **(75)** | **538** | **392** |
| Tax income/(expense) | 6 | 51 | ( 49) | 134 |
| **(Loss) /profit for the period** | | **(24)** | **489** | **526** |
| **Other comprehensive income net of tax:** | | | | |
| Currency translation differences | | ( 7) | ( 4) | 16 |
| **Total comprehensive income for period net of tax** | | **(31)** | **485** | **542** |
| **Earnings per share (pence)** | | | | |
| Basic | 8 | (0.12) | 2.48 | 2.68 |
| Diluted | | (0.12) | 2.46 | 2.62 |

# Dillistone Group Plc

## CONSOLIDATED STATEMENT OF FINANCIAL POSITION

| | | As at 30 June | As at 31 Dec |
|---|---|---|---|
| | *2017* | *2016* | *2016* |
| | *Unaudited* | *Unaudited* | *Audited* |
| **ASSETS** | ***£'000*** | ***£'000*** | ***£'000*** |
| **Non-current assets** | | | |
| Goodwill | 3,415 | 3,415 | 3,415 |
| Intangible assets | 5,087 | 6,084 | 5,263 |
| Property plant & equipment | 289 | 259 | 215 |
| | 8,791 | 9,758 | 8,893 |
| **Current assets** | | | |
| Inventories | 4 | 9 | 5 |
| Trade and other receivables | 2,317 | 1,961 | 2,196 |
| Cash and cash equivalents | 1,114 | 1,611 | 1,537 |
| | 3,435 | 3,581 | 3,738 |
| **Total assets** | **12,226** | **13,339** | 12,631 |
| | | | |
| **EQUITY AND LIABILITIES** | | | |
| **Equity** | | | |
| Share capital | 983 | 983 | 983 |
| Share premium | 1,631 | 1,631 | 1,631 |
| Merger reserve | 365 | 365 | 365 |
| Retained earnings | 3,150 | 3,956 | 3,725 |
| Share option reserve | 86 | 70 | 85 |
| Translation reserve | 110 | 97 | 117 |
| **Total equity** | 6,325 | 7,102 | 6,906 |
| | | | |
| **Liabilities** | | | |
| **Non current liabilities** | | | |
| Trade and other payables | - | 178 | 15 |
| Borrowings | - | 72 | - |
| Deferred tax | 716 | 980 | 784 |
| **Current liabilities** | | | |
| Trade and other payables | 4,933 | 4,599 | 4,599 |
| Borrowings | 72 | 170 | 158 |
| Current tax payable | 180 | 238 | 169 |
| **Total liabilities** | 5,901 | 6,237 | 5,725 |
| **Total liabilities and equity** | **12,226** | **13,339** | **12,631** |

The interim report was approved by the Board of directors and authorised for issue on 27 September 2017. They were signed on its behalf by:

JS Starr J P Pomeroy

# Dillistone Group Plc

## CONSOLIDATED STATEMENT OF CASH FLOWS

| | ***As at 30 June*** | | ***As at 31 Dec*** |
|---|---|---|---|
| | ***2017*** | ***2016*** | ***2016*** |
| | ***Unaudited*** | ***Unaudited*** | ***Audited*** |
| | ***£'000*** | ***£'000*** | ***£'000*** |
| **Operating Activities** | | | |
| (Loss)/profit before tax | (75) | 538 | 392 |
| Adjustment for | | | |
| Financial income | ( 1) | ( 3) | ( 3) |
| Financial cost | 6 | 13 | 23 |
| Depreciation and amortisation | 741 | 656 | 2,069 |
| Share option expense | 1 | ( 1) | 16 |
| Other including foreign exchange adjustments arising from operations | ( 4) | ( 16) | 31 |
| **Operating cash flows before movements in working capital** | **668** | **1,187** | **2,528** |
| Increase in receivables | ( 55) | ( 155) | (487) |
| Decrease in inventories | 1 | 8 | 11 |
| Increase in payables | 456 | 211 | 62 |
| Add taxation (paid)/repaid | (6) | 96 | 24 |
| **Net cash generated from operating activities** | **1,064** | **1,347** | **2,138** |
| **Investing Activities** | | | |
| Interest received | 1 | 3 | 3 |
| Finance cost | ( 2) | ( 5) | ( 8) |
| Purchases of property plant and equipment | ( 45) | ( 40) | ( 70) |
| Investment in development costs | ( 595) | ( 539) | ( 1,056) |
| Contingent consideration paid | ( 220) | ( 212) | ( 212) |
| **Net cash used in investing activities** | **( 861)** | **( 793)** | ( 1,343) |
| **Financing Activities** | | | |
| Bank loan repayments made | ( 86) | ( 83) | ( 167) |
| Dividends paid | ( 551) | ( 541) | ( 811) |
| **Net cash used by financing activities** | **( 637)** | **( 624)** | **( 978)** |
| **Net change in cash and cash equivalents** | **( 434)** | **( 70)** | **( 183)** |
| Cash and cash equivalents at beginning of the period | 1,537 | 1,595 | 1,595 |
| Effect of foreign exchange rate changes | 11 | 86 | 125 |
| **Cash and cash equivalents at end of period** | **1,114** | **1,611** | **1,537** |

