30 April 2019

Dillistone Group Plc
("Dillistone", the "Company" or the "Group")
Final Results

Dillistone Group Plc, the AIM quoted supplier of recruitment software for the international recruitment industry through its Dillistone Systems, Voyager Software and GatedTalent divisions, is pleased to announce its audited final results for the 12 months ended 31 December 2018.

Highlights for the year:

- Recurring revenues[1] represent 82% (restated 2017: 82%) of Group revenue
- Adjusted operating profit[2] of £0.055m (restated 2017: £0.459m) before acquisition intangible writes offs, reflecting the loss of the major contract announced in 2017 which reduced revenues by £0.625m compared to 2017 in a ten-month period
- Loss for the year of £0.260m (restated 2017: profit £0.057m)
- Adjusted basic EPS[3] of 0.61p (2017: 3.73p)
- The Group continued to generate cash from operating activities resulting in cash at 31 December 2018 of £0.725m (2017: £1.390m) with borrowings of £0.404m (2017: £0.391m).

[2017 numbers have been restated for the introduction of IFRS 15, the new revenue recognition standard.]

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

“2018 was clearly a challenging year for the Group. The executive team has nevertheless worked tirelessly and, despite the challenges faced during the year of GDPR, the loss of a major client, the continued investment in new products and, during 2018, the implications of re-structuring to reduce our cost base, we are now well on our way to restoring Dillistone to healthy operating profits on a sustainable footing.”

Definitions:

[1]*The component elements of recurring revenues are detailed in note 5.*

[2] *Adjusted operating profit is statutory operating profit before acquisition costs, related intangible amortisation, movements in contingent consideration and other one-off costs. See note 4.*

[3.] *Adjusted basic EPS is computed from statutory profits after tax adjusted to exclude the post-tax effect of acquisition costs, related intangible amortisation, movements in contingent consideration and other one-off costs. See note 10*

Results Webinar - Jason Starr, Chief Executive, and Julie Pomeroy, Finance Director, will be hosting a webinar to review the results at 3.00pm on Wednesday 8 May 2019. To register please visit https://attendee.gotowebinar.com/register/8156505307777159948 or contact Tom Cooper on tom.cooper@walbrookpr.com or 0797 122 1972.

Annual Report and Accounts - The final results announcement can be downloaded from the Company's website (www.dillistonegroup.com). Copies of the Annual Report and Accounts (in addition to the notice of the Annual General Meeting) will be sent to shareholders by 31 May 2019 for approval at the Annual General Meeting to be held on 26 June 2019.

This announcement contains inside information for the purposes of Article 7 of EU Regulation 596/2014.

Enquiries:

Dillistone Group Plc		
Mike Love	Chairman	020 7749 6100
Jason Starr	Chief Executive	020 7749 6100
Julie Pomeroy	Finance Director	020 7749 6100
WH Ireland Limited (Nominated adviser)		
Chris Fielding	Managing Director, Corporate Finance	020 7220 1650
Walbrook PR		
Tom Cooper / Paul Vann		020 7933 8780 0797 122 1972 tom.cooper@walbrookpr.com

Notes to Editors:

Dillistone Group Plc (www.dillistonegroup.com) is a leader in the supply and support of software and services to the recruitment industry. It has five brands operating through three divisions: Dillistone Systems, which targets the executive search industry (www.dillistone.com); Voyager Software, which targets other recruitment markets (www.voyagersoftware.com); and GatedTalent, the next generation executive recruitment platform (www.GatedTalent.com).

Dillistone has made three acquisitions: Voyager Software in September 2011, FCP Internet in July 2013 and ISV Software in September 2014. The Group operates under the FileFinder, Infinity, Evolve, ISV and GatedTalent brands.

Dillistone was admitted to AIM, a market operated by the London Stock Exchange plc, in June 2006. The Group employs over 100 people globally with offices in London (head office) Basingstoke and Southampton, Frankfurt, New Jersey and Sydney.

CHAIRMAN'S STATEMENT

2018 was a challenging year for the business. The loss of a major client, announced in Summer 2017 but materialising in February 2018, had a year on year revenue impact of around £0.625m. Meanwhile, the new General Data Protection Regulations meant that the Group, like all technology businesses, had to invest heavily in compliance. This investment covered everything from product development and infrastructure through to staff training and reviews of our various legal documents.

2018 was also the start of a period of change. In February of 2019, we announced the closure of our London office as part of a broader restructuring. However, some of the groundwork for this project was undertaken in 2018, with the implementation of various company wide systems and procedures. The restructuring programme is expected to return the Group to a healthy level of operating profit on a sustainable basis.

While much work was undertaken behind the scenes in 2018, we also continued to develop our products. Enhancements and new functionality were delivered for each of our leading products, while the year also saw the first revenue materialise for our GatedTalent platform.

GatedTalent experienced various highs and lows during the year. In the early stages of the year, we significantly surpassed our initial expectations for recruiter take up but were disappointed by the number of executive registrations. In the second half of the year, we saw registrations begin to accelerate, and in Q4 we launched "Member Services" which is a new premium B2C revenue stream. We are pleased to report that this has proven successful and, less than 6 months since launch, we now realise more recurring revenue every month from Member Services than we do from any single executive search firm contract.

Overall, Group revenue fell 11% to £8.692m, of which recurring revenue fell 10% to £7.154m – a significant part of this loss was the previously referenced client departure. IFRS 15 *Revenue from contracts with customers* was introduced with effect from 1 January 2018 and has resulted in the restatement of the 2017 numbers.

