DSG
Dillistone Group Plc

# UNAUDITED INTERIM REPORT
# FOR THE SIX MONTHS ENDED
# 30 JUNE 2012

**Company No. 4578125**

# Dillistone Group Plc

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# Dillistone Group Plc

**Highlights to the unaudited interim report for the six months ended 30 June 2012**

- *Revenue up 58% to £3.6m*
  - *Recurring revenues up 63% to £2.3m*
  - *Non-recurring revenues (including third party sales) up 51% to £1.3m*
- *Operating profits before exceptional items up 51% to £0.8m and after exceptional items up 30% to £0.7m*
- *Basic EPS pre-exceptional items up 42% to 3.33p and after exceptional items up 24% to 2.91p*
- *Dillistone continues to be debt free; cash of £1.6m at 30 June 2012 (2011: £2.1m)*
- *Increase in subscription based sales - offering increased confidence and visibility of future*
- *Interim dividend increased by 2.9% to 1.2p per share (2011: 1.1667p) due in November*
- *Strong order book for Dillistone Systems, partly as a result of a series of larger than average contract wins*
- *Launch of new Voyager Software platform, Infinity, due tomorrow.*

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

*"Against the difficult economic backdrop, Dillistone has produced an excellent set of interim results. The transformational acquisition of Voyager has made a strong contribution and the Group has benefited from significant synergies as a result of this strategic move.*

*"A strong implementation pipeline for Dillistone Systems and the launch tomorrow of the Voyager Infinity platform, along with our highest ever level of recurring revenues give the Board great confidence in the future and, as a result, we are pleased to announce the increase in our interim dividend."*

*Dr Mike Love, Chairman*

## *Chairman's Statement*

*The acquisition of Voyager Software in September 2011 has had a transformational impact on the Group as the strength of our H1 results demonstrates. Furthermore, the increased visibility of future revenues as a result of our 63% increase in recurring revenues has given the Board the confidence to increase the interim dividend by 2.9% to 1.2p (2011: 1.1667p). The Company plans to maintain a progressive dividend policy taking into account the cash requirements of the business and its future growth strategy.*

*Chairman's Statement (continued)*

*Although the economic situation remains unsettled, both of our divisions have reasons to be optimistic about the future. At our Annual General Meeting in May, I mentioned that Dillistone Systems was working on a number of larger than average projects with both current and potential executive search firm clients. I am delighted to say that progress in our discussions with these firms has been positive and, as a result, despite the difficult economic environment, our client implementation pipeline is now as strong as it has been for a number of years. We believe that this reflects the competitive advantages of our recently launched FileFinder 10 product.*

*Our Voyager Software subsidiary will launch the first phase of its new "Infinity" product on 27 September. This product, which has been in development since 2008, is based on the same technology as the FileFinder 10 system and will, we believe, become equally successful over time. However, as with the launch of FileFinder 10, we will be following a cautious approach, and so do not expect to see full benefit from this release before the second half of 2013.*

*The acquisition of Voyager has proven to be a success both financially and operationally. By bringing together the two businesses, significant savings have been made without significant impact on the ability of either firm to maintain its quality of service delivery. Significant successes include the integration of our Australian businesses and various back office improvements.*

*The Group's strategy continues to be to grow the business both organically and through acquisition. Our organic growth is supported by our commitment to product development which aims to ensure that the business commands a leading role in all of the market sectors in which it operates.*

***Financial Performance***

*Revenue in the 6 months ended 30 June 2012 increased by 58% to £3.6m (2011: £2.3m). Recurring revenues increased by 63% to £2.3m over the comparable period last year (2011: £1.4m) and now represent 63% of total revenues (2011: 61%). Non recurring revenues increased 30% to £1.2m (2011: £0.9m).*

*Historically, Voyager Software has been a heavily UK-centric business. Whilst our long term aim is to change this, the acquisition has had the medium term effect of making the Group more UK centric, with the UK now making up 56% of revenue (2011: 44%). In 2012, the Americas accounted for 18% of revenues (2011: 21%), Europe 14% (2011: 19%) and Asia Pacific 12% (2011: 15%).*

*Chairman's Statement (continued)*

*Administrative costs (including exceptional items of £0.1m) increased by 55% to £2.5m (2011: £1.6m) due to the inclusion of Voyager Software. Costs of sales increased to £0.4m (2011: £0.1m) mainly due to the inclusion of Voyager Software which has a slightly lower gross margin than the Dillistone business.*

*Profit before tax and exceptional items increased by 48% to £0.8m (2011: £0.6m). The exceptional cost of £0.1m related to the amortisation of intangibles arising on the acquisition of Voyager Software. Profit before tax and after exceptional items was up 27% at £0.7m (2011: £0.6m).*