## Dillistone Group Plc

### 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 2015** | 983 | 1,631 | 365 | 4,008 | 71 | 101 | 7,159 |
| **Comprehensive income** | | | | | | | |
| Profit for the 6 months ended 30 June 2016 | - | - | - | 489 | - | - | 489 |
| **Other comprehensive income** | | | | | | | - |
| Exchange differences on translation of overseas operations | - | - | - | - | - | ( 4) | ( 4) |
| **Total comprehensive income** | - | - | - | 489 | - | ( 4) | 485 |
| **Transactions with owners** | | | | | | | |
| Share option charge | - | - | - | - | ( 1) | - | ( 1) |
| Dividends paid | - | - | - | ( 541) | - | - | ( 541) |
| **Balance at 30 June 2016** | **983** | **1,631** | **365** | **3,956** | **70** | **97** | **7,102** |
| **Comprehensive income** | | | | | | | |
| Profit for the 6 months ended 31 Dec 2016 | - | - | - | 37 | - | - | 37 |
| **Other comprehensive income** | | | | | | | - |
| Exchange differences on translation of overseas operations | - | - | - | - | - | 20 | 20 |
| **Total comprehensive income** | - | - | - | 37 | - | 20 | 57 |
| **Transactions with owners** | | | | | | | |
| Share option charge | - | - | - | 2 | 15 | - | 17 |
| Dividends paid | - | - | - | ( 270) | - | - | ( 270) |
| **Balance at 31 December 2016** | **983** | **1,631** | **365** | **3,725** | **85** | **117** | **6,906** |
| **Comprehensive income** | | | | | | | |
| Loss for the 6 months ended 30 June 2017 | - | - | - | (24) | - | - | (24) |
| **Other comprehensive income** | | | | | | | - |
| Exchange differences on translation of overseas operations | - | - | - | - | - | ( 7) | ( 7) |
| Total comprehensive income | - | - | - | (24) | - | ( 7) | (31) |
| **Transactions with owners** | | | | | | | |
| Share option charge | - | - | - | - | 1 | - | 1 |
| Dividends paid | - | - | - | ( 551) | - | - | ( 551) |
| **Balance at 30 June 2017** | **983** | **1,631** | **365** | **3,150** | **86** | **110** | **6,325** |

**NOTES TO THE UNAUDITED INTERIM REPORT**

## 1. Basis of Preparation

The financial information for the six months ended 30 June 2017 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 13 – 19.

The financial information in these interim results is that of the holding company and all of its subsidiaries (the Group). It has been prepared in accordance with the recognition and measurement requirements of International Financial Reporting Standards as adopted for use in the EU (IFRSs) but does not include all of the disclosures that would be required under IFRSs. The accounting policies applied by the Group in this financial information are the same as those applied by the Group in its financial statements for the year ended 31 December 2016 and are those which will form the basis of the 2017 financial statements.

The comparative financial information presented herein for the year ended 31 December 2016 does not constitute full statutory accounts for that period. The Group's annual report and accounts for the year ended 31 December 2016 have been delivered to the Registrar of Companies. The Group's independent auditor's report on those statutory accounts was unqualified, did not draw attention to any matters by way of emphasis, and did not contain a statement under 498(2) or 498(3) of the Companies Act 2006.

In preparing the interim financial statements the directors have considered the Group's financial projections, borrowing facilities and other relevant financial matters, and the board is satisfied that there is a reasonable expectation that the Group has adequate resources to continue in operational existence for the foreseeable future. For this reason, the directors continue to adopt the going concern basis in preparing the financial statements.

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 50 Leman St, London, E1 8HQ. 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.