Adjusted operating profit dropped significantly to £0.055m (2017: £0.459m), in part due to the continued investment in GatedTalent and in part due to the loss of the major client. The operating loss generated by GatedTalent was £0.612m.

The Board remains committed to investing in and supporting the Group's core products and remains excited by the potential of GatedTalent.

Dividends

The Group is not recommending a final dividend in respect of the year to 31 December 2018 (2017: 0.5p per share).

Staff

Our staff are fundamental to our success. It is through their efforts, commitment and determination that we continue to be a leading technology provider in the sectors we serve. On behalf of the Board I would like to take this opportunity to thank all of our staff for their individual and collective contributions during 2018 and the support we have seen for the changes we are making to the Group.

Outlook

The current year has begun well in each of the three divisions. However, the Board is cognisant of the economic challenges that the year may bring.

As announced in February 2019, the Directors are taking the opportunity to reduce the number of UK offices from three to two by exercising an option to break the lease of the London office later in the year and to increase the size of our Basingstoke and Eastleigh offices.

The majority of our London based staff have been given the opportunity to relocate to Basingstoke, Eastleigh or to work from home and we are pleased to report that the vast majority of our client facing staff are likely to accept this offer. The Board anticipates that the efficiencies gained from merging the various teams across the Group into fewer locations will allow the Group to maintain current levels of client service and product development investment while delivering a significant reduction in costs from 2020 onwards. This exercise will inevitably lead to the Group incurring restructuring costs this year, which are currently estimated to be in the region of £500,000 to £900,000 and which are expected to be met without recourse to shareholders. An update on the cost of the restructuring and the anticipated savings will be provided later in the year.

The Board currently expects that the Group will deliver a profit before tax in 2019 which will be comparable with 2018 (£0.018m) before restructuring and acquisition related costs. Profit is expected to grow strongly in future years as the benefits of the restructuring and the investment in GatedTalent start to materialise.

Dr Mike Love
Non-Executive Chairman

CEO's Review

Dillistone Group Plc supplies products and services to facilitate recruitment. We do this through three divisions which, between them, cover everything from retained executive search technology through to tools to facilitate the hiring of temporary staff, from pre-employment skills testing through to a B2C platform that allows executives to share information with executive search firms.

Strategy and objectives

In our time as a public company, we have made three acquisitions and each of them has made a contribution to the business. However, as our markets have become increasingly competitive, it has become apparent that it is necessary to streamline our operating structure and this is a major focus for us in 2019.

In the longer term, our strategy remains to grow the business both organically and through acquisition.

This requires ongoing investment in product development which ensures that the business continues to command a leading role in the markets in which it operates.

Our acquisition strategy typically entails consideration of businesses offering:

- products that would further increase market share in the Group's core markets;
- legacy applications, where clients could be transferred to our modern suite of products; or
- complementary applications, which may be cross-sold to clients of the Group.

The Group's objectives are principally to:

- ensure our products meet the needs of the recruitment sector through continual investment and development;
- be a leading player in all of the markets we serve;
- develop our staff, delivering progressive career development; and
- increase our profitability and deliver increased shareholder value year on year in conjunction with a progressive dividend policy.

Key Performance Indicators (KPIs)

The Board and management use absolute figures to monitor the performance of the business using the financial KPIs set out below. As discussed above the Board is undertaking a major restructuring exercise to address the longer term performance of the business:

	FY 2017 £000	FY 2018 £000	Measure used by management	Met /Not met
Total revenues	9,732	8,692	year on year growth	not met
Recurring revenues	7,942	7,154	year on year growth	not met
Non recurring revenues	1,326	1,169	year on year growth	not met
Adjusted profit before tax	453	18	year on year growth	not met
Cash	1,390	725	sufficient cash resources maintained	met

Adjusted profit before tax is statutory profit before acquisition costs, related intangible amortisation, movements in contingent consideration and other one-off costs. See note 4.

Restructuring Plan

Results in 2018 have clearly been disappointing and the Board has embarked on a plan which, it believes, will deliver significantly improved performance from 2020 onwards. We are now well progressed on our plan to streamline our operating procedures while maintaining our excellent reputation for client service. As stated previously we expect the costs of the restructuring to be in the region of £500,000 to £900,000. These costs are expected to be met without recourse to shareholders.

We have:

- Completed the implementation of a Group wide CRM system, allowing team members to operate more easily on Group wide projects.

- Begun the process of implementing a Group wide financial system and expect this to be complete prior to the year end.

- Merged certain back office teams and are in the process of merging the product development and other teams.

- Terminated the lease of our London office while expanding our Basingstoke office. We expect to vacate London before the end of the year.

- While conversations with staff are ongoing, we are pleased that the vast majority of our client facing staff have agreed to remain with the Group, ensuring that client service is not negatively impacted by these changes.

- Informed clients that certain products are being withdrawn from the market, while maintaining overall product development expenditure. We will continue to invest in product development for each of our flagship products and believe that our new development structure will lead to more efficient development going forward.

Our business model

The business is currently split into three Divisions. Dillistone Systems and Voyager Software are our established businesses, with GatedTalent launched in the second half of 2017 with first revenue seen in 2018. The statutory and operational structure of the Group is being reviewed as part of the restructuring exercise with an aim to simplify this and reduce the costs of reporting.