*Cash flow in the 6 months ended 30 June 2012 showed a net cash outflow of £0.02m (2011: outflow £0.01m). The main elements of non-operating expenditure related to dividends in the period of £0.4m (2011: £0.4m), investment in new product development of £0.4m (2011: £0.3m) and acquisition costs of £0.1m (2011: £nil). At 30 June 2012 we had cash reserves of £1.6m (2011: £2.1m) and no borrowings.*

*The tax provision increased to £0.2m in the period to 30 June 2012 (2011: £0.2m). This gives an effective global tax rate of 24.3% (2011: 28.0%). The 2011 and 2012 rates have been reduced by a claim in the UKMEA for research and development tax credit reflecting the continuing development of our products. The tax charge is also impacted by the higher rates of corporation tax payable in the US and Australia.*

*Basic EPS rose 42% to 3.33p (2011: 2.34p) before exceptional items and 24% to 2.91p after exceptional items. The Board has decided to increase the interim dividend for 2012 by 2.9% and accordingly, a dividend of 1.2p per share (2011: 1.1667p) will be paid on 6 November 2012 to holders on the register on 12 October 2012. Shares will trade ex-dividend from 10 October 2012.*

***Outlook***

*The Group continues to be cash generative and debt free. Whilst we are not immune to economic uncertainty, at this stage the Board is confident that the Group will build on the good progress achieved in the first half of 2012.*

*Mike Love*

*25 September 2012*

# Dillistone Group Plc

## CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

| | Note | ***6 Months ended 30 June*** | | ***Year ended 31 Dec*** |
|---|---|---|---|---|
| | | ***2012*** | ***2011*** | ***2011*** |
| | | ***Unaudited*** | ***Unaudited*** | ***Audited*** |
| | | ***£'000*** | ***£'000*** | ***£'000*** |
| Revenue | 3 | 3,598 | 2,277 | 5,448 |
| Cost of sales | | (437) | (148) | (441) |
| Gross profit | | 3,161 | 2,129 | 5,007 |
| Administrative expenses | | (2,467) | (1,595) | (3,799) |
| Result from operating activities | 3 | 694 | 534 | 1,208 |
| *Analysed as:* | | | | |
| *Result from operating activities before exceptional items* | | *807* | 534 | *1,380* |
| Exceptional items | 4 | (113) | - | (172) |
| *Result after exceptional items* | | *694* | 534 | *1,208* |
| Financial income | | 6 | 17 | 25 |
| **Profit before tax** | | 700 | 551 | 1,233 |
| Tax expense | 5 | (170) | (154) | (307) |
| **Profit for the period/year** | | 530 | 397 | 926 |
| **Other comprehensive income:** | | | | |
| Currency translation differences | | (9) | 10 | (2) |
| **Total comprehensive income for period/year** | | 521 | 407 | 924 |
| **Earnings per share (pence)** | | | | |
| Basic | 7 | 2.91 | 2.34 | 5.34 |
| Diluted | | 2.90 | 2.33 | 5.32 |
| **Earnings per share (pence) before exceptional items** | | | | |
| Basic | | 3.33 | 2.34 | 6.26 |
| Diluted | | 3.32 | 2.33 | 6.23 |

# Dillistone Group Plc

**CONSOLIDATED STATEMENT OF FINANCIAL POSITION**

| | ***As at 30 June*** | | ***As at 31 Dec*** |
|---|---|---|---|
| | ***2012*** | ***2011*** | ***2011*** |
| | ***Unaudited*** | ***Unaudited*** | ***Audited*** |
| **ASSETS** | ***£'000*** | ***£'000*** | ***£'000*** |
| **Non-current assets** | | | |
| Goodwill | 2,490 | 494 | 2,490 |
| Intangible assets | 2,853 | 1,421 | 2,710 |
| Property plant & equipment | 141 | 71 | 143 |
| Trade and other receivables | - | 44 | 23 |
| | 5,484 | 2,030 | 5,366 |
| **Current assets** | | | |
| Inventories | 95 | 14 | 11 |
| Trade and other receivables | 1,811 | 1,353 | 1,728 |
| Cash and cash equivalents | 1,569 | 2,138 | 1,617 |
| | 3,475 | 3,505 | 3,356 |
| **Total assets** | 8,959 | 5,535 | 8,722 |
| **EQUITY AND LIABILITIES** | | | |
| **Equity** | | | |
| Share capital | 910 | 850 | 910 |
| Share premium | 451 | 30 | 451 |
| Merger reserve | 365 | - | 365 |
| Share option reserve | 45 | 22 | 24 |
| Retained earnings | 2,039 | 1,618 | 1,934 |
| Translation reserve | 154 | 175 | 163 |
| **Total equity** | 3,964 | 2,695 | 3,847 |
| **Liabilities** | | | |
| Non current liabilities | | | |
| Trade and other payables | 210 | - | 364 |
| Deferred tax | 571 | 199 | 565 |
| Current liabilities | | | |
| Trade and other payables | 3,928 | 2,511 | 3,795 |
| Current tax payable | 286 | 130 | 151 |
| Total liabilities | 4,995 | 2,840 | 4,875 |
| **Total liabilities and equity** | 8,959 | 5,535 | 8,722 |

