Digital Learning Marketplace plc

Unaudited Condensed Consolidated Interim Financial Statements for the six months ended 30 June 2012

Chairman's Interim Statement at 30 June 2012

As reported in the accounts to 31 December 2011, the Company had geared up for aggressive growth of the business in the current year based on the research carried out in Q4 2011 and new digital learning products developed in the first half of the year, coupled with acquisitions.

Therefore, there were significant changes within the Company, including cost increases, building teams of people to enable both organic growth and planned acquisitive "Buy and Build" programme all to be financed with new shareholders' funds. The fund-raising was not a success; so at the end of the period a major cost cutting programme was put in place.

Post balance sheet events

In my statement for the full year, I explained that the Company would not benefit in the first half of the year, from measures taken by the Company described above. However, I was pleased to announce in August that the Company had signed its first major partnership.

We believe the orders and partnership agreement signed since the start of July demonstrate the appeal of the new products which are both effective and can be measured to calculate true Return on Investment. The first of these products are now in use.

We are negotiating a second partnership with a financial institute and engaged in other initiatives and negotiations, which may result in our signing additional partnership agreements over the next six months.

At the end of the period following the failed fund-raising there was a revision to the Company's strategy with concentration on the core business with commensurate reduction in costs to enable the business to be self-financing, whilst the Buy and Build strategy is deferred. The directors have put in place a new budget with emphasis on profitability.

The other significant financial change has been the steps we have taken to further strengthen the balances sheet.

> On 10 August we announced additional fund raising of £276,567 (before expenses).
>
> [On 27 September creditors of our wholly owned subsidiary Intellego PDP approved the terms of a creditors' voluntary arrangement "CVA". The effect of the CVA is that £355,121 of liabilities will be reduced by 90% and the balance will be repayable over a period of 28 months].
>
> We have also made considerable progress in negotiating terms with other group creditors to either convert liabilities to equity and/or agree deferred payment terms.

The overall effect of these changes to the consolidated interim statement of financial position is shown in the pro-forma June 2012 balance sheet, which shows a reduction in total net equity down from £1,195,157 to £ 261,722.

Outlook

The Board believes that the slimmed down business with a low cost base, exploiting new products in partnership with larger institutes and organisations should enable the Company to leverage its opportunities and build a profitable business.

Despite the steps taken to reorganise the Company's finances they remain fragile, dependent on winning new orders and sales as predicted. Ideally, we need to raise additional funding. The Board is currently considering a range of options to maintain and grow shareholder value.

Condensed consolidated interim statement of comprehensive income for the six months ended 30 June 2012

	Note	**Unaudited Six months to 30 June 2012**	Unaudited Six months to 30 June 2011	Audited Nine months to 31 Dec 2011
		£	£	£
Continuing operations				
Revenue		**578,906**	729,286	901,441
Sale of distribution rights		**-**	166,902	-
Cost of sales		**(362,172)**	(335,755)	(405,417)
Gross profit		**216,734**	560,433	496,024
Operating charges before depreciation, amortisation and exceptional items		**(1,327,836)**	(803,657)	(1,349,060)
Exceptional items	**4**	**(155,000)**	199,188	571,406
EBITDA after exceptional items		**(1,266,102)**	(44,036)	(281,630)
Depreciation and amortisation		**(97,402)**	(118,604)	(139,583)
Operating (loss)/ profit		**(1,363,504)**	(162,640)	(421,213)
Finance income		**-**	-	-
Finance cost		**(14,649)**	(1,542)	(5,632)
(Loss) / profit before tax expense		**(1,378,153)**	(154,183)	(426,845)
Tax expense		**-**		-
(Loss) / profit for the period attributable to equity holders of the company		**(1,378,153)**	(154,183)	(426,845)
Other comprehensive income / (expense)				-
Total comprehensive (expense)/ income attributable to equity holders of the company		(1,378,153)	(154,183)	(426,845)
(Loss)/earnings per share attributable to the equity holders of the company during the period				
Basic and diluted (loss)/ earnings per share	**5**	(0.18)p	(0.04)p	(0.08)p