Dillistone Systems specialises in the supply of software and services into executive-level recruitment teams. Voyager Software's clientele are primarily involved in contingent recruitment, including permanent placement, contract placement and the provision of temporary staff. GatedTalent is a private network of executives, accessed by executive recruiters. There is a close relationship between GatedTalent and Dillistone Systems.

The majority of our products are commercialised through one or more of the following:

1. an upfront licence fee plus a recurring support fee;
2. Software as a Service (SaaS) subscription basis; or
3. a hybrid model incorporating an upfront payment and recurring support and cloud hosting fees.

There is a continuing move away from the upfront licence model towards our cloud delivery (SaaS) services.

The GatedTalent Division generates revenue from a combination of recruiter subscription fees and premium fees direct from executives. The business operates out of four countries: the UK, Germany, the US and Australia. As well as supplying and supporting our software we also host the software for a proportion of our clients. This is done through data centres in Europe, the Americas, Singapore and Australia.

Group review of the business

2018 saw recurring revenues fall 10% to £7.154m (restated 2017: £7.942m) reflecting principally the loss of the major client in 2018. Non-recurring revenues decreased to £1.169m (restated 2017: £1.326m). As a result, overall revenues decreased by 11% to £8.692m (restated 2017: £9.732m) with recurring revenues representing 82% of Group revenues (restated 2017: 82%). Costs have reduced despite continuing investment in GatedTalent which made, as expected, an operating loss of £0.612m (2017: loss £0.439m).

Adjusted EBITDA[1] fell to £1.301m (restated 2017: £1.559m). Adjusted operating profit fell to £0.055m (restated 2017: £0.459m) and pre-tax profits before acquisition related items and one-off adjustments reduced to £0.018m (restated 2017: £0.453m). There was an operating loss for the year of £0.414m (restated 2017: loss £0.364m) and loss for the year of £0.260m (restated 2017: profit £0.057m). Cash at the year end was £0.725m (2017: £1.390m).

[1]Adjusted EBITDA is adjusted operating profit with depreciation and amortisation added back. See note 4.

Divisional Reviews

Dillistone Systems

The Dillistone Systems division is primarily focused on providing technology solutions to the executive search market via our range of “FileFinder” applications. This client group is made up of both executive search firms and executive search teams in major organisations.

Dillistone Systems’ head office is currently in London and it has offices in the US, Germany and Australia. The Division accounts for 48% (restated 2017: 47%) of the Group’s revenue and it saw revenue fall 7% to £4.195m (restated 2017: £4.531m).

Product development focus in 2018 included GDPR and integration with GatedTalent, along with a significant number of user experience improvements. As part of our restructuring, we have brought development resources from other parts of the Group in to support FileFinder product development, and are already seeing the benefits of this. We continue to invest in FileFinder and expect new releases later in the year.

Earnings before interest, tax, depreciation and amortisation (‘EBITDA’) fell to £0.723m (restated 2017: £0.761m) as sales fell and costs improved. The total amortisation and depreciation charge was £0.644m (2017: £0.589m). Operating profit for 2018 was £0.079m (restated 2017: £0.172m).

Voyager Software

Voyager Software is a provider of technology products targeted at the entire recruitment landscape, from front office to back office and bureaus, and includes both recruitment management systems and pre-employment skills testing technology.

In 2018, the Voyager Software division accounted for 51% (2017: 53%) of Group revenues. The Division’s revenues decreased by 15% to £4.429m (restated 2017: £5.201m) mainly due to the loss of a major client in 2018. EBITDA decreased to £1.003m (restated 2017: £1.367m). Amortisation and depreciation decreased to £0.475m (2017: £0.511m). Divisional operating profit decreased to £0.528m (restated 2017: £0.856m).

2018 saw some major developments in the Division including:

- The addition of global addressing and location searching in Infinity
- A new fast-paced temporary recruitment Planner system in Infinity
- The extension of ISV.online to include psychometric as well as skills testing
- Market leading support for enabling clients to work under the GDPR

We are in the process of removing certain legacy Voyager products from the market. However we continue to invest in the core products of the Division.

GatedTalent

GatedTalent was established in 2017 to provide a network allowing executives to share information with selected executive recruiters in a GDPR compliant manner. The GatedTalent product was launched in late 2017 with first revenues occurring in 2018 of £0.068m.

The basic platform has over 50,000 profiles and is free to executives. New profiles are being added at around 1,000 per week. Revenue is being generated from executive recruiters through subscriptions to the platform. In Q4 2018, we launched "Member Services" generating a new premium B2C revenue stream for the Division. This has been successful and has accelerated rapidly. We would anticipate that member revenues will be larger than recruiter revenues in 2019. After less than six months, we realise more recurring revenue every month from Member Services than we do from any single executive search contract.

The Division is effectively a start-up business within the Group and made an operating loss of £0.612m (2017 loss: 0.439m) after depreciation and amortisation charges of £0.127m (2017: £nil). The business is expected to remain loss making in 2019. The total investment in Gated Talent (including capitalised development) to 31 December 2018 was over £1.700m.

The Board is confident that all three Divisions have strong futures.

Financial Review

Total revenues decreased by 11% to £8.692m (restated 2017: £9.732m) with recurring revenues decreasing by 10% to £7.154m (restated 2017: £7.942m) while non-recurring revenues decreased to £1.169m (restated 2017: £1.326m). Third party resell revenue amounted to £0.369m in the period (2017: £0.464m).