The interim report was approved by the Board of directors and authorised for issue on 25 September 2012. 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 |
|---|---|---|---|
| | 2012 | 2011 | 2011 |
| | Unaudited | Unaudited | Audited |
| | £'000 | £'000 | £'000 |
| **Operating Activities** | | | |
| Profit from operations | 694 | 534 | 1,208 |
| Less taxation paid | (30) | (114) | (171) |
| Adjustment for | | | |
| Depreciation and amortisation | 250 | 112 | 309 |
| Share option expense | 20 | 10 | 12 |
| Other including foreign exchange adjustments arising from operations | 6 | - | 17 |
| Operating cash flows before movements in working capital | 940 | 542 | 1,375 |
| (Increase) / Decrease in receivables | (88) | 24 | (214) |
| (Increase) / Decrease in inventories | (83) | 41 | 44 |
| Increase in payables | 129 | 103 | 366 |
| Net cash generated from operating activities | 898 | 710 | 1,571 |
| **Investing Activities** | | | |
| Interest received | 6 | 16 | 25 |
| Purchases of property plant and equipment | (41) | (35) | (81) |
| Investment in development costs | (361) | (303) | (580) |
| Acquisition of subsidiaries net of cash acquired | - | - | (1,292) |
| Additional acquisition payments | (98) | - | - |
| Net cash used in investing activities | (494) | (322) | (1,928) |
| **Financing Activities** | | | |
| Net proceeds from issue of share capital | - | - | 457 |
| Dividends paid | (425) | (396) | (609) |
| Net cash used by financing activities | (425) | (396) | (152) |
| Net change in cash and cash equivalents | (21) | (8) | (509) |
| Cash and cash equivalents at beginning of the period | 1,617 | 2,147 | 2,147 |
| Effect of foreign exchange rate changes | (27) | (1) | (21) |
| Cash and cash equivalents at end of period | 1,569 | 2,138 | 1,617 |

# 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 2010** | 283 | 30 | - | 2,184 | 12 | 165 | 2,674 |
| **Comprehensive income** | | | | | | | |
| Profit for the 6 months ended 30 June 2011 | - | - | - | 397 | - | - | 397 |
| **Other comprehensive income** | | | | | | | |
| Exchange differences on translation of overseas operations | - | - | - | - | - | 10 | 10 |
| Total comprehensive income | - | - | - | 397 | - | 10 | 407 |
| **Transactions with owners** | | | | | | | |
| Share option charge | - | - | - | - | 10 | - | 10 |
| Dividends paid | - | - | - | (396) | - | - | (396) |
| Capitalisation of reserves | 567 | - | - | (567) | - | - | - |
| **Balance at 30 June 2011** | 850 | 30 | - | 1,618 | 22 | 175 | 2,695 |
| **Comprehensive income** | | | | | | | |
| Profit for the 6 months ended 31 Dec 2011 | - | - | - | 529 | - | - | 529 |
| **Other comprehensive income** | | | | | | | |
| Exchange differences on translation of overseas operations | - | - | - | - | - | (12) | (12) |
| Total comprehensive income | - | - | - | 529 | - | (12) | 517 |
| **Transactions with owners** | | | | | | | |
| Issue of share capital | 60 | 421 | 365 | - | - | - | 846 |
| Share option charge | - | - | - | - | 2 | - | 2 |
| Dividends paid | - | - | - | (213) | - | - | (213) |
| **Balance at 31 December 2011** | 910 | 451 | 365 | 1,934 | 24 | 163 | 3,847 |
| **Comprehensive income** | | | | | | | |
| Profit for the 6 months ended 30 June 2012 | - | - | - | 530 | - | - | 530 |
| **Other comprehensive income** | | | | | | | |
| Exchange differences on translation of overseas operations | - | - | - | - | - | (9) | (9) |
| Total comprehensive income | - | - | - | 530 | - | (9) | 521 |
| **Transactions with owners** | | | | | | | |
| Issue of share capital | - | - | - | - | - | - | - |
| Share option charge | - | - | - | - | 21 | - | 21 |
| Dividends paid | - | - | - | (425) | - | - | (425) |
| **Balance at 30 June 2012** | 910 | 451 | 365 | 2,039 | 45 | 154 | 3,964 |

## NOTES TO THE UNAUDITED INTERIM REPORT

### 1. Basis of Preparation

The financial information for the six months ended 30 June 2012 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 10 – 14.