# Dillistone Group Plc

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

### 30 June 2017 and 30 June 2016

| | Adjusted operating profits 30 June 2017 | Acquisition related items 2017* | 30 June 2017 | Adjusted operating profits 30 June 2016 | Acquisition related items 2016* | 30 June 2016 |
|---|---|---|---|---|---|---|
| | £'000 | £'000 | £'000 | £'000 | £'000 | £'000 |
| **Revenue** | 4,829 | - | 4,829 | 4,811 | - | 4,811 |
| Cost of sales | ( 782) | - | ( 782) | ( 694) | - | ( 694) |
| **Gross profit** | 4,047 | 0 | 4,047 | 4,117 | 0 | 4,117 |
| Administrative expenses | ( 3,928) | ( 189) | ( 4,117) | ( 3,380) | ( 189) | ( 3,569) |
| Results from operating activities | 119 | ( 189) | (70) | 737 | ( 189) | 548 |
| Financial income | 1 | - | 1 | 3 | - | 3 |
| Financial cost | ( 2) | ( 4) | ( 6) | ( 5) | ( 8) | ( 13) |
| **Profit/(loss) before tax** | 118 | ( 193) | (75) | 735 | ( 197) | 538 |
| Tax expense/(income) | 17 | 34 | 51 | ( 83) | 34 | ( 49) |
| **Profit/(loss) for the year** | 135 | ( 159) | (24) | 652 | ( 163) | 489 |
| **Other comprehensive income net of tax:** | | | | | | |
| Currency translation differences | (7) | - | (7) | (4) | - | (4) |
| **Total comprehensive income for the year net of tax** | **128** | **(159)** | **(31)** | **648** | **( 163)** | **485** |

### Earnings per share – from continuing activities

| | | | | | | |
|---|---|---|---|---|---|---|
| **Basic** | **0.68p** | | **(0.12)p** | **3.31p** | | **2.48p** |
| **Diluted** | **0.68p** | | **(0.12)p** | **3.28p** | | **2.46p** |

* *see accounts note 5*

# Dillistone Group Plc

### 31 December 2016

| | Adjusted operating profits 31 December 2016 | Acquisition related items 2016* | 31 December 2016 |
|---|---|---|---|
| | **£'000** | **£'000** | **£'000** |
| **Revenue** | 9,963 | - | 9,963 |
| Cost of sales | (1,478) | - | (1,478) |
| **Gross profit** | 8,485 | - | 8,485 |
| Administrative expenses | (7,022) | (1,051) | (8,073) |
| Results from operating activities | 1,463 | (1,051) | 412 |
| Financial income | 3 | - | 3 |
| Financial cost | (8) | (15) | (23) |
| **Profit before tax** | 1,458 | (1,066) | 392 |
| Tax income | (63) | 197 | 134 |
| **Profit for the year** | 1,395 | (869) | 526 |
| **Other comprehensive income net of tax:** | | | |
| Currency translation differences | 16 | - | 16 |
| **Total comprehensive income for the year net of tax** | **1,411** | **(869)** | **542** |

### Earnings per share – from continuing activities

| | | | |
|---|---|---|---|
| *Basic* | *7.10p* | | *2.68p* |
| *Diluted* | *6.95p* | | *2.62p* |

* *see accounts note 5*

## 4. Segment reporting

| | 6 months ended 30 June | | Year ended 31 Dec |
|---|---|---|---|
| | ***2017*** | ***2016*** | ***2016*** |
| | ***£'000*** | ***£'000*** | ***£'000*** |
| **Revenue** | | | |
| Dillistone Systems | 2,244 | 2,265 | 4,858 |
| GatedTalent | - | - | - |
| Voyager Software | 2,585 | 2,546 | 5,105 |
| Total revenue | 4,829 | 4,811 | 9,963 |

### Results by division

| | 6 months ended 30 June | | Year ended 31 Dec |
|---|---|---|---|
| | ***2017*** | ***2016*** | ***2016*** |
| | ***£'000*** | ***£'000*** | ***£'000*** |
| **Results from operating activities** | | | |
| Dillistone Systems | 30 | 417 | 205 |
| GatedTalent | (182) | - | - |
| Voyager Software | 350 | 412 | 632 |
| | 198 | 829 | 837 |
| Central | (79) | (92) | (94) |
| Amortisation of acquisition intangibles and other items | (189) | (189) | (331) |
| Result from operating activities | (70) | 548 | 412 |

### 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 |
|---|---|---|---|
| | ***2017*** | ***2016*** | ***2016*** |
| | ***£'000*** | ***£'000*** | ***£'000*** |
| UK | 3,440 | 3,486 | 7,142 |
| Europe | 474 | 452 | 1,047 |
| US | 703 | 679 | 1,388 |
| Australia | 212 | 194 | 386 |
| | 4,829 | 4,811 | 9,963 |

## 4. Segment reporting (continued)

### Business Segment

The following table provides an analysis of the Group's revenues by products and services.

| | *6 months ended 30 June* | | *Year ended 31 Dec* |
|---|---|---|---|
| | ***2017*** | ***2016*** | ***2016*** |
| | ***£'000*** | ***£'000*** | ***£'000*** |
| Recurring | 3,711 | 3,384 | 7,027 |
| Non recurring | 873 | 1,129 | 2,370 |
| Third party revenues | 245 | 298 | 566 |
| | 4,829 | 4,811 | 9,963 |

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.