Contractor and internal development costs were reclassified as administrative expenses from costs of sales and the 2017 comparatives have also been restated on this basis. Cost of sales decreased to £1.054m (2017: £1.247m).

Administrative costs, excluding acquisition related items, depreciation and amortisation, fell 8% to £6.337m (2017: £ 6.926m) as measures were taken to reduce costs following the loss of the major contract in 2018. Depreciation and amortisation (excluding acquisition related amortisation) increased to £1.246m (2017: £1.100m).

Acquisition related administrative costs totalled £0.469m (2017: £0.823m) and were in respect of the amortisation of intangibles arising on the Voyager, FCP and ISV acquisitions. The prior year figure included an acceleration of the acquisition intangibles amortisation as a result of the loss of the major contract in that business.

Recurring revenues covered 94% of administrative expenses before acquisition related and one-off costs (restated 2017: 99%). Excluding depreciation and amortisation of our own internal development, the administrative costs are covered 112% (restated 2017: 115%) by recurring revenues.

The Group benefitted from a tax credit in 2018 of £0.191m (restated 2017: credit £0.432m). The 2018 credit reflects the significant R&D tax credits available to all three divisions and the assumption that any tax losses will be surrendered for the R&D tax credit payment. It also benefits from a deduction for the IFRS 15 adjustment put through the accounts although this is largely offset by the release of the deferred tax asset created in the opening balance position at 1 January 2017. The acquisition related items tax credit reflects the reduction in deferred tax that arises as amortisation is charged in the profit and loss account.

Profit for the year before acquisition related and other one-off items amounted to £0.120m (restated 2017: £0.734m). The 2018 adjusted profits benefitted from a tax credit of £0.102m (restated 2017:

tax credit of £0.281m). The loss for the year after acquisition related items and other one-off items was £0.260m (2017: profit £0.057m). Basic loss per share (EPS) fell to (1.32)p (restated 2017: EPS of 0.29p). Fully diluted EPS fell to (1.32)p (restated 2017: EPS of 0.29p). Adjusted basic EPS fell to 0.61p (restated 2017: EPS of 3.73p).

Dillistone Group Plc company results show a profit of £1.338m (2017: £1.311m after an impairment of £0.451m (2017: £nil) to its investment in Voyager/FCP due to the loss of a major contract.

Capital expenditure

The Group invested £1.536m in property, plant and equipment and product development during the year (2017: £1.506m). This expenditure included £1.446m (2017: £1.358m) spent on capitalised development related costs.

Trade and other payables

As with previous years, the trade and other payables includes deferred income of £3.575m (2017 restated: £3.811m), i.e. income which has been billed in advance but is not recognised as income at that time. This principally relates to support, SaaS and cloud hosting renewals, which are billed in 2018 but are in respect of services to be delivered in 2019. It also includes licence revenue for which a support contract is required, and which is spread over 5 years under IFRS15. Contractual income is recognised monthly over the period to which it relates. It also includes deposits taken for work which has not yet been completed; as such income is only recognised when the work is substantially complete, or the client software goes “live”. At the end of 2018, there was no contingent consideration payable (2017: £0.146m).

Cash

The Group finished the year with cash funds of £0.725m (2017: £1.390m); and a convertible loan of £0.404m (2017: £0.391m after taking into account the equity adjustment). This is after capital expenditure of £1.536m, the final payment to the vendors of ISV of £0.146m and dividend payments of £0.098m.

Jason Starr
Chief Executive Officer

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 DECEMBER 2018

	Note	2018 £'000	2017 restated £'000
Revenue	**5**	8,692	9,732
Cost of sales		(1,054)	(1,247)
Gross profit		7,638	8,485
Administrative expenses		(8,052)	(8,849)
Operating loss		(414)	(364)
Adjusted operating profit before acquisition related and one–off items	**4**	55	459
Acquisition related and one-off items	**7**	(469)	(823)
Operating (loss)/profit		(414)	(364)
Financial income		1	1
Financial cost		(38)	(12)
Loss before tax		(451)	(375)
Tax income	**8**	191	432
(Loss)/profit for the year		(260)	57
Other comprehensive income/(loss)			
Items that will be reclassified subsequently to profit and loss:			
Currency translation differences		(30)	(24)
Total comprehensive (loss)/income for the year		(290)	33
Earnings per share			
Basic	**9**	**(1.32)p**	**0.29p**
Diluted	**9**	**(1.32)p**	**0.29p**

See note 10 for details of restatement of 2017 numbers as a result of a change in accounting policy. Cost of sales have been reduced by £0.289m in 2017 and administrative costs increased by the same amount due to the reclassification of contractors and internal development costs.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2018