This 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 2011 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 2011 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 2011.

Dillistone Group Plc is the Group's ultimate parent company. It is a public listed company and 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. Segment reporting

| | 6 Months ended 30 June | | Year ended 31 Dec |
|---|---|---|---|
| | ***2012*** | ***2011*** | ***2011*** |
| | ***£'000*** | ***£'000*** | ***£'000*** |
| **Revenue** | | | |
| Dillistone | 2,375 | 2,277 | 4,759 |
| Voyager | 1,223 | - | 689 |
| Total revenue | 3,598 | 2,277 | 5,448 |

### Results by division

| | 6 Months ended 30 June | | Year ended 31 Dec |
|---|---|---|---|
| | ***2012*** | ***2011*** | ***2011*** |
| | ***£'000*** | ***£'000*** | ***£'000*** |
| **Results from operating activities** | | | |
| Dillistone | 738 | 727 | 1,639 |
| Voyager | 239 | - | 165 |
| | 977 | 727 | 1,804 |
| Unallocated expenses | (170) | (193) | (424) |
| Exceptional Charges | (113) | - | (172) |
| Result from operating activities | 694 | 534 | 1,208 |

***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 |
|---|---|---|---|
| | ***2012*** | ***2011*** | ***2011*** |
| | ***£'000*** | ***£'000*** | ***£'000*** |
| UKMEA | 2,028 | 1,009 | 2,669 |
| Europe | 494 | 444 | 1,076 |
| Americas | 649 | 488 | 991 |
| Asia Pacific | 427 | 336 | 712 |
| | 3,598 | 2,277 | 5,448 |

## 3. 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 |
|---|---|---|---|
| | *2012* | *2011* | *2011* |
| | *£'000* | *£'000* | *£'000* |
| Recurring | 2,251 | 1,384 | 3,248 |
| Non recurring | 1,161 | 893 | 2,122 |
| Third party revenues | 186 | - | 78 |
| | 3,598 | 2,277 | 5,448 |

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.

## 4. Exceptional items

| | 6 months ended 30 June | | Year ended 31 Dec |
|---|---|---|---|
| | *2012* | *2011* | *2011* |
| | *£'000* | *£'000* | *£'000* |
| Fees relating to the acquisition of Woodcote and its restructuring | - | - | 115 |
| Amortisation of acquisition intangibles | 113 | - | 57 |
| Total | 113 | - | 172 |

## 5. Tax

| | 6 months ended 30 June | | Year ended 31 Dec |
|---|---|---|---|
| | *2012* | *2011* | *2011* |
| | *£'000* | *£'000* | *£'000* |
| Current tax charge | 163 | 152 | 234 |
| Deferred tax charge | 38 | 2 | 62 |
| Deferred tax re acquisition intangibles | (31) | - | 11 |
| Total | 170 | 154 | 307 |

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.

## 6. Dividends

The Board has decided to pay an interim dividend of 1.2 p per share (2011: 1.1667p) on 6 November 2012 to holders on the register on 12 October 2012. Shares will trade ex-dividend from 10 October 2012.

## 7. Earnings per Share

| | | | |
|---|---|---|---|
| | | | *Year ended* |
| | *6 months ended 30 June* | | *31 Dec* |
| | *2012* | *2011* | *2011* |
| **Basic earnings per share** | | | |
| Profit attributable to ordinary shareholders | £530,000 | £397,000 | £926,000 |
| Weighted average number of shares | 18,197,354 | 16,996,323 | 17,328,365 |
| Basic earnings per share (pence) | 2.91 | 2.34 | 5.34 |
| **Diluted earnings per share** | | | |
| Profit attributable to ordinary shareholders | £530,000 | £397,000 | £926,000 |
| Diluted weighted average number of shares | 18,261,929 | 17,059,655 | 17,392,866 |
| Diluted earnings per share (pence) | 2.90 | 2.33 | 5.32 |

## 8. Deferred Consideration

As part of the acquisition of Voyager Software, the Group agreed to pay additional consideration against surplus working capital up to a certain level that was retained in the business at completion. Following a completion accounts verification process, an amount of £98,000 was agreed to be paid to the vendors and was included in creditors at the 31 December 2011. This was paid in the six months to 30 June 2012. In addition the vendors are entitled to the following contingent consideration:

- £200,000 - provided that the revenue of Voyager Software exceeds £2,200,000 in the year ending 30 June 2012
- 30 per cent of the revenue of Voyager Software over £2,300,000 in the year ending 31 December 2012
- 30 per cent of the revenue of Voyager Software over £2,300,000 in the year ending 31 December 2013

## 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.