Condensed consolidated interim statement of financial position

	Unaudited 30 June 2012	Unaudited 30 June 2011	Audited 31 December 2011	Unaudited Pro-Forma 30 June 2012 [1]
	£	**£**	£	£
ASSETS				
Non-current assets				
Property, plant and equipment	**4,867**	3,884	566	4,867
Goodwill	**223,389**	481,869	464,189	223,389
Other intangible assets	**270,635**	156,270	326,319	270,635
	498,891	642,023	791,074	498,891
Current assets				
Inventory	**4,125**	13,513	7,875	4,125
Trade and other receivables	**122,368**	350,330	310,756	122,368
Cash and cash equivalents	**-**	21,981	43,487	94,264
	126,493	385,824	362,118	220,757
Total assets	**625,384**	1,027,847	1,153,192	719,648
LIABILITIES				
Non-Current liabilities				
Trade and other payables	**-**	241,450	160,800	-
Long-term borrowings	**49,750**	49,750	49,750	49,750
	49,750	291,200	210,550	49,750
Current liabilities				
Trade and other payables	**1,549,262**	478,579	838,682	775,077
Bank overdraft	**14,986**	-	-	-
Short-term borrowings	**102,393**	60,691	-	52,393
	1,666,641	539,270	838,682	827,740
Deferred income and other provisions	**104,150**	486,065	221,848	104,150
	1,770,791	1,025,335	1,060,530	931,620
Total liabilities	**1,820,541**	1,316,535	1,271,080	981,370
Net assets / (liabilities)	**(1,195,157)**	(288,688)	(117,888)	(261,722)
EQUITY				
Share capital	**1,165,521**	964,134	1,071,040	1,165,710
Share premium	**2,406,455**	2,066,911	2,200,052	2,784,842
Shares to be issued	**-**		-	-
Merger reserve	**171,000**	31,000	171,000	171,000
Profit and loss account	**(4,938,133)**	3,350,733	(3,559,980)	(4,383,274)
Total equity	**(1,195,157)**	(288,688)	(117,888)	(261,722)

[1] *Adjusted for the effect of the August fund raising, subsidiary company CVA and other creditor arrangements as explained in the Chairman's statement.*

Condensed consolidated interim statement of changes in equity (unaudited)

	Share capital	Share premium	Merger Reserve	Profit and loss reserve	Total equity
	£	£	£	£	£
Balance at 1 January 2011	924,134	1,856,431	31,000	(3,196,550)	(384,985)
Shares issued	40,000	210,480	-	-	250,480
Profit for the period	-	-	-	(154,183)	(154,183)
Balance at 30 June 2011	964,134	2,066,911	31,000	(3,350,733)	(288,688)
Balance at 1 July 2011	964,134	2,066,911	31,000	(3,350,733)	(288,688)
Shares issued	106,906	133,141	140,000		380,047
Profit for the period				(209,247)	(209,247)
Balance at 31 December 2011	1,071,040	2,200,052	171,000	(3,559,980)	(117,888)
Balance at 1 January 2012	1,071,040	2,200,052	171,000	(3,559,980)	(117,888)
Shares issued	94,481	206,403	-	-	300,884
Loss for the period	-	-	-	(1,378,153)	(1,378,153)
Balance at 30 June 2012	1,165,521	2,406,455	171,000	(4,938,133)	(1,195,157)

Condensed consolidated interim statement of cash flow

	Note	**Unaudited Six months to 30 June 2012**	Unaudited Six months to 30 June 2011	Audited Nine months to 31 December 2011
		£	£	£
Cash flows from operating activities				
(Loss)/ profit after taxation		**(1,378,153)**	(154,183)	(426,845)
Adjustments for:				
Depreciation		**1,718**	40,562	3,385
Amortisation		**95,684**	78,042	136,198
Interest expense		**14,649**	1,542	5,632
Decrease in trade and other receivables		**188,388**	108,258	77,818
Decrease / (increase) / decrease in inventories		**3,750**	(1,513)	(286)
Increase / (decrease) in trade and other payables and deferred income and other provisions		**672,882**	97,917	(151,958)
Cash used in operations		**(401,082)**	170,625	(356,056)
Interest paid		**(14,649)**	(1,542)	(5,632)
Net cash (used in)/generated from operating activities		**(415,731)**	169,083	(361,688)
Cash flows from investing activities				
Purchase of property, plant and equipment		**(6,019)**	(28,212)	(1,596)
Investment in intangible assets		**-**	(173,731)	(24,865)
Cash acquired with business		**-**	96	96
Net cash used in investing activities		**(6,019)**	201,847	(26,365)
Cash flows from financing activities				
Net proceeds from issue of share capital		**260,884**	90,480	524,547
Net movement of long-term bank loan		**-**	(99,588)	(131,950)
Net cash generated from financing activities		**260,884**	(9,108)	392,597
Net (decrease) / increase in cash and cash equivalents		**(160,866)**	(41,968)	4,544
Cash and cash equivalents at beginning of period		**43,487**	3,258	38,943
Cash and cash equivalents at end of period		**(117,379)**	(38,710)	43,487