	Share capital	Share premium	Merger reserve	Retained earnings	Convertible loan reserve	Share option	Foreign exchange	Total
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Balance at 1 January 2017 (as previously stated)	**983**	**1,631**	**365**	**3,725**		**85**	**117**	**6,906**
Prior year adjustment IFRS 15 (see Note 26)				(1,190)				**(1,190)**
Balance at 1 January 2017 (restated)	983	1,631	365	2,535	-	85	117	5,716
Comprehensive income								
Profit for the year (as restated)	-	-	-	57	-	-	-	**57**
Other comprehensive income								
Exchange differences on translation of overseas operations	-	-	-	-	-	-	(24)	**(24)**
Total comprehensive income (as restated)	-	-	-	57	-	-	(24)	33
Transactions with owners								
Share option charge	-	-	-	4	-	16	-	20
Issue of convertible loan note	-	-	-	-	14	-	-	14
Dividends paid	-	-	-	(551)	-	-	-	(551)
Total transactions with owners	-	-	-	*(547)*	*14*	*16*	-	*(517)*
Balance at 31 December 2017 (as restated)	**983**	**1,631**	**365**	**2,045**	**14**	**101**	**93**	**5,232**
Comprehensive income								
(Loss) for the year ended 31 December 2018	-	-	-	(260)	-	-	-	(260)
Other comprehensive income/(loss)								
Exchange differences on translation of overseas operations	-	-	-	-	-	-	(30)	(30)
Total comprehensive income	-	-	-	(260)	-	-	(30)	(290)

Transactions with owners								
Share option charges	-	-	-	-	-	5	-	5
Dividends paid	-	-	-	(98)		-	-	(98)
Total transactions with owners	*-*	*-*	*-*	*(98)*	*-*	*5*	*-*	*(93)*
Balance at 31 December 2018	**983**	**1,631**	**365**	**1,687**	**14**	**106**	**63**	**4,849**

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT 31 DECEMBER 2018

	Group	
	2018	**2017**
		Restated
ASSETS	**£'000**	**£'000**
Non-current assets		
Goodwill	3,415	3,415
Other intangible assets	4,754	4,881
Property, plant and equipment	113	164
Investments	-	-
Total non-current assets	8,282	8,460
Current assets		
Inventories	3	3
Trade and other receivables	1,522	1,677
Cash and cash equivalents	725	1,390
Total current assets	2,250	3,070
Total assets	10,532	11,530
EQUITY AND LIABILITIES		
Equity attributable to owners of the parent		
Share capital	983	983
Share premium	1,631	1,631
Merger reserve	365	365
Convertible loan reserve	14	14
Retained earnings	1,687	2,045
Share option reserve	106	101
Translation reserve	63	93
Total equity	4,849	5,232
Liabilities		
Non-current liabilities		
Trade and other payables	690	794
Borrowings	390	386
Deferred tax liability	489	508
Current liabilities		
Trade and other payables	4,370	4,775
Borrowings	14	5
Current tax payable	(270)	(170)
Total liabilities	5,683	6,298
Total liabilities and equity	10,532	11,530

CONSOLIDATED CASH FLOW STATEMENT
AS AT 31 DECEMBER 2018

Operating activities	2018 £'000	2018 £'000	2017 restated £'000	2017 restated £'000
(Loss) before tax	(451)		(375)	
Adjustment for				
Financial income	(1)		(1)	
Financial cost	38		12	
Depreciation and amortisation	1,714		1,938	
Share option expense	5		20	
Foreign exchange adjustments arising from operations	70		(12)	
Operating cash flows before movement in working capital:	1,375		1,582	
(Increase) in receivables	171		573	
Decrease in inventories	-		2	
(decrease) in payables	(471)		(273)	
Taxation refunded/(paid)	65		(12)	
Net cash generated from operating activities		1,140		1,872
Investing activities				
Interest received	1		1	
Purchases of property, plant and equipment	(55)		(55)	
Investment in development costs	(1,481)		(1,439)	
Contingent and deferred consideration paid	(146)		(219)	
Net cash used in investing activities		(1,681)		(1,712)
Financing activities				
Financial cost	(33)		(7)	
Net proceeds from convertible loan note	-		400	
Bank loan repayments made	-		(158)	
Dividends paid	(98)		(551)	
Net cash used in financing activities		(131)		(316)
Net decrease in cash and cash equivalents		(672)		(156)
Cash and cash equivalents at beginning of year		1,390		1,537
Effect of foreign exchange rate changes		7		9
Cash and cash equivalents at end of year		725		1,390

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2018

1. Publication of non-statutory accounts

In accordance with section 435 of the Companies Act 2006, the Directors advise that the financial information set out in this announcement does not constitute the Group's statutory financial statements for the year ended 31 December 2018 or 2017, but is derived from these financial statements. The financial statements for the year ended 31 December 2017 have been audited and filed with the Registrar of Companies. The financial statements for the year ended 31 December 2018 have been prepared in accordance with International Financial Reporting Standards as adopted by the European Union. The financial statements for the year ended 31 December 2018 have been audited and will be filed with the Registrar of Companies following the Company's Annual General Meeting. The Independent Auditors Report on the Group's statutory financial statements for the years ended 31 December 2018 and 2017 were unqualified and did not draw attention to any matters by way of emphasis and did not contain statements under Section 498(2) or (3) of the Companies Act 2006.

2. Basis of preparation

The preliminary announcement is extracted from the consolidated financial statements of the Group. The financial statements of the subsidiaries are prepared for the same reporting date as the parent company. Consistent accounting policies are applied for like transactions and events in similar circumstances.

All intra-group balances, transactions, income and expenses and profits and losses resulting from intra-group transactions that are recognised in assets or liabilities are eliminated in full.

3. Accounting policies and changes thereto

This preliminary announcement has been prepared in accordance with the accounting policies adopted in the last annual financial statements for the year to 31 December 2018.