The Group notes IFRS15 *Revenue from Contracts with Customers* which is to be adopted for all accounting periods beginning on or after 1 January 2018. The Group is working on fully understanding the implications of this new standard. The Group has yet to decide upon the transitional arrangements to adopt, but an adjustment in respect of prior years is expected. The major impact is likely to be in respect of various outright license sales which require a support contract where some the non-recurring license income will need to be spread. Other adjustments may be required.

## 5 Acquisition related items

| | *6 months ended 30 June* | | *Year ended 31 Dec* |
|---|---|---|---|
| | ***2017*** | ***2016*** | ***2016*** |
| | ***£'000*** | ***£'000*** | ***£'000*** |
| Estimated change in fair value of contingent consideration | - | - | (48) |
| Amortisation of acquisition intangibles | 189 | 189 | 379 |
| Additional amortisation on change of estimated useful life of platform technology | - | - | 720* |
| | 189 | 189 | 1,051 |
| Unwinding of discount on contingent consideration | 4 | 8 | 15 |
| Total | 193 | 197 | 1,066 |

*The decision to change the estimated useful life of certain assets was made at the time of the preparation of the 2016 final accounts. Accordingly, as the decision had not been made at the time of the preparation of the interim accounts to June 2016, no adjustment has been included.

## 5 Acquisition related items (continued)

Impairments to intangibles are reviewed normally at the year end. As previously stated the Group has been informed that a contract with a major client is likely to expire later this year or early next. This contract, which is with a client using an acquired legacy product, is worth in the region of £600,000 per annum in contribution terms to the Group. An amendment to the contract has been agreed which will give the client the rights to terminate at 3 months' notice during the contract term to 30 November 2018 (which can be extended by agreement). At this stage, the timing of the exit is unclear and so no impairment has been recognised in these interim statements nor has a detailed review been carried out of the remaining useful economic life. A full and comprehensive review will be carried out at the yearend when the position should be clearer. The intangibles that are impacted, their original and outstanding lives together with the value of such intangibles at 30 June 2017 are shown below:

| Intangible asset | Original life | Remaining life at 30 June 2017 | Value of intangibles at 30 June 2017 in £000s |
|---|---|---|---|
| Developed technology | 6 | 2 | 53 |
| Contractual and non-contractual relationship | 10 | 6 | 836 |

## 6 Tax

| | *6 months ended 30 June* | | *Year ended 31 Dec* |
|---|---|---|---|
| | ***2017*** | ***2016*** | ***2016*** |
| | ***£'000*** | ***£'000*** | ***£'000*** |
| Current tax charge | 17 | 73 | 178 |
| Prior year adjustment – current tax | - | - | (91) |
| Deferred tax release charge | (34) | 10 | (100) |
| Prior year adjustment – deferred tax | - | - | (50) |
| Deferred tax re acquisition intangibles | (34) | (34) | (68) |
| Prior year adjustment - deferred tax re acquisition intangibles | - | - | (3) |
| Total | (51) | 49 | (134) |

The tax charge is impacted by the higher rates of corporation tax payable in the US and Australia offset by the R&D tax credits available to both Dillistone Systems and Voyager Software and GatedTalent Limited. Deferred tax has been provided at 17%.

## 7. Dividends

In view of its investment in GatedTalent and the related fund-raising exercise, the Board has decided not to pay an interim dividend (2016: 1.375p per share).

## 8. Earnings per Share

| | *6 months ended 30 June* | | *Year ended 31 Dec* |
|---|---|---|---|
| | ***2017*** | ***2016*** | ***2016*** |
| **Basic earnings per share** | | | |
| (Loss)/ profit attributable to ordinary shareholders | £(24,000) | £489,000 | £526,000 |
| Weighted average number of shares | 19,668,021 | 19,668,021 | 19,668,021 |
| Basic (loss)/earnings per share (pence) | (0.12) | 2.48 | 2.68 |
| **Diluted earnings per share** | | | |
| (Loss)/ profit attributable to ordinary shareholders | £(24,000) | £489,000 | £526,000 |
| Diluted weighted average number of shares | 19,668,021 | 19,857,686 | 20,082,096 |
| Diluted earnings per share (pence) | (0.12) | 2.46 | 2.62 |

## 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.

## 10. Cautionary statement

This Interim Report has been prepared solely to provide additional information to shareholders to assess the Company's strategies and the potential for these strategies to succeed. The Interim Report should not be relied on by any other party or for any other purpose. The Interim Report contains certain forward-looking statements with respect to the financial condition, results of operations and businesses of the Company. These statements are made in good faith based on the information available to them up to the time of their approval of this report. However, such statements should be treated with caution as they involve risk and uncertainty because they relate to events and depend upon circumstances that will occur in the future. There are a number of factors that could cause actual results or developments to differ materially from those expressed or implied by these forward-looking statements. The continuing uncertainty in global economic outlook inevitably increases the economic and business risks to which the Company is exposed. Nothing in this announcement should be construed as a profit forecast.