Notes to the condensed consolidated interim financial statements

1 General information

The financial information set out in this condensed interim report for the six months ended 30 June 2012 and the comparative figures for the six months ended 30 September 2011 are unaudited. The financial information for the period ended 31 December 2011 does not constitute statutory accounts as defined in Section 434 of the Companies Act 2006. The Group's statutory financial statements for the period ended 31 December 2011, prepared under International Financial Reporting Standards (IFRS), received an unmodified audit report, did not contain statements under section 498(2) or section 498(3) of the Companies Act 2006 and have been filed with the Registrar of Companies.

2 Basis of preparation

These June 2012 condensed consolidated interim financial statements of Digital Learning Marketplace plc are for the six months ended 30 June 2012. They do not include all of the information required for full annual financial statements, and should be read in conjunction with the consolidated financial statements of the Group prepared under IFRS for the period ended 31 December 2011.

The comparative figures for the six months ended 30 June 2011have not previously been presented as interim reports for periods prior to 31 December 2011were presented for the six months to 30 September in each year. The comparative figures for the six months ended 30 June 2011have been extracted from the accounting records of the Group and were prepared on a consistent basis with the results presented for the six months to 30 June 2012. The comparative figures for the six months ended 30 June 2011 have been neither reviewed nor audited by the Group's auditors.

The accounting policies applied are largely consistent with those of the financial statements for the period ended 31 December 2011, as described in those financial statements. The only exception relates to the taxation policy. For the purpose of the interims the tax charge on the underlying business performance is calculated by reference to the estimated effective rate for the full year.

3 Segment analysis

The accounting policy for identifying segments is based on internal management reporting information that is regularly reviewed by the chief operating decision maker.

DLM operates three main segments Professional Services, Bespoke and Products. The activity undertaken by the Professional Services segment is the resale of software developed by third parties. The Bespoke segment includes consultancy, customisation, including development of content, and integration of e-learning systems. Maintenance of these systems is undertaken by the Bespoke segment. The Products segment includes the sale of internally generated content. The revenues and net result generated by each of DLM plc's segments are summarised as follows:

6 months to 30 June 2012

	Professional Services	Bespoke	Products	Group
	£	£	£	£
Revenue	55,040	384,199	64,668	503,906
Loss for the period	(192,026)	(803,005)	(228,120)	(1,378,151)
Exceptional items	-	(155,000)	-	(155,000)

6 months to 30 June 2011

	Professional Services	Bespoke	Products	Group
	£	£	£	£
Revenue and sale of distribution rights	400,924	345,027	150,237	896,188
Loss for the period	13,959	(249,827)	81,685	(154,183)

Nine months to 31 December 2011

	Professional Services	Bespoke	Products	Group
Revenue and sale of distribution rights	83,478	646,814	171,149	901,441
Profit/(Loss) for the period	42,890	(912,278)	(128,863)	(998,251)
Exceptional items	571,406	-	-	571,406

4 Exceptional items

Exceptional items in the period of £155,000 relate to redundancy and restructuring costs.

Both Digital Learning Marketplace Plc and Intellego Group Ltd entered into CVAs with their creditors in June 2010 and July 2010 respectively. Payments under the CVA were required to be made for six months for Digital Learning Marketplace Plc and for sixty months for Intellego Group Ltd. Digital Learning Marketplace Plc paid all its contributions under the CVA through to December 2010 and its CVA was recorded as completed on 6 June 2011. This resulted in a release of liabilities not payable to the consolidated statement of comprehensive income for the period ended 30 June 2011 of £199,188.

On 23 June 2011 the directors decided that the continuation of the CVA for Intellego Group Ltd was no longer viable and the Supervisor of the CVA was asked to wind up Intellego Group Ltd. This resulted in a release of liabilities not payable to the consolidated statement of comprehensive income for the six months ended 30 September 2011 of £571,406.

5 Earnings per share

The calculation of basic loss per share is based on a loss before tax expense for the period of £ (1,378,151) (loss 30 June 2011: £(154,183), loss 31 December 2011: £(426,845), and on 775,580,602 (June 2011: 383,446,682, December 2011: 514,849,637) being the weighted average number of ordinary shares in issue during the period.

The (loss)/profit attributable to ordinary shareholders and the weighted average number of ordinary shares for the purpose of calculating the diluted (loss)/earnings per share are identical to those used for the basic (loss)/earnings per share.