IFRS 9 and IFRS 15 are effective for the first time for the financial year beginning on or after 1 January 2018. Details of the impact of IFRS 15 are seen in note 10. The impact of moving to the expected credit loss model on receivables under IFRS9 required no adjustment to 1 Jan 2017 or 2018 balances.

The following standards have been issued by the IASB and have been adopted by the EU but not adopted early by the Group:

Standard	**Key requirements**	**Effective date as adopted by the EU**
IFRS 16	Leases	01-Jan-19

IFRS 16 requires almost all leases to be recorded in the statement of financial position. This requires recognition of a right-of-use asset and lease liability. The lease liability is measured as the present value of the future lease payments, discounted at the interest rate implicit in the lease if determinable, or otherwise at the lessee's incremental borrowing rate. The asset is measured as equivalent to the lease liability, adjusted for other costs including initial direct costs or obligations under the lease such as restoration costs. The asset is subsequently depreciated on a straight line basis to the expected maturity date of the lease. The liability is increased by interest and reduced by the lease payments made.

The Group expects to apply the modified retrospective approach in adopting IFRS 16. This recognises the right-of-use asset at the date of initial application (1 January 2019). The lease liability is measured based on remaining payments. There is no effect on prior year figures and no need to re-state comparatives.

The Group has undertaken a review of its lease arrangements and concluded that the most significant leases the Group has are its offices. Following the contracted closure of the Group's London offices, it is expected that the impact of this standard for the year ending 31 December 2019 will be reduced.

These calculations assume no changes to the contracted leases anticipated in the reporting period to end 31 December 2019, although it is possible additional leases will be entered into or existing lease contracts amended during the forthcoming period.

Under the existing standard (IAS 17) £130,000 would be expected as an expense in 2019. The adjustment to ‘Current liabilities – Trade and other receivables’ arises on the reversal of an accrual in respect of rent-free periods and other cash timing differences that would be made under that standard.

4. Reconciliation of adjusted operating profits to consolidated statement of comprehensive income

	Note	Adjusted operating profits 2018	Acquisition related and one-off items 2018*	2018	Adjusted operating profits restated 2017	Acquisition related items 2017*	2017 restated
			£'000	£'000	£'000	£'000	£'000
Revenue		8,692	-	8,692	9,732	-	9,732
Cost of sales		(1,054)	-	(1,054)	(1,247)	-	(1,247)
Gross profit		7,638	-	7,638	8,485	-	8,485
Administrative expenses		(7,583)	(469)	(8,052)	(8,026)	(823)	(8,849)
Operating profit/(loss)		55	(469)	(414)	459	(823)	(364)
Financial income		1	-	1	1	-	1
Financial cost		(38)	-	(38)	(7)	(5)	(12)
Profit/(loss) before tax		18	(469)	(451)	453	(828)	(375)
Tax income		102	89	191	281	151	432
Profit/(loss) for the year		120	(380)	(260)	734	(677)	57
Other comprehensive loss net of tax:							
Currency translation differences		(30)	-	(30)	(24)	-	(24)
Total comprehensive income/(loss) for the year net of tax		90	(380)	(290)	710	(677)	33
Earnings per share							
Basic	**9**	**0.61p**		**(1.32)p**	**3.73p**		**0.29p**
Diluted	**9**	**0.61p**		**(1.32)p**	**3.73p**		**0.29p**

* *See note 7*

5. Segment reporting

The Board principally monitors the Group's operations in terms of results of the three divisions, Dillistone Systems, Voyager Software and GatedTalent. Segment results reflect management charges made or received.

Divisional segments

For the year ended 31 December 2018

	Dillistone	Voyager	GatedTalent	Central	Total
	£'000	**£'000**	**£'000**	**£'000**	**£'000**
Segment revenue	4,195	4,429	**68**	-	**8,692**
Segment EBITDA	723	1,003	(485)	60	1,301
Depreciation and amortisation expense	(644)	(475)	(127)	-	(1,246)
Segment result	79	528	(612)	60	55
Acquisition related amortisation	-	-	-	(469)	(469)
Operating profit/(loss)	79	528	(612)	(409)	(414)
Financial income	-	1	-	-	1
Loan interest	-	-	-	(38)	(38)
Loss before tax					(451)
Income tax income					**191**
Loss for the year					**(260)**
Additions of non-current assets	**567**	**536**	**434**	**-**	**1,537**

Divisional segments

For the year ended 31 December 2017

	Dillistone restated	Voyager restated	GatedTalent	Central	Total restated
	£'000	**£'000**	**£'000**	**£'000**	**£'000**
Segment revenue	4,531	5,201	**-**	-	**9,732**
Segment EBITDA	761	1,367	(439)	(130)	1,559
Depreciation and amortisation expense	(589)	(511)	-	-	(1,100)
Segment result	172	856	(439)	(130)	459
Acquisition related amortisation	-	-	-	(838)	(838)
Acquisition related income	-	-	-	15	**15**
Operating profit/(loss)	172	856	(439)	(953)	(364)
Financial income	1	-			1
Loan interest	-	-		(7)	(7)
Acquisition related interest expenses	-	-		(5)	(5)
Loss before tax					(375)
Income tax income					**432**
Profit for the year					**57**
Additions of non-current assets	608	502	396	-	**1,506**

Products and services

The following table provides an analysis of the Group's revenue by products and services:

Revenue

	2018	2017 restated
	£'000	**£'000**
Recurring income	7,154	7,942
Non-recurring income	1,169	1,326
Third party revenues	369	464
	8,692	9,732

In the analysis above 'Recurring income' represents all income recognised over time, whereas 'Non-recurring income' and 'Third party revenues' represent all income recognised at a point in time.

Recurring income includes all support services, SaaS and hosting income and revenue on perpetual licenses with mandatory support contracts deferred under IFRS 15. Non-recurring income includes

sales of new licenses which do not require a support contract, and income derived from installing licences including training, installation and data translation. Third party revenues arise from the sale of third party software.

It is not possible to allocate assets and additions between recurring, non-recurring income and third party revenue. No customer represented more than 10% of revenue of the Group in 2018 or 2017.

6. Geographical analysis

The following table provides an analysis of the Group's revenue by geographic market. The Board does not review the business from a geographical performance viewpoint and this analysis is provided for information only.

Revenue

	2018 £'000	2017 restated £'000
UK	6,188	6,782
Europe	1,007	1,041
US	1,118	1,341
Australia	379	418
	8,692	9,732

Non-current assets by geographical location

	2018 £'000	2017 restated £'000
UK	8,274	8,453
US	4	5
Australia	4	2
	8,282	8,460

7. Acquisition related and other one-off items

	2018 £'000	2017 £'000
Included within administrative expenses:		
Estimated change in fair value of contingent consideration	-	(15)
Amortisation of acquisition intangibles	469	379
Acceleration of amortisation of acquisition intangibles	-	459
	469	823
Included within financial cost:		
Unwinding of discount on contingent consideration	-	5
	469	828

8. Tax income

	2018 £'000	2017 restated £'000
Current tax	(165)	(100)
Prior year adjustment – current tax	(7)	(238)
Total current tax	(172)	(338)
Deferred tax	64	58
Prior year adjustment – deferred tax	6	(1)
Deferred tax re acquisition intangibles	(89)	(151)
Total deferred tax	(19)	(94)
Tax (income) for the year	(191)	(432)
Factors affecting the tax credit for the year		
Loss before tax	(451)	(375)
UK rate of taxation	19.00%	19.25%
Loss before tax multiplied by the UK rate of taxation	(86)	(72)
Effects of:		
Overseas tax rates	(3)	1
Impact of deferred tax not provided	10	18
Enhanced R&D relief	(148)	(209)
Disallowed expenses	14	32
IFRS15 impact	(25)	
Rate differences re current tax and deferred tax	(7)	(1)
Rate difference between CT rate and rate of R&D repayment	55	38
Prior year adjustments	(1)	(239)
Tax (income)	(191)	(432)

Deferred tax liability provided in the financial statements is as follows:

	Group		
	2018 £'000	Movement £'000	2017 restated £'000
Internally generated intangible and fixed assets	251	(90)	341
IFRS 15	-	160	(160)
Provisions	-		-
Acquisition intangibles	238	(89)	327
	489	(19)	508

	2017 Restated £'000	Group Movement restated £'000	2016 Restated £'000
Internally generated intangible and fixed assets	341	26	315
IFRS 15	(160)	22	(182)
Provisions	-	9	(9)
Acquisition intangibles	327	(151)	478
	508	(94)	602

The UK corporation tax rate for the year is 19.00%. Deferred tax is provided in relation to the UK at rates of between 17% to 19% depending on when reversals are expected to occur. The tax credit is impacted by the R&D tax credits available to Dillistone Systems division, Voyager Software division and GatedTalent division. It has also been assumed that where there are tax losses arising as a result of R&D tax credits they will be surrendered for a tax repayment at the HMRC stated rate of 14.5%. The Group has gross tax losses of £154,000 (2017: £205,000) for which no deferred tax asset has been recognised as the timing of their utilisation is uncertain.

9. Earnings per share

	2018 Using adjusted operating profit	2018	2017 Using adjusted operating profit restated	2017 restated
Profit/(loss) attributable to ordinary shareholders (note 2)	£120,000	£(260,000)	£734,000	£57,000
Weighted average number of shares	19,668,021	19,668,021	19,668,021	19,668,021
Basic earnings/(loss) per share	0.61 pence	(1.32) pence	3.73 pence	0.29 pence
Weighted average number of shares after dilution	19,797,067	19,668,021	19,676,018	19,676,018
Fully diluted earnings/(loss) per share	0.61 pence	(1.32) pence	3.73 pence	0.29 pence

Reconciliation of basic to diluted average number of shares:

	2018	2017
Weighted average number of shares (basic)	19,668,021	19,668,021
Effect of dilutive potential ordinary shares – employee share plans	129,046	7,997
Weighted average number of shares after dilution	19,797,067	19,676,018

There are 919,848 (2017: 1,270,732) share options not included in the above calculations, as they are underwater or have not yet vested.

The impact of the convertible loan notes in the period is not dilutive and therefore does not impact the calculation of the fully diluted earnings per share.

10. IFRS 15 impact on 2017 and 2018 results

The material change to the Group's reported revenue following adoption of IFRS 15 arose on the timing of recognising revenue on perpetual licences sold with mandatory support contracts. Previously, these licences were deemed separate from the support contract, whereas under IFRS 15 they represent one performance obligation. Revenue on such licence sales was thus recognised at a point in time, on the customer's practical acceptance of the software. Under IFRS 15, this revenue is recognised over time.

As the actual life of the support contract is unknown at inception, an estimate of 5 years has been made following analysis of the historic turnover rates of support contracts. If this period was shorter, revenue would be recognised more quickly and vice versa.

Revenue from previous periods is thus deferred and recognised later. Adjustments are required to:

- Revenue in the period, being revenue released as deferred from prior periods and current period revenue deferred;
- Retained earnings, being revenue deferred from prior periods and cumulative tax effects;
- Trade and other liabilities both current and non-current, being deferred revenue; and
- Deferred and current tax, arising on revenue already subject to tax that will be recognised in future periods.

The results for 2018 fully incorporate these changes. As IFRS 15 has been adopted retrospectively, the reported results for 2017 must also be adjusted as if that standard applied in full to that period.

The impact of adopting IFRS 15 therefore had the following effect on the Group's primary financial statements:

Impact on the Consolidated Statement of Comprehensive income for the year ended 31 December 2017

	As reported previously	***Effect***	***As reported under IFRS 15***
	£'000	***£'000***	***£'000***
Revenue	9,582	150	9,732
Cost of sales	(1,536)	-	(1,536)
Gross profit	8,046	150	8,196
Administrative expenses	(8,560)	-	(8,560)
Result from operating activities	(514)	150	(364)
Financial income	1	-	1
Financial cost	(12)	-	(12)
Loss before tax	**(525)**	**150**	**(375)**
Tax income	454	(22)	432
(Loss) /profit for the period	**(71)**	**128**	**57**

Impact on Consolidated statement of financial position as at 31 December 2017

	As reported previously	*Effect*	*As reported under IFRS 15*
	£'000	*£'000*	*£'000*
ASSETS			
Non-current assets	8,460	-	8,460
Current assets	3,070	-	3,070
Total assets	**11,530**	**-**	**11,530**
EQUITY AND LIABILITIES			
Equity			
Share capital	983	-	983
Share premium	1,631	-	1,631
Merger reserve	365	-	365
Convertible loan reserve	14	-	14
Retained earnings	3,107	(1,062)	2,045
Share option reserve	101	-	101
Translation reserve	93	-	93
Total equity	6,294	(1,062)	5,232
Liabilities			
Non current liabilities			
Trade and other payables	12	782	794
Borrowings	386	-	386
Deferred tax	668	(160)	508
Current liabilities			
Trade and other payables	4,335	440	4,775
Borrowings	5	-	5
Current tax (receivable)/payable	(170)	-	(170)
Total liabilities	5,236	1,062	6,298
Total liabilities and equity	**11,530**	**-**	**11,530**

Impact on Consolidated statement of cash flows for year ended 31 December 2017

	As reported previously	*Effect*	*As reported under IFRS 15*
	£'000	*£'000*	*£'000*
Operating activities			
Loss before taxation	(525)	150	(375)
Operating cash flows before movements in working capital	**1,432**	**150**	**1,582**
Decrease in receivables	573	-	573
Decrease in inventories	2	-	2
Decrease in payables	(123)	(150)	(273)
Taxation Paid	(12)	-	(12)
Net Cash generated by operating activities	**1,872**	**-**	**1,872**

Impact on Consolidated Statement of Comprehensive Income for year ended 31 December 2018.

.

	Under previous accounting policy	*Effect of IFRS 15*	*As reported under IFRS 15*
	£'000	*£'000*	*£'000*
Revenue	8,588	104	8,692
Cost of sales	(1,054)	-	(1,054)
Gross profit	7,534	104	7,638
Administrative expenses	(8,052)	-	(8,052)
Result from operating activities	(518)	104	(414)
Financial income	1	-	1
Financial cost	(38)	-	(38)
Loss before tax	(555)	104	(451)
Tax income	206	(15)	191
(Loss) /profit for the period	**(349)**	**89**	**(260)**

Impact on Consolidated Statement of Financial Position for year ended 31 December 2018

	Under previous accounting policy	*Effect of IFRS 15*	*As reported under IFRS 15*
	£'000	*£'000*	*£'000*
ASSETS			
Non-current assets	8,282	-	8,282
Current assets	2,250	-	2,250
Total assets	**10,532**	**-**	**10,532**
EQUITY AND LIABILITIES			
Equity			
Share capital	983	-	983
Share premium	1,631	-	1,631
Merger reserve	365	-	365
Convertible loan reserve	14	-	14
Retained earnings	2,659	(972)	1,687
Share option reserve	106	-	106
Translation reserve	73	(10)	63
Total equity	5,831	(982)	4,849
Liabilities			
Non current liabilities			
Trade and other payables	2	688	690
Borrowings	390	-	390
Deferred tax	518	(29)	489
Current liabilities			
Trade and other payables	3,931	439	4,370
Borrowings	14	-	14
Current tax (receivable)/payable	(154)	(116)	(270)
Total liabilities	4,701	982	5,683
Total liabilities and equity	**10,532**	**-**	**10,532**

Impact on Consolidated Statement of Cash flows for year ended 31 December 2018

	Under previous accounting policy	***Effect of IFRS 15***	***As reported under IFRS 15***
	£'000	***£'000***	***£'000***
Operating activities			
Loss before taxation	(555)	104	(451)
Operating cash flows before movements in working capital	**1,271**	**104**	**1,375**
Decrease in receivables	171	-	171
Decrease in inventories	-	-	-
Decrease in payables	(367)	(104)	(471)
Taxation Paid	65	-	65
Net Cash generated by operating activities	**1,140**	**-**	**1,140**